

IMPORTANT NOTICE

IMPORTANT: You must read the following before continuing. The following applies to the base prospectus following this page (the “**Base Prospectus**”) published by JSC Development Bank of Kazakhstan (“**DBK**”) and you are therefore required to read this carefully before reading, accessing or making any other use of the Base Prospectus. In accessing the Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

THE BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE BASE PROSPECTUS MAY ONLY BE DISTRIBUTED IN OFFSHORE TRANSACTIONS TO PERSONS THAT ARE NOT U.S. PERSONS AS DEFINED IN, AND IN COMPLIANCE WITH, REGULATIONS (“**REGULATIONS**”) UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR WITHIN THE UNITED STATES TO QIBs WHO ARE ALSO QPs (EACH, AS DEFINED BELOW) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“**RULE 144A**”). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE BASE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS INSTRUCTION MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. ANY SECURITIES ISSUED WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR, EXCEPT AS PROVIDED IN THE BASE PROSPECTUS, OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO PERSONS THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES ARE BOTH QUALIFIED INSTITUTIONAL BUYERS (EACH, A “**QIB**”) WITHIN THE MEANING OF RULE 144A AND QUALIFIED PURCHASERS AS DEFINED IN SECTION 2(A)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (EACH, A “**QP**”), WHO WILL BE DEEMED TO REPRESENT THAT (A) THEY ARE QPs WHO ARE ALSO QIBs; (B) THEY ARE NOT BROKER DEALERS WHO OWN AND INVEST ON A DISCRETIONARY BASIS LESS THAN U.S.\$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS; (C) THEY ARE NOT PARTICIPANT DIRECTED EMPLOYEE PLANS, SUCH AS A 401(K) PLAN; (D) THEY ARE ACTING FOR THEIR OWN ACCOUNT, OR THE ACCOUNT OF ONE OR MORE QIBs, EACH OF WHICH IS ALSO A QP; (E) THEY ARE NOT FORMED FOR THE PURPOSE OF INVESTING IN THE SECURITIES OF THE ISSUER; (F) EACH ACCOUNT FOR WHICH THEY ARE PURCHASING WILL HOLD AND TRANSFER AT LEAST U.S.\$200,000 IN PRINCIPAL AMOUNT OF SECURITIES AT ANY TIME; (G) THEY UNDERSTAND THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK ENTRY DEPOSITORIES; AND (H) THEY WILL PROVIDE NOTICE OF THESE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFERREES OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON THAT IS NOT A U.S. PERSON IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATIONS.

Confirmation of the Representation: In order to be eligible to view the Base Prospectus or make an investment decision with respect to the securities, you must be (i) a person other than a U.S. person and be outside the United States; or (ii) a QIB who is also a QP. This Base Prospectus is being sent at your request and by accepting this e-mail and accessing the Base Prospectus, you shall be deemed to have represented to us that either (i) you are not a U.S. person, you are outside the United States, the e-mail address that you have given to us and to which this e-mail has been delivered is not located in the United States, its territories or possessions and you consent to delivery of the Base Prospectus by electronic transmission; or (ii) you are a QIB who is also a QP and you consent to delivery of the Base Prospectus by electronic transmission. You are reminded that the Base Prospectus has been delivered to you on the basis that you are a person into whose possession the Base Prospectus 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 Base Prospectus to any other person.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and a permanent dealer or any affiliate of a permanent dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such permanent dealer or an affiliate on behalf of DBK in such jurisdiction.

Under no circumstances shall the Base Prospectus constitute an offer to sell or the solicitation of an offer to buy nor any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. The Base Prospectus may only be communicated to persons in the United Kingdom in circumstances where Section 21(1) of the Financial Services and Markets Act 2000 does not apply.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes (as defined in the Base Prospectus) are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or (ii) a customer within the meaning of Directive (EU) 2016/92 (as amended, the “**IDD**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) № 1286/2014 (as amended, the “**PRIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been or will be prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the “**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) № 2017/565, as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“**EUWA**”); (ii)

a customer within the meaning of the provisions of FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014, as it forms part of domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

MiFID II product governance / target market – The Final Terms or the Drawdown Prospectus (each as defined in the Base Prospectus) in respect of any Notes will include a legend entitled “MiFID II product governance”, which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a distributor) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the “**MiFID Product Governance Rules**”), any dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise none of the arrangers and dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

UK MiFIR product governance / target market – The Final Terms or the Drawdown Prospectus (each as defined in the Base Prospectus) in respect of any Notes will include a legend entitled “UK MiFIR product governance”, which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a distributor) should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the “**UK MiFIR Product Governance Rules**”) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

This Base Prospectus has been sent to you in an electronic form. Recipients of the Base Prospectus 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 the Base Prospectus. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission, and, consequently, none of the dealers, as named in the Base Prospectus, nor any person who controls it nor any director, officer, employee nor agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from Citigroup Global Markets Limited, J.P. Morgan Securities plc, JSC Halyk Finance and VTB Capital plc.



Development Bank of Kazakhstan

JSC Development Bank of Kazakhstan

(a joint stock company organised in the Republic of Kazakhstan)

U.S.\$3,000,000,000

MEDIUM TERM NOTE PROGRAMME

Under this U.S.\$3,000,000,000 Medium Term Note Programme (the “**Programme**”), JSC Development Bank of Kazakhstan (the “**Issuer**” or “**DBK**”) may from time-to-time issue notes (the “**Notes**”) denominated in any currency agreed between DBK and the relevant Dealer(s) (as defined below). The maximum aggregate nominal amount of Notes outstanding under the Programme will not exceed U.S.\$3,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement referred to herein), subject to increase, as described herein. The Notes will be constituted by, and have the benefit of, an amended and restated trust deed dated 13 November 2012 (as may be further supplemented, amended or restated from time-to-time) (the “**Trust Deed**”) between DBK and Deutsche Trustee Company Limited (the “**Trustee**”, which term shall include any successor trustee under the Trust Deed).

This Base Prospectus supersedes all previous offering circulars and prospectuses relating to the Programme, including the Base Prospectus dated 29 January 2020. Any Notes issued after the date hereof are issued subject to the provisions hereof. This Base Prospectus does not affect any Notes issued prior to the date hereof, which were issued subject to the provisions of the relevant offering circular or prospectus in effect at the time of issuance.

This Base Prospectus has been approved by the United Kingdom Financial Conduct Authority (the “**FCA**”), as competent authority under Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“**EUWA**”) (the “**UK Prospectus Regulation**”). The FCA only approves this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the UK Prospectus Regulation. Such approval should not be considered as an endorsement of DBK or the quality of the Notes that are the subject of this Base Prospectus. Investors should make their own assessment as to the suitability of investing in Notes.

Application has been made (i) to the FCA under Part VI of the Financial Services and Markets Act 2000, as amended (the “**FSMA**”) for Notes issued under the Programme during the period of twelve months from the date of this Base Prospectus to be admitted to the official list of the FCA (the “**Official List**”) and (ii) to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Notes to be admitted to trading on the London Stock Exchange’s regulated market (the “**Market**”). References in this Base Prospectus to Notes being “listed” (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Article 2(1)(13A) of Regulation (EU) № 600/2014 as it forms part of domestic law by virtue of the EUWA (the “**UK MiFIR**”). Notice of the aggregate nominal amount of interest (if any) payable in respect of, the issue price of, and any other terms and conditions not contained herein that are applicable to, each Tranche (as defined below) of Notes will be set forth in a final terms document (the “**Final Terms**”) or in a separate prospectus specific to such Tranche (a “**Drawdown Prospectus**”), as described below in “*Final Terms and Drawdown Prospectuses*”, which, with respect to Notes to be admitted to the Official List and to be admitted to trading by the London Stock Exchange, will be delivered to the FCA and to the London Stock Exchange on or before the date of issue of the Notes of such Tranche.

In addition, unless otherwise agreed with the relevant Dealer(s) (as defined below) and provided for in the Final Terms or Drawdown Prospectus, DBK will use its reasonable endeavours to call all Notes issued by DBK under the Programme to be admitted to the “Bonds” category of the “Debt Securities” sector of the “Main” platform of the Kazakhstan Stock Exchange (the “**KASE**”) from (and including) the date of issue of the relevant Notes in respect of such Notes (the “**Issue Date**”). In addition, no Notes issued by DBK may be issued and/or placed (including the listing thereof) outside of the Republic of Kazakhstan without the prior permissions of the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market for (i) issuance and (ii) placement of the Notes outside of Kazakhstan (the “**Agency Permissions**”). The Agency Permissions in respect of any Notes are not a recommendation or endorsement by the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market of such Notes.

Simultaneously with an offering of Notes outside of the Republic of Kazakhstan, the Notes must be offered through the KASE on the same terms on which the Notes are being offered in a foreign state. Subject to sufficient demand, investors’ orders submitted through the KASE must be satisfied in the volume of not less than 20% of the total volume of Notes to be placed. If the total volume of investors’ orders submitted through the KASE is less than 20% of the total volume of the Notes to be placed, such orders will be satisfied in full and any and all Notes remaining after the satisfaction of the investors’ orders submitted through the KASE may be offered and placed outside of Kazakhstan. In connection with the listing of the Notes on the KASE and the offer and sale of Notes in Kazakhstan, JSC Halyk Finance will act as sole Dealer and the other Dealer(s) will not be involved in such process.

The Programme also permits Notes to be issued on an unlisted basis or to be listed on such other or further listing authorities, stock exchanges or quotation systems as may be agreed between DBK and the relevant Dealer(s). Any Notes issued on an unlisted basis will not be issued from this Base Prospectus.

**AN INVESTMENT IN NOTES INVOLVES A HIGH DEGREE OF RISK.
SEE “RISK FACTORS” FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED
IN CONNECTION WITH AN INVESTMENT IN THE NOTES ISSUED UNDER THE PROGRAMME.**

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”), or the securities laws of any state of the United States or other jurisdiction and, subject to certain exceptions, may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (“**Regulation S**”). The Notes may be offered and sold (i) within the United States to persons who are qualified institutional buyers (each, a “**QIB**”), as defined in Rule 144A under the Securities Act (“**Rule 144A**”) and are also qualified purchasers (each, a “**QP**”), as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended (the “**Investment Company Act**”), in reliance on the exemption from registration provided by Rule 144A (such Notes so offered and sold, the “**Rule 144A Notes**”) and (ii) to non-U.S. persons in offshore transactions in reliance on Regulation S (such Notes so offered and sold, the “**Regulation S Notes**”). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain other restrictions, see “*Subscription and Sale*” and “*Transfer Restrictions*”.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under “*General Description of the Programme*” and any additional Dealer appointed under the Programme from time-to-time by DBK (each, a “**Dealer**” and together, the “**Dealers**”), which appointment may be for a specific issue of Notes or on an ongoing basis. References in this Base Prospectus to the “relevant Dealer” shall, in relation to an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all the Dealers agreeing to subscribe for such Notes, or in the case of a syndicated issue of Notes, the lead manager of such issue, as the case may be.

As at the date of this Base Prospectus, the long-term foreign currency debt of the Issuer has been rated BB+ (stable outlook) by S&P Global Ratings Europe Limited (“**S&P**”), BBB (stable outlook) by Fitch Ratings Limited (“**Fitch**”) and Baa3 (positive outlook) by Moody’s Investors Service Limited (“**Moody’s**”). Each of Fitch and Moody’s is established in the United Kingdom and is registered under Regulation (EU) № 1060/2009 as it forms part of domestic law by virtue of the EUWA (the “**UK CRA Regulation**”). S&P is not established in the UK, but the rating it has given to the long-term foreign currency debt of the Issuer is endorsed by S&P Global Ratings UK Limited, which is established in the UK and registered under the UK CRA Regulation. Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms or Drawdown Prospectus, as applicable. Such rating will not necessarily be the same as the rating assigned to the Issuer by the relevant rating agency. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Arrangers and Dealers

CITIGROUP

HALYK FINANCE

J.P. MORGAN

VTB CAPITAL

Development Finance Structuring Agent

J.P. Morgan

The date of this Base Prospectus is 28 April 2021.

This Base Prospectus should be read and construed together with any supplements hereto and, in relation to any Tranche of Notes, should be read and construed together with the relevant Final Terms or the relevant Drawdown Prospectus, as the case may be. This Base Prospectus constitutes a base prospectus for the purposes of Article 8 of the UK Prospectus Regulation.

Notes issued under the Programme shall have a minimum denomination of not less than €100,000 (or its equivalent in another currency). Subject thereto and in compliance with all applicable legal, regulatory and central bank requirements, Notes will be issued in such denominations as may be specified in the relevant Final Terms or Drawdown Prospectus, as applicable.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other document entered into in relation to the Programme or any information supplied by DBK or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by DBK, the Trustee or any Dealer or any of their respective affiliates.

None of the Arrangers, the Dealers or the Trustee has independently confirmed the completeness and accuracy of the information contained herein. Accordingly, no representation or warranty is made or implied by the Arrangers, the Dealers, the Trustee or any of their respective affiliates, and none of the Arrangers, the Dealers, the Trustee nor any of their respective affiliates makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus, and each of them disclaims all and any liability whether arising in tort or contract or otherwise, which it might otherwise have in respect of, this Base Prospectus or any supplement hereto. Neither the delivery of this Base Prospectus, any Final Terms or any Drawdown Prospectus nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of DBK since the date hereof or, if later, the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Base Prospectus, any Final Terms and Drawdown Prospectuses and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms or Drawdown Prospectus comes are required by DBK and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Base Prospectus or any Final Terms and other offering material relating to the Notes, see “*Transfer Restrictions*” and “*Subscription and Sale*”.

Regulation S Notes and Rule 144A Notes in a particular Tranche will each initially be represented by a separate global note (a “**Regulation S Global Note**” and a “**Rule 144A Global Note**”, respectively, and, together, the “**Global Notes**”).

This Base Prospectus may be communicated solely to (A) persons outside the United Kingdom or (B) persons inside the United Kingdom who are (i) persons with professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “**Order**”), (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order or (iii) persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) in connection with the issue or sale of any securities of DBK or any of its subsidiaries (DBK and its subsidiaries together, the “**Group**”) may otherwise lawfully be communicated or caused to be communicated (all such persons in (A) and (B) above being “**relevant persons**”). Any investment activity to which this communication relates will only be available to and will only be engaged with relevant persons. Any person who is not a relevant person should not act or rely on this communication.

Neither this Base Prospectus, any Final Terms, any Drawdown Prospectus nor any other information supplied in connection with the Programme constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by DBK, the Dealers, the Trustee or any of their respective affiliates that any recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Base Prospectus or any Final Terms or Drawdown Prospectus shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of DBK. The contents of this Base Prospectus are not to be construed as, and should not be relied on as, legal, business or tax advice and each prospective investor should consult its own legal and other advisers for any such advice relevant to it.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or (ii) a customer within the meaning of the Directive 2016/97/EU (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional

client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) № 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS. The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (“**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) № 2017/565, as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) № 600/2014, as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) № 1286/2014, as it forms part of domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”), for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

MiFID II PRODUCT GOVERNANCE/PROFESSIONAL INVESTORS AND ECPs ONLY TARGET MARKET – The Final Terms in respect of any Notes will include a legend entitled “MiFID II product governance” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the “**MiFID Product Governance Rules**”), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

UK MIFIR PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPs ONLY target market – The Final Terms in respect of any Notes will include a legend entitled “UK MiFIR Product Governance”, which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the “**UK MiFIR Product Governance Rules**”) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MIFIR Product Governance Rules.

UK Benchmarks Regulation - Interest and/or other amounts payable under the Notes may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Regulation (EU) 2016/2011, as it forms part of domestic law by virtue of the EUWA (the “**UK Benchmarks Regulation**”). If any such reference rate does constitute such a benchmark, the Final Terms or Drawdown Prospectus will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by the FCA pursuant to Article 36 (Register of administrators and benchmarks) of the UK Benchmarks Regulation. Transitional provisions in the UK Benchmarks Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the Final Terms or Drawdown Prospectus. The registration status of any administrator under the Benchmarks Regulation is a matter of public record and, save where required by applicable law, the Issuer does not intend to update the relevant Final Terms or Drawdown Prospectus to reflect any change in the registration status of the administrator.

Amounts payable on the Notes may be calculated by reference to one of LIBOR or EURIBOR, as specified in the relevant Final Terms. As at the date of this Base Prospectus, the administrator of LIBOR, ICE Benchmark Administration Limited, is included in FCA’s register of administrators under Article 36 of the UK Benchmarks Regulation. However, as at the date of this Base Prospectus, the administrator of EURIBOR, the European Money Markets Institute, is not included in FCA’s register of administrators under Article 36 of the UK Benchmarks Regulation.

As far as DBK is aware, the transitional provisions in Article 51 of the UK Benchmarks Regulation apply, such that the

European Money Markets Institute (as administrator of EURIBOR), is not currently required to obtain authorisation/registration (or, if located outside the European Union, recognition, endorsement or equivalence).

The language of this Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law. In connection with the listing of the Notes on the KASE, DBK will furnish the KASE with a Russian translation of this Base Prospectus (the “**Translation**”). The Translation has been prepared by DBK solely for the purpose of listing the securities described in the Base Prospectus on the KASE. None of the Dealers or any of their affiliates has verified, makes any representation or warranty, or takes any responsibility for the accuracy or completeness of the Translation. This Base Prospectus in English is the only authentic and definitive version for the investment decision making process. In the event of any conflict or discrepancy between the English version of this Base Prospectus and the Translation, or any dispute regarding the interpretation of any statement in the English version or the Translation, the English version shall prevail.

This Base Prospectus has been prepared on the basis that any offer of Notes in the UK will be made pursuant to an exemption under the UK Prospectus Regulation, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in the UK of Notes, which are the subject of an offering contemplated by the relevant Final Terms or Drawdown Prospectus may only do so in circumstances in which no obligation arises for DBK or any Dealer to publish a prospectus pursuant to Article 3 of the UK Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation, in each case, in relation to such offer. Neither DBK nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for DBK or any Dealer to publish or supplement a base prospectus for such offer.

NEITHER THE NOTES NOR ANY BENEFICIAL INTERESTS THEREIN HAVE BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Base Prospectus or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes may have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor’s home currency;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. A potential investor should not invest in Notes, which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes are expected to perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor’s overall investment portfolio.

The investment activities of certain investors may be subject to law or review or regulation by certain authorities. Each potential investor should determine for itself, on the basis of professional advice where appropriate, whether and to what extent Notes are lawful investments for it, Notes can be used as collateral for various types of borrowing, and other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk based capital or similar rules.

In connection with the issue of any Series of Notes, J.P. Morgan Securities plc will be acting as the Issuer’s development finance structuring agent (the “**Development Finance Structuring Agent**”), if named as such in the applicable Final Terms or the Drawdown Prospectus. No assurance is given that any Series of Notes to be issued under the Programme will be

qualified by the Development Finance Structuring Agent. No assurance is given by the Issuer and the Development Finance Structuring Agent that investing in the Notes or the use of proceeds by the Issuer will satisfy, whether in whole or in part, any present or future investor expectations or requirements with respect to development impact financing, including related sustainability criteria or goals. See “*Development Impact*”. No independent verification as to the accuracy or completeness or lack thereof of the “*Development Impact*” section of this Base Prospectus has been done by J.P. Morgan Securities plc. The information contained in the section “*Development Impact*” of this Base Prospectus (a) is not a substitute for an investor’s independent evaluation and analysis and (b) should not be considered as a recommendation by the Development Finance Structuring Agent that any transactions or related projects described in the “*Development Impact*” section of this Base Prospectus achieve any particular development finance criteria or requirement to which it may be subject. The “*Development Impact*” section of this Base Prospectus has been prepared, in part, based on certain forward-looking statements and projections provided by the Issuer. Any such statements and projections reflect various estimates and assumptions by the Issuer concerning anticipated results. No representations or warranties are made by the Development Finance Structuring Agent as to the accuracy of any such statements or projections. Whether or not any such forward-looking statements or projections are in fact achieved will depend upon future events some of which may not be within the control of the Issuer. See “*Forward-Looking Statements*”. Accordingly, actual results may vary from the projected results and such variations may be material. No fiduciary duties are owed to any party by the Development Finance Structuring Agent.

STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

DBK is required to maintain its accounts in accordance with relevant laws and regulations in the Republic of Kazakhstan (“**Kazakhstan**”), including those adopted by its regulator (since 1 January 2020, the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market and, prior to that date, the Financial Market Supervision Committee of the National Bank of Kazakhstan (the “**NBK**”). These laws and regulations require that DBK’s accounts be prepared in Tenge (as defined below) and in accordance with International Financial Reporting Standards (“**IFRS**”), as promulgated by the International Accounting Standard Board (the “**IASB**”). Accordingly, DBK’s audited annual consolidated financial statements contained in this Base Prospectus, including the notes thereto, as at and for the year ended 31 December 2020, which include comparative data as at and for the year ended 31 December 2019 (the “**2020 Annual Financial Statements**”), and as at and for the year ended 31 December 2019, which include comparative data as at and for the year ended 31 December 2018 (the “**2019 Annual Financial Statements**” and, together with the 2020 Annual Financial Statements, the “**Financial Statements**”) were prepared in Tenge in accordance with IFRS and applicable laws and regulations in Kazakhstan.

The contents of DBK’s website (or any other website) and the content of any website accessible from hyperlinks on DBK’s website are expressly not incorporated into, and do not form any part of, this Base Prospectus.

Currencies

In this Base Prospectus:

- “**EUR**”, “**Euros**” or “**€**” refers to the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended;
- “**MYR**” refers to Malaysian Ringgits, the lawful currency of Malaysia;
- “**RUB**” refers to Russian Roubles, the lawful currency of the Russian Federation;
- “**Tenge**” or “**KZT**” refers to Kazakhstan Tenge, the lawful currency of the Republic of Kazakhstan;
- “**U.S.\$**” or “**U.S. Dollars**” refers to U.S. Dollars, the lawful currency of the United States of America; and

- “¥” or “Yen” refers to Japanese Yen, the lawful currency of Japan.

Solely for convenience, this Base Prospectus includes conversions of certain Tenge amounts into U.S. Dollars at specified rates. Unless otherwise stated, data presented in U.S. Dollars is converted from Tenge at the applicable market exchange rate on the date or at the period-end of the relevant data. In line with the Resolution of the Board of the NBK № 15 dated 25 January 2013 and the Order of the Minister of Finance of the Republic of Kazakhstan № 99 dated 22 February 2013, the market exchange rate for the translation of Tenge amounts into U.S. Dollars is determined based on the weighted average exchange rate of the Tenge to the U.S. Dollar, calculated at 15:30 hours (Nur-Sultan time) on the basis of morning (main) and daily (additional) sessions of the KASE.

Although DBK uses the market exchange rate when preparing its financial statements, the Tenge to U.S. Dollar translations included in this Base Prospectus are not reflective of a translation in accordance with IFRS and should not be construed as a representation that the Tenge amounts have been or could be converted into U.S. Dollars at that rate or any other rate.

The following table sets forth the period-end, average and low and high rates for Tenge, each expressed in Tenge and based on the Tenge/U.S. Dollar market exchange rates quoted on the KASE, as reported by the NBK (after rounding adjustments):

Period	Period end	Average ⁽¹⁾ (KZT/U.S.\$1.00)	High	Low
Year ended 31 December 2018	384.20	344.90	384.20	318.31
Year ended 31 December 2019	382.59	382.87	390.13	373.56
Year ended 31 December 2020	420.91	413.38	448.52	375.87
Three months ended 31 March 2021	424.89	419.95	424.89	414.77

Note:

(1) The average of the rate reported by the KASE for each month during the relevant period.

The Tenge/U.S. Dollar exchange rate as reported by the NBK on 23 April 2021, was KZT 432.21 per U.S.\$1.00.

The above rates may differ from the actual rates used in the preparation of DBK's financial statements or other financial information appearing in this Base Prospectus. No representation is made that the Tenge amounts in this Base Prospectus could have been converted into U.S. Dollars, at any particular rate or at all. Fluctuations in exchange rates between the Tenge and U.S. Dollar are not necessarily indicative of fluctuations that may occur in the future.

Rounding

Certain amounts which appear in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be the sum of the figures which precede them.

Market and Industry Data

Certain statistical and market information that is presented in this Base Prospectus on such topics as Kazakhstan's banking sector and Kazakhstan's economy in general and related subjects has, unless otherwise stated herein, been extracted from documents and other publications released by the NBK, the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market and the National Statistics Office of Kazakhstan (the “**National Statistics Office**”).

DBK has accurately reproduced such information, and, so far as DBK is aware and is able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. Where third party information has been used in this Base Prospectus, the source of such information has been identified. Prospective investors should note that some of DBK's estimates are based on such third party information. None of DBK, the Arrangers or the Dealers 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 are substantially less complete or researched than those of more developed countries. Further, official statistics, including those produced by the NBK, the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market and the National Statistics Office, may be produced on different bases than those used in more developed countries. DBK has not independently verified such official statistics and other data, and any discussion of matters relating to Kazakhstan in this Base Prospectus 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 Base Prospectus has been extracted from official Kazakhstan government (the “**Government**”) sources and was not prepared in connection with the preparation of this Base Prospectus. Unless otherwise stated, macroeconomic data, which appear in this Base Prospectus have been derived from statistics published by the National Statistics Office. In addition, certain information contained in this Base Prospectus is based

on the knowledge and research of DBK's management using information obtained from non-official sources. DBK has accurately reproduced such information, and, so far as DBK is aware and is able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. This information has not been independently verified and, therefore, is subject to uncertainties due to questions regarding the completeness or reliability of such information, which was not prepared in connection with the preparation of this Base Prospectus.

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 Base Prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

SEC Reporting Requirements

The financial information included in this Base Prospectus is not intended to comply with SEC reporting requirements. Compliance with such requirements may require the modification or exclusion of certain financial measures, including the conversion of Tenge into U.S. Dollars for any period other than as at and for the year ended 31 December 2020 and the presentation of certain other information not included herein.

Presentation of Alternative Performance Measures

In this Base Prospectus, DBK uses the following metrics in the analysis of its business and financial position, which DBK considers to constitute Alternative Performance Measures ("APMs"), as defined in the European Securities and Market Authority Guidelines on Alternative Performance Measures dated 5 October 2015 (the "ESMA Guidelines"). For further information see "Overview of Financial Information".

Set out below is a summary of the APM metrics used, the definition, bases of calculation and reconciliation of such metrics and the rationale for the inclusion of such metrics.

Metric	Definition, method of calculation and reconciliation to financial statement line item	Rationale
Return on average assets (ROAA)	Calculated as profit/(loss) for the period divided by average period total assets. Average period total assets are calculated based on opening and closing balances for each relevant period.	Performance measure
Return on average equity (ROAE)	Calculated as profit/(loss) for the period divided by average equity balances for the period. Averages are calculated as the average of the opening and closing balances for each relevant period.	Performance measure
Net interest margin	Calculated as net interest income as a percentage of average interest-bearing assets. Interest-bearing assets are comprised of cash and cash equivalents, placements with banks and other financial institutions, loans to banks, loans to customers, finance lease receivables, debt securities and amounts receivable from IFK JSC.	Performance measure
Net interest spread	Calculated as the difference between the average interest rate on interest-bearing assets and the average interest rate on interest-bearing liabilities. Average interest rates are calculated as the ratio of net interest income to the average balance of interest-bearing assets or liabilities. Interest-bearing liabilities are comprised of loans from the Government and SWF Samruk-Kazyna JSC, loans from the Parent Company, loans and deposits from banks and other financial institutions, current accounts and deposits from customers, debt securities issued and subordinated debt.	Performance measure
Non-interest expense/net interest income plus non-interest income	<p>Calculated as non-interest expense/net interest income plus non-interest income.</p> <p>Non-interest expense is comprised of fee and commission expense and general administrative expenses.</p> <p>Non-interest income is comprised of net foreign exchange gain/(loss), net realised gain/(loss) on debt securities at fair value through other comprehensive income, net gain/(loss) on financial instruments at fair value through profit or loss, net loss resulted from de-recognition of financial assets measured at amortised cost and other (expense)/income.</p>	Performance measure

Non-interest expense as a percentage of net interest income	Calculated as non-interest expense divided by net interest income.	Performance measure
Non-interest expense as a percentage of average total assets	Calculated as non-interest expense divided by average total assets. Average total assets are calculated based on opening and closing balances for each relevant period.	Performance measure
Allowance of impairment losses/loans to customers and banks	Calculated as impairment allowance divided by gross loans to customers measured at amortised cost, loans to customers measured at fair value through profit or loss and gross loans to banks.	Liquidity measure
Loans to customers and banks to total assets	Calculated as loans to customers and banks divided by total assets.	Liquidity measure
Total equity to total assets	Calculated as total equity divided by total assets.	Performance measure
Liquid assets to total assets	Calculated as liquid assets divided by total assets. Liquid assets comprise cash and cash equivalents, placements with banks and other financial institutions and debt securities measured at fair value through other comprehensive income.	Liquidity measure
Contingent liabilities to total equity	Calculated as contingent liabilities divided by total equity. Contingent liabilities include loan, credit line and finance lease commitments, as well as letters of credit, guarantees and other commitments related to settlement operations.	Liquidity measure
Direct liabilities to total equity	Calculated as direct liabilities divided by total equity. Direct liabilities include loans from the Government and SWF Samruk-Kazyna JSC, loans and deposits from banks and other financial institutions, current accounts and deposits from customers, debt securities issued, loans from the Parent Company, subordinated debt and derivative financial instruments.	Liquidity measure

The above APMs have been included in this Base Prospectus to facilitate a better understanding of DBK's historic trends of operation and financial condition. DBK uses APMs as supplementary information to its IFRS operating results. See the Financial Statements and the notes thereto included in this Base Prospectus. The APMs are not defined by, or presented in accordance with, IFRS. The APMs are not measurements of DBK's operating performance under IFRS and should not be considered as alternatives to any measures of performance under IFRS. In addition, other companies, including those in DBK's industry, may calculate similarly titled APMs differently from DBK. Because companies do not calculate these APMs in the same manner, DBK's presentation of such APMs may not be comparable to other similarly titled APMs used by other companies.

FORWARD-LOOKING STATEMENTS

Certain statements included herein may constitute forward-looking statements that involve a number of risks and uncertainties. Certain such forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "are expected to", "intends", "will", "will continue", "should", "would be", "seeks", "approximately" or "anticipates" or similar expressions or the negative or other variations thereof or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Base Prospectus and include statements regarding DBK's current intentions, beliefs or expectations concerning, amongst other things, DBK's results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which it operates. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

Prospective investors should be aware that forward-looking statements are not guarantees of future performance and that DBK's actual results of operations, financial condition and liquidity and the development of the sectors and economy in which it operates may differ materially from those made in or suggested by the forward-looking statements contained in this Base Prospectus. In addition, even if DBK's results of operations, financial condition and liquidity and the development of the sectors and economy in which it operates are consistent with the forward-looking statements contained in this Base Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause those differences include, but are not limited to:

- the impact of the COVID-19 pandemic on Kazakhstan's economy, DBK's customers and DBK's business;
- economic and political conditions, as well as the stability of the banking sector, in Kazakhstan generally;
- continued support and indirect control of DBK by the Government;
- changes in Government policies with respect to the application by DBK of Government funding;

- anticipated growth of DBK's business;
- economic and political conditions in the countries of residence of DBK's borrowers, which may impact their ability to repay loans owed to DBK and, accordingly, the asset quality of DBK's loan portfolio;
- expectations as to the impact of projects undertaken to improve cost efficiencies and enhance revenue growth; and
- estimates and financial targets for increasing and diversifying the composition of DBK's loan portfolio.

Factors that could cause actual results to differ materially from DBK's expectations are contained in cautionary statements in this Base Prospectus and include, among other things, the following:

- overall macro-economic and national and international business conditions and commodity prices;
- regional and geopolitical challenges, including changes in economic, social or political conditions in Kazakhstan, Russia and the Central Asia region, including changes in government;
- the demand for DBK's products or services;
- competitive factors in the sectors and economy in which DBK's customers compete;
- changes in legislation, regulation or Government policy;
- any decline in the value of collateral securing the loans granted by DBK to its borrowers;
- changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations;
- interest rate fluctuations and other capital market conditions;
- exchange rate fluctuations;
- the impact of sanctions on DBK's counterparties;
- hostilities and restrictions on the ability to transfer capital across borders; and
- the timing and impact of other uncertainties relating to future actions.

The sections of this Base Prospectus entitled "*Risk Factors*", "*Selected Financial Information and Other Data*", "*Management's Discussion and Analysis of Results of Operations and Financial Condition*" "*Selected Statistical and Other Data*" and "*Business*" contain a more complete discussion of the factors that could affect DBK's future performance and the sectors and economy in which it operates. In light of these risks, uncertainties and assumptions, the forward-looking events described in this Base Prospectus may not occur.

DBK does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to DBK or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Base Prospectus.

ADDITIONAL INFORMATION

DBK is not required to file periodic reports under Section 13 or 15 of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). For so long as DBK is not a reporting company under Section 13 or 15(d) of the Exchange Act, or exempt from reporting pursuant to Rule 12g3-2(b) thereunder, DBK will, upon request, furnish to each holder or beneficial owner of Notes that are "restricted securities" (within the meaning of Rule 144(a)(3) under the Securities Act) and to each prospective purchaser thereof designated by such holder or beneficial owner upon request of such holder, beneficial owner or prospective purchaser, in connection with a transfer or proposed transfer of any such Notes, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act. See "*Terms and Conditions of the Notes—Negative Pledge and Covenants*". As long as the relevant Notes are represented by a Rule 144A Global Note, for the purposes of this paragraph the expression "holder" shall be deemed to include account holders in the clearing systems who have interests in the relevant Rule 144A Global Note.

RESPONSIBILITY STATEMENT

This Base Prospectus constitutes a base prospectus for the purposes of the UK Prospectus Regulation. DBK accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge of DBK, the information contained in this Base Prospectus is in accordance with the facts and this Base Prospectus makes no omission likely to affect its import.

Certain information in this Base Prospectus contained under the headings “*Risk Factors*” and “*The Banking Sector in Kazakhstan*” and certain other macroeconomic data which appear in this Base Prospectus have been extracted from documents and other publications released by the National Statistics Office, the NBK and the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market. DBK accepts responsibility for accurately reproducing such extracts, and as far as it is aware and is able to ascertain from information published by such sources, no facts have been omitted which would render such information inaccurate or misleading. See “*Presentation of Financial and Other Information – Market and Industry Data*”.

SUPPLEMENTS TO THIS BASE PROSPECTUS

DBK has undertaken, in connection with the listing of Notes, that if there is a significant new factor, material mistake or inaccuracy relating to the information contained in this Base Prospectus, which is capable of affecting the assessment of any Notes, whose inclusion would reasonably be required by investors, and would reasonably be expected by them to be found in this Base Prospectus, for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of DBK, and the rights attaching to the relevant Notes, DBK will prepare or procure the preparation of a supplement to this Base Prospectus or, as the case may be, publish a new base prospectus, for use in connection with that or any subsequent issue by DBK of listed Notes.

FINAL TERMS AND DRAWDOWN PROSPECTUSES

In this section the expression “necessary information” means, in relation to any Tranche of Notes, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Notes. In relation to the different types of Notes, which may be issued under the Programme, the Issuer has endeavoured to include in this Base Prospectus all of the necessary information, except for information relating to the Notes, which is not known at the date of this Base Prospectus and which can only be determined at the time of an individual issue of a Tranche of Notes.

Any information relating to the Notes which is not included in this Base Prospectus and which is required in order to complete the necessary information in relation to a Tranche of Notes will be contained either in the relevant Final Terms or Drawdown Prospectus.

For a Tranche of Notes, which is the subject of Final Terms, those Final Terms will, for the purposes of that Tranche only, complete this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Notes which is the subject of Final Terms are the Terms and Conditions of the Notes described in the relevant Final Terms as supplemented to the extent described in the relevant Final Terms.

The terms and conditions applicable to any particular Tranche of Notes which is the subject of a Drawdown Prospectus will be the Terms and Conditions of the Notes as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus. In the case of a Tranche of Notes, which is the subject of a Drawdown Prospectus, each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise.

ENFORCEMENT OF FOREIGN JUDGMENTS

DBK is a joint stock company organised under the laws of Kazakhstan, and certain of its officers and directors and certain other persons referred to in this Base Prospectus are residents of Kazakhstan. All or a substantial portion of the assets of DBK and such persons are located in Kazakhstan. As a result, it may not be possible to effect service of process upon DBK or any such person outside Kazakhstan, to enforce against any of them, in courts of jurisdictions other than Kazakhstan, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or to enforce against any of them, in Kazakhstan’s courts, judgments obtained in jurisdictions other than Kazakhstan, including judgments obtained in the courts of England.

The Notes and the Trust Deed are governed by the laws of England, and DBK has agreed in the Notes and the Trust Deed that disputes arising thereunder are subject to arbitration in London, England or at the election of the Trustee or, in certain circumstances, a Noteholder to the jurisdiction of the English courts. See Condition 23 under “*Terms and Conditions of the Notes*”. Kazakhstan’s courts will likely 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 a proved reciprocity in enforcement of judgments of Kazakhstan courts in that country, which can be very hard or impossible to prove. There is no such treaty in effect between Kazakhstan and the United Kingdom. However, each of Kazakhstan and the United Kingdom are parties to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards and, accordingly, an arbitral award obtained in the United Kingdom should generally be recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in that Convention and applicable Kazakhstan laws are met.

The Law “On Arbitration” (№ 488-V, dated 8 April 2016) (the “**Arbitration Law**”) was signed by the President of Kazakhstan on 8 April 2016. The introductory language to the Arbitration Law, as well as other provisions of the Arbitration Law, imply that the Arbitration Law should apply only where the matter involves dispute resolution in Kazakhstan (*i.e.*, in respect of arbitration bodies with a seat in Kazakhstan). In particular, the preamble to the Arbitration Law states that: “This [l]aw regulates social relations arisen in the process of arbitration activity on the territory of the Republic of Kazakhstan as well as the procedure and terms of recognition and enforcement of arbitral awards in Kazakhstan...”

There are, however, certain provisions in the Arbitration Law, which may have implications (as described below) in respect of the arbitration provisions contained in the Notes and the Trust Deed. In particular, the provisions of the Arbitration Law do not clearly differentiate between domestic and foreign arbitration. In particular:

- Article 8.8 of the Arbitration Law restricts the trying of disputes involving quasi-sovereign companies by arbitration. DBK falls under the definition of a quasi-sovereign company. More specifically, Article 8.8 provides that a dispute between quasi-sovereign companies cannot be resolved by arbitration. While there is no established practice in relation to Article 8.8 of the Arbitration Law, DBK’s management (“**Management**”) believes that this requirement only applies when two or more quasi-sovereign companies are involved in a dispute as adverse parties. Accordingly, Article 8.8 should not apply if two or more quasi-sovereign companies are not adverse parties to the dispute, which would be the case in respect of the Notes, the Agency Agreement and the Trust Deed.
- Article 8.10 of the Arbitration Law requires state-controlled companies to obtain consent from the competent authority of a relevant industry in order to enter into an arbitration agreement. DBK falls under the definition of a state-controlled company. Although, there is no established practice in relation to Article 8.10 of the Arbitration Law, Management believes that the Arbitration Law does not govern conduct of arbitration proceedings outside of Kazakhstan and that, accordingly, no consent of the competent authority is required for DBK to enter into arbitration agreements under the Notes and the Trust Deed.

Given that there is not a well-developed practice in Kazakhstan on the application of the Arbitration Law, there can be no assurance that Kazakhstan courts would support the above interpretation of the Arbitration Law and that an award against DBK in arbitral proceedings in London under English law would be enforced in Kazakhstan. See “*Risk Factors—Factors that are material for assessing the market risks associated with Notes issued under the Programme—Enforceability of Judgments.*”

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GENERAL DESCRIPTION OF THE PROGRAMME

The following general description does not purport to be complete and is qualified in its entirety by the remainder of this Base Prospectus. Words and expressions defined in “Forms of the Notes” or “Terms and Conditions of the Notes” below shall have the same meanings in this general description.

Issuer	JSC Development Bank of Kazakhstan.
Legal Entity Identifier	213800LCDPGJ1BI7KX98
Arrangers	Citigroup Global Markets Limited, J.P. Morgan Securities plc, JSC Halyk Finance and VTB Capital plc.
Dealers	Citigroup Global Markets Limited, J.P. Morgan Securities plc, JSC Halyk Finance, VTB Capital plc and any other Dealer(s) appointed in accordance with the Programme Agreement (as defined below).
Trustee	Deutsche Trustee Company Limited.
Principal Paying and Transfer Agent...	Deutsche Bank AG, London Branch.
Luxembourg Registrar	Deutsche Bank Luxembourg S.A.
U.S. Paying and Transfer Agent	Deutsche Bank Trust Company Americas.
U.S. Registrar	Deutsche Bank Trust Company Americas.
Size	U.S.\$3,000,000,000 (or its equivalent in other currencies calculated in accordance with the provisions of the Programme Agreement) outstanding at any one time. DBK may increase the amount of the Programme at any time in accordance with the Programme Agreement.
Issuance	<p>Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects, save that a Tranche may comprise Notes of different denominations.</p> <p>Each Tranche will be the subject of Final Terms or Drawdown Prospectus (as the case may be), which, for the purposes of that Tranche only, supplements the Terms and Conditions of the Notes and this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Notes are the Terms and Conditions of the Notes, as supplemented, amended or replaced by the relevant Final Terms or the relevant Drawdown Prospectus (as the case may be).</p>
Agency Permissions	No Notes issued by DBK may be issued and/or placed (including the listing thereof) outside of the Republic of Kazakhstan without prior getting the Agency Permissions.
Forms of Notes	Each Series of Notes will be issued in registered form only. Regulation S Notes and Rule 144A Notes will initially be represented by a Regulation S Global Note and a Rule 144A Global Note, respectively. The Global Notes will be exchangeable for Definitive Notes (as defined herein) in the limited circumstances specified in the Global Notes.
Clearing Systems	DTC (in the case of Rule 144A Notes), unless otherwise agreed, and Clearstream, Luxembourg and Euroclear (in the case of Regulation S Notes), unless otherwise agreed, and such other clearing system as may be agreed between DBK, the Principal Paying and Transfer Agent, the Trustee and the relevant Dealer.
Currencies	Notes may be denominated in any currency or currencies, subject to compliance with all applicable legal, regulatory and central bank

	requirements. Payments in respect of Notes may, subject to such compliance, be made in or linked to, any currency or currencies other than the currency in which such Notes are denominated.
Status of the Notes	The Notes will constitute direct, general and unconditional obligations of DBK, which will at all times rank <i>pari passu</i> among themselves and <i>pari passu</i> in right of payment with all other present and future unsubordinated obligations of DBK, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Issue Price	Notes may be issued at any price, as specified in the relevant Final Terms.
Maturities	Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal, regulatory and central bank requirements.
Redemption	Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise), as may be specified in the relevant Final Terms. Notes may also be redeemable in two or more instalments on such dates and in such manner, as may be specified in the relevant Final Terms.
Optional Redemption	Notes may be redeemed before their stated maturity at the option of DBK (either in whole or in part), the Noteholders or both to the extent (if at all) specified in the relevant Final Terms.
Tax Redemption	Early redemption will be permitted for certain tax reasons, as set out in Condition 10.2 under “ <i>Terms and Conditions of the Notes</i> ”.
Interest	Notes may be interest-bearing or non interest-bearing (as set out in the relevant Final Terms). Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series (as set out in the relevant Final Terms).
Denominations	Notes will be issued in such denominations as may be specified in the relevant Final Terms (the “ Specified Denomination ”), provided that the Specified Denomination(s) shall not be less than €100,000 or its equivalent in another currency. For so long as the Notes are represented by a Global Note and the relevant clearing system(s) so permit, the Notes shall be tradeable only in the minimum authorised denomination of €100,000 and higher integral multiples of any smaller amount specified in the relevant Final Terms. Interests in the Rule 144A Notes shall be held in amounts of not less than U.S.\$200,000 or its equivalent in another currency. Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by DBK in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA will have a minimum denomination of £100,000 (or its equivalent in another currency).
Negative Pledge and Covenants	The Notes will have, among others, the benefit of a negative pledge and covenants relating to (i) compliance with the legislative act constituting DBK and (ii) provision of certain information, each as set out in Condition 6 under “ <i>Terms and Conditions of the Notes</i> ”.
Cross Default	The Notes will have the benefit of a cross default clause as described in Condition 13.3 under “ <i>Terms and Conditions of the Notes</i> ”.
Taxation	All payments in respect of Notes will be made free and clear of withholding taxes of Kazakhstan unless the withholding is required by law. In that event, DBK will (subject as provided in Condition 12 under “ <i>Terms and Conditions of the Notes</i> ”) pay such additional amounts as will result in the Noteholders receiving such amounts as they would

	have received in respect of such Notes had no such withholding been required.
Redenomination	The applicable Final Terms may provide that Notes may be redenominated in Euros in accordance with Condition 22 under “ <i>Terms and Conditions of the Notes</i> ”.
Governing Law	English law.
Listing	<p>Application has been made for Notes issued under the Programme to be admitted to the Official List and to be admitted to trading on the Market. Application has also been made for the Notes issued under the Programme to be admitted to the “Bonds” category of the “Debt Securities” sector of the “Main” platform of the official list of the KASE. This Base Prospectus and any supplement will only be valid for listing Notes on the Official List and admitting Notes to trading on the Market during a period of 12 months from the date of this Base Prospectus.</p> <p>The Programme also permits Notes to be issued on an unlisted basis outside of Kazakhstan or to be listed on such other or further listing authorities, stock exchanges or quotation systems outside of Kazakhstan, as may be agreed between DBK and the relevant Dealer. In addition, DBK shall make an application to the KASE for Notes issued under the Programme to be listed on KASE, although no assurance can be given such listing will be obtained.</p>
Selling Restrictions	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the United Kingdom, Kazakhstan and Japan. See “ <i>Subscription and Sale</i> ”.
Risk Factors	Investing in the Notes involves a high degree of risk, which investors should ensure they fully understand. These include factors that may affect DBK’s ability to fulfil its obligations under, or in connection with, Notes issued under the Programme and factors that are material for assessing the market risks associated with Notes issued under the Programme. See “ <i>Risk Factors</i> ”.

DEVELOPMENT IMPACT

The mission of DBK is to promote sustainable development of the national economy of Kazakhstan by investing in the non-resource sector of the country. DBK is the country's leader in assessing and structuring major infrastructure and industrial projects. As a specialised state-owned development institution, DBK provides timely and sufficient financing for projects relevant to its mission. DBK seeks to foster diversification of the economy of Kazakhstan, enhance and improve efficiency of state investment activities and facilitate foreign and domestic investments into the economy of Kazakhstan. DBK plays a key role in the country's plan to see sustainable growth and social progress by addressing a number of development gaps and challenges, particularly in the infrastructure and industrial sectors.

DBK intends to use the net proceeds of the issue of each Tranche of Notes for general corporate purposes, including for the funding of various investment and export projects, trade finance activities and for the refinancing of existing debt. The net proceeds of each Tranche of Notes are expected to support DBK and its borrowers and thus promote development in Kazakhstan. Set forth below are the key characteristics of DBK's development goals:

- 1) **Finance investment projects through the growth of DBK's loan portfolio in priority sectors and activities of the economy**, including:
 - infrastructure (power engineering, transport, telecommunications and tourist infrastructure);
 - industrial production, including the excavation, purchase and transportation of raw materials and the processing and sales of finished products;
 - agricultural production, including the cultivation, purchase and transportation of crops and the processing and sales of finished products;
 - commercial service industries, including tourism, healthcare, recreation, sports and hotels; and
 - improving the country's export-related operations.
- 2) **Promote green financing along with the development of the renewable energy sector in Kazakhstan**, including:
 - Financing two wind power plants with a total capacity of 200 megawatts (MW); and
 - Financing seven solar power plant projects with a total capacity of 179 MW.
- 3) **Implement DBK's Sustainable Development Policy** by:
 - Implementing the fundamental standards, principles, rules and approaches that DBK should adhere to in building a management system in the field of sustainable development into its operations. This policy was developed in accordance with the Republic of Kazakhstan as well as taking into account the requirements of the UN Global Compact, the UN Principles for Responsible Investment, AA 1000 Series of Standards, International Standard ISO 26000:2010 "Guidance on Social Responsibility" and Reporting Standards for sustainable development from the Global Reporting Initiative (GRI standards);
 - Incorporating environmental, social and governance ("ESG") factors into decision-making around providing financial support to both DBK and its borrowers;
 - Interacting with the Organisation for Economic Co-operation and Development ("OECD") on sustainable initiatives;
 - Participating in upcoming initiatives with OECD on developing a "green economy";
 - Utilising a Development Index Calculation, a tool to evaluate and prioritise potential investments projects. The Development Index assesses the social and economic significance of a project and calculates a score based on a mix of the following indicators:
 - i. economic output increase;

- ii. labour productivity improvement;
- iii. export potential growth (not applicable for infrastructure projects);
- iv. development of the private sector of the economy;
- v. priority of the industry or goods;
- vi. impact on sustainable social development; and
- vii. analysis and assessment of the environmental effect of projects.

Impact Reporting

DBK plans to report on the progress of the development outputs above on an annual basis through its annual report and website.

Alignment with the United Nations Sustainable Development Goals

The anticipated impact of the development outputs above align with the UN Sustainable Development Goals (“SDGs”) #2, #3, #7, #8, #9, #13 and #17, in particular with the goal and targets below:

- SDG Target 2.3: By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment;
- SDG Target 3: Ensure healthy lives and promote well-being for all at all ages;
- SDG Target 7.2: By 2030, increase substantially the share of renewable energy in the global energy mix;
- SDG Target 8.9: By 2030, devise and implement policies to promote sustainable tourism that creates jobs and promotes local culture and products;
- SDG Target 9.1: Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all;
- SDG Target 9.2: Promote inclusive and sustainable industrialisation and, by 2030, significantly raise industry’s share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries;
- SDG Target 13.2: Integrate climate change measures into national policies, strategies and planning;
- SDG Target 17.7: Promote the development, transfer, dissemination and diffusion of environmentally sound technologies to developing countries on favourable terms, including on concessional and preferential terms, as mutually agreed; and
- SDG Target 17.11: Significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries’ share of global exports by 2020.

RISK FACTORS

The following factors may affect the ability of DBK to fulfil its obligations under the Notes.

Prior to making an investment decision, prospective purchasers of Notes should carefully consider, along with the other matters referred to in this Base Prospectus, the following risks associated with investment in Kazakhstan entities generally and with investment in securities issued by DBK (such as the Notes), which could be material for the purpose of assessing the market risks associated with Notes issued under the Programme. Prospective investors should pay particular attention to the fact that DBK operates in the legal and regulatory environment in Kazakhstan, which in some respects may differ from that prevailing in other countries.

Prospective investors should note that the risks described below are not the only risks faced by DBK. These are the risks that DBK considers to be material. However, there may be additional risks that DBK currently considers immaterial or of which it is currently unaware, and any of these risks could have the effect set forth above.

FACTORS THAT MAY AFFECT DBK'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER, OR IN CONNECTION WITH, NOTES ISSUED UNDER THE PROGRAMME

A. OPERATIONAL RISKS RELATING TO DBK AND ITS BUSINESS

State Ownership

DBK was established on 31 May 2001 as the Government's primary vehicle for promoting economic development and exports from non-extractive sectors of the Kazakhstan economy and is part of Kazakhstan's overall industrial development programme. Pursuant to the Decree of the President of the Republic of Kazakhstan №. 571 dated 22 May 2013, which was enacted with immediate effect, the entire issued share capital of DBK was transferred from the wholly Government-owned Sovereign Wealth Fund "Samruk Kazyna" JSC ("**Samruk-Kazyna**") to Baiterek National Management Holding JSC ("**Baiterek JSC**"), a then-newly established holding company to consolidate all state holdings in peer development and financial institutions such as the Bank. Baiterek JSC is, in turn, wholly-owned by the Government. Accordingly, the ultimate controlling party of DBK is the Government, represented by the Ministry of Industry and Infrastructural Development.

Due to its 100% shareholding in DBK, Baiterek JSC has the right to determine all matters requiring a vote of shareholders, including the election of DBK's Board of Directors (the "**Board of Directors**") and setting DBK's dividend policy. The Board of Directors is the main management body of DBK, responsible for the approval of credit decisions for projects whose value exceeds 10% of DBK's equity and for DBK's financial strategy. Baiterek JSC, as shareholder, appoints the chairman of the Management Board in accordance with the recommendation of, or agreement with, the Prime Minister. As a result, there can be no assurance that Baiterek JSC will not influence DBK's funding, lending or other policies.

Baiterek JSC is tasked with optimising the management system of development institutions, national companies and other legal entities in Kazakhstan with the goal of supporting and diversifying Kazakhstan's economy. Accordingly, the interests of Baiterek JSC may conflict with the interests of DBK's creditors, and, as a result, there can be no assurance that Baiterek JSC will exercise influence over DBK in a manner that is in the best interests of DBK or the Noteholders. In addition, being controlled by the Government may slow DBK's decision-making process and subject DBK to the risks of bureaucracy and inefficiencies commonly attributed to state-controlled companies. Furthermore, there is a risk that any change of administration in Kazakhstan may result in changes in Baiterek JSC's policies, and such new policies may conflict with the interests of DBK and the Noteholders.

There can be no assurance that the Government or Baiterek JSC will not change their respective policies in respect of DBK. Any such changes could have a material adverse effect on DBK's current strategies and management and on its ability to operate on a commercial basis and ensure the timely repayment of its debt obligations.

Impact of the COVID-19 Pandemic

The ongoing COVID-19 pandemic is having an adverse impact on the world economy, including the Kazakhstan economy, as well as on DBK's customers and, in turn, DBK's business. The pandemic has affected investment sentiment and resulted in sporadic volatility in the global capital and financial markets. In 2020, real GDP in Kazakhstan is estimated by the IMF to have contracted by 2.6% (as compared to growth of 4.5% in 2019), as a result of the impact of the COVID-19 pandemic. In particular, the Kazakhstan economy was significantly impacted by the sharp decrease in oil prices following the outbreak of the COVID-19 pandemic. The occurrence and future spread of the pandemic, as well as the response of the Government, is beyond DBK's control and the impact of the COVID-19 pandemic on the Kazakhstan economy, or the resulting impact on DBK's business, financial condition or results of operations cannot yet be fully assessed.

The Government has implemented measures, including periods of lockdown and quarantines in an effort to combat the spread of the virus in Kazakhstan and alleviate the negative effects of the pandemic. A state of emergency was declared in Kazakhstan between 16 March 2020 and 12 May 2020. During this period, regional authorities gradually introduced additional measures to enhance social distancing, including closing schools, universities, restaurants, cinemas, theatres and museums and sport facilities.

In addition to affecting DBK's customers, the COVID-19 pandemic has impacted DBK's business operations and processes, with DBK implementing remote working since early in 2020. Currently, approximately 80% of DBK's employees work remotely.

In response to the COVID-19 pandemic, DBK developed a crisis plan, which includes stress testing and other measures designed to mitigate the effects of the COVID-19 pandemic and the impact of changes in the Tenge/U.S. Dollar exchange rate on DBK's credit and interbank lending portfolios. Measures taken as part of the crisis plan include ongoing assessment of the impact of COVID-19 on DBK and its clients, monitoring of financial measures implemented by the Government and the NBK to support the Kazakhstan real economy and debt restructurings of borrowers. DBK reports to the independent directors of its parent company, Baiterek JSC, on a quarterly basis with respect to the results of stress tests and the potential negative impact of external factors, including the COVID-19 pandemic and volatile oil prices, on DBK's financial and risk indicators (namely, credit risk indicators and expected credit losses for both the credit and interbank lending portfolios). As part of its crisis plan, DBK has lowered the internal credit ratings assigned to its customers in the aviation, metallurgical and oil production industries, as a result of plant shutdowns and operational interruptions, volatility in oil and metal prices and restrictions on movement during the lockdown. On a monthly basis, roadmaps for all of DBK's investment projects have been submitted to its Credit Committee for consideration, together with the results of the stress testing described above.

DBK has taken a number of actions to reduce and subsidise lending rates for its customers that have been significantly adversely affected by the COVID-19 pandemic. For example, DBK has offered concessional rate loans as a support measure to customers in the tourism and construction industries. DBK has also granted grace periods for repayment of principal and interest under loans to certain customers who have been facing reduced demand for services or who provide products or services that are at risk of interruption due to supply chain disruption during quarantine and lockdown periods. Such grace periods were primarily granted to customers whose loans were already classified as "Stage 2" or "Stage 3" loans (*i.e.*, credit-impaired loans), with only one loan being transferred to "Stage 2", as a result, *inter alia*, of the grace period on the relevant loan being granted. Those customers whose products are particularly sensitive to exchange rate fluctuations (such as the prices of metals) have been offered additional support through, *inter alia*, the monitoring of tariffs, restructuring options and refinancing offered by DBK. DBK has also offered support in optimising expenses to those customers who have faced difficulties due to restrictions on the movement of goods and on border crossing in connection with the COVID-19 pandemic. Between 1 January 2020 and 1 October 2020, 15 restructurings of loans were conducted, of which six were due to the impact of the COVID-19 pandemic. The impact of the COVID-19 pandemic has led to, and may continue to lead to, further requests from customers to reschedule debt owed to DBK (including the delay of certain payments of principal and interest to DBK).

As at 31 December 2020, the Bank classified 15.9% of gross loans to customers at amortised cost as "Stage 2" loans, representing loans to 12 out of a total of 61 corporate borrowers. In accordance with IFRS 9, "Stage 2" loans are loans for which there has been a significant increase in credit risk since their initial recognition (if the credit risk has increased significantly since initial recognition, but the loans are not credit-impaired). See "*Selected Statistical and Other Data—Loan Policies and Credit Approval Procedures—Loan Provisioning Policy*". DBK's "Stage 2" loans span seven economic sectors: metallurgical industry, chemical and petrochemical industry, airports, machinery and equipment, power supply, vehicle manufacturing and hospitality (hotels). In its rating action commentary released in March 2021, Fitch noted that, in its view, "some of these portfolios may migrate into the Stage 3 category in the medium term". DBK's auditors identified the expected credit loss estimates of loans to customers measured at amortised cost and finance lease receivables as a key audit matter in its audit of the 2020 Annual Financial Statements due to the significant volume of loans to customers and finance lease receivables and related estimation uncertainty (see the audit report appearing on pages F-4 to F-8 of this Base Prospectus). As of 31 December 2020, 65.8% of DBK's "Stage 2" loans related to railway projects (representing a gross debt amount of KZT 86.4 billion), the petrochemical industry (representing a gross debt amount of KZT 69.5 billion) and other transport (relating to the production of certain railway infrastructure, representing a gross debt amount of KZT 40.8 billion). The aviation and hospitality industries are two industries in which the effects of the COVID-19 pandemic have been felt severely, both worldwide and in Kazakhstan. DBK currently has one loan to a borrower in the hospitality sector (a hotel project) that is ranked as a "Stage 2" loan and two "Stage 2" loans to borrowers in the aviation sector, which relate to the Nur-Sultan and Aktau airports. DBK is working with the relevant shareholders on these projects and, at present, does not expect there to be defaults on the financing granted by DBK. There can be no assurance, however, that loans to customers in these and other sectors impacted by the COVID-19 pandemic will not suffer impairment losses or be subject to defaults going forward, particularly if the negative impact of the COVID-19 pandemic on the sectors is prolonged. This, in turn, would have a material adverse impact on DBK's financial condition and the credit quality of its lending portfolio.

Despite changes in certain customer ratings and the rescheduling requests referred to above, DBK's NPLs remained relatively stable as at 31 December 2020, accounting for 1.5% of gross loans to customers, as compared to 1.7% as at 31 December

2019. In addition, although impairment losses on debt financial assets increased from KZT 20.9 billion in 2019 to KZT 37.2 billion in 2020, the COVID-19 pandemic has not had a considerable impact on DBK's key financial stability metrics. For example, as at 31 December 2020, DBK's capital adequacy ratio was 20.2%, as compared to 20.5% as at 31 December 2019. DBK's capital was supported in 2020 through KZT 58 billion of capital injections of which 50 billion was allocated to DBK for purposes of increasing the competitiveness and ensuring the stability of the Kazakhstan economy. While DBK does not currently expect a significant increase in NPLs in 2021 and considers the risks associated with its "Stage 2" loans to be manageable, there can be no assurance that NPLs and impairment will not increase, in particular, if the impact of the COVID-19 pandemic continues for a significant period of time.

Majority of DBK's Assets and Operations are in Kazakhstan

A significant portion of DBK's investment portfolio consists of securities issued by the Government, Samruk-Kazyna, Baiterek JSC and state-owned companies deemed to have a significant role in the country's economy, such as JSC National Company KazMunayGas, and, as at 30 December 2020, 100% of DBK's loans to customers were made in Kazakhstan. Accordingly, DBK is exposed to the risks of an adverse event occurring in Kazakhstan. For example, the COVID-19 pandemic has had a significant adverse impact on the Kazakhstan economy in 2020, and, in turn, on DBK's business and that of its customers. In addition, DBK's operations are located principally in Kazakhstan, and a majority of DBK's costs are incurred in Kazakhstan. Since the majority of DBK's expenses are denominated in Tenge, inflationary pressures in Kazakhstan are a significant factor affecting DBK's expenses. Any adverse change on a national basis in economic or political conditions in Kazakhstan could negatively affect DBK's borrowers and their ability to repay loans due to DBK, thereby negatively affecting DBK's income and profitability ratios (including by increasing DBK's non-performing loans "NPLs"). Any such adverse changes could also negatively impact DBK's ability to attract funding for its projects either from the Government (through the State budget) or from the international capital markets or lenders on terms that are commercially acceptable to DBK, thereby reducing its ability to offer funding to its clients and to operate its business as currently operated.

The Kazakhstan market, being an emerging market, is subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. 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 is only suitable for sophisticated investors who fully appreciate the significance of the risks involved.

DBK is subject to Regulatory Restrictions on its Activities

DBK's operations are regulated by the Law on the Development Bank of Kazakhstan dated 25 April 2001, as amended (most recently on 2 January 2021) (the "**DBK Law**"), the Memorandum on Credit Policy of JSC Development Bank of Kazakhstan, which was most recently amended on 19 February 2020 (the "**Credit Policy Memorandum**"), DBK's Charter dated 24 December 2014, as amended (most recently on 9 March 2021, with the amendment registered on 15 March 2021) (the "**DBK Charter**"), DBK's Strategy on Investment Portfolio Management, which was adopted on 10 April 2018 has been updated several times (most recently on 8 July 2020), and other relevant laws and regulations. DBK's Development Strategy (as defined below) envisages the opening of a dialogue with Government authorities to explore the deregulation of certain lending activities to encourage a more flexible approach to project financing. There can be no assurance, however, that any amendments to the current regulations will be adopted. There can also be no assurance that the current regulatory regime will not change or that the Government will not implement other regulations or policies, or adopt new or modified legal interpretations of existing regulations or policies, relating to or affecting taxation, interest rates, inflation or exchange controls, or otherwise take action that could have a material adverse effect on DBK's business, prospects, financial condition, cash flows or results of operations.

Concentration of Funding Sources; DBK's Development Mandate

Pursuant to its development bank mandate, DBK's lending and investment policies are different from those of a standard commercial bank, in that DBK's business activities are generally driven by the development goals and policy of the Government rather than purely commercial considerations. As a development bank, DBK does not compete with commercial lending and financial institutions in providing finance to customers and has declined lending opportunities in the past where financing was available elsewhere. In addition, DBK does not generally accept customer deposits, and its primary funding sources are concessional loans made by the Government, Samruk-Kazyna and Baiterek JSC, issuances of debt securities and loans from international and multi-lateral institutions. As 31 December 2020, 2019 and 2018, funding from banks and other financial institutions, as a percentage of DBK's total liabilities, represented 24.8%, 25.0% and 33.3%, respectively. As at 31 December 2020, 2019 and 2018, funding from debt securities issued, as a percentage of DBK's total liabilities, represented 48.2%, 48.6% and 43.8%, respectively. DBK concentrates on providing funding to investment projects, such as infrastructure projects and high-value manufacturing projects in Kazakhstan, which are not typically eligible for financing or refinancing on terms acceptable to commercial banks and other non-specialist market investors. Loans and investments made by DBK often involve relatively large principal amounts, have longer-term maturities and are extended at preferential rates, all of which

make these activities of relatively high risk and low return. As a result, DBK may experience higher losses in its loan portfolio or may receive lower profit margins than commercial banks operating in Kazakhstan, which could, in turn, have a material adverse effect on DBK's business, prospects, financial condition, cash flows or results of operations.

A number of factors, many of which are outside DBK's control, may affect DBK's ability to obtain such funding in the future, including, *inter alia*, the condition of the Kazakhstan and international banking sectors, the condition of the international capital markets, capital controls that are or may be imposed globally, the willingness of multilateral institutions to fund specific projects, the actual and perceived economic conditions in Kazakhstan and DBK's financial condition. See "—C. *Macroeconomic and Geopolitical Risks*". There can also be no assurance that DBK will be able to continue to satisfy all or part of its future funding requirements as it has in the past or that the Government, Samruk-Kazyna and Baiterek JSC will or will be able to provide adequate support. To the extent that banks and other financial institutions are unwilling or unable to continue to provide sufficient funding to DBK, or DBK is not able to raise such financing through the issuance of debt securities or increased funding by the Government, Samruk-Kazyna or Baiterek JSC, DBK may not be able to access alternative sources of funding to compensate for any shortfall in funding. Accordingly, any reduction in the amount of such funding provided to DBK could have a material adverse effect on DBK's business, prospects, financial condition, cash flows or results of operations and ability to make payments on the Notes.

DBK's ratings are subject to change

The international credit ratings agencies have indicated that the ratings and outlook assigned by them to DBK remain constrained principally by the sovereign risk of Kazakhstan. This has, on occasion, had a positive effect on DBK's credit ratings, for example, in March 2021, DBK's long-term issuer default rating was upgraded by Fitch to BBB (with a stable outlook), in line with the Government, and, in August 2019, Moody's changed the outlook on DBK's long-term ratings from stable to positive. However, the sovereign risk had also led to negative ratings actions. For example, in February 2016, in line with the change of outlook to the sovereign rating, S&P revised its outlook on DBK's long-term foreign currency rating from stable to negative. Similarly, Moody's changed its outlook on DBK's long-term foreign currency rating from negative to stable in July 2017 and S&P changed its outlook on DBK's long-term foreign currency rating from negative to stable in September 2017, in each case, following a corresponding change to Kazakhstan's credit ratings. In the past, DBK's credit rating has also been affected by its exposure to the Kazakhstan banking sector. Any future downgrade of Kazakhstan's sovereign credit rating and liquidity problems in Kazakhstan's economy could adversely affect its economic development, which could, in turn, make it more expensive for DBK to raise financing in the future, which could have a materially and adversely affect DBK's business, prospects, financial condition, cash flows or results of operations.

DBK is subject to Information Systems Risk

DBK relies on information systems to conduct its business. Any failure of, or interruption to, these systems, or any breach of security could result in failures of, or interruptions to, DBK's risk management and loan origination systems or errors in its accounting books and records. DBK has invested in the development of its information systems since 2016 and has strengthened its internal procedures to provide for the backing up of important information on a daily basis; however, if DBK's information systems were to fail, DBK could be unable to service customers' needs in a timely manner. Likewise, a temporary shutdown of DBK's information systems may result in additional expenditure associated with information retrieval and verification. The hardware and software that is used by DBK may be damaged by human error, natural disasters, power loss, sabotage, computer viruses, cyber intrusion, network attacks and other events. In 2020, one of DBK's interim servers was hacked. No secure data was held on this server, the attack was discovered and blocked, and the server subsequently restructured. No assurance can be given, however, that DBK will not be subject to further cyber-attack or other information systems failures or interruptions in the future, or that DBK will be able to swiftly and adequately respond to any such attacks, failures or interruptions. Accordingly, the occurrence of any information systems failures or interruptions could have a material adverse effect on DBK's business, prospects, financial condition, cash flows or results of operations. Notwithstanding anything in this paragraph, this risk factor should not be taken as implying that DBK will be unable to comply with its obligations as a company with securities admitted to the Official List.

There may be a Shortage of Qualified Personnel

There is a considerable shortage of adequately qualified personnel in Kazakhstan's financial sector, particularly in areas such as risk management. If the shortage of adequately qualified personnel persists, DBK's ability to offer the desired range, volume and quality of services may be affected which may, in turn, have a material adverse effect on DBK's business, prospects, financial condition, cash flows or results of operations. In addition, a shortage of adequately qualified personnel may force DBK to offer additional financial and other incentives to retain existing personnel and recruit additional personnel, which would increase operating expenses.

B. FINANCIAL RISKS RELATING TO DBK AND ITS BUSINESS

Loan Portfolio Growth

Continuing overall growth in the size of DBK's loan portfolio increases DBK's credit exposure. As a result, DBK will be required to implement continued and improved monitoring of credit quality and the adequacy of provisioning levels, as well as continued improvement in DBK's credit risk management programme. Failure to do so could result in significant impairment losses, which DBK has experienced in the past. For the year ended 31 December 2020, DBK recognised KZT 37,207.9 million in impairment losses on debt financial assets, as compared to KZT 20,907.3 million for the year ended 31 December 2019 and KZT 20,832.0 million for the year ended 31 December 2018. Despite this increase in impairment losses, the COVID-19 pandemic has not, to date, had a considerable impact on DBK's key financial stability indices. DBK's NPLs remained relatively stable as at 31 December 2020, accounting for 1.5% of gross loans to customers, as compared to 1.7% as at 31 December 2019. In addition, DBK's capital adequacy ratio was 20.2%, as compared to 20.5% as at 31 December 2019. While DBK does not currently expect a significant increase in NPLs in 2021, there can be no assurance NPLs and impairment will not increase, in particular, if the impact of the COVID-19 pandemic continues for a significant period of time.

In addition, while DBK's policy is to limit impairment losses through the restructuring of problem loans on a prompt basis (and it has historically used such policy to maintain a low level of NPLs) (see "*Selected Statistical and Other Data—Loan Policies and Credit Approval Procedures—Loan Restructuring Policies*"), there can be no assurance that impairment losses will not increase in the future and that such impairment losses will not further increase as the size of DBK's loan portfolio increases.

As at 31 December 2020, the Bank classified 15.9% of gross loans to customers at amortised cost as "Stage 2" loans, representing loans to 12 out of a total of 61 corporate borrowers. These loans span seven economic sectors: metallurgical industry, chemical and petrochemical industry, airports, machinery and equipment, power supply, vehicle manufacturing and hospitality (hotels). See "*Selected Statistical and Other Data—Loan Policies and Credit Approval Procedures—Loan Provisioning Policy*". In its rating action commentary released in March 2021, Fitch noted that, in its view, "some of these portfolios may migrate into the Stage 3 category in the medium term". As of 31 December 2020, 65.8% of DBK's "Stage 2" loans related to railway projects (representing a gross debt amount of KZT 86.4 billion), the petrochemical industry (representing a gross debt amount of KZT 69.5 billion) and other transport (relating to the production of certain railway infrastructure, representing a gross debt amount of KZT 40.8 billion). While DBK considers the risks associated with its "Stage 2" loans to be manageable, with certain loans likely to be migrated back to "Stage 1" in the short- to medium-term, there is a risk that they may deteriorate further and be reclassified as "Stage 3" loans, which could have a material adverse impact on the credit quality of DBK's loan portfolio and, in turn, on DBK's financial condition. See "*—A. Operational Risks relating to DBK and its Business—Impact of the COVID-19 Pandemic*".

Pursuant to DBK's long-term strategy for the period 2014-2023 (the "**Development Strategy**") which was approved by the Board of Directors on 14 July 2014 and was most recently amended on 29 September 2017, DBK aims to become the leading public operator in assessing, structuring and financing large infrastructure and industrial projects within Kazakhstan, both for the private sector and for the Government. In line with this aim, DBK is focused on increasing the availability of credit for the private sector, particularly for entrepreneurs and exporters. See "*Business—Strategy*". Failure by DBK to diversify its portfolio could limit DBK's ability to increase the size of its loan portfolio, maintain loan portfolio quality and meet its strategic aims, all of which could have a material adverse effect on DBK's business, prospects, financial condition, cash flows or results of operations.

DBK is currently in the process of updating its Development Strategy, which is intended to focus on efforts to become a development institute that contributes to the stable economic prosperity of Kazakhstan by providing a wide range of support tools for businesses based on principles of sustainable development and promotion of the private sector, and is expected to include initiatives to help overcome the economic consequences of the COVID-19 pandemic in Kazakhstan. No updates to the Development Strategy have currently been approved, and there can be no assurance as to when such strategy will be updated or what form such updates will take, or what the corresponding impact of the updated strategy will be on the growth or diversification of DBK's loan portfolio.

Continued growth of DBK's loan portfolio is, to an extent, dependent upon the availability of funds allocated by the Government to finance development projects, the ability of DBK to identify suitable corporate guarantors for such development projects, the ability of DBK to borrow in the domestic and international markets and the ability of DBK to attract and retain qualified personnel and to train new personnel to monitor asset quality. Failure by DBK in any of these areas could limit DBK's ability to increase the size of its loan portfolio and maintain its quality and, accordingly, could result in have a material adverse effect on DBK's business, prospects, financial condition, cash flows or results of operations.

Loan Portfolio Concentration

DBK was established, among other reasons, to provide credit and certain other banking services at preferential interest rates to certain sectors of the Kazakhstan economy, including the non-extractive and raw materials sectors, to support the Government's development goals. As a result, DBK's loan portfolio is, from time-to-time, characterised by a high concentration in one or more particular economic sectors. As at 31 December 2020, the largest proportion of DBK's loans to customers was granted in the carbon and petrochemical manufacturing sector, accounting for 29.9% of total gross loans granted to customers. In addition, as a result of the scale of investment projects funded by DBK, DBK's loan portfolio is, from time-to-time, characterised by a concentration of borrowers. As at 31 December 2020, DBK had six borrowers whose balances exceeded 10% of DBK's equity. Outstanding loans to the top ten groups of borrowers comprised 67.6% of DBK's total gross loans to customers measured at amortised cost.

As a result of the nature of DBK's lending activities, DBK has had and continues to have concentrated exposure to particular industries or economic sectors, particular groups of borrowers and borrowers whose businesses are not mature and, ultimately, could adversely affect the diversity and quality of DBK's overall loan portfolio. As a result, DBK may experience higher losses in its loan portfolio than would be the case if it had a more diversified portfolio of lending to more established and varied businesses, which could, in turn, have a material adverse effect on DBK's business, prospects, financial condition, capitalisation, cash flows or results of operations.

Collateral Value

Pursuant to the DBK Law, DBK requires security from all borrowers, except in the circumstances where DBK provides financing to its wholly-owned subsidiaries or DBK's participation in the financing is made through mezzanine financing or interbank financing. As at 31 December 2020, while there were no unsecured loans to customers, loans to banks with a carrying amount of KZT 124,810.7 million were unsecured with no collateral or other credit enhancement, as compared to KZT 110,945.8 million as at 31 December 2019. At least 30% of security for loans must be comprised of "tangible assets collateral", which includes immovable, movable property, cash and commodities. Collateral may also include legal rights of use and possession property rights, securities, cash and commodities and other forms of security not prohibited under Kazakhstan law. DBK also accepts security by way of third party guarantees, provided that such guarantees meet DBK's requirements. Downturns in the relevant markets or a general deterioration of economic conditions may result in reductions in the value of collateral securing a number of loans to levels below the amounts of the outstanding principal and accrued interest on such loans. If collateral values decline, they may not be sufficient to cover uncollectable amounts on DBK's secured loans. Furthermore, DBK may face difficulties with enforcing collateral under Kazakhstan law, which may also lead to lower than expected recovery levels on secured loans. A failure to recover the expected value of collateral may expose DBK to losses, which could, in turn, have a material adverse effect on DBK's business, prospects, financial condition, cash flows or results of operations.

Long-Term Projects and Liquidity Risk

A key area of DBK's business is the limited recourse financing of large and long-term infrastructure projects. As a result, DBK is exposed to significant risks if such projects are not successful. The macro-economic and political risks inherent in emerging economies, such as Kazakhstan, has a significant effect on the success or failure of these projects, and it is impossible to predict at the outset of a project all of the factors, which may affect it in the long-term. The main risks are likely to be that a project will not be completed within the agreed timeframe, on budget, or it may fail altogether. There is also the risk that if an event of default occurs under a project financing, the collateral provided may not be sufficient to cover the value of the loans. The occurrence of any of these events could have a material adverse effect on DBK's business, prospects, financial condition, cash flows or results of operations.

In addition, the long-term nature of the projects that DBK finances may expose DBK to increased liquidity risk if its financial liabilities are mismatched with the long-term maturities of its loans to customers. An unmatched position potentially enhances profitability, but can also increase the risk of losses. See "*Selected Statistical and Other Data*" and "*Asset and Liability Management—Liquidity Risk*". While DBK maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due, there can be no assurance that its liquidity management policies will continue to be effective, that it will be able to effectively manage the mismatch of its assets and liabilities going forward and that it will not be exposed to resulting future losses, which could, in turn, have a material adverse effect on DBK's business, prospects, financial condition, cash flows or results of operations.

Credit Risks

The DBK Law, the Credit Policy Memorandum and DBK's internal credit policy rules set out the principal guidelines in relation to DBK's lending policies, including the duration, limits and bases for the calculation of interest rates charged for credit instruments, which include, *inter alia*, loans, letters of credit and guarantees. DBK has implemented specific credit risk

policies and procedures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee to actively monitor DBK's credit risk. See "*Asset and Liability Management*" and "*Selected Statistical and Other Data—Loan Policies and Credit Approval Procedures—Credit Monitoring*". However, DBK's credit portfolio consists of medium- to long-term loans, and there has been little historical experience in Kazakhstan with such loans. There can be no assurance that DBK's credit policies are or will be sufficient to mitigate the risks involved in making medium to long-term loans in an emerging market such as Kazakhstan. In addition, although DBK has not experienced a material negative effect on its credit quality as a result of the COVID-19 pandemic to date, there can be no assurance that, particularly if the effects of the COVID-19 pandemic are prolonged, it will not experience increased impairment and lower loan recoveries going forward due to the impact of the COVID-19 pandemic.

Kazakhstan's economy is substantially influenced by commodity prices and customers operating in industries that are susceptible to commodity price fluctuations may find their financial condition affected by such fluctuations. Following the outbreak of the COVID-19 pandemic in March 2020, the oil price was severely negatively impacted. Consequently, the ability of such customers to service loans extended by DBK fully and on time may be adversely affected. In particular, there can be no assurance that DBK's credit risk policies and procedures will protect DBK from increased levels of cost of risk and NPLs in such circumstances. There can be no assurance that DBK's current level of loan recovery will be maintained in the future, and any failure to accurately assess the credit risk of potential borrowers and the additional risks relating to such medium- to long-term loans or any acceptance of a higher degree of credit risk in the future may result in a deterioration in DBK's loan portfolio and a corresponding increase in loan impairment, which would, in turn, have a material adverse effect on DBK's financial condition and results of operations.

Foreign Currency Risk

DBK is exposed to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. DBK has set limits on the level of exposure to currencies, primarily, the U.S. Dollar, and has entered into forward and swap transactions to hedge some of its foreign currency risk. Certain of DBK's cash flows are generated in U.S. Dollars and any future movements in the exchange rate between the Tenge and the U.S. Dollar may adversely affect the carrying value of DBK's Tenge-denominated monetary assets and liabilities and DBK's ability to realise investments in non-monetary assets measured in Tenge.

Additionally, in line with DBK's policy of limiting its exposure to currency fluctuations, DBK's loan portfolio includes non-Tenge loans, particularly loans denominated in U.S. Dollars. Loans to customers denominated in U.S. Dollars accounted for 48.7% of total net loans as at 31 December 2020 and 49.5% and 58.5% of total net loans as at 31 December 2019 and 2018, respectively. Any fluctuation in the value of the Tenge relative to the U.S. Dollar might result in a change in costs for DBK and its customers, which could have a material adverse effect on DBK's business, financial condition, results of operations and prospects. As at 31 December 2020, the official KZT/U.S.\$ market exchange rate reported by the NBK was KZT 420.91 per U.S.\$1.00, as compared to KZT 382.59 per U.S.\$1.00 as at 31 December 2019 and KZT 384.20 per U.S.\$1.00 as at 31 December 2018.

Many of DBK's borrowers have revenues principally generated in Tenge and, to the extent they borrow in U.S. Dollars, any decrease in the value of the Tenge relative to the U.S. Dollar may generally adversely affect their financial condition and, in particular, could have a negative effect on the ability of such borrowers to repay U.S. Dollar denominated loans extended by DBK. In February 2014, and in anticipation of a devaluation of the Tenge, DBK began periodically conducting stress testing and reviewed all projects financed with loans denominated in foreign currencies and, for those projects most affected by the devaluation, converted the principal of such loans into Tenge, in order to minimise the impact of any devaluation. As a matter of policy, DBK now only finances projects with foreign currency-denominated loans if the project or the customer has sufficient export earnings or income to cover such foreign currency-denominated financing and, in turn, DBK will only seek funding in foreign currencies if such eligible customers request that DBK provide foreign currency-denominated loans.

DBK is also subject to foreign currency risk as a portion of its borrowings and debt securities are denominated in U.S. Dollars, and, in the past, has been adversely affected by past devaluations of the Tenge and their impact on the Tenge-value of loans from banks and other financial institutions, as well as U.S. Dollar-denominated debt securities. As at 31 December 2020, 45.6% of DBK's debt securities issued were denominated in U.S. Dollars. Accordingly, while DBK takes measures to naturally hedge its foreign currency risk (as referred to above), and DBK has increased its Tenge-denominated borrowings in recent years, any future devaluation of the Tenge against the U.S. Dollar may have an adverse effect on DBK. In addition, in the event of any shortage of availability of U.S. Dollars in Kazakhstan in the future, this would have a material adverse impact on DBK's ability to service payments under its U.S. Dollar-denominated borrowings, including Notes issued under the Programme, which are denominated or payable in U.S. Dollars.

DBK is also subject to exchange rate fluctuations in the KZT/RUB exchange rate as a result of borrowings denominated in Russian Roubles. For example, Industrial Development Fund JSC ("**IDF JSC**"), DBK's wholly-owned subsidiary (previously known as DBK-Leasing), has entered into a number of facility agreements with Roseximbank JSC. Such facilities increase DBK's exposure to any future devaluation of the Tenge against the Russian Rouble. As at 31 December 2020, the official

KZT/RUB exchange rate reported by the NBK was KZT 5.65 per RUB 1.00, as compared to KZT 6.17 per RUB 1.00 as at 31 December 2019 and KZT 5.52 per RUB 1.00 as at 31 December 2018.

DBK's exposure to exchange rate risk may increase, particularly as it continues to obtain foreign currency funding by accessing the international capital markets and syndicated and bilateral lending markets. Currency exchange rates can be particularly volatile in times of national or global financial instability, such as the recent period of economic turmoil. Accordingly, any future changes in such rates could have a material adverse effect on DBK's business, prospects, financial condition, cash flows or results of operations.

See *“Risk Factors—Factors that may affect DBK's ability to fulfil its obligations under, or in connection with, Notes issued under the Programme—C. Macroeconomic and Geopolitical Risks—Exchange Rate Policies”*.

Interest Rate Risk

DBK is exposed to risk resulting from mismatches between the interest rates on its interest-bearing liabilities and interest-earning assets. Generally, the maturities of DBK's assets and liabilities are not balanced and, accordingly, an increase or decrease in interest rates could have an adverse effect on DBK's net interest margin and results of operations. To the extent that DBK's assets reprice more frequently than its liabilities, if interest rates fall, DBK's interest expenses will decrease more slowly than its interest income, which could negatively affect interest margins and result in liquidity problems. According to DBK's credit policy, DBK intends to pass on such risks to borrowers by lending on similar conditions as it borrows; however, DBK may not always be able to do so. In addition, in order to manage the risk of mismatch in interest rates inherent to DBK's operations, the Government grants low-interest loans to DBK. There can be no assurance that DBK will continue to benefit from such loans in the future. DBK's ability to mitigate interest rate risks is, accordingly, limited and, as such, its financial condition may be negatively affected. In addition, volatility in interest rate movements may have a material adverse effect on DBK's business, prospects, financial condition, cash flows or results of operations.

C. MACROECONOMIC AND GEOPOLITICAL RISKS

Political, Economic and Related Considerations

DBK is a Kazakhstan-based development bank, with 100% of its loans to customers as at 31 December 2020 made in Kazakhstan. Accordingly, DBK is affected by political, economic and other events in Kazakhstan.

Kazakhstan became an independent sovereign state in 1991, as a result of the dissolution of the former Soviet Union. Since then, Kazakhstan under two presidents, Nursultan Nazarbayev and, from June 2019, Kassym-Jomart Tokayev, has experienced significant changes as it has emerged from a centrally controlled command economy to a market-oriented economy. The transition was initially marked by political uncertainty and tension, a stagnant economy marked by high inflation, instability of the local currency and rapid, but incomplete, changes in the legal environment. However, Kazakhstan actively pursued a programme of economic reform designed to establish a free market economy through privatisation of government-owned enterprises and deregulation and it is more advanced in this respect than some other countries of the former Soviet Union. Under President Nazarbayev's leadership, Kazakhstan has moved toward a market-oriented economy.

In March 2019, President Nazarbayev announced his retirement as President (although he remains head of the ruling Nur Otan party and the Security Council). Kassym-Jomart Tokayev, who was at the time the chairperson of the Senate, was appointed as acting President. The latest presidential election took place on 9 June 2019 and Kassym-Jomart Tokayev, who competed with six other candidates, won the election with 71% of the vote.

Prior to this transfer of presidential power from Nursultan Nazarbayev to Kassym-Jomart Tokayev, Kazakhstan's constitutional succession processes had never been tested. If this recent transfer of presidential power, for whatever reason, encounters difficulties in the near future or there is a reversal of reform policies, Kazakhstan's socio-political situation and economy could become unstable and the investment climate could change, which could have a material adverse effect on the economy of Kazakhstan, which could, in turn, have a material adverse effect on DBK's financial condition and results of operations. In particular, any change to the current administration's outlook, which effect the economy, including in property, tax or regulatory regimes or other changes could have a material adverse effect on DBK's business, prospects, financial condition, cash flows or results of operations.

As Kazakhstan produces and exports large quantities of commodity products (primarily oil and gas), its economy is particularly vulnerable to fluctuations in the prices of such commodities in the international markets. While the Government has been promoting economic reform to diversify the economy, Kazakhstan's revenue continues to depend on the prices of export commodities. Weak demand in its export markets and low commodity prices, especially within the oil and gas industry, may adversely affect Kazakhstan's economy in the future, which may in turn have a material

adverse effect on DBK's business, financial condition, results of operations or prospects. For example, the decline in world prices for oil and other commodities in 2014 and subsequent devaluation of the Tenge against the U.S. Dollar in 2015 affected the public finances and resulted in revisions of the State budget of Kazakhstan. The State budget for 2021-2023 reflects an assumed world oil price in 2021, 2022 and 2023 of U.S.\$35 per barrel, significantly below budgeted amounts of U.S.\$55 per barrel in the 2020-2022 State budget and U.S.\$90 per barrel in 2013 and U.S.\$95 per barrel in each of 2014, 2015 and 2016.

Due to business disruption and lockdowns in many countries as a result of the COVID-19 pandemic, global oil demand has substantially decreased, leading to oversupply and a significant decrease in oil prices. On 12 April 2020, major global oil producers, including Kazakhstan, agreed to a record cut in crude oil production aimed at stabilising the market. Such actions have not, however, reversed the downward pressure on the oil market. Such decreases in oil prices and production volumes have resulted in corresponding decreases in oil producers' income and payments to the State budget, which could, in turn, have a material adverse effect on the Kazakhstan economy and public sector spending. In April 2020, the Minister of Finance reported a further increase of the State budget deficit by KZT 840.7 billion and, in October 2020, the Kazakhstan parliament adopted amendments to the State budget for 2020-2022, which reflected an increase in State budget expenditures in 2020 by approximately KZT 1.5 trillion to KZT 13.9 trillion. State budget expenditures in 2021 are budgeted at KZT 13.8 trillion.

There can be no assurance that further revisions of the State budget will not be required in light of continuing oil price volatility and continuing impact of the COVID-19 pandemic. This may, in turn, affect funding available to DBK from the State budget. An oversupply of oil or other commodities in world markets, a general turndown in the economies of any significant markets for oil or other commodities or a weakening of the U.S. Dollar relative to other currencies would have a material adverse effect on the Kazakhstan economy, which, in turn, could indirectly have a material adverse effect on DBK's business, financial condition, results of operations or prospects.

DBK is particularly affected by Kazakhstan's budgetary revenues and general economic performance as it relies on funding from the State Budget to finance its customers' projects and run its business. Such funding is also affected by political and economic events in Kazakhstan. The budget for 2019-2021 allocated the following amounts to DBK in 2019: KZT 11 billion for the implementation of the Industrialisation Programme, KZT 21.2 billion for the implementation of the Business Road Map 2020 and the following additional loans to DBK: (i) a KZT 23.5 billion loan to DBK to finance the Saryarka Gas pipeline project; and (ii) a KZT 10 billion loan to finance the local manufacturing of cars, as well as KZT 30 billion loan to IDF JSC to finance leasing of passenger wagons. The budget for 2020-2022 allocates the following amounts to DBK in 2020: a KZT 30 billion loan to DBK to provide export financing and the following loans to IDF JSC; (i) a KZT 10 billion loan to finance the leasing of buses; (ii) a KZT 20 billion loan to finance the leasing of passenger wagons; and (iii) a KZT 8 billion loan to finance the leasing of buses, combine harvesters and tractors. An amount of KZT 48.3 billion is also allocated for the implementation of the Business Road Map 2025 (as defined below) initiative under the 2020-2022 budget. DBK funding from the budget for 2021 comprised KZT 10 billion for the implementation of financing relating to the multifunctional tourist complex in Keruyen-Saray, KZT 16 billion to stimulate export finance, KZT 22 billion to IDF JSC to finance the leasing of buses and KZT 14.7 billion to finance the purchase of new passenger rail cars. The budget for 2021-2023 allocated KZT 12 billion to DBK for 2022 to stimulate export finance and DBK is working on documentation in connection with other budget programmes for 2021-2023. There can be no assurance that DBK will continue to benefit from funding from the State Budget at the same levels or at all.

Kazakhstan's economy and finances have and continue to experience slower levels of growth since the global financial crisis which began in 2008 and, most recently, due to the impact of the COVID-19 pandemic. Real GDP in Kazakhstan, according to statistics published by the National Statistics Office, contracted by 2.6% in 2020 and grew by 4.5% in 2019 and 4.1% in 2018. According to the National Statistics Office, annual consumer price inflation for 2018, 2019 and 2020 was 5.3%, 5.4% and 7.4%, respectively.

There can be no assurance that either the economic performance of, or political stability in, Kazakhstan can or will be sustained. To the extent that economic growth or performance in Kazakhstan slows or begins to decline, there is a return to high or sustained inflation, or political conditions deteriorate materially DBK's business, financial condition, results of operations and prospects may be adversely affected.

Legislative, Regulatory, Tax and Judicial Considerations

Although a large volume of legislation and regulation has been enacted since early 1995 (including new tax codes in January 2002, January 2009 and January 2018 and new or amended laws and regulations relating to foreign arbitration, foreign investment and foreign currency, 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.

Further, 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 tax code introduced with effect from 1 January 2018 (as amended from time-to-time, the “**2018 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 Budget Code of the Republic of Kazakhstan grants DBK the status of a financial agency. The 2018 Tax Code exempts debt securities, such as Notes issued under the Programme, issued by a financial agency, as well as gains realised on the disposal, sale, exchange or transfer of such securities from Kazakhstan income tax. In past years, DBK’s tax burden has increased as a result of changes to tax legislation.

Kazakhstan’s tax system is still in a transitional phase and it is expected that tax legislation in Kazakhstan will continue to evolve. There can be no assurance that DBK will retain its status of a financial agency or that new taxes and duties or new tax rates will not be introduced in the future or that any tax legislation passed in the future will not materially adversely affect DBK’s business, prospects, financial condition, cash flows or results of operations. Investors in Notes should be aware that further changes in the withholding tax regime may give DBK the right to redeem Notes prior to their stated maturity.

The continuous development of Kazakhstan’s legislative and regulatory environment may result in further reduced predictability of its legislative and regulatory landscape, which may result in inconsistent interpretations due to the lack of court precedents or guidance from the regulators. Any of these factors could be significant and could have a material adverse effect on DBK’s business, financial condition, results of operations or prospects and/or the Noteholders’ rights and remedies under the Notes.

Exchange Rate Policies

Although the Tenge is convertible for current account transactions, it is not a fully convertible currency for capital account transactions outside Kazakhstan. Since the NBK adopted a floating rate exchange policy for the Tenge in April 1999, the Tenge has fluctuated significantly and the NBK has adopted a number of exchange rate policies. The Tenge had generally appreciated in value against the U.S. Dollar over the previous decade until its devaluation by the NBK in February 2009. In February 2009, the NBK established a trading band of KZT 150: U.S.\$1.00 +/- 3%. This trading band was widened in February 2010, and set at an asymmetric KZT 150/U.S.\$1.00 +10/-15%. In February 2011, the trading band was officially abolished, and the formal exchange rate arrangement was changed from a pegged exchange rate within horizontal bands to a managed floating exchange rate regime. On 11 February 2014, the NBK devalued the Tenge by 18.3% against the U.S. Dollar to KZT 184.50 per U.S.\$1.00, stating that such devaluation was made in light of the situation in the global financial and commodity markets and the depreciation of the Russian Rouble in 2013 and 2014, as well as the overall situation in the global financial and commodity markets. In September 2014, the NBK re-established the trading band at KZT 170-188: U.S.\$1.00. In August 2015, the NBK announced the adoption of a free-floating exchange rate and medium-term inflation targeting policy, which resulted in a 26.2% depreciation against the U.S. Dollar. As at 31 December 2020, the official KZT/U.S.\$ market exchange rate reported by the NBK was KZT 420.91 per U.S.\$1.00, as compared to KZT 382.59 per U.S.\$1.00 as at 31 December 2019 and KZT 384.20 per U.S.\$1.00 as at 31 December 2018. As at 31 March 2021, the official KZT/U.S.\$ market exchange rate reported by the NBK was KZT 424.34 per U.S.\$1.00.

As a substantial portion of DBK’s loans to customers and debt securities are denominated in U.S. Dollars, DBK’s loan portfolio and financial condition are sensitive to currency exchange rate fluctuations, and any devaluation of the Tenge against the U.S. Dollar may have an overall adverse effect on DBK. See “—*Foreign Currency Risk*”.

The Group is also subject to exchange rate fluctuations in the KZT/RUB exchange rate as a result of borrowings denominated in Russian Roubles. As at 31 December 2020, the official KZT/RUB exchange rate reported by the NBK was KZT 5.65 per RUB 1.00, as compared to KZT 6.17 per RUB 1.00 as at 31 December 2019 and KZT 5.52 per RUB 1.00 as at 31 December 2018. As at 31 March 2021 the official KZT/RUB market exchange rate reported by the NBK was KZT 5.59 per RUB 1.00. Any devaluation of the Tenge against the Russian Rouble may have an overall adverse effect on DBK. See “—*Foreign Currency Risk*”.

There can be no assurance that the NBK will maintain its current exchange rate policy. Any change in the NBK's exchange rate policy could have an adverse effect on Kazakhstan's public finances and economy, which could, in turn, have a material adverse effect on DBK's business, prospects, financial condition, cash flows or results of operations.

Kazakhstan's Currency Control Law

The Law of Kazakhstan "On Currency Regulation and Currency Control" dated 13 June 2005 (the "**2005 Currency Law**") empowered the Government, by special action and under circumstances when the economic stability of Kazakhstan is threatened, to introduce a special currency regime that would (i) require the compulsory sale of foreign currency received by Kazakhstan residents; (ii) require the placement of a certain portion of funds resulting from currency transactions into a non-interest bearing deposit in an authorised bank or the NBK; (iii) restrict the use of accounts in foreign banks; (iv) limit the volumes, amounts and currency of settlements under currency transactions; and (v) require a special permit from the NBK to conduct currency transactions. Moreover, the Government is authorized to impose other requirements and restrictions on currency transactions when the economic stability of Kazakhstan is threatened.

On 2 July 2018, the President signed a new Law on Currency Regulation and Currency Control (the "**2018 Currency Law**") that replaced the 2005 Currency Law with effect from 1 July 2019. The 2018 Currency Law retained the Government's power to impose restrictions under the special currency regime. As at the date of this Base Prospectus, the Government has not invoked such restrictions.

In response to the low oil price environment, the adverse impact of the COVID-19 pandemic and the volatility of the Tenge, on 19 March 2020, the NBK decreased the amount of foreign currency that Kazakhstan companies can buy in the domestic foreign exchange market without supporting documents from U.S.\$100,000 to U.S.\$50,000. On 21 April 2020, the NBK limited the amount of cash that Kazakhstan companies can withdraw from their accounts. In particular, large businesses cannot withdraw more than KZT 150 million from their accounts per calendar month. Withdrawal of any amount in excess of such limit must be backed up with supporting documents and is subject to approval by the Kazakhstan tax authorities. There can be no assurance that the currency laws and regulations will not be amended further or that any such amendments passed in the future will not materially adversely affect DBK. For instance, any imposition of significant restrictions on DBK's foreign currency dealings could have a material adverse effect on DBK's business, prospects, financial condition or results of operations and ability to make payments on the Notes.

DBK is subject to the volatility of Kazakhstan's Banking Industry

The global financial and economic crisis of 2008-2009 significantly affected the Kazakhstan banking system, which continues to remain under stress, with banks seeking to deleverage through partial repayments and debt restructurings. A number of distressed asset takeovers and mergers have occurred in the Kazakhstan banking sector. In addition, in the past several years the regulator revoked the licences of a number of banks of varying size. While, along with the regulator's measures to support the liquidity of financial institutions, such restructurings, consolidations and revocation of licences have contributed to the general stability of the Kazakhstan banking industry, the sector continues to operate in a challenging environment where further defaults or debt restructurings cannot be ruled out.

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 previously relied heavily on such financing and deposits as a source of funding. The high dependence on capital market funding poses a significant refinancing risk for both individual banks and the banking system as a whole and wholesale debt financing became significantly more expensive. In addition, the banking sector in Kazakhstan has been burdened by high levels of non-performing assets and NPLs across the sector, with NPLs increasing to 31.2% as at 1 January 2014 from 8.2%, as at 1 January 2009. NPLs in the banking sector in Kazakhstan decreased to 7.4% as at 1 January 2019 before increasing to 8.2% as at 1 December 2019.

The negative impact of the continuing problems in the banking sector may affect the willingness of foreign investors and banks to consider lending to, or investing in, Kazakhstan banks, such as DBK. This reluctance could have an adverse effect on DBK's ability to attract finance from foreign financial institutions. While DBK's regulator and the Government have taken steps to support the Kazakhstan banking sector, such as the adoption by the NBK (DBK's then-regulator) of the "Program Improving Financial Stability of the Banking Sector of the Republic of Kazakhstan" (the "**2017 Programme**") aimed at, inter alia, improving the banking sector's financial health and promoting consolidation of Kazakhstan banks, the Kazakhstan banking system remains under stress.

It is also uncertain what impact the on-going problems in the sector may have on investors' perceptions of Kazakhstan. Such problems could have a negative impact on the country's sovereign credit rating or other adverse developments, which could, in turn, have a material adverse effect on DBK's business, prospects, financial condition, cash flows or results of operations.

Corporate Governance and Disclosure Laws

The corporate governance laws and rules applicable to DBK are, in the first instance, the DBK Law, the Kazakhstan Joint Stock Company Law (the “**JSC Law**”) and other laws of Kazakhstan. The corporate governance regime in Kazakhstan is less developed than that in the United States or the United Kingdom, and the responsibilities of the members of the Board of Directors and DBK’s management board (the “**Management Board**”) under Kazakhstan law are different from those generally applicable to corporations organised in the United States, the United Kingdom or other jurisdictions.

A principal objective of the securities laws of the United States, the United Kingdom and certain other countries is to promote the full and fair disclosure of all material corporate information to the public. Although DBK is subject to certain disclosure requirements under Kazakhstan law, these requirements are less stringent than the comparable requirements in the United States, the United Kingdom or certain other jurisdictions and, therefore, there is less information publicly-available about DBK than would be required if DBK were organised in the United States, the United Kingdom or certain other jurisdictions. This could have a material adverse impact on an investor’s ability to assess the suitability of Notes issued by DBK for its purposes.

While the Government has stated that it intends to continue to reform the corporate governance regulations to which DBK is subject, in common with all other joint stock companies, with a view toward increasing disclosure and transparency in the corporate sector in order to promote growth and stability, it may not continue to pursue such a policy in the future or such policy, if continued, may not ultimately prove to be successful. It is not possible to predict the effect in this regard of future legislative developments. Accordingly, investment is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and such investors cannot rely on the same level of public information about DBK as may be required of issuers in more developed jurisdictions.

Corruption and Business Environment Weaknesses in Kazakhstan

As in many other emerging market jurisdictions, the incidence and perception of elevated levels of corruption remains a significant issue in Kazakhstan, although the climate has improved in this respect in recent years. Kazakhstan was ranked 94 out of 179 countries in Transparency International’s 2020 Corruption Perceptions Index. Kazakhstan’s score in the 2020 index was 38 (with 1 the most corrupt score and 100 being the least corrupt). Kazakhstan’s business climate and competitive indicators are also negatively affected by the need for reform in investor protection arrangements, the cost of establishing a business, the tax system, resolving insolvency and contract enforcement. In the World Bank’s Doing Business Survey, Kazakhstan ranked 25 out of 190 countries for ease of doing business, while Kazakhstan ranked 55 out of 141 countries in the World Economic Forum 2019 Global Competitiveness Index. See “*Asset and Liability Management—Anti-Money Laundering, Countering the Financing of Terrorism, Anti-Corruption and Anti-Bribery Policies and Procedures*”.

Failure to address continued or perceived corruption and governance failures in the public sector and any future allegations, or perceived risk, of corruption in Kazakhstan, could have a material adverse effect upon Kazakhstan’s ability to attract foreign investment, which could, in turn, have a material adverse effect on Kazakhstan’s economy and, in turn, a material adverse effect on DBK’s business, prospects, financial condition, cash flows or results of operations.

In January 2017, the National Anti-Corruption Bureau of Kazakhstan arrested the former head of Baiterek JSC, Mr. Kuandyk Bishimbayev, on corruption charges in connection with alleged bribes and kickbacks from construction companies and other parties in a number of Baiterek JSC projects. These projects included an engineering, procurement and turnkey construction project for a float glass manufacturing and processing plant in Kyzylorda (the “**Kyzylorda Project**”). The Kyzylorda Project, which is still ongoing, was partially financed by DBK on the basis of an approval of DBK’s Board of Directors of which Mr. Bishimbayev, as a representative of Baiterek JSC, was chairman at the time. Following an investigation, a trial in respect of the allegations against Mr. Bishimbayev commenced on 31 October 2017. On 14 March 2018, Mr. Bishimbayev was convicted of bribery and embezzlement and was sentenced to ten years in prison. On 11 October 2019 Mr. Bishimbayev was released on parole. No charges or proceedings have been brought and, to the best of DBK’s knowledge, no charges or proceedings are threatened and no investigations have been conducted against DBK or any of its current officers or employees in connection with this matter. There can be no assurance, however, that any further investigation into these or similar allegations against Mr. Bishimbayev would not result in investigations into DBK or any of its officers or employees.

Lack of Information and Risk Assessments

Kazakhstan’s system for gathering and publishing statistical information relating to its economy, specific economic sectors, and corporate or financial information relating to companies and other economic enterprises is not as comprehensive as that of countries with established market economies. Thus, the statistical, corporate and financial information, including audited financial statements, available to DBK relating to its corporate borrowers or other clients makes the assessment of credit risk, including the valuation of collateral, more difficult. The absence of accurate statistical, corporate and financial information

may decrease the accuracy of DBK's credit risk assessment. This could increase the risk of borrower default, decrease the likelihood that DBK would be able to enforce any collateral in respect of the corresponding loan or decrease the likelihood that the relevant collateral has a value commensurate to the loan secured on it, each of which could, in turn, reduce DBK's loan recovery, increase its impairment losses and NPLs and have a corresponding negative impact on its financial condition and results of operations. Further, DBK finances long-term development projects about which there may be little historical information. Accordingly, DBK is subject to greater risks than a commercial bank and the potential negative impact of such risks materialising could be more substantial than with respect to a commercial bank that focuses on other types of project or that does not engage in the funding of development projects.

In 2004, in co-operation with an international credit reference agency, Experian, Kazakhstan's commercial banks established a credit reference bureau in Kazakhstan to provide information about potential borrowers. However, the credit reference bureau may still not be as developed as credit reference agencies in other jurisdictions, and, as a result, the quality of information it provides may not be adequate, which could, in turn, adversely affect the quality of DBK's lending decisions.

Sanctions imposed on Russia

The United States, the UK and the EU, as well as other nations, such as, Australia, Canada, Japan and Switzerland, have extended sanctions on certain Russian and Ukrainian persons and entities in connection with the current political crisis and armed conflict in Ukraine. The sanctions and related measures imposed to date, including certain non-Ukraine related sanctions such as the Countering America's Adversaries Through Sanctions Act (signed into law by President Trump on 2 August 2017), the introduction by the U.S. Senate of the *"To strengthen the North Atlantic Treaty Organisation, to combat international cybercrime, and to impose additional sanctions with respect to the Russian Federation, and for other purposes"* bill (also known as DASKAA) on 13 February 2019 and the *"Defending Elections from Threats by Establishing Redlines Act of 2019"* bill on 8 April 2019 and the determination by the U.S. State Department on 6 August 2018 that the Russian government had violated the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991, have had an adverse effect on the Russian economy, causing extensive capital outflows from Russia and impairing the ability of certain Russian issuers to access the international capital markets. The governments of the United States and certain EU member states, as well as certain EU officials, have indicated that they may consider additional sanctions should such tensions between Russia and Ukraine continue. On 15 April 2021, the United States imposed new sanctions expanding restrictions on the purchase of certain Russian sovereign debt and other financing instruments and adding a number of Russian entities and individuals to the List of Specially Designated Nationals.

DBK has certain relationships with Kazakhstan-established subsidiaries of Russian state-owned banks (including, Subsidiary Bank Sberbank JSC and Subsidiary Organization VTB Kazakhstan JSC, which are currently subject to the EU, UK and US sanctions). Such activities include allocation of funding in connection with state-administered interbank lending programmes. All funding provided to such entities is denominated in Tenge and the loans to such entities accounted for 18.6% of DBK's gross loans to banks as at 31 December 2020. See *"Business—Participation in Government Programmes--Interbank Lending Programmes"*. All such activities are conducted in accordance with applicable laws, including applicable sanctions.

While Kazakhstan maintains strong independent diplomatic relationships with both Russia and Ukraine and has confirmed its neutral position with respect to the tensions between Russia and Ukraine, Kazakhstan has significant economic and political relations with Russia. In 2014, Kazakhstan, Russia and Belarus signed the treaty establishing the Eurasian Economic Union ("**EEU**") (which came into force in 2015), marking a new milestone of economic integration and ensuring the free movement of goods, services, capital and labour within the EEU and establishing coordinated, coherent or unified policies in key sectors of the economy. A new customs code came into force on 1 January 2018. The EEU is expected to continue to strengthen Kazakhstan's economic relations with Russia going forward. Russia is one of Kazakhstan's largest export partners and, according to information published by the National Statistics Office, as at 31 December 2019, Kazakhstan's imports from Russia accounted for 36.7% of Kazakhstan's total imports, and its exports to Russia accounted for approximately 9.7% of its total exports. Key exports to Russia include oil, chemicals and minerals. On 10 February 2021, Kazakhstan's Minister of Trade and Integration met Russian Minister of Economic Development. The ministers acknowledged that the volume of trade between the countries in January-November 2020 decreased by 4.6%, as compared to the same period of 2019. Both Ministers noted the decrease was primarily driven by the restrictions imposed to combat the impact of the COVID-19 pandemic.

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 DBK's business, prospects, financial condition, cash flows or results of operations.

In addition, if the instability in Ukraine continues, tensions between Russian 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 the Kazakhstan economy, as well as on companies active in the region, including DBK.

FACTORS THAT ARE MATERIAL FOR ASSESSING THE MARKET RISKS ASSOCIATED WITH NOTES ISSUED UNDER THE PROGRAMME

Absence of Trading Market for the Notes

Notes issued under the Programme may have no established trading market when issued and none may develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Application has been made for the listing of the Notes on the Official List and for trading on the Market. In addition, unless otherwise agreed with the relevant Dealer and provided for in the Final Terms or Drawdown Prospectus, DBK will cause all Notes issued by DBK under the Programme to be admitted to the “Bonds” category of the “Debt Securities” sector of the “Main” platform of the official list of the KASE, and no Notes issued by DBK may be issued and/or placed (including the listing thereof) outside of the Republic of Kazakhstan without prior getting the Agency Permissions. There can be no assurance that either such listings or Agency Permissions will be obtained or, if obtained, that an active trading market will develop or be sustained. The liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and may be affected by political, economic, social and other developments both in Kazakhstan and in other emerging markets. Accordingly, there can be no assurance as to the development or liquidity of any market for the Notes.

The Notes may not be a suitable investment for all investors seeking exposure to “development finance” assets

There is currently no market consensus on what precise attributes are required for a particular project or financing to be defined as “development”, and, therefore, no assurance can be provided to investors that Notes to be issued under the Programme and the use of proceeds by DBK or any development impact projects will satisfy, whether in whole or in part, any expectations or requirements of any investor or any present or future expectations or requirements with respect to development finance. Neither DBK nor the Development Finance Structuring Agent makes any representations or assurances as to whether (and are not responsible for ensuring that) (a) the characterization of the Notes to be issued under the Programme as development finance or the level of its expected development intensity rating impact will (i) comport with any investor’s definition of development finance, (ii) meet any investor’s criteria and expectations with regard to developmental impact, or (iii) comport with the characterization or definitions used by any other development finance institution in the public or private sectors or (b) the proceeds of the Notes, will in fact be used for eligible development finance projects. Notes to be issued under the Programme will not constitute Green or Social Bonds for purposes of the International Capital Markets Association’s Green Bond Principles or Social Bond Principles, unless so provided for in a Drawdown Prospectus. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Base Prospectus regarding the use of proceeds and its purchase of Notes should be based upon such investigation as it deems necessary.

In addition, although the proceeds from the issue of Notes under the Programme are expected to enable the development finance initiatives described under “Development Impact” above, it will not be an event of default under the Conditions of the Notes if DBK fails to comply with such development finance initiatives.

Furthermore, there can be no assurance that the projects or financings defined as “development” will be capable of being implemented in or substantially in such a manner and/or accordance with any timing schedule and that accordingly such proceeds will be totally or partially disbursed for such projects. Nor can there be any assurance that such projects will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by DBK. Any such event or failure by DBK will not constitute an event of default under the Conditions.

Structure of a Particular Issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors.

Set out below is a description of the most common such features:

Notes Subject to Optional Redemption by DBK

An optional redemption feature in Notes is likely to limit their market value. During any period when DBK may elect to redeem Notes, the market value of those Notes generally shall not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

DBK may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Variable Rate Notes

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Floating Rate Notes

The Programme allows for the issuance of floating rate Notes where the Reference Rate (as defined in the Conditions) may be LIBOR or EURIBOR. Reference rates and indices, including interest rate benchmarks such as LIBOR and EURIBOR, which are used to determine the amounts payable under financial instruments or the value of such financial instruments (“**Benchmarks**”) have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or to be discontinued. Any change in the performance of a Benchmark or its discontinuation, could have a material adverse effect on the Notes referencing or linked to such Benchmark.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate, such as LIBOR. The market values of these Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate on the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where DBK has the right to effect such a conversion, this is likely to affect the secondary market and the market value of the Notes since DBK may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If DBK converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than the prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If DBK converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than the prevailing rate on the relevant Notes.

Notes Issued at a Substantial Discount or Premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Collective Action Clauses

The Conditions contain collective action clauses, which are provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined percentages of Noteholders voting in favour to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a contrary manner.

Further Issues of Notes with Original Issue Discount

DBK may offer further Notes with original issue discount for U.S. federal income tax purposes (“**OID**”) as part of a further Tranche of Notes to be consolidated with and form a single Series with another Tranche. Purchasers of Notes after the date of consolidation of any further issue of Notes will not be able to differentiate between the Notes sold as part of the further issue and previously issued Notes. If DBK were to issue further Notes with OID, purchasers of Notes after such a further issue of Notes may be required to accrue OID (or greater amounts of OID than they would otherwise have accrued) with respect to their Notes. These OID consequences may affect the price of outstanding Notes following a further issue. Prospective purchasers of Notes should consult their own tax advisers with respect to the implications of any decision by DBK to undertake a further issue of Notes with OID.

Trading in the Clearing Systems

The Conditions provide that Notes shall be issued with a minimum denomination of €100,000 (or at least its equivalent in another currency) and in amounts in excess thereof, which are integral multiples of an amount of the relevant Specified Currency. Where Notes are traded in a clearing system, it is possible that processing of trades in the clearing systems may result in amounts being held in denominations smaller than the minimum denominations specified in the relevant Final Terms related to an issue of Notes. If Definitive Notes are required to be issued in relation to such Notes in accordance with the provisions of the terms of the relevant Global Notes, a holder who does not have an integral multiple of the minimum denomination in his account with the relevant clearing system at the relevant time may not receive all of its entitlement in the form of Definitive Notes unless and until such time as its holding becomes an integral multiple of the minimum denomination. Holdings of less than a minimum denomination, or integral multiple thereof, may also be less liquid and there may be difficulties in trading such holdings.

Volatility of the Trading Price of the Notes

In recent years stock markets have experienced significant price fluctuations. These fluctuations often were unrelated to the operating performance of the companies whose securities are traded on such stock markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

In particular, the markets for securities bearing emerging market risks, such as risks relating to Kazakhstan, may be volatile. Markets for such securities are, to varying degrees, influenced by economic and securities market conditions in other emerging market countries. Although economic conditions are different in each country, investors’ reactions to developments in one country may affect securities of issuers in other countries, including Kazakhstan. In 2008, the global markets experienced significant financial turmoil that had a ripple effect on other emerging markets. These events caused significant volatility in prices of emerging market debt. Events may occur which would cause significant volatility of the sort which occurred in worldwide financial markets in 1997 and 1998. Any such volatility may adversely affect the liquidity of the market for, or price of, the Notes.

Exchange Rate Risks and Exchange Controls

DBK is obliged to pay principal and interest on the Notes in the relevant Specified Currency, as specified in the applicable Final Terms or Drawdown Prospectus (the “**Specified Currency**”). This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “**Investor’s Currency**”) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Specified Currency or the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to the Specified Currency would decrease equivalent in the Investor’s Currency of the yield on the Notes, the principal payable on the Notes and the market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest Rate Risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Credit Ratings

One or more independent credit rating agencies may assign credit ratings to Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above or other factors that may affect the value of Notes. A credit rating is not a recommendation to buy, sell, or hold securities and may be revised or withdrawn by the rating agency at any time.

Enforceability of Judgments

Kazakhstan's courts will not enforce any judgment of 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 a proved reciprocity in enforcement of judgments of Kazakhstan courts in that country, which can be very hard or impossible to prove. There is no such treaty in effect between Kazakhstan and the United Kingdom. However, each of Kazakhstan and the United Kingdom are parties to the 1958 New York convention on Recognition and Enforcement of Arbitral Awards and, accordingly, an arbitration award should be recognised and enforceable in Kazakhstan provided the conditions of enforcement set out in such Convention and applicable Kazakhstan laws are met. See "*Enforcement of Foreign Judgments*".

On 8 April 2016, the Arbitration Law was signed by the President of Kazakhstan. Whilst the introductory language to the Arbitration Law, as well as other provisions of this law, imply that the Arbitration Law should only apply where the matter involves dispute resolution in Kazakhstan (*i.e.*, in respect of arbitration bodies with a seat in Kazakhstan) and should not apply to foreign arbitration such as the LCIA with a seat outside of Kazakhstan. In particular, the preamble to the Arbitration Law states that: "This [l]aw regulates social relations arisen in the process of arbitration activity on the territory of the Republic of Kazakhstan as well as the procedure and terms of recognition and enforcement of arbitral awards in Kazakhstan...". There are, however, certain provisions in the Arbitration Law which may have implications (as described below) in respect of the arbitration provisions contained in the Notes, the Agency Agreement and the Trust Deed. In particular, the provisions of the Arbitration Law do not clearly differentiate between domestic and foreign arbitration. However, given that there is no well-developed practice in Kazakhstan on the application of the Arbitration Law, there can be no assurance that Kazakhstan courts would support the interpretation of the Arbitration Law set out in "Enforcement of Civil Liabilities" and that an award against DBK in arbitral proceedings in London under English law would be enforced in Kazakhstan. If the Arbitration Law applies to disputes under the Notes and the Trust Deed, there is a risk that an LCIA award in a proceeding related to the Notes and the Trust Deed may not be recognised and enforced in Kazakhstan as being contrary to Kazakhstan public order and/or a dispute under the Notes and the Trust Deed cannot be resolved by arbitration. Furthermore, an event of default could occur under the Notes and the Trust Deed to the extent that DBK's obligations under the Notes and/or the Trust Deed to settle disputes by arbitration in the LCIA and/or under English law become illegal or unenforceable.

CAPITALISATION

The following table sets forth the capitalisation and long-term indebtedness of DBK as at 31 December 2020. This table should be read in conjunction with “Selected Financial Information and Other Data” and “Management’s Discussion and Analysis of Results of Operations and Financial Condition” and the Financial Statements, and the notes thereto, included elsewhere in this Base Prospectus.

	As at 31 December 2020	
	(U.S.\$ millions) ⁽¹⁾⁽²⁾	(KZT millions) ⁽²⁾
<i>Long-term debt</i> ⁽³⁾		
Current accounts and deposits from customers	30.3	12,766.9
Loans from Samruk-Kazyna	37.2	15,659.9
Loans from banks and other financial institutions.....	1,510.4	635,755.1
Loans from parent company.....	540.7	227,597.0
Government grants.....	592.1	249,238.8
Debt securities issued.....	2,946.5	1,240,209.7
Subordinated debt	264.1	111,163.0
Other liabilities	51.8	21,793.8
Provisions	0.8	328.8
Total long-term debt	5,974.0	2,514,513.0
<i>Equity:</i>		
Share capital.....	1,196.6	503,667.5
Revaluation reserve.....	(3.3)	(1,380.1)
Additional paid-in capital.....	81.3	34,239.2
Accumulated losses.....	(58.2)	(24,493.5)
Total equity	1,216.5	512,033.1
Total capitalisation and long-term liabilities	7,190.5	3,026,546.1

Notes:

- (1) For convenience, these figures have been translated into U.S. Dollars at the KZT/U.S.\$ market exchange rate quoted on the KASE, as reported by the NBK, as at 31 December 2020, which was KZT 420.91 per U.S.\$1.00. There can be no assurance that these Tenge amounts could have been converted into U.S. Dollars at this rate or any other rate.
- (2) Nominal amount of long-term debt.
- (3) Indebtedness is classified as long-term if its remaining maturity is not less than one year as at the reporting date.

SELECTED FINANCIAL INFORMATION AND OTHER DATA

The audited selected financial information for DBK presented below as at and for the years ended 31 December 2020, 2019 and 2018 has been derived from, should be read in conjunction with, and is qualified in its entirety by, the Financial Statements, including the notes thereto, included elsewhere in this Base Prospectus.

Prospective investors should read the selected financial information in conjunction with the information contained under the headings “Risk Factors”, “Capitalisation”, “Management’s Discussion and Analysis of Results of Operations and Financial Condition”, “Selected Statistical and Other Data”, and “Business”, as well as the Financial Statements, including the notes thereto, included elsewhere in this Base Prospectus.

Selected Information from the Consolidated Statement of Comprehensive Income and Financial Position

Consolidated Statement of Comprehensive Income

	For the year ended 31 December			
	2020	2019	2018	
	(U.S.\$ millions) ⁽¹⁾	(KZT millions)	(KZT millions)	(KZT millions)
Interest income calculated using the effective interest method.....	369.7	155,607.2	144,098.4	147,148.2
Other interest income	102.9	43,310.9	30,354.7	23,947.3
Interest expense.....	(343.4)	(144,536.1)	(123,647.5)	(121,868.1)
Net interest income	129.2	54,382.0	50,805.6	49,227.4
Fee and commission income	1.7	727.2	3,699.5	643.7
Fee and commission expense	(2.3)	(960.1)	(3,010.1)	(1,762.9)
Net fee and commission income/(expense)	(0.6)	(232.9)	689.3	(1,119.2)
Net foreign exchange loss	(5.2)	(2,179.8)	(1,487.1)	(1,524.5)
Net realised gain/(loss) on debt securities at fair value through other comprehensive income.....	16.2	6,808.5	(61.8)	(46.8)
Net gain/(loss) on financial instruments at fair value through profit or loss ..	15.3	6,459.1	936.6	(3,369.2)
Net loss resulted from derecognition of financial assets measured at amortised cost	(0.6)	(266.2)	(1,550.4)	—
Other expenses, net	(10.6)	(4,462.2)	(1,996.6)	(1,018.6)
Operating income	143.8	60,508.6	47,335.7	42,149.0
Impairment loss on debt financial assets	(88.4)	(37,207.9)	(20,907.3)	(20,832.0)
Recovery/(charge) of impairment losses on loan commitments	4.2	1,763.5	1,744.9	(1,114.5)
Recovery/(charge) of impairment losses on other non-financial assets	12.5	5,270.2	(5,927.2)	(161.0)
General administrative expenses	(16.9)	(7,094.8)	(7,204.4)	(6,729.6)
Profit before income tax	55.2	23,239.6	15,041.7	13,312.0
Income tax expense.....	(2.1)	(869.8)	(4,083.2)	(10,068.2)
Profit for the year	53.1	22,369.8	10,958.5	3,243.8
Other comprehensive (loss)/income				
Movement in revaluation reserve:				
Net change in fair value	18.0	7,565.4	5,296.3	(5,115.3)
Net amount reclassified to profit or loss.....	(16.2)	(6,808.5)	61.8	46.8
Other comprehensive income/(loss) for the period	1.8	756.9	5,358.2	(5,068.5)
Total comprehensive income/(loss) for the period	54.9	23,126.8	16,316.6	(1,824.7)

Note:

- (1) For convenience, these figures have been translated into U.S. Dollars at the KZT/U.S.\$ market exchange rate quoted on the KASE, as reported by the NBK, as at 31 December 2020, which was KZT 420.91 per U.S.\$1.00. There can be no assurance that these Tenge amounts could have been converted into U.S. Dollars at this rate or any other rate.

Consolidated Statement of Financial Position

	As at 31 December			
	2020	2019	2018	
	(U.S.\$ millions) ⁽¹⁾	(KZT millions)	(KZT millions)	(KZT millions)
Assets				
Cash and cash equivalents.....	576.8	242,786.1	144,173.7	290,168.4
Placements with banks and other financial institutions.....	289.3	121,779.5	91,562.9	70,173.7
Loans to banks.....	296.5	124,810.7	110,945.8	57,350.9
Loans to customers ⁽²⁾	4,385.5	1,845,916.2	1,618,204.5	1,638,865.2
Finance lease receivables ⁽³⁾	775.8	326,539.9	190,304.3	113,323.5
Debt securities.....	497.2	209,257.7	225,466.1	238,373.5
Advances paid under finance leases.....	292.6	123,159.0	133,273.1	70,677.8
Assets to be transferred under finance lease agreements.....	66.2	27,855.4	14,822.0	8,774.7
Equity investments.....	35.3	14,841.0	19,506.3	9,152.9
Investment property.....	0.5	222.5	227.2	319.4
Property, plant and equipment and intangible assets.....	14.2	5,991.3	5,951.4	5,363.9
Other assets.....	74.4	31,327.8	26,056.8	24,464.2
Current tax asset.....	2.3	963.5	124.7	501.0
Deferred tax assets.....	2.5	1,040.1	—	—
Derivative financial instruments.....	27.3	11,489.2	10,160.7	9,099.8
Total assets	7,336.4	3,087,979.9	2,590,815.5	2,536,608.9
Liabilities				
Current accounts and deposits from customers.....	37.5	15,793.7	17,236.3	19,325.7
Loans from the Government and Samruk-Kazyna.....	66.4	27,966.9	26,986.3	34,988.3
Loans and deposits from banks and other financial institutions.....	1,520.5	640,008.0	540,295.4	718,773.2
Loans from the Parent Company.....	540.7	227,597.0	175,229.0	121,561.9
Government grants.....	622.1	261,839.0	210,933.4	175,264.8
Debt securities issued.....	2,948.4	1,241,012.7	1,051,544.3	946,066.1
Subordinated debt.....	264.1	111,163.0	104,534.6	98,342.0
Other liabilities.....	113.4	47,741.1	27,916.5	28,858.8
Provisions.....	6.7	2,825.4	7,563.5	14,809.1
Deferred tax liabilities.....	—	—	198.4	2,584.7
Total liabilities	6,119.9	2,575,946.8	2,162,437.7	2,160,574.5
Equity				
Share capital.....	1,196.6	503,667.5	445,667.5	408,667.5
Revaluation reserve for changes in fair value of securities.....	(3.3)	(1,380.1)	(2,137.1)	(7,495.2)
Additional paid-in capital.....	81.3	34,239.2	28,423.2	28,423.2
Accumulated losses.....	(58.2)	(24,493.5)	(43,575.8)	(53,561.1)
Total equity	1,216.5	512,033.1	428,377.8	376,034.3
Total liabilities and equity	7,336.4	3,087,979.9	2,590,815.5	2,536,608.9

Notes:

- (1) For convenience, these figures have been translated into U.S. Dollars at the KZT/U.S.\$ market exchange rate quoted on the KASE, as reported by the NBK, as at 31 December 2020, which was KZT 420.91 per U.S.\$1.00. There can be no assurance that these Tenge amounts could have been converted into U.S. Dollars at this rate or any other rate.
- (2) Represents net loans to customers. See Note 16 to the 2020 Annual Financial Statements and Note 16 to the 2019 Annual Financial Statements and “Selected Statistical and Other Data”.
- (3) Represents net finance receivables. See Note 17 to the 2020 Annual Financial Statements and Note 17 to the 2019 Annual Financial Statements and “Selected Statistical and Other Data”.

Selected Financial Ratios and Economic Data

The table below sets forth DBK's selected financial ratios and economic data for Kazakhstan as at, and for the years ended, 31 December 2020, 2019 and 2018:

	As at and for the year ended 31 December		
	2020	2019	2018
	(% unless otherwise indicated)		
Profitability Ratios⁽¹⁾			
Return on average equity	4.8	2.7	0.8
Return on average assets ⁽²⁾	0.8	0.4	0.1
Net interest margin ⁽³⁾	2.1	2.1	2.1
Net interest spread ⁽⁴⁾	0.6	0.8	0.9
Non-interest expense/net interest income plus non-interest income ⁽⁵⁾⁽⁶⁾	(13.1)	(20.3)	(19.3)
Non-interest expense as a percentage of net interest income ⁽⁵⁾	(14.8)	(20.1)	(17.3)
Non-interest expense as a percentage of average total assets ⁽⁵⁾	(0.3)	(0.4)	(0.3)
Loan Portfolio Quality			
Allowance for impairment losses/loans to customers and banks ⁽⁷⁾	(5.6)	(4.7)	(3.7)
Balance Sheet Ratios and Capital Adequacy			
Loans to customers and banks-total assets	63.8	66.7	66.9
Total equity-total assets	16.6	16.5	14.8
Liquid assets-total assets ⁽⁸⁾	18.2	17.4	23.0
Contingent liabilities-total equity ⁽⁹⁾	41.1	100.2	90.5
Direct liabilities-total equity ⁽¹⁰⁾	4.4	4.7	5.2
Capital adequacy ratio ⁽¹¹⁾	20.2	20.5	18.76
Economic Data⁽¹²⁾			
Period-end exchange rate (KZT/U.S.\$)	420.91	381.18	384.20
Average exchange rate for period (KZT/U.S.\$)	412.95	382.75	344.90
Inflation growth rate (CPI) ⁽¹³⁾	7.5	5.4	5.3
GDP growth (real) ⁽¹³⁾	(2.6)	4.5	4.1

Notes:

- (1) Averages are based upon opening and closing balances. Average equity was calculated using opening and closing balances for each relevant period.
- (2) Return on average assets is profit/(loss) for the period divided by average period total assets. Average period total assets are calculated based on opening and closing balances for each relevant period.
- (3) Net interest margin is a percentage of average interest-bearing assets. Interest-bearing assets are comprised of cash and cash equivalents, placements with banks and other financial institutions, loans to banks, loans to customers, finance lease receivables, debt securities and amount receivable from IFK JSC. See "Selected Statistical and Other Data—Average Balance Sheet and Interest Rates".
- (4) Net interest spread is the difference between the average interest rate on interest-bearing assets and the average interest rate on interest-bearing liabilities. Average interest rates are calculated as the ratio of net interest income to the average balance of interest-bearing assets or liabilities. Interest-bearing liabilities are comprised of loans from the Government and SWF Samruk-Kazyna JSC, loans from the Parent Company, loans and deposits from banks and other financial institutions, current accounts and deposits from customers, debt securities issued and subordinated debt. See "Selected Statistical and Other Data—Average Balance Sheet and Interest Rates".
- (5) Non-interest expense is comprised of fee and commission expense, and general administrative expenses.
- (6) Non-interest income is comprised of net foreign exchange gain/(loss), net realised gain/(loss) on debt securities at fair value through other comprehensive income, net gain/(loss) on financial instruments at fair value through profit or loss, net loss resulted from derecognition of financial assets measured at amortised cost and other (expense)/income.
- (7) Loan portfolio quality is calculated using gross loan balances.
- (8) Liquid assets comprise cash and cash equivalents, placements with banks and other financial institutions and debt securities measured at fair value through other comprehensive income.
- (9) Contingent liabilities include loan, credit line and finance lease commitments, as well as letters of credit, guarantees and other commitments related to settlement operations.
- (10) Direct liabilities include loans from the Government and SWF Samruk-Kazyna JSC, loans and deposits from banks and other financial institutions, current accounts and deposits from customers, debt securities issued, loans from Parent Company, subordinated debt and derivative financial instruments.
- (11) Calculated as a ratio of DBK's consolidated equity capital to its risk-weighted assets, calculated according to Basel II (International Convergence of Capital Measurement and Capital Standards) Convention ("Basel II") principles.
- (12) Based on data from the NBK and the NSA.
- (13) Year-on-year rate.

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

The following management's discussion and analysis is intended to assist in the understanding and assessment of the trends and significant changes in DBK's results of operations and financial condition. The selected financial and operating data set forth below, subject to rounding, has been extracted without material adjustment from the Financial Statements. Such data, together with the related discussion and analysis, should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements, including the notes thereto, as well as the information set forth under the captions "Selected Statistical and Other Data" and "Asset and Liability Management" included elsewhere in this Base Prospectus. Unless otherwise indicated, all figures are expressed in or derived from amounts in Tenge. The Financial Statements are consolidated and reflect the results of operations of DBK and its subsidiaries, IDF JSC and DBK Capital Structure Fund B.V. DBK prepares its Financial Statements in accordance with IFRS. This management's discussion and analysis contains forward-looking statements, which involve risks and uncertainties. See "Forward-looking Statements". DBK's actual results could differ materially from those anticipated in the forward-looking statements contained herein for several reasons, including those set forth under "Risk Factors" and elsewhere in this Base Prospectus. This discussion, insofar as it refers to average amounts, has, unless otherwise stated, been based upon annual opening and closing balances. See "Presentation of Financial and Other Information".

Introduction

DBK was incorporated on 31 May 2001 and is organised under the Decree of the President of the Republic of Kazakhstan № 531 dated 28 December 2000, the Law of the Republic of Kazakhstan № 178-II dated 25 April 2001 and the Resolution of the Government of the Republic of Kazakhstan № 659 dated 18 May 2001 for an unlimited duration as Closed Joint Stock Company "Development Bank of Kazakhstan". On 18 August 2003, DBK was re-registered as Joint Stock Company "Development Bank of Kazakhstan" in line with the requirements of the amended JSC Law. A re-registration certificate (№ 4686-1900-AO) was issued in respect of DBK by the Registration Service and Legal Assistance Committee of the Ministry of Justice on 18 August 2003. DBK is a national development bank that is authorised to implement State investment policies and State support for industrial and innovative projects.

DBK operates under business identification number 010540001007 and its registered office is n-r. pr. 15, building 55A Mangilik Yel Avenue, Yesil district, Nur-Sultan, Republic of Kazakhstan and its telephone number is +7 7172 792 604. DBK's sole shareholder is Baiterek JSC, which is, in turn, wholly-owned by the Government. Accordingly, the ultimate controlling party of DBK is the Government, represented by the Ministry of Industry and Infrastructural Development.

In accordance with the DBK Law, DBK's objectives are:

- to improve and increase the efficiency and effectiveness of governmental investment activity;
- to develop industrial infrastructure and the manufacturing industry in Kazakhstan; and
- to promote foreign and domestic investment in Kazakhstan.

As a part of its role under Kazakhstan's industrial development programme and in furtherance of such purposes, and in accordance with the Credit Policy Memorandum, DBK provides medium and long-term financing for investment projects (other than food or beverage projects and public private partnership projects) of KZT 7 billion or more, food or beverage investment projects and public private partnership projects of KZT 3 billion or more and export transactions of KZT 1 billion or more. See "*Business—Participation in Government Programmes*" and "*Business—Lending*". In determining which projects or transactions to finance, DBK gives priority to projects and transactions related to the modernisation and establishment of competitive industries, in particular, non-extracting industries, and infrastructure in Kazakhstan. Approximately 48% of the projects financed by DBK are greenfield projects. DBK's lending activities are primarily funded through the issuance and placement of domestic and international debt securities and through borrowings from Baiterek JSC, Samruk-Kazyna, international financial institutions and the State budget.

IDF JSC, DBK's wholly-owned subsidiary, offers short- and long-term (up to 20 years) lease financing in various forms, including for industrial equipment, leasing of industrial buildings and certain combined services, and credit and leasing. IDF JSC invests only in large-scale projects valued at over U.S.\$1 million. IDF JSC provides financial leasing for investment projects in priority sectors of the economy in an amount of U.S.\$450,000 or more under Government support programmes. See "*Business—Industrial Development Fund JSC*".

In July 2017, DBK established its wholly-owned subsidiary DBK Capital Structure Fund B.V. (“**DBK CSF**”), a closed private limited liability company established in the Netherlands. DBK CSF was established for the purpose of participating in a direct investment fund in the Netherlands. In November 2017, DBK CSF and Kazyna Capital Management Fund (“**KCM**”) established DBK Equity Fund CV (“**DBK Equity Fund**”), a direct investment fund, for purposes of investing in domestic and foreign projects, which promote the interests of the Kazakhstan economy and in which DBK is not permitted to invest directly as a result of the restrictions imposed on it under the Credit Policy Memorandum. DBK Equity Fund is 97% owned by DBK CSF. See “*Business—DBK CSF*”.

For the year ended 31 December 2020, DBK’s profit for the year was KZT 22,369.8 million, as compared to KZT 10,958.5 million for the year ended 31 December 2019 and KZT 3,243.8 million for the year ended 31 December 2018. As at 31 December 2020, DBK had total assets of KZT 3,087,979.9 million, as compared to total assets of KZT 2,590,815.5 million as at 31 December 2019 and KZT 2,536,608.9 million as at 31 December 2018.

Critical Accounting Policies

DBK’s accounting policies are integral to understanding the results of operations and financial condition presented in the Financial Statements and notes thereto. DBK’s significant accounting policies are described in Note 3 to the Financial Statements appearing elsewhere in this Base Prospectus. In addition, the preparation of the Financial Statements requires DBK’s management to make estimates and judgments. See Note 2(d) to the Financial Statements. Set out below is a summary of certain significant accounting policies which DBK’s management believe to be of particular importance.

Financial Instruments

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

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- interest income using the effective interest method;
- expected credit losses (“**ECL**”) and reversals; and
- foreign exchange gains and losses.

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

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

All other financial assets are classified as measured at FVTPL.

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

Financial liabilities

DBK classified its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL. Financial liabilities are not reclassified subsequent to their initial recognition.

Impairment

DBK recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

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

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

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

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by DBK on terms that DBK would not consider otherwise;
- *force majeure* and other circumstances that caused significant material damage to the borrower (including the revocation or suspension of a licence for the activities of the borrower);
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation, as well as involvement in litigation; or
- the disappearance of an active market for a security because of financial difficulties.

Government Grants

Government grants are assistance by the Government, Government agencies and state-owned entities in the form of transfers of resources to DBK in return for past or future compliance with certain conditions relating to the operating activities of DBK. Government grants are not recognised until there is reasonable assurance that DBK will comply with the conditions attaching to them and the grants will be received. If there are conditions that may require repayment, the grant is recognised as “deferred income” in other liabilities.

The benefit of a Government loan at a below-market rate of interest is treated as a Government grant. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan and the proceeds received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which DBK recognises as expenses the related costs for which the grants are intended to compensate. See “*Selected Statistical and Other Data—Principal Sources of Funding—Borrowings—Government Grants*”.

Primary Factors affecting DBK's Results of Operations

The primary factors that have affected DBK's results of operations during the years ended 31 December 2020, 2019 and 2018, and that can be expected to affect DBK's results of operations in the future, are: (i) DBK's role as a development bank; (ii) the current economic environment in Kazakhstan, including the impact of the COVID-19 pandemic; (iii) fluctuations in interest rates; (iv) fluctuations in exchange rates; (v) fluctuations in oil prices; (vi) shifts in composition of borrowers and funding sources; and (vii) taxation.

DBK's Role as a Development Bank

DBK is a development bank that is wholly-owned by Baiterek JSC, which is, in turn, wholly-owned by the Government. Accordingly, DBK's lending and investment policies are different from those of a standard commercial bank, in that DBK's business activities are generally driven by macro-economic policy in Kazakhstan as a whole rather than purely commercial considerations. As a development bank, DBK does not compete with commercial lending and financial institutions in providing finance to customers and has declined lending opportunities in the past where financing was available elsewhere. In addition, DBK does not generally accept customer deposits, and its primary funding sources are concessional loans made by the Government, its sole shareholder and Baiterek JSC, issuances of debt securities and loans from international and multi-lateral institutions. DBK concentrates on providing funding to investment projects, such as infrastructure projects and high-value manufacturing projects in Kazakhstan, which are not typically eligible for financing or refinancing on terms acceptable to commercial banks and other non-specialist market investors. Loans and investments made by DBK often involve relatively large principal amounts, have longer-term maturities and are extended at preferential rates, all of which make these activities of relatively high risk and low return. In general, DBK sets interest rates by reference to its cost of funding a particular loan plus a margin reflecting its administrative costs and a risk premium.

The Current Economic Environment

The Kazakhstan economy may be influenced by market downturns and economic slowdowns elsewhere in the world. The general slowdown and challenging macroeconomic conditions in the global financial market that began in 2008 resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and tighter credit conditions within Kazakhstan and generally for Kazakhstan companies, as well as weakened global demand for and a decline in prices of crude oil and other commodities. Since 2020, the Kazakhstan economy has been materially adversely affected by the COVID-19 pandemic.

The sharp decline in global economic activity, the disruption of the supply chains of goods and services, the restriction of the free movement of people, and the transition to self-isolation caused by the COVID-19 pandemic led to a significant drop in GDP around the world in 2020. According to the World Bank and the IMF, the decline in global GDP in 2020 was estimated to be 4.3% and 3.5%, respectively. According to statistics published by the Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, Kazakhstan's real GDP contracted by 2.6% in 2020. In 2019 and 2018, GDP increased by 4.5% and 4.1% respectively. According to IMF forecasts, real GDP growth is projected to be 3.3% in 2021 and 3.6% in 2022. The IMF's forecasted unemployment rate for 2021 and 2022 is 5.8% and 4.8%, respectively. According to the IMF, inflation was 5.3%, 5.4% and, 7.5% in 2018, 2019 and 2020, respectively. Inflation is forecasted by the IMF to be 5.9% in 2021 and 5.0% in 2022.

The ongoing COVID-19 pandemic is having an indeterminable adverse impact on the world economy, including the Kazakhstan economy, as well as on DBK's counterparties and, in turn, DBK's business. The pandemic has affected investment sentiment and resulted in sporadic volatility in the global capital and financial markets. This has had a material adverse effect on the global economy, slowing national economic development and adversely affecting the Kazakhstan economy. The duration, impact and severity of the outbreak on financial markets may be significant.

The Government has implemented measures, including periods of lockdown and quarantines in an effort to combat the spread of the virus in Kazakhstan and alleviate the negative effects of the pandemic. A state of emergency was declared in Kazakhstan between 16 March 2020 and 12 May 2020. During this period, regional authorities gradually introduced additional measures to enhance social distancing, including closing schools, universities, restaurants, cinemas, theatres and museums and sport facilities.

The Kazakhstan economy is particularly affected by global oil prices. Due to business disruption and lockdowns in many countries as a result of the COVID-19 pandemic, global oil demand has substantially decreased, leading to oversupply and a significant decrease in oil prices. On 12 April 2020, major global oil producers, including Kazakhstan, agreed to a record cut of 9.7 million barrels per day in crude oil production aimed at stabilising the market. Such decreases in oil prices and production volumes have resulted in corresponding decreases in oil producers' income and payments to the State budget, which have had, and continue to have, a material adverse effect on the Kazakhstan economy and public sector spending.

The fluctuations in oil price have a correlation with the value of the Tenge. If oil prices fall sharply, the value of the Tenge also falls. Accordingly, DBK's credit portfolio is indirectly exposed to the fluctuation in oil prices, especially if borrowers have loans denominated in U.S. Dollars who might be more greatly affected by downward swings in the Tenge and may ask to restructure their foreign currency-denominated loans (to Tenge-denominated loans).

On 11 February 2014, the NBK devalued the Tenge by 18.3% against the U.S. Dollar in light of the depreciation of the Russian Rouble over the course of 2013 and 2014, as well as the overall situation in the global financial and commodity markets. In August 2015, the NBK announced the adoption of a free-floating exchange rate, which resulted in a 26.2% depreciation against the U.S. Dollar. The Tenge/U.S. Dollar exchange rate weakened by 10% in 2020, from KZT 382.59 to KZT 420.91 per U.S.\$1.00. The pressure on the Tenge was highest in March 2020 following a failed attempt to reach a deal regarding a cut to crude oil production, with the exchange rate reaching KZT 448.50 per U.S.\$1.00. After the announcement of the crude oil deal in April 2020, oil prices and the Tenge have moved into a phase of gradual recovery.

As at 31 December 2020, the official KZT/U.S.\$ market exchange rate reported by the NBK was KZT 420.91 per U.S.\$1.00, as compared to KZT 381.18 per U.S.\$1.00 as at 31 December 2019 and KZT 384.20 per U.S.\$1.00 as at 31 December 2018. See "*—Exchange Rate Devaluations and Depreciations*". Past devaluations of the Tenge have resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, all of which have had, and are expected to continue to have, a material effect on DBK's financial position and results of operations.

Concern about the stability of the banking sector in Kazakhstan in recent years has led to a material reduction in liquidity as wholesale funding has become more expensive and less available. The Government has taken a number of steps to support the Kazakhstan banking sector, including by making significant capital injections. According to Fitch Ratings, with the completion of the 2020 asset quality review, banks have raised shareholder capital, improving the sector's total aggregate capital adequacy ratio to 26.9% of risk-weighted assets as at the end of November 2020 (end of 2019: 24.3%). System non-performing loans ("NPL") fell to 6.8% of total loans as of the end of 2020 (end of 2019: 8.1%). Asset quality issues from the COVID-19 pandemic's impact on the economy are not yet captured in NPL numbers, but are expected to be manageable. See "*The Banking Sector in Kazakhstan*".

Fluctuations in Interest Rates

Changes in interest rates affect DBK's net interest income, net interest margin and overall results of operations. During the height of the global financial crisis in 2008, lending generally involved the provision of funding at low rates in order to combat the effects of the global financial crisis on Kazakhstan. DBK has continued lending at low rates in line with its mission as a development bank and the generally low interest rate climate globally.

Interest rates are sensitive to many factors beyond DBK's control, including the policies of central banks, such as the NBK, adverse domestic and international economic conditions and political factors. DBK's intentions to diversify its funding sources by continuing to access the domestic and international capital markets may increase these risks.

DBK is exposed to risks resulting from mismatches between the interest rates on its interest-bearing liabilities and interest-earning assets. To the extent that DBK's assets may reprice more frequently than its liabilities, if interest rates fall, DBK's interest expense will increase more rapidly than its interest income, which could negatively affect interest margins. As a measure to manage the risk of mismatches in interest rates, which is inherent in DBK's operations, the Government grants loans to DBK with low interest rates to ensure DBK is able to sustain margins in a falling interest rate environment through the interest income generated by such loans. In addition, DBK structures its assets with floating interest rates and its overall balance sheet in such a way that a fixed portion of its interest income from assets with floating rates covers possible fluctuations in interest rate, resulting in an acceptable balance between interest-bearing liabilities and interest-earning assets. In particular, in accordance with DBK's credit policy, DBK seeks to pass on interest rate risks to borrowers by on-lending under similar conditions. DBK's interest rate management policies are strengthened by a system of limits and reporting requirements to control and monitor interest rate risk on monthly basis.

Although nearly all of DBK's assets are match-funded, an increase in interest rates may generally raise DBK's funding costs and may also increase interest income in the future, but overall demand for new loans may be reduced and the risk of customer defaults may increase. Increased interest rates may also generally decrease the market value of fixed-rate debt securities held by DBK.

See "*Asset and Liability Management*".

Fluctuations in Exchange Rates

Fluctuations in exchange rates impact DBK's financial condition and results of operations. DBK maintains open foreign currency positions, which give rise to foreign exchange rate risk. DBK's exposure to exchange rate risk may increase, particularly as it continues to access international capital markets. A significant portion of DBK's exposure to foreign exchange

rate risk also depends on numerous factors beyond its control, such as overall market trading activity, fluctuations in interest-rate levels and exchange rates, government actions and general market volatility.

DBK is also subject to foreign currency risk as a portion of its borrowings and debt securities are denominated in U.S. Dollars, and, in the past, has been adversely affected by past devaluations of the Tenge, including devaluations by the NBK, and their impact on the Tenge-value of loans from banks and other financial institutions, as well as U.S. Dollar-denominated debt securities. As at 31 December 2020, 45.6% of DBK's debt securities issued were denominated in U.S. Dollars. Accordingly, while DBK takes measures to naturally hedge its foreign currency risk by undertaking U.S. Dollar-denominated borrowings only for certain projects that have corresponding hard currency revenues, and DBK has increased its Tenge-denominated borrowings in recent years, any future devaluation of the Tenge against the U.S. Dollar may have an adverse effect on DBK.

The following table sets forth the period end, average and low and high KZT/U.S.\$ exchange rates quoted on the KASE, as reported by the NBK, (after rounding adjustment) for the periods indicated:

Period	Period end	Average⁽¹⁾ <i>(KZT/U.S.\$1.00)</i>	High	Low
Year ended 31 December 2018	384.20	344.90	384.20	318.31
Year ended 31 December 2019	382.59	382.87	390.13	373.56
Year ended 31 December 2020	420.91	413.38	448.52	375.87

Note:

(1) The average of the rate reported by the KASE for each month during the relevant period.

DBK is also subject to exchange rate fluctuations in the KZT/RUB exchange rate as a result of borrowings denominated in Russian Roubles, in particular, credit facilities entered into between IDF JSC and Roseximbank JSC. As at 31 December 2020, the official KZT/RUB exchange rate reported by the NBK was KZT 5.65 per RUB 1.00, as compared to KZT 6.17 per RUB 1.00 as at 31 December 2019 and KZT 5.52 per RUB 1.00 as at 31 December 2018.

Shifts in Composition of Borrowers and Funding Sources

DBK's lending activities and business can be both positively and negatively affected by shifts in the composition of its borrowers and funding sources. In general, as a result of the borrower concentration and relatively large size of individual loans within the loan portfolio, the breakdown of loans granted to customers in different economic sectors can fluctuate significantly as a result of a single loan disbursement being repaid in a given period. Such fluctuations in loans to customers by economic sector, for the most part, occur in the ordinary course of DBK's business.

Changes in policy in respect of DBK's lending and funding strategies, can result in changes to the composition of its borrowers and funding sources. For example, in 2014, the Bank began lending to second-tier Kazakhstan banks for on-lending, particularly to the private sector, primarily through the implementation of Government programmes. As a result there has been a significant shift in DBK's borrower portfolio since 2014. Such shifts have in the past had, and may continue in the future to have, a positive effect of increasing the size of the loan portfolio, thereby helping DBK to further grow its business. Such changes can also, however, result in an increased cost of risk of impairment, depending on the borrower concentration.

As part of its Development Strategy, DBK also aims to diversify its funding sources by attracting funds from non-Governmental sources while also maintaining its focus on cost control. Any concentration in new sources of funding will increase DBK's exposure to political and economic conditions in the resident country of the lender, which could have both positive and negative effects on the rates and level of funding available to DBK.

Taxation

Income tax expense represents the sum of the current and deferred tax expense. The current tax expense is the expected tax payable on the taxable income for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. DBK's current tax expense is calculated using tax rates that have been enacted or substantively enacted at the statement of financial position date and includes any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: (i) the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and (ii) temporary differences related to investments in subsidiaries and associates where the shareholder is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

DBK's impairment losses are tax deductible, in line with the Government's rules on creating provisions (reserves).

Results of operations for the years ended 31 December 2020, 2019 and 2018

Net Interest Income

The following table sets forth the principal components of DBK's net interest income for the years ended 31 December 2020, 2019 and 2018:

	Year ended 31 December			Percentage change	
	2020	2019	2018	2020/19	2019/18
	(KZT millions)			(%)	
Interest income calculated using the effective interest method.....	155,607.2	144,098.4	147,148.2	8.0	(2.1)
Other interest income.....	43,310.9	30,354.7	23,947.3	42.7	26.8
Interest expense.....	(144,536.1)	(123,647.5)	(121,868.1)	16.9	1.5
Net interest income	54,382.0	50,805.6	49,227.4	7.0	3.2

DBK's net interest income increased in 2020 by KZT 3,576.4 million, or 7.0%, to KZT 54,382.0 million for the year ended 31 December 2020 from KZT 50,805.6 million for the year ended 31 December 2019, having increased in 2019 by KZT 1,578.2 million, or 3.2%, from KZT 49,227.4 million for the year ended 31 December 2018. The increase in net interest income in 2020 was primarily due to increases in interest income calculated using the effective interest method and other interest income, which were only partially offset by increases in interest expense.

Interest Income calculated using the effective interest method

The following table sets forth the principal components of DBK's interest income for the years ended 31 December 2020, 2019 and 2018:

	Year ended 31 December			Percentage change	
	2020	2019	2018	2020/19	2019/18
	(KZT millions)			(%)	
Loans to customers.....	124,466.8	106,262.4	108,490.0	17.1	(2.1)
Loans to banks.....	11,840.8	7,243.2	5,417.4	63.5	33.7
Placements with banks and other financial institutions	7,708.5	6,668.9	5,770.7	15.6	15.6
Debt securities.....	6,299.5	6,548.0	9,188.3	(3.8)	(28.7)
Cash and cash equivalents.....	3,131.1	15,410.8	18,242.9	(79.7)	(15.5)
Other financial assets	2,160.4	1,965.1	39.1	9.9	4,925.8
Interest income calculated using the effective interest method	155,607.2	144,098.4	147,148.2	8.0	(2.1)

Interest income calculated using the effective interest method increased in 2020 by KZT 11,508.8 million, or 8.0%, to KZT 155,607.2 million for the year ended 31 December 2020 from KZT 144,098.4 million for the year ended 31 December 2019, having decreased in 2019 by KZT 3,049.8 million, or 2.1%, from KZT 147,148.2 million for the year ended 31 December 2018.

The year-on-year increase in 2020 was primarily due to the increase in interest received on loans to customers of KZT 18,204.4 million, or 17.1%, in 2020, from KZT 106,262.4 million for the year ended 31 December 2019 to KZT 124,466.8 million for the year ended 31 December 2020, primarily reflecting increased lending to corporate clients. The year-on-year increase in 2020 was also due to the year-on-year increase in interest income on loans to banks by KZT 4,597.6 million, or 63.5%, in 2020, from KZT 7,243.2 million for the year ended 31 December 2019 to KZT 11,840.8 million for the year ended 31 December 2020, which largely reflected increased lending within the banking sector.

The year-on-year decrease in 2019 was primarily due to a 2.1% decrease in interest received on loans to customers and a 15.5% decrease in cash and cash equivalents, which were partially offset by a 15.6% increase in placements with banks and other financial institutions and a 33.7% increase in interest received on loans to banks.

Other Interest Income

DBK generates other interest income from finance lease receivables, loans to customers and debt securities measured at fair value through profit or loss.

The following table sets out the principal components of DBK's other interest income for the years ended 31 December 2020, 2019 and 2018:

	Year ended 31 December			Percentage change	
	2020	2019	2018	2020/19	2019/18
	(KZT millions)			(%)	
Finance lease receivables	35,088.0	24,422.3	20,228.6	43.7	20.7
Loans to customers.....	8,091.5	5,707.7	3,118.2	41.8	83.0
Debt securities measured at fair value through profit or loss ...	131.3	224.7	600.5	(41.6)	(62.6)
Total other interest income.....	43,310.9	30,354.7	23,947.3	42.7	26.8

Total other interest income increased by KZT 12,956.2 million, or 42.7%, to KZT 43,310.9 million for the year ended 31 December 2020, as compared to KZT 30,354.7 million for the year ended 31 December 2019. This increase was primarily due to a KZT 10,665.8 million, or 43.7%, increase in interest income in respect of finance lease receivables and a KZT 2,383.8 million, or 41.8%, increase in interest income in respect of loans to customers, which was, in turn, a result of further lending to corporate clients.

Total other interest income increased by KZT 6,407.4 million, or 26.8%, to KZT 30,354.7 million for the year ended 31 December 2019, as compared to KZT 23,947.3 million for the year ended 31 December 2018. This increase was primarily due to a KZT 2,589.5 million, or 83.0%, increase in other interest income on loans to customers and a KZT 4,193.7 million, or 20.7%, increase in other interest income on finance lease receivables, which was also, in turn, a result of further lending activities by DBK and IDF JSC.

Interest Expense

The following table sets forth the principal components of DBK's interest expense for the years ended 31 December 2020, 2019 and 2018:

	Year ended 31 December			Percentage change	
	2020	2019	2018	2020/19	2019/18
	(KZT millions)			(%)	
Debt securities issued	(93,014.7)	(74,616.6)	(67,202.5)	24.7	11.0
Loans and deposits from banks and other financial institutions.....	(24,974.5)	(27,492.8)	(37,002.2)	(9.2)	(25.7)
Loans from the Parent Company	(17,236.4)	(12,697.6)	(9,120.4)	35.7	39.2
Subordinated debt.....	(7,014.8)	(6,579.1)	(6,472.5)	6.6	1.6
Loans from SWF "Samruk-Kazyna"	(1,395.7)	(1,364.6)	(1,331.6)	2.3	2.5
Current accounts and deposits from customers	(900.0)	(896.7)	(738.9)	0.4	21.4
Total interest expense.....	(144,536.1)	(123,647.5)	(121,868.1)	16.9	1.5

For the year ended 31 December 2020, DBK's interest expense increased by KZT 20,888.6 million, or 16.9%, to KZT 144,536.1 million from KZT 123,647.5 million for the year ended 31 December 2019, having increased in 2019 by KZT 1,779.4 million, or 1.5%, from KZT 121,868.1 million for the year ended 31 December 2018.

The year-on-year increase in interest expense in 2020 was primarily due to a 24.7% increase in interest expense on debt securities (which was, in turn, primarily due to DBK's issuance of the Series 9 Eurobonds under the Programme in February 2020, (see "Selected Statistical and Other Data—Principal Sources of Funding—Debt Securities")) and a 35.7% increase in interest expense on loans from the Parent Company. The year-on-year increase in interest expense in 2020 was partially offset by a 9.2% decrease in interest expense on loans and deposits from banks and other financial institutions.

The year-on-year increase in interest expense in 2019 was primarily due to an 11.0% increase in interest expense on debt securities and a 39.2% increase in interest expense on loans from the Parent Company. See "Selected Statistical and Other

Data—Principal Sources of Funding—Borrowings—Loans from Parent Company". The increase in total interest expense in 2019 was partially offset by a 25.7% decrease in interest expense on loans and deposits from banks and other financial institutions.

Net Non-Interest Income

The following table sets forth the principal components of DBK's net non-interest income for the years ended 31 December 2020, 2019 and 2018:

	Year ended 31 December			Percentage change	
	2020	2019	2018	2020/19	2019/18
		(KZT millions)		(%)	
Net fee and commission (expense)/income	(232.9)	689.3	(1,119.2)	(133.8)	(161.6)
Net foreign exchange loss	(2,179.8)	(1,487.1)	(1,524.5)	46.6	(2.5)
Net realised gain/(loss) on debt securities at fair value through other comprehensive income	6,808.5	(61.8)	(46.8)	(11,117.0)	32.1
Net gain/(loss) on financial instruments at fair value through profit or loss	6,459.1	936.6	(3,369.2)	589.6	(127.8)
Other expense, net.....	(4,462.2)	(1,996.6)	(1,018.6)	123.5	96.0
Net non-interest (expense)/income	6,392.7	(1,919.6)	(7,078.3)	(433.0)	(72.9)

Net non-interest income increased by KZT 8,312.3 million or 433.0%, in 2020 from net non-interest expense of KZT 1,919.6 million for the year ended 31 December 2019 to net non-interest income of KZT 6,392.7 million for the year ended 31 December 2020. The year-on-year increase in net non-interest income in 2020 was primarily due to an 11,117.0% increase in net realised gains on debt securities at fair value through other comprehensive income.

Net non-interest expense decreased by KZT 5,158.7 million, or 72.9%, in 2019 from KZT 7,078.3 million for the year ended 31 December 2018 to KZT 1,919.6 million for the year ended 31 December 2019. The year-on-year decrease in net non-interest expense in 2019 was primarily due to a 161.6% increase in net fee and commission income and a 127.8% increase in net gains on financial instruments at fair value through profit or loss.

The change from net commission income to expense for the year ended 31 December 2020 was primarily due to a KZT 547.5 million write-off of commission for provisioning of cash under an unused credit limit due to the expiry of the availability period. The change from net commission expense to income for the year ended 31 December 2019 was primarily due to recognition of KZT 2,803.8 million of reimbursements relating to the partial early repayment of a loan from a foreign bank. See Notes 6 and 24 to the 2020 Annual Financial Statements.

DBK recognised a net foreign exchange loss of KZT 2,179.8 million for the year ended 31 December 2020, as compared to a net foreign exchange loss of KZT 1,487.1 million for the year ended 31 December 2019 and a net foreign exchange loss of KZT 1,524.5 million for the year ended 31 December 2018. The net foreign exchange losses in 2020, 2019 and 2018 were primarily due to the increase in U.S. Dollar liabilities and the depreciation of the Tenge in U.S. Dollar terms.

Net realised gain on debt securities at fair value through other comprehensive income was KZT 6,808.5 million for the year ended 31 December 2020.

Net other expense was KZT 4,462.2 million for the year ended 31 December 2020, as compared to KZT 1,996.6 million for the year ended 31 December 2019 and KZT 1,018.6 million for the year ended 31 December 2018. The net other expense in 2020 was primarily due to losses arising on initial recognition of loans issued, as well as expenses on the valuation of liabilities on the provision of loans at below-market rates, which were, in turn, partially offset by other income from the utilisation of government grants and income from initial recognition of debt liabilities acquired.

Operating Income

As a result of the foregoing, operating income increased by KZT 13,172.9 million, or 27.8%, to KZT 60,508.6 million for the year ended 31 December 2020 from KZT 47,335.7 million for the year ended 31 December 2019, having increased by KZT 5,186.7 million, or 12.3%, from KZT 42,149.0 million for the year ended 31 December 2018.

Impairment losses

The following table sets forth the principal components of DBK's impairment losses for the years ended 31 December 2020, 2019 and 2018:

	Year ended 31 December			Percentage change	
	2020	2019	2018	2020/19	2019/18
	(KZT millions)			(%)	
Debt securities.....	224.6	(125.0)	(1,383.7)	(279.7)	(91.0)
Loans to banks	176.2	(352.1)	(1,253.8)	(150.0)	(71.9)
Cash and other cash equivalents.....	—	12.3	(9.6)	(100.0)	(228.1)
Placements with banks and other financial institutions.....	(26.7)	234.3	809.3	(111.4)	(71.0)
Other financial assets	(1,926.1)	98.4	(284.6)	(2,057.4)	(134.6)
Finance lease receivables	(8,629.8)	(1,093.8)	(4,265.0)	689.0	(74.4)
Loans to customers	(27,026.1)	(19,681.2)	(14,444.6)	37.3	36.3
Losses on impairment of debt financial assets	(37,207.9)	(20,907.3)	(20,832.0)	78.0	0.4
Reversal of impairment loss/(impairment loss) in relation to loan commitments issued and financial guarantee contracts	1,763.5	1,744.9	(1,114.5)	1.1	(256.6)
Reversal of impairment losses/(impairment losses) on other non-financial assets.....	5,270.2	(5,927.2)	(161.0)	(188.9)	3,581.5

Losses on impairment of debt financial assets increased in 2020 by KZT 16,300.6 million, or 78.0%, to KZT 37,207.9 million for the year ended 31 December 2020 from KZT 20,907.3 million for the year ended 31 December 2019, having increased slightly in 2019 by KZT 75.3 million, or 0.4%, from KZT 20,832.0 million for the year ended 31 December 2018.

The year-on-year increase in impairment losses in 2020 was primarily due to a 37.3% increase in losses on loans to customers and a 689.0% increase in losses on finance lease receivables.

General administrative expenses

The following table sets forth the principal components of DBK's general administrative expenses for the years ended 31 December 2020, 2019 and 2018:

	Year ended 31 December			Percentage change	
	2020	2019	2018	2020/19	2019/18
	(KZT millions)			(%)	
Wages and salaries	3,560.4	3,623.1	3,008.8	(1.7)	20.4
Taxes other than income tax	451.1	419.1	985.7	7.6	(57.5)
Maintenance and repair of property, plant and equipment and intangible assets	431.7	335.6	194.7	28.6	72.4
Consulting services	416.4	431.4	475.3	(3.5)	(9.2)
Administration expense of the Board of Directors	322.3	352.6	280.1	(8.6)	25.9
Depreciation of property, plant and equipment, intangible assets and investment property	291.7	236.9	144.9	23.1	63.5
Recruitment	269.3	332.0	280.6	(18.9)	18.3
Wage bill deduction	254.6	332.3	273.5	(23.4)	21.5
Information services	215.3	209.6	172.7	2.7	21.4
Amortisation of intangible assets	213.9	142.2	80.7	50.4	76.2
Communication services	126.9	30.0	40.7	323.0	(26.3)
Rating services	123.9	120.4	80.0	2.9	50.5
Social expenditure	71.7	70.0	62.2	2.4	12.5
Audit expenses	70.0	72.2	35.3	(3.0)	104.5
Advertising and marketing	59.4	97.5	106.1	(39.1)	(8.1)
Employee training and advanced training	50.4	87.1	79.7	(42.1)	9.3
Travel expenses	30.8	103.4	59.6	(70.2)	73.5
Charitable giving and sponsorship	19.3	—	—	—	—
Office rental	17.9	21.6	267.0	(17.1)	(91.9)
Insurance	16.5	5.2	1.5	217.3	246.7
Inventories	12.2	1.7	3.2	617.6	(46.9)
Occupational health and safety	6.8	—	—	—	—
Transport services	4.5	9.0	9.9	(50.0)	(9.1)
Banking services	4.2	2.3	2.4	82.6	(4.2)
Office supplies and printing	2.9	20.5	18.0	(85.9)	13.9
Expenditure on festive, entertainment and sports events	2.8	2.5	2.3	12.0	8.7
Security	2.6	2.6	2.8	—	(7.1)
Other expenses	45.1	143.3	60.2	(68.5)	138.0
Total	7,094.8	7,204.4	6,729.6	(1.5)	7.1

General administrative expenses decreased in 2020 by KZT 109.6 million, or 1.5%, to KZT 7,094.8 million for the year ended 31 December 2020 from KZT 7,204.4 million for the year ended 31 December 2019, having increased in 2019 by KZT 474.8 million, or 7.1%, from KZT 6,729.6 million for the year ended 31 December 2018.

The year-on-year decrease in general administrative expenses in 2020 was primarily due to lower expenses relating to wages and salaries, recruitment, advertising and marketing, travel and employee training, in large part due to the impact of the COVID-19 pandemic and corresponding restrictions on travel and in person meetings, as well as the introduction of remote working. The year-on year increase in general administrative expenses for the year ended 31 December 2019, as compared to 2018, was primarily due to higher expenses related to wages and salaries, maintenance, depreciation and amortisation, which were only partially offset by a decrease in taxes other than income tax.

Wages and salaries generally comprise the largest portion of DBK's total general administrative expenses, representing 50.2% of total general administrative expenses for the year ended 31 December 2020, 50.3% for the year ended 31 December 2019 and 44.7% for the year ended 31 December 2018.

Wages and salaries decreased by KZT 62.7 million, or 1.7%, in 2020 to KZT 3,560.4 million for the year ended 31 December 2020 from KZT 3,623.1 million for the year ended 31 December 2019, having increased by KZT 614.3 million, or 20.4%, from KZT 3,008.8 million for the year ended 31 December 2018.

Profit before income tax

As a result of the foregoing, profit before income tax increased by KZT 8,197.9 million, or 54.5%, to KZT 23,239.6 million for the year ended 31 December 2020 from KZT 15,041.7 million for the year ended 31 December 2019, having increased by KZT 1,729.7 million, or 13.0% from KZT 13,312.0 million in 2018.

Income tax expense

Income tax expense decreased by KZT 3,213.4 million, or 78.7%, to KZT 869.8 million for the year ended 31 December 2020, as compared to KZT 4,083.2 million for the year ended 31 December 2019, having decreased by KZT 5,985.0 million, or 59.4%, from KZT 10,068.2 million for the year ended 31 December 2018. The year-on-year decreases in income tax expense were primarily due to credits for the overpayment of tax in prior periods and the application of deferred income tax benefit, and impairment loss.

DBK's applicable tax rate for current and deferred tax was 20% for each of 2020, 2019 and 2018.

Profit for the year

As a result of all the foregoing, DBK's profit for the year increased by KZT 11,411.3 million, or 104.1%, in 2020 to KZT 22,369.8 million for the year ended 31 December 2020, from KZT 10,958.5 million for the year ended 31 December 2019, having increased by KZT 7,714.7 million, or 237.8%, from KZT 3,243.8 million for the year ended 31 December 2018.

Other comprehensive income/loss

The following table sets forth the principal components of DBK's other comprehensive income for the years ended 31 December 2020, 2019 and 2018:

	Year ended 31 December			Percentage change	
	2020	2019	2018	2020/19	2019/18
	<i>(KZT millions)</i>			<i>(%)</i>	
Net change in fair value	7,565.4	5,296.3	(5,115.3)	42.8	(203.5)
Net amount reclassified to profit or loss	(6,808.5)	61.8	46.8	(11,117.0)	32.1
Other comprehensive income/(loss) for the year	756.9	5,358.2	(5,068.5)	(85.9)	(205.7)

Other comprehensive income was KZT 756.9 million for the year ended 31 December 2020. For the year ended 31 December 2019, DBK's other comprehensive income increased by KZT 10,426.7 million to KZT 5,358.2 million from a loss of KZT 5,068.5 million for the year ended 31 December 2018.

The other comprehensive income in 2020 was primarily due to an increase in the net change in fair value, partially offset by the net amount reclassified to loss. The other comprehensive income in 2019 was primarily due to a significant increase in the net change in fair value. The other comprehensive loss in 2018 was primarily due to loss from the net change in fair value of debt securities measured at fair value through other comprehensive income.

Total comprehensive income/(loss)

As a result of all the foregoing, DBK had a total comprehensive income of KZT 23,126.8 million for the year ended 31 December 2020, as compared to a total comprehensive income of KZT 16,316.6 million for the year ended 31 December 2019 and a loss of KZT 1,824.7 million for the year ended 31 December 2018.

SELECTED STATISTICAL AND OTHER DATA

The selected statistical information and other data set forth below have been extracted, subject to rounding, without material adjustment from the Financial Statements, which are included elsewhere in this Base Prospectus and from management reports and accounting records. The selected statistical information and other data set forth below should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements, as well as the information set forth under the caption “*Management’s Discussion and Analysis of Results of Operations and Financial Condition*”. Unless otherwise indicated, all figures are expressed in or derived from amounts in Tenge. All average balances are calculated as the average of annual opening and closing balances. Were a different method of calculating averages to be used, such as using averages of quarterly balances, the averages so determined may be materially different from those set forth in this Base Prospectus.

Average Balance Sheet and Interest Rates

The following tables set forth the average balances for DBK’s interest-earning assets and interest-bearing liabilities, together with weighted average rates and the corresponding amount of interest income (expense) for the years ended 31 December 2020, 2019 and 2018:

	For the year ended 31 December								
	2020			2019			2018		
	Average balance ⁽¹⁾	Average interest rate ⁽²⁾	Interest Income/Expense	Average balance ⁽¹⁾	Average interest rate ⁽²⁾	Interest Income/Expense	Average balance ⁽¹⁾	Average interest rate ⁽²⁾	Interest Income/Expense
	(KZT millions)	(%)	(KZT millions)	(KZT millions)	(%)	(KZT millions)	(KZT millions)	(%)	(KZT millions)
Interest-earning assets									
Cash and cash equivalent	193,479.9	1.6	3,131.1	217,171.1	7.1	15,410.8	371,381.7	4.9	18,242.9
Placements with banks and other financial institutions	106,671.2	7.2	7,708.5	80,868.3	8.2	6,668.9	71,688.2	8.0	5,770.7
Loans to banks	117,878.3	10.0	11,840.8	84,148.4	8.6	7,243.2	62,074.0	8.7	5,417.4
Loans to customers	1,732,060.3	7.7	132,558.3	1,628,534.8	6.9	111,970.1	1,552,657.8	7.2	111,608.1
Finance lease receivables	258,440.1	13.6	35,088.0	151,831.9	16.1	24,422.3	104,370.6	19.4	20,228.6
Debt securities	217,361.9	3.0	6,430.9	231,919.8	2.9	6,772.7	205,303.3	4.8	9,788.8
Amounts receivable from IFK JSC.....	23,535.5	9.2	2,160.4	21,978.4	8.9	1,965.1	21,610.1	0.2	39.1
Total interest-earning assets	2,649,427.2	7.5	198,918.1	2,416,452.7	7.2	174,453.1	2,389,085.7	7.2	171,095.5
Interest-bearing liabilities									
Current accounts and deposits from customers .	16,515.0	(5.4)	(900.0)	18,281.0	(4.9)	(896.7)	22,303.9	(3.3)	(738.9)
Loans from the Government and SWF “Samruk-Kazyna”	27,476.6	(5.1)	(1,395.7)	30,987.3	(4.4)	(1,364.6)	36,693.8	(3.6)	(1,331.6)
Loans and deposits from banks and other financial institutions	590,151.7	(4.2)	(24,974.5)	629,534.3	(4.4)	(27,492.8)	798,012.2	(4.6)	(37,002.2)
Loans from the Parent Company	201,413.0	(8.6)	(17,236.4)	148,395.4	(8.6)	(12,697.6)	106,299.1	(8.6)	(9,120.4)
Debt securities issued	1,146,278.5	(8.1)	(93,014.7)	998,805.2	(7.5)	(74,616.6)	872,511.8	(7.7)	(67,202.5)
Subordinated debt	107,848.8	(6.5)	(7,014.8)	101,438.3	(6.5)	(6,579.1)	95,299.0	(6.8)	(6,472.5)
Total interest-bearing liabilities	2,089,683.6	(6.9)	(144,536.1)	1,927,441.5	(6.4)	(123,647.5)	1,931,119.8	(6.3)	(121,868.1)
Net interest income	—	—	54,382.0	—	—	50,805.6	—	—	49,227.4

Notes:

(1) Average balances are calculated as the arithmetic average of the opening and closing balances for the relevant period.

(2) Average interest rates are calculated as the ratio of interest income/expense to the average balance for the relevant period. Figures are not annualised.

The average interest rate on interest-earning assets increased to 7.5% for the year ended 31 December 2020 from 7.2% for the year ended 31 December 2019. The increase in the average interest rate on interest-earning assets in 2020, as compared to 2019, was primarily due to the increase in average interest rates on loans to customers.

The average interest rate on interest-bearing liabilities increased to 6.9% for the year ended 31 December 2020 from 6.4% for the year ended 31 December 2019, having increased from 6.3% for the year ended 31 December 2018. The increase in the average interest rate on interest-bearing liabilities in 2020, as compared to 2019, was primarily due to the increase in average interest rates on debt securities issued. See “—*Principal Sources of Funding*”.

As at 31 December 2020, DBK's cash and cash equivalents increased by KZT 98,612.4 million, or 68.4%, to KZT 242,786.1 million from KZT 144,173.7 million as at 31 December 2019, having decreased by KZT 145,994.7 million, or 50.3%, from KZT 290,168.4 million as at 31 December 2018. The increase in 2020 was primarily due to an increase in cash in current accounts with the NBK, while the decrease in 2019 was primarily due to a decrease in cash in current accounts both at the NBK and other banks and also in reverse repurchase agreements with original maturities of less than three months.

Loans to customers

Net total loans increased in 2020 by KZT 227,711.7 million, or 14.1%, to KZT 1,845,916.2 million from KZT 1,618,204.5 million as at 31 December 2019, having decreased, in 2019, by KZT 20,660.7 million, or 1.3%, from KZT 1,638,865.2 million as at 31 December 2018.

The increase in DBK's loan portfolio in 2020 was primarily due to an increase in loans to corporate customers. The decrease in DBK's loan portfolio in 2019 primarily reflected a decrease in loans to corporate customers.

DBK is targeting increasing the share of its credit portfolio of total assets by up to 77% by 31 December 2023 (as compared to 31 December 2014) and its annual lending volume by up to KZT 544 million per year until 2023, as set out in its Development Strategy.

Loans to Customers by Type of Borrower

In line with DBK's status as a development bank, large corporate borrowers, which are borrowers with over 250 employees and average assets in excess of U.S.\$3 million, seeking funding for large infrastructure and industrial projects have historically comprised the largest component of DBK's loan portfolio, with loans to large corporate borrowers accounting for 93.9% of total gross loans to customers as at 31 December 2020, as compared to 94.2% and 94.9% of gross total loans to customers as at 31 December 2019 and 2018, respectively.

As at 31 December 2020, DBK had six borrowers whose balances exceeded 10% of DBK's equity, as compared to eight such borrowers as at 31 December 2019 and ten such borrowers as at 31 December 2018.

Loans to Customers by Type

The following table sets forth an analysis of DBK's loan portfolio as at 31 December 2020, 2019 and 2018:

	As at 31 December					
	2020		2019		2018	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Loans to corporate customers	1,764,252.8	93.9	1,534,219.9	94.2	1,573,828.1	94.9
Mortgage loans	110.3	0.0	159.3	0.0	209.5	0.0
Accrued interest	113,783.4	6.1	94,019.9	5.8	85,078.9	5.1
Gross loans to customers measured at amortised cost	1,878,146.6	100.0	1,628,399.2	100.0	1,659,116.5	100.0
Loss allowance	(111,292.4)	—	(79,087.7)	—	(58,507.4)	—
Total net loans to customers measured at amortised cost	1,766,854.2	—	1,549,311.4	—	1,600,609.1	—
Loans to customers measured at fair value through profit or loss ...	79,062.0	—	68,893.1	—	38,256.0	—
Total loans to customers	1,845,916.2	—	1,618,204.5	—	1,638,865.2	—

Loans to corporate customers in the carbon and petrochemicals manufacturing, metal industry, mining, energy and electricity distribution sectors accounted for the largest proportion of such lending as at 31 December 2020, accounting for 74.2% of total gross loans to customers measured at amortised cost and loans measured at fair value through profit or loss.

Loans to Customers by Economic Sector

The following table sets forth an analysis of DBK's loan portfolio, by economic sector, before impairment, as at 31 December 2020, 2019 and 2018:

	As at 31 December					
	2020		2019		2018	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Petrochemicals manufacturing	585,581.3	29.9	531,518.5	31.3	662,586.7	39.0
Metal industry	334,248.7	17.1	348,927.1	20.6	349,145.5	20.6
Mining	297,412.8	15.2	212,440.6	12.5	107,120.2	6.3
					-	-
Electric power supply, and gas and steam supply, and air conditioning	234,713.0	12.0	271,162.2	16.0	254,157.7	15.0
Chemical	56,585.7	2.9	60,096.9	3.5	64,740.6	3.8
Transportation and warehousing	112,478.7	5.7	59,040.1	3.5	58,418.0	3.4
Information and telecommunications	66,354.7	3.4	61,029.4	3.6	51,251.9	3.0
Catering and accommodation services	77,382.7	4.0	40,198.9	2.4	38,732.8	2.3
Foodstuff manufacturing	42,340.6	2.2	36,218.6	2.1	36,043.4	2.1
The arts; entertainment and leisure industry ..	29,443.9	1.5	—	—	—	—
Machinery manufacturing	92,982.5	4.8	71,598.6	4.2	70,195.0	4.1
Construction materials manufacturing	27,439.6	1.4	4,768.1	0.3	4,637.1	0.3
Financial services	244.4	0.0	293.4	0.0	343.6	0.0
	1,957,208.6	100.0	1,697,292.2	100.0	1,697,372.5	100.0
Loss allowance for expected credit losses	(111,292.4)		(79,087.7)		(58,507.4)	
Total loans to customers	1,845,916.2		1,618,204.5		1,638,865.2	

Since 31 December 2018, loans to customers have been concentrated predominantly in the petrochemicals manufacturing industry. See “*Business—Lending*”.

As a percentage of total gross loans to customers measured at amortised cost and total loans measured at fair value through profit or loss, as at 31 December 2020, as compared to 31 December 2019, loans to customers in the mining sector increased from 12.5% to 15.2%, primarily due to an increase in loans to corporate customers, while loans to customers in the carbon and petrochemical manufacturing sector decreased from 31.3% to 29.9% of total gross loans to customers measured at amortised cost. Loans to customers in the energy and electrical distribution sector decreased from 16.0% as at 31 December 2019 to 12.0% as at 31 December 2020 of total gross loans to customers measured at amortised cost and measured at fair value through profit or loss, primarily due to repayments. Such fluctuations in loans to customers by economic sector, for the most part, occur in the ordinary course of DBK's business and generally results from the disbursement or repayment of one or more large loans.

As at 31 December 2020, the five largest investment projects and export operations were in the mining, oil and gas and metallurgy sectors. DBK's participation in such projects accounted for approximately U.S.\$3,329 million. See “*Business—Investment Projects*”.

In general, as a result of the borrower concentration and relatively large size of individual loans within the loan portfolio, the breakdown of loans granted to customers in the different economic sectors can fluctuate significantly as a result of a single loan disbursement repaid in a given period. See “*—Loan Policies and Credit Approval Procedures*” for a description of DBK's lending policy.

Loans to Customers by Geographic Location

As at 31 December 2020, 100% of total loans to customers were loans to customers in Kazakhstan. DBK lends in all regions of Kazakhstan. See “*Business—Participation in Government Programmes*”. The regional distribution across the loan portfolio varies depending on the nature and industry of investment projects being undertaken as at any given date. As at 31 December 2020, outstanding loans to customers were granted to customers in each of Nur-Sultan (3.3% of total loans to customers), Karaganda (4.3%), Aktobe (4.9%), Atyrau (9.9%), Eastern Kazakhstan (17.9%), Shymkent (16.3%) and Pavlodar (17.4%), while inter-regional projects accounted for 9.7% of total loans to customers and the remaining 16.3% of total loans to customers were granted to customers across nine other regions of Kazakhstan.

Loans to Customers by Currency

The following table sets forth an analysis of DBK's loan portfolio, by currency, as at 31 December 2020, 2019 and 2018:

	As at 31 December					
	2020		2019		2018	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
U.S. Dollars.....	898,304.6	48.7	800,381.0	49.5	958,431.8	58.5
Tenge	947,611.6	51.3	806,353.1	49.8	664,321.5	40.5
Euros	—	—	11,470.3	0.7	14,618.3	0.9
Other currencies	—	—	—	—	1,493.5	0.1
Total loans to customers	1,845,916.2	100.0	1,618,204.5	100.0	1,638,865.2	100.0

DBK lends in Tenge and foreign currencies, principally U.S. Dollars, depending on customer requirements. As a matter of policy, however, DBK only finances projects with foreign currency-denominated loans if the project or the customer has sufficient export earnings to cover such foreign currency-denominated financing. Loans to customers denominated in Tenge generally carry a higher interest rate than loans in U.S. Dollars.

In recent years, the currency mix of DBK's loans has fluctuated, particularly when a large loan is disbursed or repaid, although U.S. Dollar-denominated loans continue to represent a majority of the loan portfolio, the proportion of Tenge denominated loans as a percentage of DBK's total loan portfolio has been increasing since 2014. This increase is in line with DBK's aim to increase the portion of its loan portfolio denominated in Tenge as set out in its Development Strategy. See "Business—Strategy".

Fluctuations may occur when a single large loan is disbursed or repaid. As a percentage of total loans to customers as at 31 December 2020, loans to customers denominated in Tenge increased to 51.3%, as compared to 49.8% as at 31 December 2019, having increased from 40.5% as at 31 December 2018. Loans to customers denominated in Tenge comprised the largest proportion of lending as at 31 December 2020 and 2019.

In order to minimise the impact of devaluations of the Tenge, since February 2014, DBK has reviewed all projects financed with loans denominated in foreign currencies and, for those projects most affected, or potentially affected by such devaluations, converted the principal of such loans into Tenge. Although difficult to quantify, DBK considers that the potential losses to DBK in connection with any repayment failure of such loans (many of which were granted to borrowers in respect of nationally strategic projects), that could have resulted from not taking such measures, could have significantly exceeded all losses that were incurred by the Bank as a result of the conversion of such loans into Tenge. DBK conducts stress tests to identify projects that are sensitive to currency risk. See "Management's Discussion and Analysis of Results of Operations and Financial Condition—Primary Factors affecting DBK's Results of Operations—Fluctuations in Exchange Rates".

Loans to Customers by Maturity

The following table sets forth an analysis of DBK's loan portfolio after allowances for losses, by maturity, as at 31 December 2020, 2019 and 2018:

	As at 31 December					
	2020		2019		2018	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Less than one month	542.5	0.0	—	—	3,194.1	0.2
One month to three months	20,732.4	1.1	11,091.4	0.7	3,563.6	0.2
Three months to one year	76,798.4	4.2	83,269.4	5.1	124,380.9	7.6
One year to five years	477,049.2	25.8	259,144.3	16.0	256,785.4	15.7
More than five years	1,264,370.2	68.5	1,262,524.8	78.0	1,250,536.8	76.3
Overdue.....	6,423.5	0.3	2,174.6	0.1	404.2	0.0
Total net loans to customers.....	1,845,916.2	100.0	1,618,204.5	100.0	1,638,865.2	100.0

Reflecting its mission as a development bank to provide financing for large-scale investment projects, DBK's loan portfolio is principally comprised of loans with more than five years until maturity, which accounted for 68.5% of total net loans as at 31 December 2020, as compared to 78.0% and 76.3% as at 31 December 2019 and 2018, respectively. In addition, loans with between one and five years until maturity comprised 25.8% of total net loans to customers as at 31 December 2020, as compared to 16.0% and 15.7% as at 31 December 2019 and 2018, respectively.

Overdue loans comprised 0.3% of total loans to customers as at 31 December 2020, as compared to 0.1% as at 31 December 2019 and 0.0% as at 31 December 2018.

Loans to Customers by Size

The following table sets forth an analysis of DBK's loan portfolio (for investment projects only) by size, as at 31 December 2020, 2019 and 2018:

	As at 31 December					
	2020		2019		2018	
	Principal Amount	№ of Investment Projects	Principal Amount	№ of Investment Projects	Principal Amount	№ of Investment Projects
	(KZT millions)		(KZT millions)		(KZT millions)	
Under U.S.\$25 million	113,753	15	65,628	11	58,002	11
U.S.\$25-50 million.....	163,890	11	141,682	11	128,070	10
U.S.\$50-100 million.....	671,812	21	515,293	18	470,265	16
U.S.\$100-200 million.....	266,255	5	293,595	6	295,052	6
Over U.S.\$200 million	1,878 887	8	1,731,577	8	1,370,292	7

As at 31 December 2020, 3.7% of DBK's loans to customers were in an amount of less than U.S.\$25 million, as compared to 2.4% and 3.5% as at 31 December 2019 and 2018, respectively. As at 31 December 2020, 21.7% of DBK's loans to customers were in an amount of between U.S.\$50 million and U.S.\$100 million, as compared to 18.8% and 28.7% as at 31 December 2019 and 2018, respectively.

Loans to Banks

In 2014, the Bank began lending to second-tier banks for on-lending, particularly to the private sector, primarily through the implementation of Government programmes. Loans to banks increased by KZT 13,864.9 million, or 12.5%, to KZT 124,810.7 million as at 31 December 2020 from KZT 110,945.8 million as at 31 December 2019, having increased by KZT 53,594.9 million, or 93.5%, from KZT 57,350.9 million as at 31 December 2018. See Note 15 to the 2020 Annual Financial Statements and “*Business—Participation in Government Programmes*”.

The increase in loans issued to banks as at 31 December 2020, as compared to 31 December 2019, was primarily due to the issue of new loans to banks. At the same time, the volume of disbursed loans amounted to KZT 24,630.3 million, a decrease of KZT 60,078.0 million, as compared to the corresponding period of 2019. The increase in loans issued to banks as at 31 December 2019, as compared to 31 December 2018, was primarily due to issue of new loans to banks.

As at each of 31 December 2020, 2019 and 2018, 100% of DBK's loans to banks were denominated in Tenge.

Loans to Banks by Maturity

The following table sets forth an analysis of DBK's loans to banks after allowances for losses, by maturity, as at 31 December 2020, 2019 and 2018:

	As at 31 December					
	2020		2019		2018	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Less than one month	—	—	—	—	1,782.9	3.1
One month to three months.....	—	—	—	—	1,405.9	2.5
Three months to one year.....	—	—	—	—	—	—
One year to five years	1,916.2	1.5	2,240.0	2.0	—	—
More than five years	122,894.5	98.5	108,705.8	98.0	54,162.1	94.4
Overdue.....	—	—	—	—	—	—
Total net loans to banks.....	124,810.7	100.0	110,945.8	100.0	57,350.9	100.0

As at 31 December 2020, 98.5% of DBK's loans to banks was comprised of loans with maturities of more than five years, as compared to 98.0% as at 31 December 2019 and 94.4% as at 31 December 2018.

Loans to First Heartland Jusan Bank and Eurasian Development Bank

As at 31 December 2020, DBK had no outstanding balances of loans issued to banks whose balances exceeded 10% of equity.

As at 22 January 2019, debt owed by First Heartland Jusan Bank JSC to DBK amounted to KZT 8,408.0 million. The claims were restructured in accordance with the terms and conditions of a framework agreement with First Heartland Jusan Bank JSC. As part of such restructuring, DBK's loans were exchanged for bonds issued by First Heartland Jusan Bank JSC and DBK recognised the bonds as credit-impaired debt securities. Pursuant to the restructuring, the use of loan proceeds for intended purposes provisions were waived and the nominal interest rate on loans was reduced from 2.0% to 0.1%.

During 2019, the Group issued a loan of KZT 51,000 million to the Eurasian Development Bank ("EADB"), with a nominal interest rate of 8% *per annum*, for the subsequent financing of Astana Gas KMG JSC, to finance a gas supply project in Nur-Sultan, as well as to implement other development programmes in the gas industry. See Note 15(b) to the 2020 Annual Financial Statements.

Loan Policies and Credit Approval Procedures

The DBK Law, the Credit Policy Memorandum and DBK's internal credit policy rules set out the principal guidelines in relation to DBK's lending policies, including the duration, limits and the bases for the calculation of interest rates charged for credit instruments, which include, *inter alia*, loans, letters of credit and guarantees.

Pursuant to the Credit Policy Memorandum, which was most recently amended on 20 February 2020, the Board of Directors makes decisions in relation to the financing of investment projects and export transactions and the granting of loans otherwise in amounts exceeding KZT 17 billion (or its equivalent) and in relation to the financing to be provided by DBK to IDF JSC. Applications for the financing of investment projects, export transactions and leasing transactions will only be reviewed by the Board of Directors upon receipt of positive recommendations from the Management Board and the Credit Committee. Pursuant to the Credit Policy Memorandum, DBK's Management Board may make decisions in relation to the financing of investment projects, export transactions and the granting of credit instruments up to an amount not exceeding KZT 17 billion (or its equivalent). The Management Board also reports to the Board of Directors in relation to problem investment projects, export transactions and leasing transactions. Applications for the financing of investment projects, export transactions, leasing transactions will only be reviewed by the Management Board upon receipt of positive recommendations from the Credit Committee.

DBK's credit approval process is based on the Credit Policy Memorandum, its regulations on internal lending policies and other internal regulations and procedures approved by DBK's Board of Directors and Management Board. In 2011, following the amendments to the DBK Law, DBK updated its *Guidelines for the Implementation of Investment Projects and Export Operations* in light of DBK's special status and to permit the analysis of strategic investment projects as part of its participation in the industrialisation programme in place at that time (which has since been replaced with the Industrialisation Programme (see "*Business—Participation in Government Programmes—Industrialisation Programme*")). In particular, as a result of these changes, the lending decision-making process has been divided into stages: preliminary review and in-depth project expertise. At the preliminary stage, analysis is undertaken to understand the structure of the project, as well as the project-related risks. In the event that the project is deemed suitable following such preliminary review, DBK will proceed to analyse the project in more detail. The introduction of this preliminary phase allows DBK to eliminate projects prior to conducting a more detailed, and costly, analysis. As many of the projects undertaken by DBK are of strategic importance, DBK has cancelled commission fees relating to the complex, technical and financial analysis of projects. As part of these changes, DBK has also updated its internal decision making procedures and forms used in the lending process.

The Credit Policy Memorandum provides that the level of DBK's exposure to any single borrower or group of affiliated borrowers shall be set by the Board of Directors. Such exposure is limited to 25% of its total equity at any given time, unless such borrower is an entity in which the State or Samruk-Kazyna owns 50% or more of the voting shares or participatory interests, in which case the exposure is not limited but may be specially defined by the Board of Directors.

As with DBK's exposure to a single borrower or group of affiliated borrowers, industry sector exposure limits are also set by the Board of Directors. Such exposure is limited to 10% of "exposure at default" for all sectors, unless increased by a decision of the Board of Directors.

DBK is in compliance with the exposure limits set out in the Credit Policy Memorandum.

Pursuant to DBK's internal credit policy rules, the structure of DBK's loan portfolio, in terms of sources, maturities and fees charged for credit, is set by the Assets and Liabilities Management Committee ("ALMC"). DBK's Financial Department, Project Management Divisions, Asset Restructuring Department, Problem Loan Department and Risk Management

Department are responsible for evaluating DBK's loan portfolio, including its credit quality, and establishing allowances and provisions in relation thereto.

Since the start of its operations in 2001, DBK has approved more than 148 credit applications to finance investment projects and 105 export transactions. Many of these projects and operations have been and continue to be co-financed with other financial institutions.

Loan Classification Policies

Loans to customers include:

- loans to customers measured at amortised cost, which are initially measured at fair value, plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
- loans to customers mandatorily measured at FVTPL due to non-compliance solely with payments of principal and interest criterion, which are measured at fair value with changes recognised immediately in profit or loss.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g., liquidity risk and administrative costs), as well as profit margin.

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

DBK classifies its loan portfolio by credit quality into not credit-impaired and credit-impaired loans. As at 31 December 2020, credit-impaired loans accounted for approximately 7.8% of total gross loans to customers measured at amortised cost (comprising the credit portfolio of DBK's investment projects). See "*Loan Provisioning Policy*".

DBK classifies loans overdue by more than 90 days as NPLs. As a result of the foregoing, as at 31 December 2020, 1.5% of gross loans to customers were classified as non-performing, as compared to 1.7% and 0.3% as at 31 December 2019 and 2018, respectively.

Pursuant to amendments to the DBK Law dated 29 December 2011, DBK was exempted from the reporting requirements of the regulator in respect of loan classifications and collateral classifications, which are applicable for commercial banks. DBK is required to classify its loan portfolio and form reserve capital pursuant to the Rules for Creation of Reserves approved by Resolution № 212 of the Government on 20 April 2018 and the Methodology of Calculating Provisions (Reserves) in Accordance with International Standards of Financial Reporting, as approved by the decision of the Management Board dated 28 November 2018, as amended and approved by the decision of the Management Board dated 6 October 2020.

Loan Restructuring Policies

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

Any fees received as part of the modification are accounted for as follows:

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

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

DBK makes a determination as to whether the modification is substantial based on the following qualitative factors:

- change in the currency of the financial asset;
- change in collateral or other credit enhancement; and
- change of terms of the financial asset that lead to non-compliance with the “Solely Payment of Principal and Interest” criterion (such as the inclusion of a conversion feature).

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then DBK first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

Loan Provisioning Policy

IFRS 9 became effective on 1 January 2018. In preparation for the implementation of IFRS 9, DBK developed a methodology for the calculation of provisions, which was agreed with its then-regulator, the NBK. According to this methodology, provisions are calculated on the basis of an ECL model. ECL are a probability-weighted estimates of credit losses. The determination of the required ECL depends on the allocation of the loan to one of three stages in the model.

Loans for which a 12-month ECL is recognised are referred to as “Stage 1”. These are loans upon initial recognition independently of their credit quality unless they are originally credit impaired at origination (i.e., restructured loans). 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Loans, other than purchased or originated credit-impaired assets, for which a lifetime ECL is recognised are referred to as “Stage 2”. These are loans for which there has been a significant increase in credit risk since their initial recognition (if the credit risk has increased significantly since initial recognition, but the loans are not credit-impaired).

Credit-impaired loans are classified as “Stage 3”, if there is objective evidence of credit loss. At each reporting date, DBK assesses whether financial assets measured at amortised cost are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- *force majeure* and other circumstances that caused significant material damage to the borrower (including the revocation or suspension of a license for the activities of the borrower);
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation, as well as involvement in litigation; or
- the disappearance of an active market for a security because of financial difficulties.

Credit Monitoring

DBK has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee to actively monitor DBK’s credit risk. See “*Asset and Liability Management—Principal Committees—Credit Committee*”.

Credit risk assessment and management is carried out by the Risk Management Department in accordance with DBK’s internal regulations. The Customer Relationship Management Department, Credit Analysis and Deal Structuring Department, Legal Department, Collateral Appraisal Department, Security Department and Compliance Service undertake thorough analyses of each credit applicant, which includes a project feasibility study, financial analysis and examination of the reputation and experience of the potential borrower. Once this analysis has been completed, the Risk Management Department will prepare its recommendations in relation to the application on the basis of risks relating to the project structure, the borrower and the proposed collateral.

Once the credit instrument has been approved, DBK monitors the following on an ongoing basis: (i) compliance with the intended purpose of the loan, including monitoring the use of proceeds over the tenor of the loan; (ii) the financial standing of borrowers, co-borrowers, guarantors and other related parties on a quarterly basis; (iii) the status of the project site through

site due diligence visits on an annual or more frequent basis; (iv) the value and quality of collateral on an at least semi-annual basis; (v) the borrowers, co-borrowers and guarantors credit history and payment behaviour; and (vi) covenant compliance. In addition, DBK maintains and updates a credit file in respect of the loan and borrower on an ongoing basis.

Monitoring reports are produced by the relevant Bank units; Customer Relationship Management Department, Credit Analysis and Deal structuring Department, Problem Loan Department, Collateral Management Department, Credit Administration Department, Security Department, Legal Department and Risk Management Department. Such reports are based on standard templates approved by the Credit Committee and are subject to periodic reviews to ensure compliance with both DBK's internal requirements and local laws and regulations. DBK also maintains watch tables with information on credit instrument early-warning signs in order to perform ongoing and effective credit control. In addition, DBK has implemented an internal credit rating system that produces internal ratings as part of the lending process. These internal ratings are periodically reviewed on the basis of financial and qualitative data.

Problem loans are handled by the Customer Relationship Management Department, Credit Analysis and Deal structuring Department, in accordance with DBK's internal policies.

In the event that an attempted restructuring of a loan is unsuccessful, the loan is then handled by the Problem Loan Department. Borrowers whose loans are in the Problem Loan Department are generally considered to be collateral-reliant. As at 31 December 2020, there were four loans being handled by the Distressed Loan Department, the same number as prior to the beginning of the COVID-19 pandemic.

Analysis of Loans by Credit Quality

DBK estimates loan loss provisions on a monthly basis, applying the policies described above. See *“Management's Discussion and Analysis of Results of Operations and Financial Condition—Critical Accounting Policies—Impairment—Financial assets carried at amortised cost”*.

The following tables set forth information on the credit quality of DBK's loans to customers (by loans measured at amortised cost) as at 31 December 2020, 2019 and 2018:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL for assets not credit impaired	Stage 3 Lifetime ECL for assets credit impaired	Credit impaired on initial recognition	Total
(KZT millions)					
As at 31 December 2020					
Not overdue.....	1,432,366.6	299,098.1	75,889.2	9,897.3	1,817,251.2
Overdue less than 90 days.....	—	—	33,455.8	—	33,455.8
Overdue more than 90 days and less than 180 days	—	—	—	240.2	240.2
Overdue more than 1 year	—	—	23,547.9	3,651.4	27,199.3
Total	1,432,366.6	299,098.1	132,893.0	13,788.9	1,878,146.6
Loss allowance.....	(15,699.4)	(19,951.5)	(72,201.2)	(3,440.3)	(111,292.4)
Total loans to customers at amortised cost	1,416,667.1	279,146.7	60,691.7	10,348.7	1,766,854.2
As at 31 December 2019					
Not overdue.....	1,194,574.1	325,373.2	61,206.4	9,729.8	1,590,883.5
Overdue less than 90 days.....	—	—	10,582.4	—	10,582.4
Overdue more than 180 days and less than 1 year	—	—	22,165.2	—	22,165.2
Overdue more than 1 year	—	—	—	4,768.1	4,768.1
Total	1,194,574.1	325,373.2	93,954.0	14,497.9	1,628,399.2
Loss allowance.....	(4,933.7)	(25,669.7)	(44,155.9)	(4,328.5)	(79,087.7)
Total loans to customers at amortised cost	1,189,640.5	299,703.4	49,798.2	10,169.4	1,549,311.4

	Stage 1 12-month ECL	Stage 2 Lifetime ECL for assets not credit impaired	Stage 3 Lifetime ECL for assets credit impaired	Credit impaired on initial recognition	Total
(KZT millions)					
As at 31 December 2018					
Not overdue.....	992,282.4	608,058.0	45,726.4	7,978.5	1,654,045.3
Overdue more than 90 days and less than 180 days	—	—	434.1	—	434.1
Overdue more than 1 year	—	—	—	4,637.2	4,637.2
Total	992,282.4	608,058.0	46,160.4	12,615.6	1,659,116.5
Loss allowance	(5,230.1)	(28,389.7)	(18,359.2)	(6,528.4)	(58,507.4)
Total loans to customers at amortised cost	987,052.3	579,668.3	27,801.3	6,087.3	1,600,609.1

As at 31 December 2020, the ratio of impairment allowance to total gross loans to customers measured at amortised cost (in respect of credit-impaired loans) was 51.6%, as compared to 44.7% and 42.3%, as at 31 December 2019 and 2018, respectively. The increase in impairment provisions as at 31 December 2020, as compared to 31 December 2019, was primarily due to the transfer of certain loans from Stage 2 to Stage 3, reflecting increased credit-impaired loans in 2020, in turn, due to the negative economic impact of the COVID-19 pandemic on DBK's customers.

The increase in impairment allowance to total gross loans to customers measured at amortised cost as at 31 December 2019, as compared to 31 December 2018, was primarily due to a higher amount of charged impairment allowances in 2019.

DBK classifies loans overdue by more than 90 days as NPLs. As a result of the foregoing, as at 31 December 2020, 1.5% of gross loans to customers were classified as non-performing, as compared to 1.7% and 0.3% as at 31 December 2019 and 2018, respectively. The decrease in NPLs as at 31 December 2020, as compared to as at 31 December 2019, was due to the overall growth in the credit portfolio in 2020 but stability in the number overdue loans, as compared to 2019.

DBK has developed a number of initiatives to support its customers impacted by the COVID-19 pandemic. DBK has taken a number of actions to reduce and subsidise lending rates for its customers that have been significantly adversely affected by the COVID-19 pandemic. For example, DBK has offered concessional rate loans as a support measure to customers in the tourism and construction industries. DBK has also granted grace periods for repayment of principal and interest under loans to certain customers who have been facing reduced demand for services or who provide products or services that are at risk of interruption due to supply chain disruption during quarantine and lockdown periods. Those customers with products particularly sensitive to exchange rate fluctuations (such as, the prices of metals) have been offered additional support through the monitoring of tariffs, restructuring options and refinancing offered by DBK. DBK has also offered support in optimising expenses to those customers who have faced difficulties due to restrictions on the movement of goods and on border crossing in connection with the COVID-19 pandemic.

The granting of the deferral of payments or grace periods on loans for investment projects affected by the COVID-19 pandemic was considered on a case-by-case basis, with varying lengths of payment deferrals and grace periods granted. The impact of the COVID-19 pandemic has led to, and may continue to lead to, requests from customers to reschedule debt owed to DBK (including the delay of certain payments of principal and interest to DBK). Between 1 January 2020 and 1 October 2020, 15 restructurings of loans were conducted, of which six were attributed to the impact of the COVID-19 pandemic.

See "Risk Factors—Factors that may affect DBK's ability to fulfil its obligations under, or in connection with, Notes issued under the Programme—A. Operational Risks relating to DBK and its Business—Impact of the COVID-19 Pandemic".

As at 31 December 2020, DBK's ratio of provisions to gross loans was 5.9%, as compared to 4.9% as at 31 December 2019 and 3.5% as at 31 December 2018.

Policies relating to Collateral

Pursuant to the DBK Law, DBK requires security from all borrowers except in circumstances where the financing is provided to wholly-owned subsidiaries of DBK or DBK's participation in the financing is made through mezzanine financing, as well as interbank financing. As at 31 December 2020, while there were no unsecured loans to customers, loans to banks with a carrying amount of KZT 124,810.7 million were unsecured with no collateral or other credit enhancement, as compared to KZT 110,945.8 million as at 31 December 2019. In accordance with DBK's internal policies, at least 30% of the security must

be comprised of “tangible assets collateral”, which includes immovable, movable property, cash and commodities. DBK also accepts security by way of third party guarantees, provided that such guarantees meet DBK’s requirements. The main requirements in relation to collateral are set forth in DBK’s Policy on Securing the Fulfilment of Obligations, which was approved by the Board of Directors. See Note 16(b) to the 2020 Annual Financial Statements.

The procedures for collateral appraisal and evaluation are set forth in the Collateral Appraisal Policy as approved by the Board of Directors and internal rules relating to the adequacy and monitoring of collateral as set out by the Management Board. Collateral is appraised by independent valuation companies. The Collateral Appraisal Department is responsible for the inspection and valuation of collateral and for preparing an internal report in relation to the same. The Collateral Appraisal Department reviews the quality of collateral at least twice a year.

See Note 16(b) to the 2020 Annual Financial Statements for further information on collateral and other credit enhancements securing loans to corporate customers, by type of collateral.

As at 31 December 2020, credit-impaired or overdue loans measured at amortised cost with an aggregate gross value of KZT 146,681.9 million were secured by collateral with a fair value of KZT 169,420.0 million. In 2020, DBK did not acquire any assets by foreclosure on collateral accepted as security for loans.

As a result of the foregoing, as at 31 December 2020, the coverage ratio of total collateral to total loans was 142%, as compared to 144% and 127% as at 31 December 2019 and 2018, respectively.

In July 2017, DBK established its wholly-owned subsidiary, DBK CSF, a closed private limited liability company established in the Netherlands. DBK CSF was established for the purpose of participating in a direct investment fund in the Netherlands. In November 2017, DBK CSF and KCM established DBK Equity Fund, a direct investment fund, for purposes of investing in domestic and foreign projects, which promote the interests of the Kazakhstan economy and in which DBK is not permitted to invest directly as a result of the restrictions imposed on it under the Credit Policy Memorandum.

In respect of the normative documents for DBK Equity Fund, on 3 November 2017, a limited partnership agreement was signed among DBK CSF and KCM and, on 29 December 2017, a share premium contribution agreement was signed between DBK and CSF for the contribution of shares in an amount equivalent to U.S.\$97.0 million. See “*Business—DBK CSF*”.

Contingent Liabilities and Other Off-Balance Sheet Exposures

Credit related commitments

In the normal course of business, DBK makes contractual commitments on behalf of its customers and, in order to meet the financing needs of its customers, is a party to financial instruments with off-balance sheet risk. Such commitments comprise principally loans or credit lines, whereby DBK agrees to make payments for customers’ accounts under certain conditions or in the event of default by a customer and financial guarantees and letters of credit to guarantee the performance of customers to third parties. In return for such payments, DBK receives a counter-indemnity from the customer, as well as (to a lesser extent), documentary credits for imports and exports, finance leases (under similar stand-by terms) and commitments with respect to recourse risks arising from discounted bills. These services are normally provided on a fee-paying basis.

The following table sets forth an analysis of DBK’s credit related commitments as at 31 December 2020, 2019 and 2018:

	As at 31 December		
	2020	2019	2018
	(KZT millions)		
Loan, credit line and finance lease commitments.....	204,832.4	420,524.9	323,589.1
Letters of credit, guarantees and other commitments related to settlement operations.....	5,386.0	8,570.4	16,709.1

As at 31 December 2020, loan, credit line and finance lease commitments decreased by KZT 215,692.5 million, or 51.3%, to KZT 204,832.4 million, as compared to KZT 420,524.9 as at 31 December 2019, having increased in 2019 by KZT 96,935.8 million, or 30.0%, from KZT 323,589.1 million as at 31 December 2018. Fluctuations in loan, credit line and finance lease commitments were due to the granting or repayment of such commitments with customers in the relevant periods.

As at 31 December 2020, letters of credit, guarantees and other commitments related to settlement operations decreased by KZT 3,184.4 million, or 37.2%, to KZT 5,386.0 million from KZT 8,570.4 million as at 31 December 2019, having decreased in 2019 by KZT 8,138.7 million, or 48.7%, from KZT 16,709.1 million as at 31 December 2018. Fluctuations in letters of credit and other commitments were due to the entry into and fulfilment of such commitments during the relevant periods.

Investment Portfolio and Management of Share Capital

Pursuant to the Credit Policy Memorandum, DBK is not restricted from using its share capital to fund investment projects and leasing transactions and DBK may use its share capital as a funding source, including by mixing such capital with market funding resources.

A significant portion of DBK's investment portfolio consists of securities issued by the Government, and Samruk-Kazyna and companies deemed to have a significant role in the country's economy, such as JSC National Company KazMunayGas.

In accordance with DBK's Strategy on Investment Portfolio Management, which was adopted on 10 April 2018 and amended most recently, 8 July 2020, DBK aims to maintain adequate levels of liquidity and maximise the profitability of its assets. The long-term objectives for the management of DBK's investment portfolio are:

- to maintain the actual cost of funds in DBK's investment portfolio;
- to maintain an appropriate level of liquidity for DBK's assets; and
- to ensure a sufficient level of return on assets (taking into consideration the degree of risk assumed).

DBK actively manages its investments, selling selective assets in order to generate profits or minimise loss, enhance DBK's liquidity and funding base and maintain the diversity of its investment portfolio.

The Strategy of Investment Portfolio Management sets forth, among others, the following requirements to maintain a diversified investment portfolio. In this respect, short-term investments may comprise between 10% and 100% of DBK's investment portfolio and long-term investments may comprise between 0% and 90% of DBK's investment portfolio. In addition, the currency diversification of DBK's investment portfolio must comply with limits established by the ALMC.

The following table sets forth maximum exposure limits to certain types of investment pursuant to DBK's Strategy on Investment Management:

Instruments in investment portfolio	Maximum exposure
Deposits with the NBK (except money on correspondent accounts), securities issued by the NBK and securities issued by Kazakhstan	90%
Deposits with domestic and foreign commercial banks, except money on correspondent accounts if counterparty is rated not lower than BBB- (S&P, Fitch or Moody's)	70%
Money on correspondent accounts	90%
Sovereign securities of foreign states and bonds of international institutions with credit ratings of not lower than A (S&P, Fitch or Moody's)	70%
Sovereign securities of foreign states and bonds of international institutions with credit ratings of lower than A but not lower than BBB (S&P, Fitch or Moody's Investors Services)	30%
Sovereign securities of foreign states and bonds of international institutions with credit ratings of lower than BBB but not lower than BB- (S&P, Fitch or Moody's)	10%
Corporate bonds or municipal bonds (both domestic and international) if counterparty is rated not lower than BBB- (S&P, Fitch or Moody's). Bonds issued by members of the Baiterek JSC group	70%
Corporate bonds or municipal bonds (both domestic and international) if counterparty is rated lower than BBB- but not lower than B- (S&P, Fitch or Moody's)	30%
Derivatives and structured securities, whose value is based on the value of the securities listed above ..	30%
Repo or reverse repo transactions	Transaction dependent

DBK also intends to develop its own benchmark credit rating to assist with the assessment of investment opportunities and investment portfolio management.

Pursuant to the Strategy of Investment Portfolio Management, the ALMC approves limits with respect to sovereign risks, industry risks and counterparty risks pursuant to DBK's internal policy requirements. The Financial Risks Management Department is responsible for monitoring compliance of the investment portfolio with such limits, based upon information provided by the Treasury Department.

The Treasury Department monitors DBK's investment portfolio on a daily basis and provides data on the composition of the investment portfolio to the CEO, Management Director responsible for overseeing the investment portfolio, the Financial Risks Management Department and other financial departments. The Financial Risks Management Department monitors and assesses the risks associated with DBK's investment portfolio management and provides recommendations to the Treasury Department. The investment portfolio is assessed against a benchmark set forth in DBK's budget. In addition, the Treasury

Department provides a report to the Investment Committee on the management of DBK's investment portfolio, which the Investment Committee uses to establish the key parameters of DBK's investment policy for the following quarter.

Finance Lease Receivables

DBK conducts all of its finance lease operations through its wholly-owned subsidiary, DBK-Leasing. See “*Business—Industrial Development Fund JSC*”.

As at 31 December 2020, DBK's finance lease receivables increased by KZT 136,199.6 million, or 71.6%, to KZT 326,539.9 million from KZT 190,340.3 million as at 31 December 2019, having increased by KZT 77,016.8 million, or 68.0%, from KZT 113,323.5 million as at 31 December 2018.

Finance Lease Receivables by Type of Lessee

The following table sets forth the components of DBK's finance lease receivables, by type of lessee, as at 31 December 2020, 2019 and 2018:

	As at 31 December					
	2020		2019		2018	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Leases to large corporates ⁽¹⁾	140,916.2	40.9	99,339.1	50.8	62,771.9	51.7
Leases to small- ⁽²⁾ and medium-sized ⁽³⁾ companies	203,533.7	59.1	96,248.7	49.2	58,619.6	48.3
Gross investment in finance leases	344,449.90	100.0	195,587.8	100.0	121,391.5	100.0
Less impairment allowance	(20,527.8)	—	(11,899.4)	—	(11,902.2)	—
Net investment in finance leases	323,922.1	100.0	183,688.4	100.0	109,489.3	100.0
Embedded financial derivative measured at fair value through profit or loss	2,617.8	—	6,651.9	—	3,834.2	—
Finance lease receivables	326,539.9	—	190,340.3	—	113,323.5	—

Notes:

- (1) Large corporates are corporate entities with more than 250 employees and average assets in excess of U.S.\$3 million.
- (2) Small companies are companies with up to 50 employees and average assets of up to U.S.\$0.5 million.
- (3) Medium companies are companies with between 50 and 250 employees and average assets of between U.S. \$0.5 million and U.S.\$3 million.

Since 31 December 2018, as a matter of strategic policy, leases to small- and medium-sized companies (“SMEs”) have comprised the largest component of DBK's portfolio of finance lease receivables, with such leases accounting for 59.1% of total gross investments in finance leases as at 31 December 2020, as compared to 49.2% and 48.3% as at 31 December 2019 and 2018, respectively.

The increase in leases to SMEs in the year ended 31 December 2020 was primarily due to DBK and IDF JSC's participation in Government programmes aimed at providing support to SMEs, in particular, IDF JSC's involvement in the “Business Road Map 2020” Programme. See “*Business—Participation in Government Programmes*”.

Finance Lease Receivables by Maturity

The following table sets forth an analysis of DBK's finance lease receivables, by maturity, as at 31 December 2020, 2019 and 2018:

	As at 31 December					
	2020		2019		2018	
	<i>(KZT millions)</i>	<i>(%)</i>	<i>(KZT millions)</i>	<i>(%)</i>	<i>(KZT millions)</i>	<i>(%)</i>
Less than one month	4,728.2	1.4	1,394.0	0.7	842.2	0.7
One month to three months	6,454.7	2.0	3,937.7	2.1	3,158.6	2.8
Three months to one year	43,286.9	13.3	18,120.1	9.5	11,776.3	10.4
One year to five years	155,320.1	47.6	72,628.5	38.2	43,706.4	38.6
More than five years	112,095.5	34.3	93,315.3	49.0	53,065.6	46.8
Overdue	4,654.5	1.4	944.7	0.5	774.5	0.7
Total finance lease receivables	326,539.9	100.0	190,340.3	100.0	113,323.5	100.0

As at 31 December 2020, 34.3% of total finance lease receivables had more than five years remaining until contractual maturity, as compared to 49.0% and 46.8% of total finance lease receivables as at 31 December 2019 and 2018, respectively, in line with the long-term nature of IDF JSC's lease-financing portfolio and, in turn, DBK's role as a development bank.

Analysis of Finance Lease Receivables by Credit Quality

The following tables set forth information on the credit quality of the finance lease portfolio as at 31 December 2020, 2019 and 2018:

As at 31 December 2020					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL for credit unimpaired assets	Stage 3 Lifetime ECL for credit impaired assets	At FVPL (embedded Financial Derivative)	Total
(KZT millions)					
Leases to large corporates					
- not overdue	124,963.5	4,021.7	11,596.3	1,867.6	142,449.1
- overdue 90-360 days	—	334.7	—	—	334.7
Gross leases to large corporates	124,963.5	4,356.4	11,596.3	1,867.6	142,783.8
Loss allowance	(1,056.9)	(117.4)	(6,702.9)	—	(7,877.2)
Total leases to large corporates	123,906.6	4,239.0	4,893.4	1,867.6	134,906.6
Leases to small and medium-sized companies					
- not overdue	137,050.9	19,766.7	1,161.5	750.1	158,729.2
- overdue up to 30 days	4,310.9	8.6	38.9	—	4,358.3
- overdue 30-89 days	174.6	3,056.4	11.3	—	3,242.3
- overdue 90-360 days	—	30,203.2	4,872.4	—	35,075.6
- overdue more than 360 days	—	—	2,878.4	—	2,878.4
Gross leases to small and medium sized companies	141,536.4	53,034.8	8,962.5	750.1	204,283.8
Loss allowance	(3,948.5)	(4,805.2)	(3,896.9)	—	(12,650.6)
Total leases to small and medium sized companies	137,587.9	48,229.6	5,065.6	750.1	191,633.2
Total finance leases	261,494.5	52,468.6	9,959.0	2,617.8	326,539.9
As at 31 December 2019					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL for credit unimpaired assets	Stage 3 Lifetime ECL for credit impaired assets	At FVPL (embedded Financial Derivative)	Total
(KZT millions)					
Leases to large corporates					
- not overdue	86,943.0	—	—	5,504.6	92,447.7
- overdue up to 30 days	—	—	11,316.3	—	11,316.3
- overdue more than 360 days	—	—	1,079.8	—	1,079.8
Gross leases to large corporates	86,943.0	—	12,396.1	5,504.6	104,843.7
Loss allowance	(687.2)	—	(6,624.8)	—	(7,311.9)
Total leases to large corporates	86,255.9	—	5,771.3	5,504.6	97,531.8
Leases to small and medium-sized companies					
- not overdue	74,030.7	7,646.8	3,963.2	1,147.3	86,788.0
- overdue up to 30 days	4,291.3	—	2,851.2	—	7,142.5
- overdue 30-89 days	4.9	1,439.2	261.0	—	1,705.1
- overdue 90-360 days	—	—	1,073.6	—	1,073.6
- overdue more than 360 days	—	—	687.0	—	687.0
Gross leases to small and medium sized companies	78,326.9	9,086.0	8,835.9	1,147.3	97,396.1
Loss allowance	(2,015.6)	(74.6)	(2,497.3)	—	(4,587.5)
Total leases to small and medium sized companies	76,311.3	9,011.4	6,338.6	1,147.3	92,808.5
Total finance leases	162,567.1	9,011.4	12,109.9	6,651.9	190,340.3

As at 31 December 2018					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL for credit unimpaired assets	Stage 3 Lifetime ECL for credit impaired assets	At FVPL (embedded Financial Derivative)	Total
(KZT millions)					
Leases to large corporates					
- not overdue	49,722.7	—	11,195.6	3,663.2	64,581.5
- overdue 90-360 days	—	—	69.8	—	69.8
- overdue more than 360 days	—	—	1,783.8	—	1,783.8
Gross leases to large corporates	49,722.7	—	13,049.2	3,663.2	66,435.1
Loss allowance	(1,264.8)	—	(6,901.2)	—	(8,166.0)
Total leases to large corporates	48,457.9	—	6,147.9	3,663.2	58,269.0
Leases to small and medium-sized companies					
- not overdue	50,713.7	1,322.8	1,992.7	171.0	54,200.2
- overdue less than 30 days	1,74.7	3.6	43.0	—	221.2
- overdue 30-89 days	—	482.4	1,909.7	—	2,392.1
- overdue 90-360 days	—	—	1,977.2	—	1,977.2
Gross leases to small and medium sized companies	50,888.4	1,808.7	5,922.5	171.0	58,790.6
Loss allowance	(1,702.0)	(135.6)	(1,898.7)	—	(3,736.2)
Total leases to small and medium sized companies	49,186.4	1,673.1	4,023.9	171.0	55,054.4
Total finance leases	97,644.3	1,673.1	10,171.8	3,834.2	113,323.5

As at 31 December 2020, impairment as a percentage of total gross finance leases was 5.9%, as compared to 5.9% and 9.5% as at 31 December 2019 and 2018, respectively.

Debt securities measured at fair value through other comprehensive income (“FVOCI”)

DBK’s portfolio of debt securities measured at fair value through other comprehensive income consists of bonds and bills held by DBK and IDF JSC comprised of, *inter alia*, bonds issued by corporates, Government entities and local authorities, banks and other credit institutions and treasury bills of the Treasury Department of the Ministry of Finance of Kazakhstan.

Debt securities measured at FVOCI by Type

The following table sets forth the composition of DBK’s investment portfolio of debt securities measured at fair value through other comprehensive income, by type, as at 31 December 2020, 2019 and 2018:

	As at 31 December					
	2020		2019		2018	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Debt securities measured at FVOCI						
Debt securities of government bodies of other countries	177,507.9	90.3	138,633.2	64.8	16,734.9	7.5
Bonds of Kazakhstan banks	10,945.4	5.6	10,307.2	4.8	12,355.2	5.5
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	5,476.0	2.8	6,656.1	3.1	133,236.1	59.5
Corporate bonds of non-resident issuers	2,682.8	1.3	7,940.2	3.7	—	—
Bonds of the Sovereign Wealth Fund «Samruk-Kazyna» JSC	—	—	23,791.3	11.1	22,588.4	10.1
Corporate bonds of Kazakhstan issuers	—	—	26,465.5	12.5	8,663.4	3.9
Notes of NBK	—	—	—	—	948.4	0.4
Bonds of Kazakhstan credit institutions other than banks	—	—	—	—	21,450.1	9.6
Bonds of CIS-based financial institutions	—	—	—	—	7,762.6	3.5
Total	196,612.1	100.0	213,793.5	100.0	223,739.0	100.0

Debt securities measured at FVOCI held by DBK decreased by KZT 17,181.4 million, or 8%, to KZT 196,612.1 million as at 31 December 2020, as compared to KZT 213,793.5 million as at 31 December 2019, having decreased by KZT 9,945.5 million, or 4.4%, from KZT 223,739.0 million as at 31 December 2018. This decrease in 2020 was primarily due to the sale

of corporate bonds of Kazakhstan issuers (in an amount of KZT 26,465.5 million) and the sale of bonds of the Samruk-Kazyna (in an amount of KZT 23,791.3 million). This decrease in 2019 was primarily due to the sale of treasury bills issued by the Ministry of Finance of Kazakhstan and sale of notes issued by NBK (in an amount of KZT 117.5 million), partially offset by the purchase of debt securities of government bodies of other countries.

Debt securities measured at FVOCI by Maturity

The following table sets forth an analysis of DBK's investment portfolio of debt securities measured at fair value through other comprehensive income, by maturity, as at 31 December 2020, 2019 and 2018:

	As at 31 December					
	2020		2019		2018	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Less than one month	10,945.4	5.6	—	—	6,283.5	2.8
One month to three months	—	—	—	—	—	—
Three months to one year	44.2	0.0	25,063.2	11.7	2,581.6	1.2
One year to five years	3,525.3	1.8	19,923.0	9.3	70,357.5	31.4
More than five years	182,097.2	92.6	168,807.3	79.0	144,516.4	64.6
Total FVOCI-debt securities	196,612.1	100.0	213,793.5	100.0	223,739.0	100.0

As at 31 December 2020, 1.8% of total debt securities measured at FVOCI had between one and five years until maturity, as compared to 9.3% as at 31 December 2019 and 31.4% as at 31 December 2018. The decrease in the proportion of debt securities measures at FVOCI with a maturity of between one and five years as at 31 December 2020, as compared to previous years, was primarily due to the sale and redemption of debt securities with maturities of more than five years.

As at 31 December 2020, 92.6% of total debt securities measured at FVOCI had more than five years until maturity, as compared to 79.0% as at 31 December 2019 and 64.6% as at 31 December 2018. The increase in the proportion of debt securities measures at FVOCI with a maturity of more than five years as at 31 December 2020, as compared to previous years, was primarily due to the purchase of debt securities with maturities of more than five years.

Debt securities measured at FVOCI by Credit Rating

The following table sets forth information on the credit rating of DBK's debt securities measured at fair value through other comprehensive income as at 31 December 2020, 2019 and 2018:

	As at 31 December					
	2020		2019		2018	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Rated AA- to AA+	38,446.1	19.6	87,835.7	41.1	6,110.3	2.7
Rated A- to A+	67,710.2	34.4	17,752.0	8.3	—	—
Rated BBB- to BBB+	72,726.7	37.0	37,678.4	17.6	163,732.3	73.2
Rated from BB- to BB+	17,729.1	9.0	67,628.7	31.6	50,093.2	22.4
Rated from B- to B+	—	—	2,898.8	1.4	3,803.2	1.7
Total available-for-sale financial assets...	196,612.1	100.0	213,793.5	100.0	223,739.0	100.0

Note:

(1) Ratings as reported by Reuters

As at 31 December 2020, 37.0% of total debt securities measured at FVOCI had a rating of BBB- to BBB+, as compared to 17.6% as at 31 December 2019 and 73.2% as at 31 December 2018. The increase in the proportion of debt securities measures at FVOCI with a rating of BBB- to BBB+ as at 31 December 2020, as compared to as at 31 December 2019, was primarily due to the purchase of such securities.

As at 31 December 2020, 9.0% of total debt securities measured at FVOCI had a rating of BB- to BB+, as compared to 31.6% as at 31 December 2019 and 22.4% as at 31 December 2018. The decrease in the proportion of debt securities measures at FVOCI with a rating of BB- to BB+ as at 31 December 2020, as compared to as at 31 December 2019, was primarily due to the sale and redemption of a portion of the portfolio of such securities.

Derivative Financial Instruments

DBK enters into derivatives transactions, most commonly swap agreements and other types of over-the-counter transactions with broker-dealers or other financial institutions, for hedging purposes and not speculative purposes. The Risk Management Department monitors risks associated with derivatives, particularly market risks, and derivative instruments (other than such instruments qualifying for hedge accounting) are periodically marked-to-market to reflect their realisable values. According to DBK's existing policy, some of DBK's derivative instruments qualify for hedge accounting, either through fair value or cash flow hedges. See Notes 17 and 22 to the 2020 Annual Financial Statements and Notes 17 and 23 to the 2019 Annual Financial Statements See also "*Presentation of Financial and Other Data*".

As at 31 December 2020, derivative financial instruments increased by KZT 1,328.5 million, or 13.1%, to KZT 11,489.2 million from KZT 10,160.7 million as at 31 December 2019. This increase was mainly due to changes in currency rates and discount rates used in the valuation of such assets.

As at 31 December 2019, derivative financial instruments decreased by KZT 1,060.9 million, or 11.7%, to KZT 10,160.7 million from KZT 9,099.8 million as at 31 December 2018. This increase was mainly due to changes in currency rates and discount rates used in the valuation of such assets.

Principal Sources of Funding

DBK's activities are funded through the issuance and placement of bonds, in both the domestic and international capital markets, and through loans from the Government of the Republic of Kazakhstan, loans from Samruk-Kazyna and Baiterek JSC, loans from banks and other financial institutions, Government grants and current accounts and deposits from customers and financial institutions, including subsidiaries of Baiterek JSC.

DBK may take inter-bank deposits and open and maintain correspondent accounts for the purpose of managing its liquidity.

The following table sets forth DBK's principal external sources of funding (*i.e.*, other than capital) as at 31 December 2020, 2019 and 2018:

	As at 31 December					
	2020		2019		2018	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Current accounts and deposits from customers	15,793.7	0.6	17,236.3	0.8	19,325.7	0.9
Loans from the Government of the Republic of Kazakhstan and SWF "Samruk-Kazyna"	27,966.9	1.1	26,986.3	1.2	34,988.3	1.6
Loans and deposits from banks and other financial institutions	640,008.0	24.8	540,295.4	25.0	718,773.2	33.3
Loans from the Parent Company	227,597.0	8.8	175,229.0	8.1	121,561.9	5.6
Government grants	261,839.0	10.2	210,933.4	9.8	175,264.8	8.1
Debt securities issued, of which:	1,241,012.7	48.2	1,051,544.3	48.6	946,066.1	43.8
Eurobonds denominated in U.S.\$.....	573,035.3	—	559,124.7	—	561,477.6	—
Eurobonds denominated in KZT.....	162,500.0	—	200,000.0	—	200,000.0	—
Local Bonds	543,042.0	—	312,492.0	—	194,008.0	—
Subordinated debt.....	111,163.0	4.3	104,534.6	4.8	98,342.0	4.6
Other liabilities.....	47,741.1	1.9	27,916.5	1.3	28,858.8	1.3
Provisions.....	2,825.4	0.1	7,563.5	0.3	14,809.1	0.7
Deferred tax liabilities.....	—	—	198.4	0.0	2,584.7	0.1
Total	2,575,946.8	100.0	2,162,437.7	100.0	2,160,574.5	100.0

To diversify its funding base and to enable it to better manage its maturity profile, DBK has entered into various credit facilities as described in "*Borrowings*", established the Programme and issued various debt securities as described in "*Debt Securities*". DBK has also signed a number of framework agreements and memorandums of co-operation with Japan Bank for International Cooperation, China Export-Import Bank, Deutsche Bank, Korea Export-Import Bank, Oesterreichische Kontrollbank Aktiengesellschaft, Vnesheconombank, BNP Paribas, Sumitomo Mitsui Banking Corporation, BPI (COFACE), Bank of Tokyo Mitsubishi UFJ, China Export & Credit Insurance Corporation Sinasure, European Investment Bank and Korea Trade Insurance Corporation K-Sure, China Development, Deutsche Bank, Commerzbank, KfW IPEX-Bank GmbH and EULER HERMES A.G.

Borrowings

A major source of funding for DBK is debt securities, which accounted for 48.2%, 48.6% and 43.8% of DBK's total liabilities as at 31 December 2020, 2019 and 2018, respectively. Loans and deposits from banks and other financial institutions accounted for 24.8%, 25.0% and 33.3% of DBK's total liabilities as at 31 December 2020, 2019 and 2018, respectively. Loans from Samruk-Kazyna, from Baiterek JSC and from the Government also contribute to the funding of DBK, with loans from the Government and Samruk-Kazyna accounting for 1.1% of DBK's total liabilities as at 31 December 2020, as compared to 1.2% and 1.6%, respectively, as at 31 December 2019 and 2018, and loans from Baiterek JSC accounting for 8.8% of DBK's total liabilities as at 31 December 2020, as compared to 8.1% and 5.6%, respectively, as at 31 December 2019 and 2018.

Loans and deposits from Banks and Other Financial Institutions

The table below sets forth certain information in respect of the composition of DBK's loans and deposits from banks and other financial institutions, as at 31 December 2020, 2019 and 2018:

	As at 31 December					
	2020		2019		2018	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Loans with fixed interest rates						
Loans from OECD banks	—	—	11,088.4	2.1	15,693.9	2.2
Loans from non-OECD banks	173,962.3	27.2	176,983.9	32.8	199,072.5	27.7
Total loans with fixed interest rates	173,962.3	27.2	188,072.3	34.8	214,766.5	29.9
Loans with floating interest rates						
Loans from OECD banks	—	—	—	—	—	—
Loans from non-OECD banks	497,585.9	77.7	364,305.3	67.4	520,981.2	72.5
Total loans with floating interest rates	497,585.9	77.7	364,305.3	67.4	520,981.2	72.5
Less unamortised portion of borrowing costs	(31,540.2)	(4.9)	(12,082.2)	(2.2)	(16,974.5)	(2.4)
Net total loans from banks and other financial institutions	640,008.0	100.0	540,295.4	100.0	718,773.2	100.0

As at 31 December 2020, loans and deposits from banks and other financial institutions increased by KZT 99,712.6 million, or 18.5%, to KZT 640,008.0 million from KZT 540,295.4 million as at 31 December 2019, primarily reflecting a KZT 133,280.6 million, or 36.6%, increase in the amount of loans from non-OECD banks and other financial institutions with floating interest rates as at 31 December 2020, as compared to 31 December 2019, partially offset by a KZT 11,088.4 million, or 100%, decrease in the amount of loans from OECD banks with fixed interest rates.

The increase in loans with floating interest rates from non-OECD banks in 2020 was primarily due to drawdowns under credit lines totalling U.S.\$310 million.

As at 31 December 2019, loans from banks and other financial institutions decreased by KZT 178,477.8 million, or 24.8%, to KZT 540,295.4 million from KZT 718,773.2 million as at 31 December 2018, primarily due to a KZT 156,675.9 million, or 30.1%, decrease in loans from non-OECD banks and other financial institutions with floating interest rates.

The decrease in loans from non-OECD banks with floating interest rates in 2019 was primarily due to the partial prepayment of two loans from foreign banks in an amount of U.S.\$443.1 million. Expenses of KZT 2,712.8 million were incurred on loans from non-OECD banks as a result of this early repayment and commission and fee expenses of KZT 2,803.8 million, which were reimbursed to the borrowers under the terms and conditions of loan agreements.

DBK's principal loans from banks and other financial institutions are as follows:

Roseximbank JSC

On 15 December 2016, IDF JSC (then, DBK-Leasing) entered into an RUB 2,268 million Loan Facility Agreement with Roseximbank JSC at an interest rate of 9.0% *per annum* for the purchase of passenger wagons. The interest is paid on a quarterly basis and the principal is repaid quarterly. The loan matures on 16 December 2030. According to the signed Amendment Agreement dated 30 July 2018 the interest rate was changed from 9.0% to 7.5% *per annum*. As at 31 December 2020, the aggregate principal amount outstanding under the facility agreement was RUB 1,717 million.

On 9 November 2017, IDF JSC entered into an RUB 558 million Loan Facility Agreement with Roseximbank JSC at an interest rate of 5.75% *per annum* for the purchase of passenger wagons. The interest and principal due under the loan are paid on a

monthly basis. The loan matures on 9 November 2027. As at 31 December 2020, the aggregate principal amount outstanding under the facility agreement was RUB 425 million.

On 28 April 2018, IDF JSC entered into an RUB 455 million Loan Facility Agreement with Roseximbank JSC at an interest rate of 5.0% *per annum* for the purchase of passenger wagons. The interest and the principal due under the loan are paid on a monthly basis. The loan matures on 28 April 2025. As at 31 December 2020, the aggregate principal amount outstanding under the facility agreement was RUB 305 million.

On 25 December 2019, IDF JSC signed a RUB 327 million loan agreement with Roseximbank JSC at an interest rate of 5.0% *per annum* for the purchase of passenger cars. The interest and principal due under the loan are paid on a quarterly basis. The loan matures on 25 December 2027. As at 31 December 2020, the total outstanding principal debt under the loan agreement amounted to RUB 305 million.

Sumitomo Mitsui Banking Corporation Europe Limited

On 27 October 2015, DBK entered into a U.S.\$37.3 million loan with Sumitomo Mitsui Banking Corporation Europe Limited, to be used for general corporate purposes. U.S.\$32.3 million was drawn down on 16 May 2016. This loan was scheduled to mature on 16 November 2022 and bore interest at a rate of 2.75% *per annum*, plus LIBOR. However, the loan was fully prepaid on 14 December 2018.

On 29 December 2017, DBK entered into a Sinosure-insured U.S.\$225.0 million loan with a syndicate of banks (comprising Sumitomo Mitsui Banking Corporation Europe Limited, MUFG Bank, Ltd. (formerly known as The Bank of Tokyo-Mitsubishi UFJ, Ltd.), Deutsche Bank AG, Hong Kong Branch and Crédit Agricole Corporate and Investment Bank). The loan was scheduled to mature on 25 April 2030 and bore interest at a rate of three month LIBOR, plus 1.8%. As at 31 December 2020, the principal amount outstanding under this loan was U.S.\$214 million.

HSBC Bank plc

On 24 April 2014, DBK entered into three agreements with HSBC Bank plc: (i) a €500 million framework agreement for the purchase of certain goods and services to be supported by export credit agencies; (ii) a SACE Supported Facility Agreement relating to an agreement dated 7 March 2013 between Aktobe Rail-Beam Plant Limited Liability Partnership and Siemens S.p.A. (the “**Exporter**”); and (iii) a SACE reimbursement agreement. Loans made pursuant to the SACE Supported Facility Agreement may only be used to finance or refinance payments made or to be made by DBK to the Exporter (or an advising banks for the benefit of the Exporter) pursuant to a letter of credit, provided that the aggregate total of such payments do not exceed: (x) 85% of €81.2 million in respect of goods produced in Italy, Austria, the Czech Republic and Russia and services rendered by persons ordinarily resident in such countries; or (y) 2% of €81.2 million in respect of goods produced in the EU and services rendered by persons ordinarily resident in the EU. Under the SACE reimbursement agreement, DBK is entitled to request that SACE issue an insurance policy providing cover to HSBC Bank plc in respect of certain payments due from DBK under the SACE Supported Facility Agreement.

On 6 June 2014, DBK signed a €56.1 million credit agreement with HSBC Bank plc. Between 6 June 2014 and 18 January 2016, loans aggregating €47.7 million were drawn down under this credit agreement. The credit agreement was scheduled to mature on 5 July 2023 and bore interest at a rate of 2.85% *per annum*. However, all amounts drawn down under this loan were repaid in May 2020.

Export-Import Bank of China

On 1 August 2009, DBK entered into a master facility agreement for a period of up to 15 years with the Export-Import Bank of China permitting DBK to draw down up to U.S.\$5.0 billion (the “**China Ex-im Bank Facility**”). The China Ex-im Bank Facility is divided into restricted (U.S.\$3.5 billion) and unrestricted (U.S.\$1.5 billion) portions. The restricted portion of the China Ex-im Bank Facility is for use on projects with a Chinese component, whereas the unrestricted portion can be used for DBK’s general purposes. The China Ex-im Bank Facility agreement contains certain covenants, which, *inter alia*, prohibit DBK from creating security over its indebtedness in an amount exceeding 25% of its assets or disposing of over 25% of its assets. In addition, there is a change of control clause put option in favour of the Export-Import Bank of China.

Under the unrestricted portion of the China Ex-im Bank Facility, on 24 October 2009, DBK entered into an individual credit agreement with the Export-Import Bank of China for the amount of U.S.\$1.5 billion. This credit agreement was entered into for a period of ten years, and principal and interest under this individual credit agreement was initially payable semi-annually. On 20 January 2011, DBK prepaid a portion of the amounts outstanding under this individual credit agreement. In addition, on 9 June 2011, DBK and the Export-Import Bank of China entered into an amendment to the China Ex-im Bank Facility, which permitted DBK to draw down again, as a second tranche, the prepaid portion, subject to entering into a supplemental agreement. This amendment also modified the terms of the individual credit agreement and, as a result, since 21 July 2011,

interest applies at a fixed rate of 5.8% *per annum* (rather than a floating rate) and is payable semi-annually. Pursuant to an amendment agreement dated 19 July 2013, the interest rate was further reduced to 4% *per annum*. Principal repayments began in January 2017 and will be repaid over three years in semi-annual instalments.

On 11 June 2011, DBK entered into the supplemental loan agreement described above for the amount of U.S.\$500 million, which is provided on the same basis as the amended agreement described above. The full amount of loan agreement was prepaid voluntarily in 2019.

The restricted portion of the China Ex-im Bank Facility is aimed at the development of energy, transport and communication infrastructure and the funding of strategic projects in metallurgy, chemical and oil industries pursuant to the Kazakhstan State Commission on Modernisations of the Economy's consideration of such projects. The funds of this credit facility will be used for the realisation of investment projects of Kazakhstan companies, including particularly those exporting of industrial output, services and equipment to China.

Under the restricted portion of the China Ex-im Bank Facility, on 12 December 2009, DBK entered into an individual credit agreement with the Export-Import Bank of China for the amount of U.S.\$884 million of which U.S.\$874 million had been drawn as at 30 June 2017. This loan was granted for the purpose of providing financing for the reconstruction of the Atyrau Refinery and was amended on 19 December 2013, 8 May 2014 and 30 October 2014. This individual credit agreement matures on 21 July 2023. Principal and interest under this individual credit agreement is paid semi-annually. The loan was prepaid in full in July 2019.

In addition, in May 2010, DBK entered into a loan with the Export-Import Bank of China for the amount of U.S.\$400 million. This loan is for a period of 15 years. Under the loan agreement, principal and interest is paid semi-annually. This loan matures on 21 May 2025. The loan agreement contains certain covenants prohibiting DBK from incurring indebtedness exceeding 25% of its assets, disposing of over 25% of its assets or declaring or paying more than 50% of dividends or other income distribution whilst there is an outstanding event of default or potential event of default. The funds from this loan have been used for the aluminium smelter construction project in Pavlodar. As at 31 December 2020, the principal amount outstanding under this loan was U.S.\$191 million. See “*Business—Lending—Investment Projects—Metallurgy Sector*”.

On 22 February 2011, DBK entered into a further individual credit agreement with the Export-Import Bank of China for the amount of U.S.\$1.4 billion. No amounts have been drawn down under this individual credit agreement. This loan was granted for the purpose of financing the construction of an integrated petrochemical project. As at the date of this Base Prospectus, no amounts have been drawn down under this individual credit agreement due the termination of the engineering, procurement and construction contract in respect of the integrated petrochemical project.

On 15 October 2012, DBK entered into a U.S.\$199.5 million preferential buyer credit loan agreement with the Export-Import Bank of China to finance the construction of a deep oil refining complex in Atyrau, which was amended on 30 October 2014. This loan matures on 15 October 2025 and bears interest at a rate of 3% *per annum*. As at 31 December 2020, the aggregate principal amount outstanding under this preferential buyer credit loan agreement was U.S.\$110 million.

China Development Bank

On 27 March 2017, DBK entered into a facility agreement with China Development Bank in the principal amount of U.S.\$650 million for on-lending to customers and use in projects in sectors, including transportation, infrastructure and communication, to the mutual benefit of Kazakhstan and China. The facility agreement was subsequently amended on 28 July 2016. The facility matures on 15 June 2025 and bears interest at a rate of 2.7% *per annum* plus LIBOR. As at 31 December 2020, the aggregate principal amount outstanding under the facility agreement was U.S.\$198 million.

On 9 June 2017, DBK signed a U.S.\$607 million term facility agreement with China Development Bank for the financing of modernisation and reconstruction works at the Shymkent Oil Refinery owned by Petro Kazakhstan Oil Products LLP. The facility matures on 25 April 2030 and bears interest at a rate of 2.7% *per annum* plus three month LIBOR. In September 2017 and December 2017, DBK drew down two tranches of U.S.\$100 million each, in June 2018, DBK drew down a further U.S.\$65 million and in May 2020, DBK drew down a further U.S.\$130 million tranche under the facility agreement. As at 31 December 2020, the aggregate principal amount outstanding under the facility agreement was U.S.\$386 million.

On 6 June 2018, DBK signed a U.S.\$500 million term facility agreement with China Development Bank for on-lending to customers and to use in projects to the mutual benefit of Kazakhstan and China in certain economic sectors supported by the Government of Kazakhstan, including, but not limited to, the oil gas, chemical, mineral, electricity, transportation, infrastructure, agriculture, communication, manufacturing and industrial park sectors. The facility matures in 10 years from the draw down date under each sub-loan agreement. As at 31 December 2020, there were no amounts outstanding under the facility agreement.

On 26 April 2019, DBK signed a U.S.\$800 million term facility agreement with China Development Bank for the financing of the expansion of Aktogay MPP, a mining and processing plant. The facility matures in 2034 and bears interest at a rate of 2.2% *per annum*, plus six months LIBOR. In November 2019 and December 2019, DBK drew down two tranches of U.S.\$140 million and U.S. \$60 million, respectively, and in April 2020 and October 2020, DBK drew down further tranches of U.S.\$80 million and U.S.\$100 million, respectively, under the facility agreement. As at 31 December 2020, the aggregate principal amount outstanding under the facility agreement was U.S.\$380 million.

In September 2019, DBK signed a RMB 1,500 million term framework agreement with China Development Bank for the financing of DBK's projects. As at 31 December 2020, there were no amounts outstanding under the facility agreement.

Japan Bank for International Co-operation

On 28 December 2009, DBK entered into a loan with the Japan Bank for International Cooperation for the amount of ¥3,441.6 million. This loan matures on 21 December 2019. Under the loan agreement, interest and principal is paid semi-annually. The loan contains covenants requiring DBK, *inter alia*, not to dispose of more than 10% of its assets and to maintain a net worth of not less than KZT 41.7 billion. This loan was repaid in full in December 2019.

Baiterek Development JSC Loan

On 2 November 2009, DBK entered into a loan with Baiterek Development JSC (formerly known as the Distressed Assets Fund), a state-owned company, for KZT 20,000 million. This loan bears interest at a concessional rate of 1% *per annum* and matures on 24 November 2024. Under the credit agreement, interest is paid semi-annually and principal is repaid in full at maturity.

This loan was provided in order to finance the restructuring of loans of troubled borrowers under certain conditions in the manufacturing sector with the aim of reducing the burden on the real sector of the national economy as a result of the impact of the global financial crisis on Kazakhstan and the impact of the problems within the domestic financial sector. See "*The Banking Sector in Kazakhstan*". As at 31 December 2020, the principal amount outstanding under this loan was KZT 20 billion.

Loans and Deposits from Banks and Other Financial Institutions by Maturity

The following table sets forth an analysis of DBK's loans and deposits from banks and other financial institutions, by maturity, as at 31 December 2020, 2019 and 2018:

	As at 31 December		
	2020	2019	2018
	(KZT millions)		
Less than one month	74.0	83.6	77.1
One month to three months	1,729.9	148.4	261.6
Three months to one year	2,449.0	1,420.4	2,851.1
One year to five years	242,446.8	39,576.5	199,518.4
More than five years	393,308.2	499,066.6	516,064.9
Loans from banks and other financial institutions.....	640,008.0	540,295.4	718,773.2

As at 31 December 2020, 61.5% of total loans and deposits from banks and other financial institutions had over five years remaining until contractual maturity, as compared to 92.4% and 71.8% of total loans and deposits from banks and other financial institutions as at 31 December 2019 and 2018, respectively.

Government and Samruk-Kazyna Loans

Pursuant to the DBK Law, DBK may, from time-to-time, borrow certain funds from the Government and Samruk-Kazyna in line with its role as a development bank for the purpose of on-lending funds to its corporate customers subject to the requirements, priority economic sectors and objectives set out in the Credit Policy Memorandum and the DBK Law.

DBK uses proceeds from Government and Samruk-Kazyna loans to help to develop economic sectors by providing financing at interest rates comparable to those provided by similar development institutions. As at 31 December 2020, Government and Samruk-Kazyna loans consisted of long-term loans at concessional rates granted by the Government as part of a Government programme to support certain industries, including, in particular, the textile, gas processing and chemicals industries. The concessional rates of interest on the Government loans range from 0.2% to 0.6%. The funds from such loans were used by DBK to provide loans to projects in priority sectors of the economy, including the petrochemical, metallurgy, agriculture, transport and logistics sectors, at below market rates in furtherance of DBK's role as a development bank.

Government and Samruk-Kazyna Loans by Type

The table below sets forth an analysis of the loans and advances from the Government, by type, as at 31 December 2020, 2019 and 2018:

	As at 31 December		
	2020	2019	2018
	(KZT millions)		
Loans from the Government	—	—	8,936.0
Loans from Samruk-Kazyna	27,966.9	26,986.3	26,052.2
Total Government and Samruk-Kazyna loans	27,966.9	26,986.3	34,988.3

Loans from the Government and Samruk-Kazyna increased by KZT 980.6 million, or 3.6%, to KZT 27,966.9 million as at 31 December 2020 from KZT 26,986.3 million, as at 31 December 2019, having decreased by KZT 8,002.0 million, or 22.9%, from KZT 34,988.3 million, as at 31 December 2018.

As at 31 December 2020, 2019 and 2018, the loans from Samruk-Kazyna comprised long-term loans granted from the State budget to support certain industries, including textile, gas processing and chemicals. As at 31 December 2020 and 2019, DBK had no loans from the Government.

See Note 26 to 2020 Annual Financial Statements and Note 25 to the 2019 Annual Financial Statements.

Government and Samruk-Kazyna Loans by Maturity

The following table sets forth an analysis of DBK's loans from the Government and Samruk-Kazyna, by maturity, as at 31 December 2020, 2019 and 2018:

	As at 31 December		
	2020	2019	2018
	(KZT millions)		
Less than one month	—	—	—
Three months to one year	12,307.0	—	4,600.9
One year to five years	13,459.1	24,606.1	27,837.7
More than five years	2,200.8	2,380.2	2,549.6
Total Government loans	27,966.9	26,986.3	34,988.3

As at 31 December 2020, 7.9% of total loans from the Government and Samruk-Kazyna had over five years remaining until contractual maturity, as compared to 8.8% and 7.3% of total loans from the Government and Samruk-Kazyna, as at 31 December 2019 and 2018, respectively. The average tenor of loans from the Government, in general, reflects the fact that DBK has been participating in long-term projects.

Loans from Parent Company

DBK provides financing under a number of Government programmes and initiatives, including the Industrialisation Programme, the Infrastructure Development Programme and the Uniform Programme of Business Development and Support, using funds borrowed from Baiterek JSC.

As at 31 December 2020, loans from Baiterek JSC increased by KZT 52,368.0 million, or 29.9%, to KZT 227,597.0 million from KZT 175,229.0 million as at 31 December 2019, having increased by KZT 53,667.1 million, or 44.1%, from loans of KZT 121,561.9 million as at 31 December 2018.

In April 2019, DBK received a loan of KZT 10,000.0 million at an interest rate of 0.15% *per annum*, which matures on 12 April 2037, to be used for on-lending to individuals for the purchase of cars manufactured in Kazakhstan and for the provision of lease financing for motor vehicles and special purpose automotive equipment (other than agricultural equipment produced in Kazakhstan).

In June 2019, DBK received a loan of KZT 14,000.0 million at an interest rate of 0.15% *per annum*, which matures on 14 April 2027, to be used for on-lending to IDF JSC at an interest rate of 0.2% *per annum* for a period of eight years.

In July 2019, DBK received a loan of KZT 23,546.0 million at an interest rate of 0.15% *per annum*, which matures on 3 June 2029, to be used for financing the Saryarka gas main pipeline project.

In July 2019, DBK received a loan of KZT 11,259.0 million at an interest rate of 0.08% *per annum*, which matures on 21 July 2039, to be used for on-lending to IDF JSC at an interest rate of 0.1% *per annum* for a period of 20 years.

In September 2019, DBK received a loan of KZT 11,000.0 million at an interest rate of 0.15% *per annum*, which matures on 18 August 2038, to be used for financing projects under the Industrialisation Programme.

In December 2019, DBK received a loan of KZT 18,741.0 million at an interest rate of 0.08% *per annum*, which matures on 29 November 2039, to be used for financing projects under the Industrialisation Programme and to provide financing to Passazhirskiy Perevozki JSC for the renewal of its passenger car fleet.

In December 2019, DBK received a loan of KZT 6,000.0 million at an interest rate of 0.15% *per annum*, which matures on 27 November 2027, to be used for on-lending to individuals for the purchase of cars manufactured in Kazakhstan and for the provision of lease financing for motor vehicles and special purpose automotive equipment (other than agricultural equipment produced in Kazakhstan).

In April 2020, DBK received a loan of KZT 20,000.0 million at an interest rate of 0.08% *per annum*, which matures on 15 April 2040, to be used for financing projects under the Industrialisation Programme and to provide financing to Passazhirskiy Perevozki JSC for the renewal of its passenger car fleet.

In June 2020, DBK received a loan of KZT 10,000.0 million at an interest rate of 0.15% *per annum*, which matures on 1 June 2035, to be used for financing projects under the Industrialisation Programme, to provide lease financing under the bus fleet renewal programme.

In October 2020, DBK received a loan of KZT 30,000.0 million at an interest rate of 0.15% *per annum*, which matures on 17 September 2040, to be used to support export financing.

In December 2020, DBK received a loan of KZT 20,000.0 million at an interest rate of 0.08% *per annum*, which matures on 3 December 2040, to be used for financing the renewal of the passenger car fleet.

In December 2020, DBK received a loan of KZT 13,700.0 million at an interest rate of 0.15% *per annum*, which matures on 2 December 2035, to be used for financing bus purchases under finance lease agreements.

In December 2020, DBK received a loan of KZT 22,500.0 million at an interest rate of 0.15% *per annum*, which matures on 3 December 2027, to be used for financing projects under the Industrialisation Programme.

In February 2021, DBK received a loan of KZT 10,000.0 million at an interest rate of 0.15% *per annum*, which matures on 23 January 2041, to be used for financing the “Keruyen-Saray” tourist project.

Government Grants

As at 31 December 2020, Government grants decreased by KZT 50,905.6 million, or 24.1%, to KZT 261,839.0 million from KZT 210,933.4 million as at 31 December 2019, having increased by KZT 35,668.6 million, or 20.4%, from KZT 175,264.8 million as at 31 December 2018.

As at 31 December 2020, the amount of Government grants recorded comprises the amount of benefits received as a result of the concessional interest rate as compared to the market interest rate, which difference is recognised as income, on the loans received from Baiterek JSC, Baiterek Development JSC and Samruk-Kazyna. Government grants are required to be repaid. See “*Management’s Discussion and Analysis of Results of Operation and Financial Condition—Critical Accounting Policies—Government grants*”, Note 26 to the 2020 Annual Financial Statements and Note 28 to the 2019 Annual Financial Statements.

Debt Securities

As at 31 December 2020, debt securities issued increased by KZT 189,468.4 million, or 18.0%, to KZT 1,241,012.7 million from KZT 1,051,544.3 million as at 31 December 2019, as a result of the KZT 230,550.0 million, or 73.8%, increase in the issue of Tenge-denominated bonds in 2020, having increased by KZT 105,478.2 million, or 11.1%, from KZT 946,066.1 million as at 31 December 2018.

In October 2002, DBK established the Programme and, as at the date of this Base Prospectus, has issued eight series of Notes thereunder, as follows:

- U.S.\$100 million 7.125% Notes due 2007 in October 2002, which were repaid in accordance with their terms on their maturity date (“**Series 1**”);
- U.S.\$100 million 7.375% Notes due November 2013, in November 2003, which were repaid in accordance with their terms on their maturity date (“**Series 2**”);
- U.S.\$100 million 6.5% Notes due 2020, in May 2005), which were repaid in accordance with their terms on their maturity date (“**Series 3**”);
- U.S.\$150 million 6.0% Notes due 2026, in March 2006 (“**Series 4**”);
- U.S.\$500 million 5.5% Notes due 2015, in December 2010, which were repaid in accordance with their terms on their maturity date (“**Series 5**”);
- U.S.\$277 million 5.5% Notes due 2015, in February 2011 (which were consolidated to form a single series with Series 5), which were repaid in accordance with their terms on their maturity date;
- U.S.\$1 billion 4.125% Notes due 2022, in November 2012 (“**Series 6**”); and
- U.S.\$425 million 4.125% Notes due 2022 (which were consolidated to form a single series with Series 6) in February 2013;
- KZT 100 billion 9.5% Notes due 2020 in December 2017, which were repaid in accordance with their terms on their maturity date (“**Series 7**”);
- KZT 100 billion 8.95% Notes due 2023 in May 2018 (“**Series 8**”); and
- KZT 62.5 billion 10.75% Notes due 2025 in February 2020 (“**Series 9**”).

The Series 1, Series 2, Series 3 and Series 4 Eurobonds were, and the Series 4 Eurobonds remain, listed on the Luxembourg Stock Exchange and on the KASE. The Series 5, Series 6, Series 7, Series 8 and Series 9 Eurobonds are listed on the London Stock Exchange and on the KASE.

DBK has conducted a number of liability management exercises to repurchase and exchange Eurobonds issued under the Programme. On 10 December 2012, DBK used a portion of the proceeds of the Series 6 Eurobonds to redeem the Series 5 Eurobonds through an intermediated exchange offer.

The outstanding series of Eurobonds contain covenants requiring DBK, *inter alia*, to: (i) not create, incur, assume or permit to arise or subsist any security interest (subject to certain exceptions); (ii) comply with the DBK Law and the Credit Policy Memorandum; (iii) comply with the regulations and requirements of the regulator; and (iv) not pay or cause to be paid any dividends in cash or otherwise, or make any other distributions (whether by way of redemption, acquisition or otherwise), in respect of its share capital more than once a year, in an amount exceeding 50% of DBK’s profit or where an event of default or potential event of default exists under the Eurobonds.

Since 1 January 2018, DBK has issued Tenge-denominated bonds in the Kazakhstan market on the following terms:

- In June 2019, DBK issued Tenge-denominated bonds in an aggregate principal amount of KZT 27.5 billion, which bear interest at a rate of 10.0% *per annum* and mature on 18 June 2026;
- in July 2019, DBK issued Tenge-denominated bonds in an aggregate principal amount of KZT 41.0 billion, which bear interest at a rate of 10.27% *per annum* and mature on 16 July 2024;
- in October 2019, DBK issued Tenge-denominated bonds in an aggregate principal amount of KZT 20.0 billion, which bear interest at a rate of 0.15% *per annum* and mature on 7 October 2039;
- in December 2019, DBK issued Tenge-denominated bonds in an aggregate principal amount of KZT 30.0 billion, which bear interest at a rate of 11.0% *per annum* and mature on 3 December 2029;

- in May 2020, DBK issued Tenge-denominated bonds in an aggregate principal amount of KZT 20.0 billion, which bear interest at a rate of 0.15% *per annum* and mature on 14 May 2040;
- in June 2020, DBK issued Tenge-denominated bonds in an aggregate principal amount of KZT 10.6 billion, which bear interest at a rate of 11.0% *per annum* and mature on 18 June 2030;
- in November 2020, DBK issued Tenge-denominated bonds in an aggregate principal amount of KZT 50.0 billion, which bear interest at a rate of 11.8% *per annum* and mature on 11 November 2030;
- in December 2020, DBK issued Tenge-denominated bonds in an aggregate principal amount of KZT 50.0 billion, which bear interest at a rate of 11.8% *per annum* and mature on 9 December 2027; and
- in December 2020, DBK issued Tenge-denominated bonds in an aggregate principal amount of KZT 50.0 billion, which bear interest at a rate of 11.8% *per annum* and mature on 9 December 2030.

DBK has also conducted a number of repurchase transactions in respect of its Tenge-denominated Eurobonds.

The following table sets forth certain information regarding the estimated scheduled maturities and interest payments of DBK's debt securities as at 31 December 2020:

Due Date	Interest Payments Due⁽¹⁾ (KZT billions)	Principal Amount Due⁽¹⁾ (KZT billions)
31 December 2021	93	—
31 December 2022	92	552
31 December 2023	64	100
31 December 2024	58	91
31 December 2025	48	113
31 December 2026	31	151
31 December 2027	22	50
31 December 2028	16	9
31 December 2029	11	30
31 December 2030-2061	19	133

Note:

(1) Amounts due within 12 months of the relevant reporting date.

Subordinated Debt

As at 31 December 2020, subordinated debt issued increased by KZT 6,628.4 million, or 6.3%, to KZT 111,163.0 million from KZT 104,534.6 million as at 31 December 2019, having increased by KZT 6,192.6 million, or 6.3%, from KZT 98,342.0 million as at 31 December 2018. The increases in subordinated debt since 2018 are primarily due to discounted amortisation of subordinated debt during this period.

Current accounts and deposits from customers

DBK generally does not accept deposits except in limited circumstances for certain customers and finance institutions. Accordingly, DBK does not depend on deposits as a source of funding, and changes in current account and deposit balances are not indicative of DBK's levels of funding or ability to lend.

Current accounts and deposits for customers are also a limited source of funding, accounting for 0.6%, 0.8% and 0.9% of total liabilities as 31 December 2020, 2019 and 2018, respectively. See "*Principal Sources of Funding*".

Total current accounts and deposits from customers decreased by KZT 1,442.6 million, or 8.4%, to KZT 15,793.7 million as at 31 December 2020 from KZT 17,236.3 million as at 31 December 2019, having decreased in 2019 by KZT 2,089.4 million, or 10.8%, from KZT 19,325.7 million as at 31 December 2018.

Total current accounts and deposits from customers decreased in 2020 primarily due to the decrease in current account and demand deposits, from KZT 2,590.5 million as at 31 December 2019 to KZT 763.5 million as at 31 December 2020.

Total current accounts and deposits from customers decreased in 2019 primarily due to the decrease in deposits used as collateral for loans to customers, from KZT 9,281.9 million as at 31 December 2018 to KZT 2,604.7 million as at 31 December 2019.

Current Accounts and Deposits from Customers by Type

The following table sets forth a breakdown of DBK's current accounts and deposits from customers, by type, as at 31 December 2020, 2019 and 2018:

	As at 31 December					
	2020		2019		2018	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Term deposits from customers	10,225.0	64.7	10,225.0	59.3	8,813.2	45.6
Deposits used as collateral for loans issued to customers ..	2,807.2	17.8	2,604.7	15.1	9,281.9	48.0
Current accounts and demand deposits.....	763.5	4.8	2,590.5	15.0	1,230.6	6.4
Deposits pledged as collateral	1,998.0	12.7	1,816.1	10.5	—	—
Total current accounts and deposits from customers ..	15,793.7	100.0	17,236.3	100.0	19,325.7	100.0

Current Accounts and Deposits from Customers by Currency

The following table sets forth a breakdown of DBK's current accounts and deposits from customers, by currency, as at 31 December 2020, 2019 and 2018:

	As at 31 December					
	2020		2019		2018	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Tenge	11,073.5	70.1	11,143.5	64.7	10,225.1	52.9
U.S. Dollars.....	4,720.3	29.9	4,291.8	24.9	9,055.3	46.9
Euros	0.0	0.0	1,801.0	10.4	45.2	0.2
Other currencies	—	—	—	—	—	—
Total current accounts and deposits from customers ...	15,793.7	100.0	17,236.3	100.0	19,325.7	100.0

Current Accounts and Deposits from Customers by Maturity

The following table sets forth an analysis of DBK's current accounts and deposits from customers, by maturity, as at 31 December 2020, 2019 and 2018:

	As at 31 December					
	2020		2019		2018	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
On demand and less than one month.....	763.5	4.8	2,590.5	15.0	1,230.6	6.4
Three to six months.....	—	—	—	—	2,447.5	12.7
Six months to 12 months.....	2,263.3	14.3	295.7	1.7	289.8	1.5
More than one year	12,766.9	80.8	14,350.1	83.3	15,327.8	79.4
Total current accounts and deposits from customers⁽¹⁾	15,793.7	100.0	17,236.3	100.0	19,325.7	100.0

Note:

(1) Carrying amount.

As at 31 December 2020, 31 December 2019 and 31 December 2018, DBK's balance of current accounts and deposits from customers was principally comprised of current accounts and deposits from customers with a maturity of more than one year, which accounted for 80.8%, 83.3% and 79.4% of total current accounts and deposits from customers, respectively.

The decrease in current accounts and deposits from customers with a maturity of less than one year as at 31 December 2020 and 31 December 2019, as compared to as at 31 December 2018, was primarily due to movements in customer accounts.

Equity and Capital Adequacy Ratios

As at 31 December 2020, DBK had share capital of KZT 503,667.5 million, consisting of 2,109,270 ordinary shares, all of which are fully paid.

As at 31 December 2020, DBK's total equity increased by KZT 83,655.3 million, or 19.5%, to KZT 512,033.1 million, as compared to KZT 428,377.8 million as at 31 December 2019, having increased by KZT 52,343.5 million, or 13.9%, to KZT 428,377.8 million, as compared to KZT 376,034.3 million as at 31 December 2018. The year-on-year increases in total equity were primarily due to increases in share capital during the year and increased net profit year-on-year.

As at the date of this Base Prospectus, DBK is not subject to the regulator's rules on capital adequacy ratios. DBK's capital adequacy ratio is calculated as the ratio of DBK's consolidated equity capital to its risk-weighted assets, calculated in accordance with requirements approved by the Resolution of the Government № 250 adopted on 22 April 2015, which corresponds to Basel II principles. As at 31 December 2020, DBK had a Basel II capital adequacy ratio of 20.15%, as compared to 20.53% and 18.76% as at 31 December 2019 and 2018, respectively. DBK had a tier 1 ratio of 15.88% as at 31 December 2020, as compared to 16.17% and 15.17% as at 31 December 2019 and 2018, respectively. DBK believes that it has sufficient capital adequacy to withstand any credit losses, which may reasonably be expected to arise in the foreseeable future.

Return on Average Assets and Return on Average Equity

DBK had a positive return on average assets of 0.8% for the year ended 31 December 2020, as compared to a positive return of 0.4% for the year ended 31 December 2019 and a positive return of 0.1% for the year ended 31 December 2018. The positive return on average assets in 2020 was due to net profit in the amount of KZT 22,369.8 million. The increase in return on average assets in the year ended 31 December 2019 was primarily due to an increase in net profit and an increase in the size of total assets compared to 31 December 2018, which was, in turn, due to an increase in net interest income. Pre-provision return levels on average assets were 1.9% for the year ended 31 December 2020, as compared to 1.4% and 1.0% for the years ended 31 December 2019 and 2018, respectively.

DBK had a positive return on average equity of 4.8% for the year ended 31 December 2020, as compared to a positive return of 2.7% for the year ended 31 December 2019 and a positive return of 0.8% for the year ended 31 December 2018. The positive return on average equity for the year ended 31 December 2020 was due to net profit in the amount of KZT 22,369.8 million. The increase in positive return for the year ended 31 December 2019, as compared to the year ended 31 December 2018, was primarily due to an increased net profit for the year.

DBK calculates its return on average assets as the ratio of net profit/(loss) for the period to the average of the opening and closing asset balances for the period. DBK calculates its return on average equity as the ratio of net profit/(loss) for the period to the average of the opening and closing equity balances for the period. DBK calculates its pre-provision return levels on average assets as the ratio of net profit/(loss) for the period less recovery of/(charge for) impairment losses to the average of the opening and closing asset balances for the period.

ASSET AND LIABILITY MANAGEMENT

General

DBK's operations are subject to a variety of risks, some of which are not within its control. These include risks relating to changes in interest rates and foreign exchange rates, declines in liquidity and deterioration in the credit quality of its loan and securities portfolios. DBK monitors and manages the maturities of its loans, interest rate exposure, exchange rate exposure and credit quality in order to minimise the effect of any changes on DBK's profitability and liquidity position. See "*Risk Factors*".

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures, as well as approving significantly large exposures. The Board of Directors has established the Risk Management Committee to assist in supervising DBK's risk management systems.

The Management Board is responsible for monitoring and implementing risk mitigation measures and ensuring that DBK and its subsidiaries operate within established risk parameters. The Head of the Risk Management Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principals and methods for identifying, measuring, managing and reporting both financial and non-financial risks.

The Risk Management Department has adopted internal risk management regulations based on international standards and is responsible for ensuring that levels of risk are controlled in accordance with these regulations. The Risk Management Department is also responsible for identifying and monitoring risks on an on-going basis. The Head of the Risk Management Department reports directly to the Chairman Management Board, which, in turn, reports to the Board of Directors.

DBK has established the ALMC, the Credit Committee and the Investment Committee, which are responsible for implementing and monitoring DBK's risk policies, including in respect of liquidity, credit and market risks. The basic credit policy of DBK is set out and governed by the Credit Policy Memorandum, which provides for a multi-stage system of making decisions by collegial authorised bodies (*i.e.*, the Credit Committee, the Management Board and the Board of Directors) to grant credit facilities depending on the size of the credit instrument. DBK monitors loan status and the financial condition and solvency of its borrowers on a regular basis. See "*—Principal Committees—Credit Committee*" and "*Selected Statistical and Other Data—Loan Policies and Credit Approval Procedures*".

DBK's risk management policies aim to identify, analyse and manage the risks faced by DBK, to set limits and controls on risks (including concentration, industry and country limits) and to monitor compliance with those limits and risk levels more generally. Risk management policies and procedures are reviewed regularly in order to reflect changes in market conditions, products and services offered by DBK, as well as to reflect best practice standards.

In particular, DBK pays special attention to the analysis and control of risks that could affect the achievement of its long-term strategic goals and key performance indicators, as approved by the Board of Directors. DBK develops risk mitigation plans as part of its risk management system with the aim of eliminating the causes of risk and to mitigate the consequences of risk events. A risk register and matrix of risks and controls of business processes are subject to a mandatory review and updating procedure on an annual basis, which is then used to develop a risk map. DBK works, on an ongoing basis, to optimise and improve its risk management system. In particular, in 2018, DBK introduced liquidity management rules and a methodology for calculating liquidity gaps. In 2018, DBK also improved its methodology of financial analysis relating to second-tier banks based on relevant financial statements and the prudential standards of the NBK. In 2019, DBK implemented further improvements to its risk management policy, financial risk management rules and rules for assessing and monitoring financial stability.

In 2020, following a decision of the Board of Directors, DBK updated its Financial Risk Management Rules. The update reflected improvements in DBK's methodology for assessing the levels of default losses, aligning DBK's internal methodology for assigning a rating to a corporate counterparty with the methodology followed by S&P Global Market Intelligence. Further amendments were made to the Financial Risk Management Rules for assessing and monitoring DBK's financial stability.

Principal Committees

Assets and Liabilities Management Committee

The overall asset and liability position of DBK is monitored and managed by the ALMC. The ALMC is a standing committee that consists of five members and reports to the Management Board. All members of the ALMC are appointed by the Management Board. The ALMC is headed by a Chairman and is comprised of representatives of the Debt and Structured

Finance Department, the Risk Management Department, the Strategy, Planning and Business Processes Department and the Loan Department.

The members of the ALMC are:

	Role on the ALMC	Other Roles within DBK
Sandugash Kenzhebayeva	Chair of the ALMC	Deputy Chairman of the Management Board
Botagoz Abisheva	Member of the ALMC	Managing Director
Rakhimzhan Satayev	Member of the ALMC	Managing Director
Dastan Akhmetov	Member of the ALMC	Managing Director

The ALMC assists the Management Board by considering and initially approving rules and procedures relating to borrowing, transactions for the purchase and sale of financial instruments and investments and the issuance of guarantees. The ALMC also formulates policy in relation to the management and control of liquidity, market and credit risks. The ALMC co-ordinates the risk management activities of the various management divisions with the aim of optimising the ratio of risks to profitability and the management of assets and liabilities. The ALMC also participates in the process of approving new business and the development of new lending products and funding instruments. The ALMC meets on an *ad hoc* basis, although in practice, meetings are held approximately three times a month.

Credit Committee

The Credit Committee implements DBK's credit policies in accordance with the Credit Policy Memorandum and additional internal controls. All members of the Credit Committee are appointed by the Management Board, which decides upon the number of members and their terms of appointment. The Credit Committee is a standing committee that reports to the Management Board. As at 1 January 2021, the Credit Committee consisted of five members. The principal responsibilities of the Credit Committee include the organisation and supervision of DBK's lending processes based on the principles of transparency and the strict division of responsibility between departments. The Credit Committee also assists with the development of processes for the efficient use of borrowed funds through the provision of credit instruments and with the supervision of the application of DBK's lending policy, credit process and credit risk management process, as well as the use of DBK's resources, across DBK's offices. The Credit Committee monitors the quality and profitability of DBK's loan portfolio. See "*Selected Statistical and Other Data—Loan Policies and Credit Approval Procedures*".

The following table sets forth the members of the Credit Committee as at 1 January 2021:

	Role on the Credit Committee	Other Roles within DBK
Duman Aubakirov	Chairman	Deputy Chairman of the Management Board
Sandugash Kenzhebayeva	Member	Deputy Chairman of the Management Board
Botagoz Abisheva	Member	Managing Director
Bakhytzhan Omarov	Member	Managing Director
Zhalel Imashev	Member	Head of the Legal Department

Investment Committee

The Investment Committee monitors and manages DBK's treasury portfolio within guidelines established by the ALMC. The Investment Committee is appointed by the Management Board, consists of five members and reports to the Management Board. The Investment Committee is responsible for the development of DBK's internal policy on investment portfolio management.

The members of the Investment Committee are:

	Role on the Investment Committee	Other Roles within DBK
Dmitriy Babichev	Chairman	Deputy Chairman of the Management Board
Adil Ismagambetov	Deputy Chairman	Managing Director
Saule Mamekova	Member	Head of Accounting Department
Karlygash Akhmetzhanova	Member	Head of Legal
Zulfiya Zeinesheva	Member	Managing Director

Risk Management Committee

See “Management—Board Committees—Risk Management Committee”.

Liquidity Risk

Liquidity risk is the risk that DBK will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions to ever be completely matched as business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. DBK maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. DBK’s liquidity policy is reviewed and approved by the Management Board and requires: (i) projection of cash flows by major currencies and taking into account the level of liquid assets necessary in relation thereto; (ii) maintenance of a diverse range of funding sources; (iii) management of the concentration and profile of debts; (iv) maintenance of debt funding plans; (v) maintenance of a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flows; and (vi) maintenance of liquidity and funding contingency plans.

DBK’s daily liquidity position is monitored and performed by the Treasury Department and reports in respect of DBK’s liquidity position are presented to senior management on a weekly basis. Decisions relating to liquidity management are made by the ALMC and implemented by the Treasury Department or other relevant department.

The following table provides certain information as to DBK’s liquidity as at 31 December 2020, 2019 and 2018:

	Requirement	As at 31 December		
		2020	2019 (%)	2018
Total debt ⁽¹⁾ /equity	Not to exceed 700.0 ⁽²⁾	442.1	447.2	515.7
Liquid assets ⁽³⁾ /total assets	Not less than 20.0	18.2	17.4	23.0

Notes:

- (1) Total debt comprises short-term debt plus long-term debt, in turn, comprised of current accounts and deposits from customers, loans from the Government and SWF Samruk-Kazyna JSC, loans from the Parent Company, loans from banks and other financial institutions, debt securities issued and subordinated debt.
- (2) According to the third amendment agreement dated 15 March 2019, the debt-to-equity covenant was amended to not be more than 7 to 1 at all times. “Selected Statistical and Other Data—Principal Sources of Funding—Debt Securities”.
- (3) Liquid assets comprise cash and cash equivalents, placements with banks and other financial institutions and debt securities measured at fair value through other comprehensive income.

For further information on DBK’s management of liquidity risk, see Note 32(d) to the 2020 Annual Financial Statements and Note 35(d) to the 2019 Annual Financial Statements.

In addition, DBK carries out calculations of its liquidity coverage ratio and net stable funding ratio in accordance with the requirements of Basel III. The following table sets forth information in respect of these liquidity ratios as at 31 December 2020, 2019 and 2018:

	As at 31 December		
	2020	2019 (%)	2018
Liquidity coverage ratio ⁽¹⁾	101.5	117.4	106.7
Net stable funding ratio ⁽²⁾	118.6	117.1	120.6

Notes:

- (1) Calculated as the ratio of highly-liquid assets to net cash outflow less the projected cash inflows over a 30-day stress period.
- (2) Calculated as the ratio of longer-term, stable sources of funding employed by DBK to the required amount of stable funding.

Maturities

The following tables set forth a breakdown of DBK’s assets and liabilities by remaining contractual maturity as at 31 December 2020, 2019 and 2018:

As at 31 December 2020								
On demand	Less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	No Maturity	Overdue	Total
(KZT millions)								

As at 31 December 2020									
On demand	Less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	No Maturity	Overdue	Total	
(KZT millions)									
Total assets.....	218,927.6	153,588.1	82,480.1	169,160.2	739,466.9	1,690,995.3	22,276.5	11,085.2	3,087,979.9
Total liabilities	1,910.2	2,887.3	16,859.5	39,776.8	1,198,746.6	1,315,766.4	—	—	2,575,946.8
Net position	217,017.4	150,700.8	65,620.6	129,383.4	(459,279.7)	375,228.9	22,276.5	11,085.2	512,033.1
As at 31 December 2019									
On demand	Less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	No Maturity	Overdue	Total	
(KZT millions)									
Total assets.....	137,678.6	96,944.9	20,645.6	233,654.1	415,377.6	1,656,436.3	26,955.0	3,123.4	2,590,815.5
Total liabilities	5,008.4	5,779.8	6,180.5	166,020.5	787,375.7	1,192,072.0	0.8	—	2,162,437.7
Net position	132,670.2	91,165.1	14,465.1	67,633.6	(371,998.1)	464,364.3	26,954.2	3,123.4	428,377.8
As at 31 December 2018									
On demand	Less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	No Maturity	Overdue	Total	
(KZT millions)									
Total assets.....	167,480.8	200,243.3	13,858.4	206,183.9	408,197.3	1,523,760.9	15,703.5	1,180.8	2,536,608.9
Total liabilities	3,004.2	3,478.9	7,608.0	45,925.5	980,467.3	1,120,090.7	—	—	2,160,574.6
Net position	164,476.6	196,764.4	6,250.4	160,258.4	(572,270.0)	403,670.2	15,703.5	1,180.8	376,034.3

For further information on DBK's management of maturity gaps, see Note 32(e) to the 2020 Annual Financial Statements and Note 35(e) to 2019 Annual Financial Statements.

Credit Risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to DBK. DBK has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of the Credit Committee to actively monitor DBK's credit risk. Loans to customers, finance lease receivables, placements with banks and other financial institutions, amounts receivable under reverse repurchase agreements, debt securities at fair value through other comprehensive income and accounts receivable are all considered financial assets subject to credit risk. DBK's credit policy establishes: (i) procedures for review and approval of loan credit applications; (ii) a methodology for the credit assessment of borrowers; (iii) a methodology for the credit assessment of counterparties, issuers and insurance companies; (iv) credit documentation requirements; and (v) procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis, focusing on the customer's business and financial performance. The loan credit application and report are then independently reviewed by the Risk Department and a second opinion is given accompanied by a verification that credit policy requirements have been met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Legal, Accounting and Tax Departments, depending on the specific risks and pending final approval of the Credit Committee.

DBK continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by DBK.

Apart from individual customer analysis, the credit portfolio is also assessed by the departments responsible for risk management with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position and unrecognised contractual commitment amounts. During the loan approval process, the projected effect on DBK's financial performance is assessed in order to avoid negative impact. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Market risk

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

objective of DBK's market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on such risk. DBK manages such risk by setting open position limits in relation to financial instruments, interest rate, maturity, currency positions and stop-loss limits, all of which are monitored on a regular basis. DBK's management of interest rate risks, by monitoring of the interest rate gap, is supplemented by monitoring the sensitivity of the net interest margin to various standard and non-standard interest rate scenarios. See "*Interest Rate Risk*", Note 32(b)(i) to the 2020 Annual Financial Statements and Note 35(b)(i) to the 2019 Annual Financial Statements.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. DBK is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur. DBK adopts certain measures to minimise these risks by trying to link its borrowing and lending rates. Interest rate risk is managed principally through monitoring interest rate gaps.

The principal objective of DBK's interest rate management activities is to enhance profitability by limiting the effect of adverse interest rate movements on interest income through managing interest rate exposure. In this respect, DBK undertakes cash flow interest rate sensitivity analysis of its net profit or loss and equity (net of taxes) to changes in interest rates, as well as fair value interest rate sensitivity analysis of equity as the result of changes in the fair value of its debt securities measured at fair value through other comprehensive income as a result of changes in interest rates.

The following table sets forth an analysis of the sensitivity of DBK's net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point ("**bp**") symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2020, 2019 and 2018:

KZT'000000	As at 31 December					
	2020		2019		2018	
	<u>Profit or loss</u>	<u>Equity</u>	<u>Profit or loss</u>	<u>Equity</u>	<u>Profit or loss</u>	<u>Equity</u>
100 bp parallel increase.....	2,551.6	2,551.6	1,391.8	1,391.8	2,613.5	2,613.5
100 bp parallel decrease	(2,551.6)	(2,551.6)	(1,391.8)	(1,391.8)	(2,613.5)	(2,613.5)

The following table sets forth an analysis of the sensitivity of DBK's net profit or loss and equity to changes in the fair value of debt securities measured at fair value through other comprehensive income as at 31 December 2020, 2019 and 2018:

KZT'000000	As at 31 December					
	2020		2019		2018	
	<u>Profit or loss</u>	<u>Equity</u>	<u>Profit or loss</u>	<u>Equity</u>	<u>Profit or loss</u>	<u>Equity</u>
100 bp parallel increase.....	—	(10,259.9)	—	(11,828.1)	—	(9,504.0)
100 bp parallel decrease	—	10,982.2	—	12,833.7	—	10,164.1

For further information on DBK's management of interest rate risk, see Note 32(b)(i) to the 2020 Annual Financial Statements and Note 35(b)(i) to the 2019 Annual Financial Statements.

Foreign Currency Risk

DBK is exposed to foreign currency risk as a result of fluctuations in foreign exchange rates and mismatches between its assets and liabilities, as well as through its off-balance sheet activities involving exposures to instruments denominated in different currencies. The Risk Management Department monitors DBK's net currency position and advises on strategy accordingly. In order to effectively manage currency risk, the Board of Directors has approved the Rules of Currency Risk Management, which provide guidelines for the identification, assessment and control and monitoring of foreign currency risk. DBK has established a limit on open foreign currency positions, the VaR on each foreign currency, the weekly monitoring of foreign currency positions and the market situation and regular stress-testing of foreign currency positions, as well as back-testing of the effectiveness of methods used for the calculations of VaR. See "*Risk Factors—Factors that may affect DBK's ability to fulfil its obligations under, or in connection with, Notes issued under the Programme—B. Financial Risks relating to DBK and its Business—Foreign Currency Risk*".

For further information on DBK's management of foreign currency risk, see Note 32(b)(ii) to the 2020 Annual Financial Statements and Note 35(b)(ii) to the 2019 Annual Financial Statements.

The following table sets forth a breakdown of DBK's assets and liabilities, by currency, as at 31 December 2020, 2019 and 2018:

	As at 31 December		
	2020	2019	2018
	(KZT millions)		
Assets			
Foreign currency-denominated assets			
U.S. Dollars	1,154,431.1	1,025,395.1	1,207,632.4
Euros	144.6	16,005.9	23,366.4
Other currencies	441.5	456.2	1,859.1
Tenge-denominated assets	1,922,141.9	1,539,474.0	1,295,183.9
Liabilities			
Foreign currency-denominated liabilities			
U.S. Dollars	1,193,657.3	1,057,640.3	1,235,726.5
Euros	59.8	12,535.7	22,399.8
Other currencies	13,771.8	15,959.1	16,261.5
Tenge-denominated liabilities	1,369,300.3	1,076,565.3	887,447.2

As at the date of this Base Prospectus, DBK is within its open position limits for convertible and non-convertible currencies it has set for the purposes of managing foreign currency risk.

The following table shows the net foreign currency position of DBK as at 31 December 2020, 2019 and 2018:

	As at 31 December		
	2020	2019	2018
Net long (short) currency position (KZT millions)	(31,426.1)	(25,148.3)	(22,319.8)
Net currency position as a percentage of total equity (%)	(6.1)	(5.9)	(5.9)
Net currency position as a percentage of foreign currency liabilities (%)	(2.6)	(2.3)	(1.8)

DBK enters into forward and swap transactions to hedge some of its foreign currency risk. Management revises its assumptions applied to currency swap valuations on a regular basis in line with changes in the base market terms.

Operational Risk

Operational risk is the risk of losses resulting from inadequacies or failures of internal processes, people and systems or external events.

DBK applies the basic indicative approach set out in Basel II for the calculation of operational risk. Since 2009, DBK has employed operational risk identification, assessment, reporting and control processes, as well as the periodic monitoring of the control system, to manage operational risk. Such processes are carried out on a constant basis and in accordance with internally-approved methodology. DBK considers that its risk culture is an important factor in its ability to achieve its strategic goals. The principal objectives of DBK's activity to improve and strengthen its risk culture are to: (i) encourage and establish a risk-oriented culture within DBK; and (ii) establish an incentivised system to encourage and ensure the use of appropriate risk management tools. To fulfil such objectives, DBK intends to conduct regular training events covering risk topics, introduce key performance indicators for risk management, update its Code of Business Ethics to enhance the risk management principles contained therein and introduce certain improvements to its risk management processes. In 2020, DBK held training seminars for all employees on risk management issues and updated its Code of Business Ethics.

Legal Risk

Legal risk arises from the probability of losses resulting from the infringement of any contractual obligations, the mistaken application of normative legal acts, constitutional documents, policies, actions of governmental or state-owned bodies and amendments to legislation. DBK has generated a methodological approach to legal risk management and has a Compliance Controller, which reports to the Board of Directors. See "Management—Corporate Governance".

Anti-Money Laundering, Countering the Financing of Terrorism, Anti-Corruption and Anti-Bribery Policies and Procedures

In addition to mandatory statutory requirements, DBK has developed internal know-your-customer, anti-money laundering and countering terrorism financing policies, including DBK's procedures in relation to: (i) verifying information provided by customers in order to permit identification of customers, including ultimate owners and beneficiaries (both prior to establishing business relations with DBK and at the time of entering into transactions) and to

identify, among others, whether the customer is connected with the financing of terrorism or is a politically-exposed person or a relative of a politically-exposed person; (ii) evaluating of a client's business to determine whether a customer may be involved in money-laundering or terrorism financing; (iii) implementing additional monitoring and due diligence requirements in respect of activities identified as potentially high risk; (iv) identifying any suspicious transactions and further assessing these against anti-money laundering and counter-terrorism financing safeguards; (iv) notifying authorised bodies in regard to any suspicious transactions; and (v) refusing to proceed with transactions or suspending transactions in the event that a customer fails to provide supporting documentation or provides false or inaccurate documentation or DBK otherwise believes the transaction is suspicious. These policies include the "Rules of Internal Control in order to Counter the Laundering of Proceeds from Crime and the Financing of Terrorism in the Development Bank of Kazakhstan JSC", which were adopted on 25 April 2019, as well as the "Instructions on the Implementation of Internal Control Programmes to Counter the Laundering of Proceeds from Crime and the Financing of Terrorism in the Development Bank of Kazakhstan JSC", which were adopted on 22 May 2019. In order to implement these policies to the highest standard, DBK provides on-going anti-money laundering training to all relevant employees.

In addition to mandatory statutory requirements in respect of anti-corruption and anti-bribery as set out in Law № 410-V dated 18 November 2015, DBK has adopted Chief Executive Officer and Management Board resolutions in respect of anti-corruption measures applicable to DBK. In addition, on 25 July 2017, the Management Board approved DBK's anti-corruption policy.

DBK's Compliance Controller is responsible for the management of compliance risks, including functions related to the prevention and counteraction to money laundering and financing of terrorism, as well as the identification and prevention of corruption, effective settlement of conflicts of interest and control over compliance by DBK's employees with professional ethics requirements. The Board of Directors approves the work plan of the Compliance Controller on an annual basis and reviews reports regarding the Compliance Controller over the year. See "*Management—Corporate Governance*".

BUSINESS

Overview

DBK was incorporated on 31 May 2001 and is organised under the Decree of the President of the Republic of Kazakhstan № 531 dated 28 December 2000, the Law of the Republic of Kazakhstan № 178-II dated 25 April 2001 and the Resolution of the Government of the Republic of Kazakhstan № 659 dated 18 May 2001, for an unlimited duration as Closed Joint Stock Company “Development Bank of Kazakhstan”. On 18 August 2003, DBK was re-registered as Joint Stock Company “Development Bank of Kazakhstan” in line with the requirements of the amended JSC Law. A re-registration certificate (№ 4686-1900-AO) was issued in respect of DBK by the Registration Service and Legal Assistance Committee of the Ministry of Justice on 18 August 2003. DBK is a national development bank that is authorised to implement State investment policies and State support for industrial and innovative projects.

DBK operates under business identification number 010540001007 and its registered office is n-r. pr. 15, building 55A Mangilik Yel Avenue, Yesil district, Nur-Sultan, Republic of Kazakhstan and its telephone number is +7 7172 792 679. DBK’s sole shareholder is Baiterek JSC, which is, in turn, wholly-owned by the Government. Accordingly, the ultimate controlling party of DBK is the Government, represented by the Ministry of Industry and Infrastructural Development.

In accordance with the DBK Law, DBK’s objectives are:

- to improve and increase the efficiency and effectiveness of governmental investment activity;
- to develop industrial infrastructure and the manufacturing industry in Kazakhstan; and
- to promote foreign and domestic investment in Kazakhstan.

As a part of its role under Kazakhstan’s industrial development programme and in furtherance of such purposes, and in accordance with the Credit Policy Memorandum, DBK provides medium and long-term financing for investment projects (other than food or beverage projects and public private partnership projects) of KZT 7 billion or more, food or beverage investment projects and public private partnership projects of KZT 3 billion or more and export transactions of KZT 1 billion or more. See “—*Participation in Government Programmes*” and “—*Lending*”. In determining which projects or transactions to finance, DBK gives priority to projects and transactions related to the modernisation and establishment of competitive industries, in particular, non-extracting industries, and infrastructure in Kazakhstan. Approximately 50% of the projects financed by DBK are greenfield projects. DBK’s lending activities are primarily funded through the issuance and placement of domestic and international debt securities and through borrowings from Baiterek JSC, Samruk-Kazyna and international financial institutions.

IDF JSC, DBK’s wholly-owned subsidiary, offers short- and long-term (up to 20 years) lease financing in various forms, including for industrial equipment, leasing of industrial buildings and certain combined services, and credit and leasing. IDF JSC invests only in large-scale projects valued at over U.S.\$1.2 million. IDF JSC provides financial leasing for investment projects in priority sectors of the economy in an amount of U.S.\$205,000 or more under Government support programmes. See “—*IDF JSC*”.

In July 2017, DBK established its wholly-owned subsidiary, DBK CSF, a closed private limited liability company established in the Netherlands. DBK CSF was established for the purpose of participating in a direct investment fund in the Netherlands. In November 2017, DBK CSF and KCM established DBK Equity Fund, a direct investment fund, for purposes of investing in domestic and foreign projects, which promote the interests of the Kazakhstan economy and in which DBK is not permitted to invest directly as a result of the restrictions imposed on it under the Credit Policy Memorandum. DBK Equity Fund is 97% owned by DBK CSF. See “—*DBK CSF*”.

For the year ended 31 December 2020, DBK’s profit for the year was KZT 22,369.8 million, as compared to a profit of KZT 10,958.5 million for the year ended 31 December 2019 and KZT 3,243.8 million for the year ended 31 December 2018. As at 31 December 2020, DBK had total assets of KZT 3,088.0 billion, as compared to total assets of KZT 2,590.8 billion as at 31 December 2019 and KZT 2,536.6 billion as at 31 December 2018.

Impact of COVID-19

The ongoing COVID-19 pandemic is having an adverse impact on the world economy, including the Kazakhstan economy, as well as on DBK’s customers and, in turn, DBK’s business. The pandemic has affected investment sentiment and resulted in sporadic volatility in the global capital and financial markets. In 2020, Kazakhstan’s real GDP was estimated by the IMF to have contracted by 2.6% (as compared to growth of 4.5% in 2019), as a result of the impact of the COVID-19 pandemic. In particular, the Kazakhstan economy was significantly impacted by the sharp decrease in oil

prices following the outbreak of the COVID-19 pandemic. The IMF forecasts real GDP in Kazakhstan to return to growth of 3.2% in 2021.

The Government has implemented measures, including periods of lockdown and quarantines in an effort to combat the spread of the virus in Kazakhstan and alleviate the negative effects of the pandemic. A state of emergency was declared in Kazakhstan between 16 March 2020 and 12 May 2020. During this period, regional authorities gradually introduced additional measures to enhance social distancing, including closing schools, universities, restaurants, cinemas, theatres and museums and sport facilities.

In response to the COVID-19 pandemic, DBK developed a crisis plan, which includes stress testing and other measures to mitigate the effects of the pandemic and the impact of changes in the Tenge/U.S. Dollar exchange rate on DBK's credit and interbank lending portfolios. As part of the crisis plan, measures are being taken on an ongoing basis to assess the impact of COVID-19 on DBK and its clients, financial measures to support the real economy and debt restructuring of borrowers. Since early 2020, DBK has enabled its employees to work remotely, with the transition effected swiftly and avoiding any interruption in DBK's business activities.

DBK reports to the independent directors of its parent company, Baiterek JSC, on a quarterly basis with respect to the results of stress tests and the potential negative impact of external factors, including the COVID-19 pandemic and volatile oil prices, on DBK's financial and risk indicators (namely, credit risk indicators and expected credit losses for both the credit and interbank lending portfolios). DBK has monitored its credit risk indicators, in particular its expected credit losses on both the credit and interbank portfolios, and has conducted regular stress tests based on the Tenge/U.S. Dollar exchange rate, a decrease in credit ratings and an extended period of any lockdown measures due to COVID-19. These stress tests have helped DBK formulate its crisis plan. As part of this plan, DBK has lowered the internal credit ratings assigned to its customers in the aviation, metallurgical and oil production industries, as a result of plant shutdowns and operational interruptions, volatility in oil and metal prices and restrictions on movement during the lockdown.

As part of DBK's crisis plan, on a monthly basis, roadmaps for all of DBK's investment projects have been submitted to its Credit Committee for consideration, together with the results of the stress testing described above. DBK has taken a number of actions to reduce and subsidise lending rates for its customers that have been significantly adversely affected by the COVID-19 pandemic. For example, DBK has offered concessional rate loans as a support measure to customers in the tourism and construction industry. DBK has also granted grace periods for repayment of principal and interest under loans to certain customers who have been facing reduced demand for services or who provide products or services that are at risk of interruption due to supply chain disruption during quarantine and lockdown periods. Those customers whose products are particularly sensitive to exchange rate fluctuations (such as, the prices of metals) have been offered additional support through, *inter alia*, the monitoring of tariffs, restructuring options and refinancing offered by DBK. DBK has also offered support in optimising expenses to those customers who have faced difficulties due to restrictions on the movement of goods and on border crossing in connection with the COVID-19 pandemic. Between 1 January 2020 and 1 October 2020, 15 restructurings of loans were conducted, of which six were due to the impact of the COVID-19 pandemic.

The industries in which the effects of the COVID-19 pandemic have been felt most severely, both worldwide and in Kazakhstan, are the transport and hospitality sectors. DBK currently has one loan to a borrower in the hospitality sector (a hotel project) that is ranked as a "Stage 2" loan. DBK is continuing to work with the customer's shareholders to ensure that shareholder support is granted to the customer. Pursuant to the project concerned, the risk of default has been transferred to the customer's shareholders. DBK also has two "Stage 2" loans to borrowers in the transport sector, which relate to the Nur-Sultan and Aktau airports. Again, DBK is working with the relevant shareholders in connection with these loans and, at present, does not expect there to be defaults on the financing granted by DBK.

DBK benefitted from support from its shareholder in 2020, in the form of a KZT 58 billion capital contribution, of which KZT 50 billion was allocated to DBK for purposes of increasing the competitiveness and ensuring the stability of the Kazakhstan economy in light of the COVID-19 pandemic. DBK is also in discussions with its shareholder regarding the non-payment of dividends in respect of 2020 in order to permit DBK to retain its liquidity levels and increase the coverage of its lending to the Kazakhstan economy without requiring additional funding.

Although impairment losses on debt financial assets increased from KZT 20.9 billion in 2019 to KZT 37.2 billion in 2020, the COVID-19 pandemic has not had a considerable impact on DBK's key financial stability indices. For example, as at 31 December 2020, DBK's capital adequacy ratio was 20.2%, as compared to 20.5% as at 31 December 2019. In addition, DBK's NPLs decreased to 1.5% of gross loans to customers as at 31 December 2020, as compared to 1.7% as at 31 December 2019. DBK also recognised a net profit of KZT 22.4 billion in 2020, as compared to net profit of KZT 11.0 billion in 2019. See "*Risk Factors—Factors that may affect DBK's ability to fulfil its obligations under, or in connection with, Notes issued under the Programme—A. Operational Risks relating to DBK and its Business—Impact of the COVID-19 Pandemic*".

More generally, the pandemic and its impact on the Kazakhstan economy has prompted DBK to review its long-term development strategy and review its current business processes in order to maintain its position as the country's largest financial institution and a leading operator in the assessment and structuring of major infrastructure and industrial projects. See “—Strategy”.

Authority of DBK

The DBK Law specifies certain activities in furtherance of DBK's purposes that DBK is authorised to engage in, whether in Tenge or foreign currencies, without the need to obtain a banking licence. These activities include, *inter alia*:

- providing loans to entities;
- issuing guarantees;
- issuing and confirming letters of credit;
- opening and maintaining correspondent accounts with and for other financial institutions;
- accepting deposits and opening and managing bank accounts for certain of DBK's borrowers and certain other entities;
- accepting certain deposits in order to provide liquidity to DBK;
- issuing securities; and
- participating in certain foreign currency exchange transactions.

DBK is not permitted to solicit deposits from, open accounts for, or provide settlement and cash services to, individuals. In addition, there are legal restrictions on DBK's ability to provide financing to, or give bank guarantees in respect of the obligations of, individuals, credit co-operatives, pension fund management companies, investment funds and insurance companies) or to make certain unsecured loans.

Pursuant to the Law of the Republic of Kazakhstan “On Banks and Banking Activities” № 2444 dated 31 August 1995, DBK is not considered to be a second-tier bank due to its special status as set forth in the DBK Law. As such, it is authorised to conduct certain banking activities without a banking licence from the regulator in respect of such activities.

While DBK is regulated by the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market (and, prior to 1 January 2020, was regulated by the NBK), DBK is not subject to the same regulation imposed on the rest of the banking sector. For example, DBK is exempt from regulation relating to prudential requirements, provisioning, composition of management, loan classification, collateral classification and risk management and internal control systems, which are applicable to commercial banks in Kazakhstan.

Strengths

DBK believes it benefits from the following strengths:

- **Strong Shareholder Support**

DBK is wholly owned by Baiterek JSC, which is, in turn, wholly owned by the Government. The Chairman of the Board of Directors of Baiterek JSC is the Prime Minister of Kazakhstan. Accordingly, DBK plays a significant role in various Government programmes, including the Industrialisation Programme, the Government Programme for Infrastructure Development (as defined below) and other Government programmes. Pursuant to the Industrialisation Programme, DBK is the major source of low-cost and long-term funding for manufacturing and infrastructural projects.

- **Special Status and Mandate in the Banking Sector**

Under the DBK Law, DBK enjoys a special legal status, which gives it special rights and responsibilities not applicable to other participants in the Kazakhstan banking sector. In addition, pursuant to amendments to the DBK law in 2011, DBK has been exempted from the reporting requirements of the regulator in respect of loan classification, as well as certain prudential regulation and minimum reserve requirements, which are applicable for commercial banks. Moreover, although Baiterek JSC sets certain key performance targets for DBK, as a development institution, DBK is not required

to, and does not, have profitability as one of its priority objectives. Also, as a development bank, which is indirectly wholly-owned by the Government, DBK has access to subsidised funding from the State budget and the National Fund of the Republic of Kazakhstan (the “**National Fund**”). All of these give DBK greater flexibility in conducting its operations to meet its strategic objectives.

The DBK Law also grants DBK the status of a financial agency. Pursuant to the tax code, debt securities, such as Notes issued under the Programme, issued by a financial agency, as well as gains realised on the disposal, sale, exchange or transfer of such securities are exempt from Kazakhstan income tax.

- **High Capitalisation**

DBK is relatively well-capitalised with a capital adequacy ratio of 20.2% as at 31 December 2020, as compared to 20.5% and 18.8% as at 31 December 2019 and 2018, respectively. DBK’s capital adequacy ratio is calculated as the ratio of DBK’s consolidated equity capital to its risk-weighted assets, which is in line with Basel II principles. Baiterek JSC has also indicated that it would provide further support to DBK should it be required in order to meet applicable capital adequacy ratios. This support has permitted DBK to maintain an active role in the lending market. During the year ended 31 December 2020, DBK received KZT 58 billion of capital injections of which: (i) KZT 8.0 billion was allocated to IDF JSC for lease financing in respect of agricultural equipment; and (ii) KZT 50 billion was allocated to DBK for purposes of increasing the competitiveness and ensuring the stability of the Kazakhstan economy. During the years ended 31 December 2019 and 2018, DBK received KZT 37 billion and KZT 10 billion of capital injections, respectively. The capital injections must be used by DBK for the purpose of funding investments in five different sectors of the economy, which, in turn, leads to further diversification of DBK’s loan portfolio. In March 2021, Fitch upgraded its long-term issuer default rating assigned to DBK from BBB- to BBB (with a stable outlook), citing, *inter alia*, “an extended record of capital and funding support from the state, which has intensified in recent years, including in the challenging operating environment due to the COVID-19 pandemic”.

- **Strong Liquidity Position**

As at 31 December 2020, DBK had KZT 561.2 billion in liquid assets (which comprise debt securities measured at fair value through other comprehensive income, cash and cash equivalents, placements with banks and other financial institutions and amounts receivable under reverse repurchase agreements). DBK has adopted a conservative investment portfolio management strategy, which requires DBK to maintain a liquidity coverage ratio of at least 100% (with the minimum liquidity coverage ratio for second tier banks being set at 0.8 between January and March 2020, 0.6 between April and September 2020 and 0.8 between October and December 2020). As at 31 December 2020, DBK had a liquidity coverage ratio of 101.5%, as compared to 117.4% as at 31 December 2019 and 106.7% as at 31 December 2018. See “*Asset and Liability Management—Liquidity Risk*”.

- **Growth of the Lending Business**

DBK’s lending business has generally been growing in recent years. Total loans to customers and banks increased by KZT 241,576.6 million, or 14.0%, to KZT 1,970,726.9 million as at 31 December 2020 from KZT 1,729,150.3 million as at 31 December 2019. DBK expects its lending business to continue to grow in line with its strategy and pipeline of investment projects. See “*Selected Statistical and Other Data—Loans to Customers*”.

- **Access to Funding**

DBK has one of the highest credit ratings among corporate entities in Kazakhstan, matching or near to the sovereign ratings of Kazakhstan published by S&P (DBK assigned a rating of BB+, as compared to a sovereign rating of BBB-), Fitch (DBK assigned a rating of BBB in line with the sovereign rating), and Moody’s (both assigned a rating of Baa3).

Strategy

DBK’s development strategies have been, and are continuing to be, developed with the aim of maintaining DBK as a high-profile development bank, playing a key role in the diversification and development of Kazakhstan’s economy, whilst remaining a stable and commercial organisation. Following Baiterek JSC’s adoption of its development strategy for 2014–2023, DBK adopted its Development Strategy, which is in line with the strategy DBK has pursued for a number of years, updated to reflect DBK’s important role in Government programmes (such as, the Industrialisation Programme (as defined below) and the Infrastructure Development Programme (as defined below)). The Development Strategy was approved by the Board of Directors on 14 July 2014 and was most recently amended on 29 September 2017.

The Development Strategy outlines the main directions and tasks for the implementation of DBK's objective to assist in the development of competitive, non-exclusive economic sectors in Kazakhstan. As part of the Development Strategy, DBK aims to become, *inter alia*:

- the leading public operator in assessing, structuring and financing large infrastructure and industrial projects within Kazakhstan, both for the private sector and for the Government;
- a specialised sovereign development bank, which provides adequate and timely project funding for industry and infrastructure projects;
- a leading provider of Tenge-denominated financing;
- one of the largest financial institutions in Kazakhstan in terms of asset volume, with recognised competence and authority in international markets; and
- the principal agent for attracting long-term and low-cost loans and investments for corporate clients.

DBK's Development Strategy focuses on lending to strategic investment projects in line with the Government's development priorities (namely, infrastructure development, metallurgy, chemical and petrochemical industries, the energy sector and manufacturing, including under the Industrialisation Programme), as well as continuing trade finance activities. Pursuant to the Development Strategy, DBK intends to continue to increase its lending volumes and attract increased amounts of private capital to its projects, as well as to syndicate certain loans, offering structured and project products and providing consultation services in connection with the raising of capital. In accordance with its development bank mandate, DBK's dividend policy will be determined in compliance with the laws of Kazakhstan and Baiterek JSC's development strategy.

The principal components of the Development Strategy are: (i) lending; (ii) financial resources management; and (iii) corporate management.

- **Lending**

The Development Strategy sets out the strategic goal for DBK to invest approximately KZT 4.4 trillion between 2014 and 2023, of which, as at 31 December 2020, DBK had invested approximately 78%.

In order to achieve this strategic goal, DBK plans to focus on the following areas: (i) increasing the portion of its loan financing denominated in Tenge; (ii) enhancing the terms and conditions for financings in both Tenge and foreign currencies; (iii) improving DBK's existing financing products, such as project financing, syndicated financing, interbank credit and mezzanine financing, as well as developing new credit instruments; (iv) strengthening cooperation with Baiterek JSC, in particular, through the provision of integrated financial products to various target groups, with a focus on increasing the availability of credit for the private sector, particularly for entrepreneurs and exporters; (v) improving cooperation between DBK's divisions and optimising the consideration and monitoring of projects; (vi) ensuring a high quality credit portfolio by improving the tools for the evaluation of project risks; and (vii) opening a dialogue with Government authorities to explore the deregulation of certain lending activities to encourage a more flexible approach to project financing.

Under the Development Strategy, IDF JSC also targets further increasing its leasing portfolio and decreasing the need for provisioning. Such increased leasing is, in particular, expected to be used to assist with the modernisation and renewal of production capacity and transport infrastructure in Kazakhstan in line with Government programmes.

In line with the lending goals set out in the Development Strategy, in July 2017, DBK established DBK CSF and, in November 2017, DBK CSF and KCM established DBK Equity Fund. See "*—DBK CSF*".

In 2020, DBK developed and proposed an initiative aimed at consolidating legislation regarding syndicated financing. This initiative was subsequently supplemented and supported by regulatory bodies and market participants, including the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market, government agencies, the Association of Financiers of Kazakhstan and second-tier banks. On 2 January 2021, the President signed the Law "On Amendments and Additions to certain Legislative Acts of the Republic of Kazakhstan on the restoration of economic growth", which reflects the norms and procedures to legally regulate syndicated financing instruments.

- **Financial Resources Management**

Under the Development Strategy, DBK targets becoming the chief provider of long-term domestic financing in Kazakhstan, with the most favourable domestic currency credit conditions. In line with this aim, and taking into account

any potential future risk of a decrease in Government funding, DBK plans to focus on diversifying its funding sources by attracting funds from alternative non-Governmental sources, while also maintaining its focus on cost control. In particular, DBK aims to attract domestic and foreign investments, procure high financial stability, maintain economically efficient operations (including by retaining a breakeven level during the period from 2016 to 2023 on its capital profitability index (return on equity), as well as complying with the provisions of IFRS 9) and sustaining its existing credit ratings.

DBK also intends to take certain additional steps to attract non-Government funding, including: (i) financing in foreign currencies (albeit with a view to minimising currency risk and risks arising from the credit risk of DBK's related borrowers, including through the use of available hedging instruments, currency position management and matching of foreign currency amounts with foreign currency cash flow of the related DBK borrower); (ii) financing on the local market, including by attracting funding from the Unified Accumulated Pension Fund JSC; (iii) intra-group financing and deposits from certain entities; (iv) financing from the international capital markets; and (v) financing through expanding DBK's co-operation with foreign export credit agencies and export-import banks for purposes of increasing the volume of DBK's trade financing activities. To date, DBK has increased its non-Government funding through increased issuances on the domestic and international capital markets, as well as new borrowings with non-Kazakhstan lenders. See "*Selected Statistical and Other Data—Principal Sources of Funding—Borrowings*" and "*Selected Statistical and Other Data—Principal Sources of Funding—Debt Securities*".

• **Corporate Management**

DBK plans to improve its existing corporate management system in line with the recommendations of its sole shareholder and certain external consultants by: (i) increasing the efficiency of the Board of Directors; (ii) enhancing the collaboration process with Baiterek JSC; (iii) improving internal controls; (iv) improving existing management assessment and fee systems; and (v) improving transparency.

The Development Strategy specifies six key areas on which DBK intends to focus in order to improve its corporate management: (i) business processes (including credit monitoring processes); (ii) personnel policies (including improving the efficiency of human resources planning and labour productivity); (iii) risk management (including the introduction of an automated risk management system); (iv) IT support (including automating DBK's business processes and increasing the effectiveness of existing IT services); (v) improvement of information security; and (vi) communication and information policies (including implementing a comprehensive plan to level reputational costs, maximise transparency, enhance awareness of DBK's activities and promote the image of DBK as an official financial organisation).

Examples of measures taken to date to fulfil this strategic aim include:

- in 2020: (A) the completion of the first stage of implementation of DBK's Business Process Management ("BPM") system, as well as online services for its customers, including remote attendance and electronic voting at Board of Directors, Management Board and committee meetings, as well as BPM initiatives for DBK's internal processes for investment projects, export operations, calculation of provisions for portfolios, interbank lending, financing of subsidiaries and human resource management, and compliance; (B) the update of DBK's Code of Business Ethics (see "*—Employees*"); and (C) the approval, in December 2020, of a new organisational structure, with the aim of increasing DBK's effectiveness (which included, *inter alia*, the consolidation and renaming of certain divisions and departments and the creation of a cyber security service, see "*—Structure of DBK*");
- in 2019: (A) the introduction of new evaluation criteria for the recruitment of staff, which are published on DBK's corporate website; (B) the implementation of amendments to DBK's internal regulations aimed at improving staff motivation initiatives, including the introduction of (i) rules for remuneration and bonuses for administrative employees; (ii) rules for assessing the effectiveness of administrative employees; and (iii) rules for the evaluation of positions within DBK; (C) the revision of DBK's classification of business processes based on the international American Productivity & Quarterly Center (APQC) standard; and (D) the launching of a project to describe and optimise all existing business processes of DBK;
- in 2018: (A) putting measures in place to increase collaboration with Baiterek JSC; (B) adding to the standard criteria applied to DBK's methodology for evaluating corporate governance procedures, (C) further automating its processes with the implementation of ABIS "Colvir" systems (including for electronic invoices) and (D) aligning DBK's information security policy with applicable statutory information security rules and requirements; and
- in 2017, the introduction of a grading system for employee performance and the adoption of rules relating to the implementation of the grading system.

In addition, DBK published a transparency report in respect of 2018 and 2019, each of which was approved by the Board of Directors. The transparency report in respect of 2020 is expected to be published in the first half of 2021.

DBK is currently in the process of updating its Development Strategy and expects to complete this update in the third quarter of 2021, following the planned update to its shareholder's strategy. The primary focus of the updates to DBK's strategy are expected to focus on efforts to become a development institute that contributes to the stable economic prosperity of Kazakhstan by providing a wide range of support tools for businesses based on principles of sustainable development and promotion of the private sector and include initiatives to help overcome the economic consequences of the COVID-19 pandemic in Kazakhstan. The updated strategy has not been finalised or approved.

Participation in Government Programmes

DBK, as agent for the Government, provides financing allocated from the State budget in connection with a number of Government programmes and initiatives, including, most notably:

- the Programme for Industrial and Innovation Development of Kazakhstan, which initially covered the 2015-2019 period and, pursuant to Governmental Decree № 1050 dated 31 December 2019, was approved and extended to cover the years 2020-2025 (the “**Industrialisation Programme**”);
- the “Business Road Map” 2020 programme, which initially covered the 2015-2019 period and, pursuant to Governmental Decree № 968 dated 24 December 2019, was extended to cover the years 2020-2024 (the “**Business Road Map**” programme);
- the infrastructure development programme for 2015-2019 “Nurly Zhol”, which initially covered the 2015-2019 period (the “**Infrastructure Development Programme**”), although the Infrastructure Development Programme has been extended to cover the 2020-2025 period, DBK is not providing financing for the extension of this programme; and
- interbank lending programmes.

Industrialisation Programme

The Industrialisation Programme was approved by the then-President in August 2014. On 31 December 2019, the Government approved the Industrialisation Programme to cover the years 2020-2025. The Industrialisation Programme replaced the previous programme in place for the years 2015 to 2019. The Industrialisation Programme aims to stimulate the diversification, and improve the competitiveness, of secondary industry in Kazakhstan, focused on, among other things, increasing production of value-added export products and ensuring conditions for modernisation and efficient industrial development. The Industrialisation Programme provides that DBK will continue to be one of the primary lending vehicles for the long-term financing of infrastructure and other strategic investments. All of DBK's investment projects meet the requirements of the Industrialisation Programme and DBK is participating in the financing of 25 projects. DBK was allocated funds out of the State budget to finance projects under the Industrialisation Programme up to an amount of KZT 75 billion in 2016, KZT 80 billion in 2017, KZT 12 billion in 2018 and KZT 11 billion in 2019.

The provision of these funds is conditional upon the funds being mixed equally with market funds. As a result, the lending rate available for borrowers is dependent on market costs but will be no more than 9% or 11% *per annum* (depending on the borrower). The mixing of budget funds and market funds allows for the additional financing of projects under the Industrialisation Programme in a total amount of KZT 581 billion (where the full cost of such projects are KZT 2,806 billion). As at 31 December 2020, DBK had allocated KZT 544.2 billion to various projects under the Industrialisation Programme, of which KZT 502.1 billion had been disbursed.

“Business Road Map” Programme

The “Business Road Map” 2020 programme was originally approved by Resolution № 301 of the Government on 13 April 2010 and restated in March 2015 and August 2018. On 24 December 2019, the Government approved the “Business Road Map” 2025 programme, which continues the programme for the years 2020-2024. This programme aims to: (i) ensure sustainable and balanced growth of regional businesses in the non-energy sectors of the Kazakhstan economy; and (ii) preserve existing, and create new, permanent jobs. Projects under the “Business Road Map 2020” programme are financed by DBK at subsidised rates, for which DBK is compensated out of the State budget up to its standard rates. In 2016, IDF JSC began financing manufacturing projects aimed at creating new and modernising existing production facilities. DBK was involved in financing two projects under the “Business Road Map” 2020 Programme in the year ended 31 December 2019 and 11 projects in 2018. As at 31 December 2020, DBK was involved in financing one project under the “Business Road Map” 2025 Programme.

Government Programme for Infrastructure Development

In April 2015, the Government Programme for Infrastructure Development “Nurly Zhol” for 2015–2019 was approved by the President. The Infrastructure Development Programme was restated in July 2018. On 31 December 2019, the Government extended the Infrastructure Development Programme to cover the period from 2020 until 2025. The Infrastructure Development Programme focuses on infrastructure, including improving domestic transport infrastructure; implementing export policies through the development of an efficient transit, export and logistics infrastructure; improving the technological, scientific, methodological and resource provision of infrastructure, as well as economic efficiency and competitiveness of carriers and companies engaged in transport infrastructure operations; and improving the operational and environmental safety of transport infrastructure. As at the date of this Base Prospectus, the lending rate available for borrowers under the Infrastructure Development Programme is no more than 8% *per annum*. Pursuant to Government resolution № 271 dated 23 April 2015, as amended, funds in an amount of KZT 100 billion were allocated to DBK for the provision of financing to domestic producers and exporters pursuant to the Infrastructure Development Programme, of which: (i) KZT 30 billion is to be allocated to support domestic car manufacturers (KZT 26 billion to be used for interbank lending and KZT 4 billion to be provided to IDF JSC for the provision of leasing financing); (ii) KZT 5 billion is to be allocated to support passenger railcar manufacturing; and (iii) KZT 65 billion is to be allocated to support exporters.

As at 24 December 2020, six agent banks (*i.e.*, commercial banks participating in the Infrastructure Development Programme, which provide preferential loans for the purchase of domestic cars) had granted 14,470 loans to individuals for the purchase of domestically manufactured motor vehicles for a total amount of KZT 65,410.1 billion and IDF JSC had entered into 854 leases for assets valued at KZT 10,463.2 billion. As at 31 December 2020, DBK, had approved 17 export operations for financing up to a total amount of KZT 540.7 billion.

Under the Infrastructure Development Programme, DBK also provides funds to second-tier banks for on-lending, and, as at 31 December 2020, 101 projects had been financed in a total amount of KZT 164.5 billion (including secondary utilisations of funds and the issuance of a KZT 5.0 billion loan to support the production of passenger wagons).

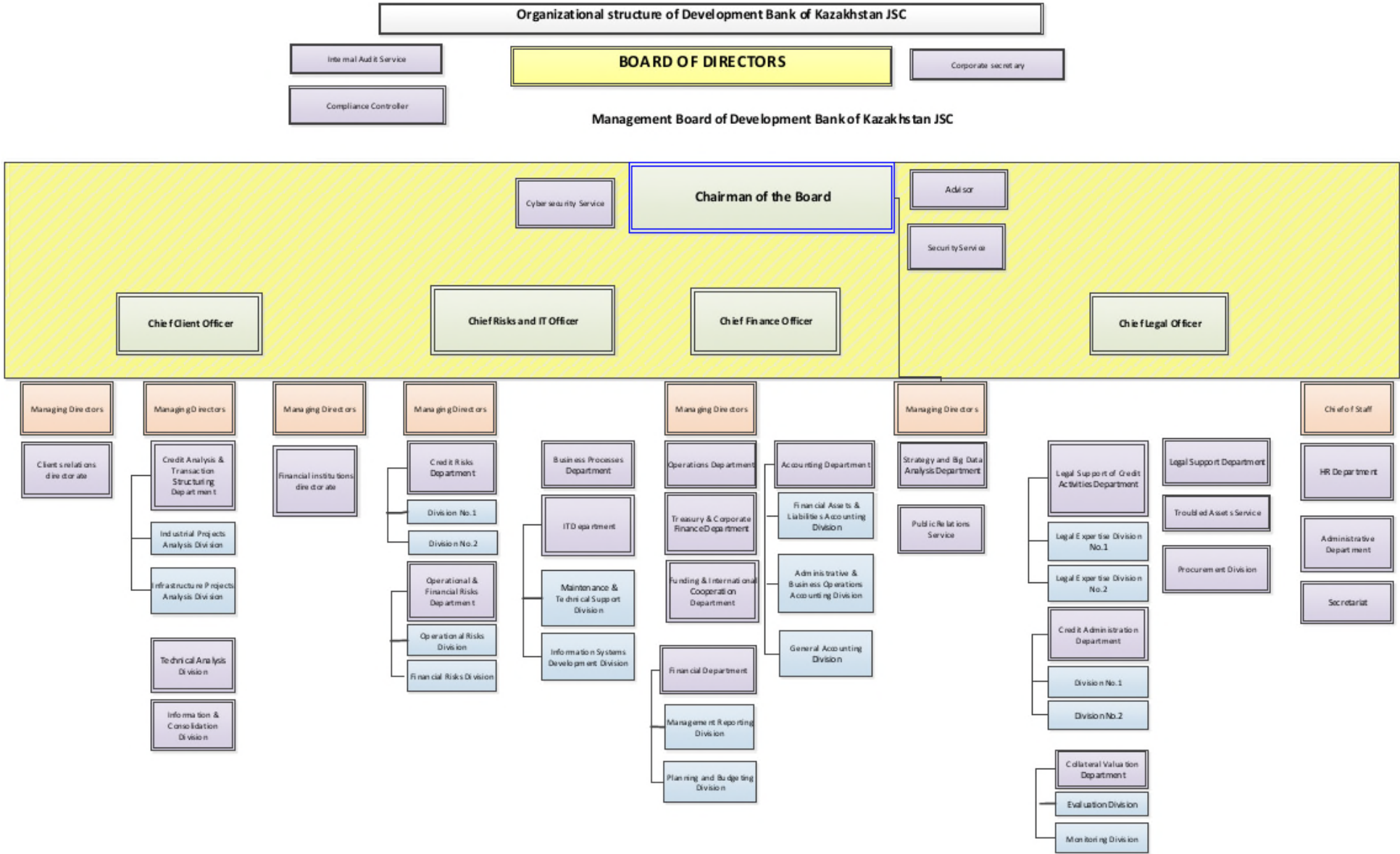
In December 2019, the Government Programme for Infrastructure Development “Nurly Zhol” for 2020–2025 was approved by Government Decree № 1055 dated 31 December 2019. Among other priorities, the Programme aims to develop transport infrastructure, support local car manufacturers, solicit intercontinental transit and implement export policy through the development of efficient transit, export and logistics infrastructure.

Interbank Lending Programmes

Within the framework of the joint action plan of the Government and the NBK for financing business entities in the processing industry approved by Government decrees № 1276 dated 5 December 2014 (“**Decree 1276**”) and № 124 dated 11 March 2015 (“**Decree 124**”), KZT 100 billion was allocated as funding for second-tier banks for on-lending to such entities. Such funds are received by DBK through its shareholder, Baiterek JSC, for on-lending to second-tier banks, which, in turn, on-lend to the ultimate borrowers. As of 31 December 2020, 61 projects for a total of KZT 70,944.3 million (including secondary utilisations of funds) have been financed under Decree 1276, and 80 projects for a total of KZT 93,534.3 million (including secondary utilisation of funds) have been financed under Decree 124. In addition, within the framework of these interbank lending programmes, KZT 82 billion was allocated for preferential car loan programmes. As of 31 December 2020, second-tier banks had issued 26,563 loans to purchase vehicles of domestic automakers for a total of KZT 133,198.1 million.

Structure of DBK

DBK’s head office is in Nur-Sultan. The chart below sets forth the organisational structure of DBK.



Lending

DBK is a development financial institution that provides medium and long-term financing for investment projects and trade financing for export transactions in priority sectors of the economy of Kazakhstan, as set out in the Credit Policy Memorandum.

As defined in the Credit Policy Memorandum, DBK's priorities are to finance investment projects and leasing transactions (through its subsidiary, IDF JSC), which are focused on the creation and development of:

- infrastructure (power engineering, transport, telecommunications and tourist infrastructure);
- non-extractive industrial production, including the excavation, purchase and transportation of raw materials and the processing and sales of finished products;
- agricultural production, including the cultivation, purchase and transportation of crops and the processing and sales of finished products;
- commercial service industries, including tourism, healthcare, recreation, sports and hotels; and
- exports.

DBK is also permitted to finance the following types of projects implemented outside Kazakhstan:

- projects, which are linked to facilities located in Kazakhstan and involved in the processing of extracted raw materials where those projects aid the development of such facilities;
- infrastructure projects, which enhance the transportation network in Kazakhstan and promote exports of Kazakhstan's goods; and
- projects by non-residents, which are recommended by the Government and guaranteed by the government of the borrower's country.

DBK's core investment activity abroad is in projects that facilitate the development of infrastructure in Kazakhstan and the export of goods and services produced in Kazakhstan. DBK's short-term lending strategy is to focus on providing direct financing to projects under the Industrialisation Programme, as well as export operations under the Infrastructure Development Programme, primarily involving other State-owned companies.

Much of DBK's lending is co-financed by other banks or lending institutions, predominantly financial institutions such as the China Export-Import Bank, China Development Bank, HSBC, Bank of Tokyo–Mitsubishi UFC and others.

As at 31 December 2020, DBK had 61 investment projects and 16 export-related projects ongoing with a value of KZT 7,081 billion (U.S.\$16,831 million), of which DBK's participation was KZT 3,220 billion (U.S.\$7,654 million). As at 31 December 2020, DBK's investment project portfolio included projects in the manufacturing, carbon and petrochemical (oil refinery) manufacturing, information and telecommunication, energy and electricity distribution, chemical, machinery-producing, construction materials, transportation and warehousing, food processing, mortgage and agriculture sectors. As at 31 December 2020, DBK had approved project costs for funding in an amount of approximately U.S.\$25.0 billion since commencing operations in 2001.

Investment Projects

DBK offers medium-term and long-term loan financing, including co-financing and refinancing of investment projects in priority areas, including metallurgy, transportation and logistics, electrical power, gas, steam and water sector, petrochemicals (oil refinery) and chemicals, construction and other manufacturing industries. The minimum level of funding granted for investment project loans is KZT 7 billion (other than food or beverage projects and public private partnership projects) and KZT 3 billion (for food or beverage projects and public private partnership projects). As at 31 December 2020, the total amount of investment project loans in which DBK participated was U.S.\$16,533.2 million (of which DBK's participation was U.S.\$7,355.6 million), with investments in the chemicals and petrochemicals (oil refinery), metallurgy, power energy and transport and logistics sectors comprising the largest proportion of such investment projects (32.8%, 17.1% and 17.7%, respectively). Details of the principal sectors in which DBK is participating, as at 31 December 2020, are set out below.

- **Transport and Logistics Sector**

As at 31 December 2020, DBK was participating in a number of investment projects in the transport and logistics sector, totalling approximately U.S.\$1,410.8 million, of which DBK's participation was approximately U.S.\$548.2 million.

As at 31 December 2020, DBK was participating in 13 major projects in this sector, including the construction of the passenger terminal and modernisation of the runway at Nur-Sultan and Aktau airports, modernisation of the gas distribution system of the South Kazakhstan region, expansion of the Aktau International Sea Trade Port, construction of the main Saryarka gas pipeline, gasification projects in five settlements in the Kyzylorda region and relating to the gas distribution network in the Aktobe region, modernisation of the gas distribution network in Taraz, construction of a complex for the production of railway wheels, the acquisition of passenger railway carriages and the modernisation of transport and logistics centres in Shymkent and Nur-Sultan region and construction of the reserve line of the "Uzen-Aktau" main gas pipeline in the "Uzen-Zhetybai" section of the pipeline.

- **Electric Power Sector**

As at 31 December 2020, DBK was participating in a number of investment projects in the electric power, gas, steam and water sector, totalling approximately U.S.\$1,318.6 million, of which DBK's participation was approximately U.S.\$776.8 million.

As at 31 December 2020, DBK was participating in nine major projects in this sector, including: the construction of a gas turbine power plant at the Akshabulak field; the construction of the Moinak hydro power plant on the Charyn River; the expansion of the Karaganda heat power stations; the construction of the Turgusun hydro power plant in East Kazakhstan; modernisation of Eurasian Energy Corporation JSC; construction of the Zhylga photovoltaic power station; construction of the first and second phases of a new 50 MW complex wind farm for Astana EXPO-2017; construction of a 100MW solar power plant in the Kapshagai region and construction of a 50 MW solar power plant in the Almaty region.

- **Tourism Sector**

As at 31 December 2020, DBK was participating in a number of investment projects in the tourism sector, totalling approximately U.S.\$663.1 million, of which DBK's participation was approximately U.S.\$296.6 million.

As at 31 December 2020, DBK was participating in four major projects in the tourism sector: the construction of a "St Regis" hotel complex with residential apartments in Nur-Sultan; the construction of a Hilton hotel complex in Nur-Sultan on the EXPO-17 site; and the construction of a resort hotel, multifunctional hotel and tourist complex in Aktau and a multifunctional tourist complex in Keruen-Saray.

- **Metallurgy Sector**

As at 31 December 2020, DBK was participating in a number of investment projects in the metallurgy sector, totalling approximately U.S.\$5,733.8 million, of which DBK's participation was approximately U.S.\$2,045.0 million.

As at 31 December 2020, DBK was participating in ten major projects in the metallurgy sector, including two projects for the construction of the Aktogay mining and processing plant in the East Kazakhstan region; construction of a plant for the production of primary aluminium in the Pavlodar region; the construction of a rail and beam plant in Aktobe with a design capacity of 430,000 tonnes of rolled metal per year; expansion and modernisation of production of Ust-Kamenogorsk Titanium-Magnesium Plant JSC; construction of a plant for the production of titanium ingots and slabs; the construction of a ferrosilicon plant in the city of Karaganda with a production volume of 96,000 tonnes per year; construction of a mining and processing plant for the processing of polymetallic ores in the village of Zhairam, Karaganda region, with a capacity of 5.0 million tonnes per year; construction of a processing plant in Karaganda; and the modernisation and reconstruction of zinc production facilities.

- **Construction Sector (Production of Construction Material)**

As at 31 December 2020, DBK was participating in a number of major projects in the construction sector, totalling approximately U.S.\$223.3 million, of which DBK's participation was approximately U.S.\$166.9 million.

As at 31 December 2020, DBK was participating in two major projects in the construction sector: the construction of a float glass production and processing partially in Kyzylorda; and the construction of a cement plant in East Kazakhstan with a capacity of 1.0 million tonnes of cement per year.

- **Petrochemical (Oil Refinery) Industry**

As at 31 December 2020, DBK was participating in a number of investment projects in the oil refinery sector, totalling approximately U.S.\$5,871.5 million, of which DBK's participation was approximately U.S.\$2,748.7 million.

As at 31 December 2020, DBK was participating in seven major projects in these sectors, including modernisation and reconstruction of the Shymkent oil refinery plant, construction of a deep oil refining complex at Atyrau oil refinery, construction of a complex for the production of aromatic hydrocarbons at the Atyrau oil refinery, modernisation of the Pavlodar petrochemical plant; two projects for the production of motor fuels; and construction of a methyl tert-butyl ether production plant in Shymkent.

- **Chemicals Sector**

As at 31 December 2020, DBK was participating in a number of investment projects in the chemicals sector, totalling approximately U.S.\$310.1 million, of which DBK's participation was approximately U.S.\$202.6 million.

As at 31 December 2020, DBK was participating in three major projects in these sectors, including construction of a sodium cyanide plant with a capacity of 15,000 tonnes in the city of Karatau for Talas Investment Company LLP; construction and organisation of production by JSC "Caustic" of chlorine and caustic soda using the membrane method with a capacity of 30,000 tonnes per year; and modernisation of the KazAzot JSC plant for the production of mineral fertilisers with an increase in the design capacity for the production of finished products.

- **Agricultural Sector**

As at 31 December 2020, DBK was participating in a number of investment projects in the food production sector, totalling approximately U.S.\$123.8 million, of which DBK's participation was approximately U.S.\$72.4 million.

As at 31 December 2020, DBK was participating in two major projects in this sector, including the construction of the first and second stages of a poultry factory for broiler farming in Akmola with a capacity of 60,000 tonnes per year in live weight.

- **Miscellaneous (Machine building industry)**

As at 31 December 2020, DBK was also participating in a number of investment projects in the miscellaneous sector, totalling approximately U.S.\$369.1 million, of which DBK's participation was approximately U.S.\$254.8 million.

As at 31 December 2020, DBK was participating in six major projects in this sector: expansion and modernisation of AgromashHolding JSC's service centres for the sale and maintenance of agricultural equipment; construction of a plant for the production of 110kV and 220 kV power transformers in Shymkent; development of AtyrauNefteMash LLP's oil engineering plant; recovery and stabilisation of the financial and economic condition of the automotive sector of JSC "Group of Companies Allure"; creation of Prommashkomplekt LLP; and the Hyundai passenger car production project in Kazakhstan.

- **Information and Communication Sector**

As at 31 December 2020, DBK was participating in a number of investment projects in the information and communication sector, totalling approximately U.S.\$509.2 million, of which DBK's participation was approximately U.S.\$243.4 million.

As at 31 December 2020, DBK was participating in five major projects in this sector: two projects for providing broadband access to rural settlements of Kazakhstan using fibre-optic communication lines technology; two projects for the introduction of LTE / GSM / UMTS networks in Kazakhstan and construction of a hardware-software complex of a communication platform along railway lines.

Export Financing

DBK provides export financing for operations worth more than U.S.\$297.9 million to both producers of Kazakhstan goods and to foreign buyers of exported goods. The provision of financing of exports of Kazakhstan commodity producers promotes the development of Kazakhstan's export potential. As at 31 December 2020, DBK's portfolio of export-related transactions included 16 export-related transactions, of which DBK's participation was U.S.\$297.9 million.

Industrial Development Fund JSC

IDF JSC was established as a joint stock company initially under the name DBK-Leasing JSC under the laws of Kazakhstan on 6 September 2005 and was re-registered with the Ministry of Justice under certificate № 20246-1901-AO in February 2006. Pursuant to Decree № 521 of the Government dated 18 August 2020 “On Establishment of the Industrial Development Fund,” the Board of Directors of DBK changed the brand name DBK-Leasing JSC to Industrial Development Fund JSC in September 2020. IDF JSC is based in Nur-Sultan. As at 31 December 2020, Industrial Development Fund JSC had share capital of 800,000 ordinary shares, all of which were fully paid and directly owned by DBK. IDF JSC has the same development priorities as DBK and supports DBK’s role as a development bank. IDF JSC operates under business identification number 050940001237.

IDF JSC, which is wholly-owned by DBK, conducts all of DBK’s lease financing activities. It offers short- and long-term (up to 20 years) lease financing in various forms, including for industrial equipment, leasing of industrial buildings and certain combined services, such as leasing and consulting, equity participation and leasing and credit and leasing pursuant to various Government programmes (see “—*Participation in Government Programmes*”). IDF JSC invests only in large-scale projects worth more than U.S.\$1 million. Exceptionally, IDF JSC also provides financing for small- and medium-sized projects worth at least U.S.\$205,000 in respect of projects implemented under the “Business Road Map 2020” Programme. IDF JSC also provides leasing under the Government Programme for Infrastructure Development “Nurly Zhol” to develop Kazakhstan’s transport infrastructure and support local car manufacturers. As at 31 December 2020, IDF JSC had a total leasing portfolio of approximately U.S.\$1,134 million and has, since its establishment, participated in 842 transactions in an aggregate amount, of approximately KZT 450,000 million. The main sectors in which IDF JSC has approved financing are the manufacturing and transportation and warehousing sectors. See “*Selected Statistical and Other Data—Finance Lease Receivables*”.

DBK funds 100% of IDF JSC’s activities for on-lending under finance lease arrangements. IDF JSC was established as a separate legal entity in order to permit IDF JSC’s customers to take advantage of tax benefits and certain VAT exemptions in respect of certain financed imported equipment. These tax advantages are intended to stimulate businesses to invest in the modernisation of industrial and manufacturing equipment. Customers may also prefer leasing, which, unlike loans from DBK, does not require 100% collateral, since IDF JSC retains title to the equipment. As a result, only a 15% to 30% down payment is required and there is a smaller collateral requirement than is required for all other forms of finance requested of customers.

As at 31 December 2020, based on its internal research, IDF JSC had an approximate 62% share of the finance leasing market in Kazakhstan. The Chairman of the management board of IDF JSC is Baibazarov Nurlan Serikovich. See “*Selected Statistical and Other Data—Finance Lease Receivables*”.

DBK CSF

In July 2017, DBK established its wholly-owned subsidiary, DBK CSF, a closed private limited liability company established in the Netherlands. DBK CSF was established for the purpose of participating in a direct investment fund in the Netherlands. In November 2017, DBK CSF and KCM established DBK Equity Fund, a direct investment fund, for purposes of investing in domestic and foreign projects, which promote the interests of the Kazakhstan economy.

DBK Equity Fund’s investment activities focus on investments: (i) that may require unsecured convertible or subordinated debt, in addition, or as an alternative, to existing debt, which would, in turn, be expected to generate a higher rate of return on investment; (ii) that have a stable growth potential and efficient management, as well as a target internal rate of return of at least 8%; (iii) whose shareholders are interested in seeking additional equity investment from an outside investor for a three to five year period (with such outside investor to be appointed to the Board of Directors and granted appropriate veto powers or consent rights in respect of key decisions); and (iv) whose shareholders are looking to seek an exit from their investment in a period of between three and five years through, for example, an initial public offering.

DBK Equity Fund is majority-owned by DBK CSF (97%), with KCM holding the remaining ownership interest. DBK Equity Fund is managed by KCM. DBK Equity Fund is controlled by Baiterek Holding. Equity investments of DBK Equity Fund may not be made to projects where the proposed investment from DBK Equity Fund will exceed 30% of a loan amount that the project has obtained, or will obtain, from DBK. Such projects must also be linked to financing provided by DBK or IDF JSC.

On 3 November 2017, a limited partnership agreement was signed among DBK CSF and KCM and, on 29 December 2017, a share premium contribution agreement was signed between DBK and DBK CSF for the contribution of shares in an amount equivalent to U.S.\$97.0 million.

In March 2018, the Consultative Council of DBK Equity Fund agreed to amend the conditions applicable to investments by DBK Equity Fund so that any acquired share in the target company shall be less than the shareholding of a major shareholder of this company and shall not exceed 49% of the equity of the target company.

In December 2018, DBK Equity Fund acquired a 12.2% stake in Freight International Holding B.V. The investment was provided for the purpose of financing the purchase of railcars and working capital

In December 2018, DBK Equity Fund acquired (through AOM Metal B.V.) a 23.55% stake in CAPEC Green Energy LLP. The investment was aimed at financing the construction of a start-up complex.

In October 2019, DBK Equity Fund contributed additional funds in the amount of KZT 1,115 million to the share capital of CAPEC Green Energy LLP. This contribution was aimed at financing the construction of a second start-up wind power complex. As a result of this transaction, DBK Equity Fund's equity holding in CAPEC Green Energy LLP decreased from 23.55% to 19.39% due to disproportionate share capital contributions in the transaction.

In November 2019, DBK Equity Fund provided a loan to Turgusun-1 LLP in an amount of KZT 1,000 million for the purpose of financing the construction of a hydro power station.

In December 2019, DBK Equity Fund participated in an investment project in poultry farming in the amount of KZT 7.8 billion (Aitas LUX S.a.r.l.).

In February 2020, DBK Equity Fund acquired a KZT 4,000 million stake in Continental Logistics LLP with the aim of modernising a transport and logistics centre in Nur-Sultan.

Agency Services

Prior to 1 January 2016, DBK acted as an agent of the Government in relation to state and regional budget investment projects, as well as loans secured by state guarantees and sureties. Pursuant to amendments made to the DBK Law on 29 October 2015, on 1 January 2016, DBK transferred all its rights and obligations to service (as agent) nine projects financed by loans secured by state guarantees to Assets Rehabilitation and Management Company JSC.

Accordingly, DBK is only permitted to act as an agent in relation to State programmes financed from the State budget, which contemplate financing to be provided to second-tier banks for on-lending to support manufacturers.

Investment Banking Services

Pursuant to the DBK Law, DBK is permitted to provide investment banking services together with direct financing. As at the date of this Base Prospectus, however, DBK does not intend to provide investment banking services.

International Banking

DBK co-operates with international development organisations and financial institutions, such as the IMF, the Islamic Development Bank, the European Bank for Reconstruction and Development (the “EBRD”), the Asian Development Bank, the Export-Import Bank of Turkey, the Export-Import Bank of Korea, the Development Bank of China, the Export-Import Bank of China, the European Investment Bank, Sinosure, the Eurasian Development Bank and other international financial institutions. DBK is a founding member of the InterBank Consortium of the Shanghai Co-operation Organisation, established in 2005, and held the Interbank Consortium chairmanship for the second time for the 2010 to 2011 period (having previously held this position in 2007 to 2008). In November 2011, the InterBank Consortium of the Shanghai Co-operation Organisation Development Strategy (2012-2016) was approved, which provides for further co-operation among members in project financing, exchange of expertise, training and seminars each year. An updated Organisation Development Strategy (for the period 2022-2026) is currently being discussed among all participants.

DBK focuses much attention on the development of co-operation with international financial organisations and learning from the experiences of other development institutions through its participation in various associations, interactions with international institutions and training programmes.

DBK also attracts investment from foreign investors, which is, in turn, beneficial to the promotion of Kazakhstan and assists economic diversification efforts. Since its establishment, DBK has signed a number of memoranda and agreements with organisations including, among others, the World Bank, HSBC, Merrill Lynch, European Bank for Reconstruction and Development, Bank of Tokyo Mitsubishi UFJ, EULER HERMES A.G., SACE, Japan Bank for International Cooperation, Commerzbank and Deutsche Bank.

In the coming years, DBK intends to expand its co-operation with multilateral development institutions, such as the EBRD, the Asian Development Bank, the World Bank and the European Investment Bank, principally through the involvement of such institutions in strategic investment projects, whether through co-financing or in an advisory capacity.

DBK maintains correspondent banking relationships with a number of banks, including ING Bank N.V., The Bank of New York Mellon, Citibank NY, Commerzbank AG, Sberbank of the Russian Federation and JPMorgan Chase & Co.

Competition

DBK's activities are governed by the DBK Law. Pursuant to the DBK Law, DBK's primary lending activities include both medium-term (for five or more years) and long-term (from 10 to 20 years) financings, whereas Kazakhstan's commercial banks generally provide short- to medium-term financing for up to three years. In addition, DBK does not participate in retail banking activities and does not accept deposits from customers who are not borrowers of DBK or customers of DBK under an agency agreement. As a result of all of these factors, DBK does not consider itself to be a competitor of the commercial banks in Kazakhstan.

DBK co-operates with a number of international development organisations and financial organisations. See "*—International Banking*". In addition, DBK co-operates with domestic development institutions in matters relating to NPLs, the promotion of export activities and the implementation of Government programmes and initiatives. DBK does not consider itself to be a competitor to such institutions.

Employees

As at 31 December 2020, DBK had 227 full-time employees, as compared to 227 full-time employees as at 31 December 2019 and 220 full-time employees as at 31 December 2018. One of DBK's key human resources-related objectives is the development of a corporate culture to help improve DBK's efficiency. To this end, in 2020, DBK conducted several human resources-related initiatives, including approving an updated Code of Business Ethics and creating a list of values for DBK (people, patriotism, responsible behaviour, innovation and efficiency). DBK's policies on risk culture, communication via social networks, principles of thrift and new values of DBK were also supplemented in 2020. DBK has also taken measures to increase employee involvement, which, in turn, directly affect DBK's performance. In 2020, DBK approved rules regarding non-cash employee motivational measures and developed nominations and award criteria.

Since the introduction of quarantine measures and other restrictions in Kazakhstan in 2020 as a result of the COVID-19 pandemic, DBK has introduced a number of measures to support the health of its employees. DBK continues to use a remote working schedule for more than 80% of its employees, emphasising the importance of maintaining employees' health. In addition, all employees were given the opportunity to be tested for COVID-19 at DBK's expense. One of DBK's priorities during the pandemic was to ensure its employees had confidence in their financial security. Accordingly, DBK has continued to pay full wages to employees who had a temporary disability certificate due to COVID-19.

While DBK does not have any union, collective bargaining or other labour agreement governing its overall relationships with its employees, employees are entitled (by statute) to elect employee representatives who are responsible for the overall representation and protection of the rights and interests of DBK's employees and participate in the settlement of any employee disputes. DBK's employees elected the current representatives on 12 October 2018. On 6 May 2019, DBK entered into an agreement with employee representatives in respect of the regulation of individual labour disputes in accordance with the Labour Code of the Republic of Kazakhstan. Pursuant to this agreement, a conciliation commission comprised of two DBK-representatives and two employee-representatives was established.

DBK's policy on labour compensation and employee motivation governs the procedures for the granting of employee incentives and rewards. In addition to salaries, which DBK believes, based on its own market research, are competitive within the Kazakhstan banking sector, the statute provides for bonus packages to be awarded based on DBK's reported financial results in certain circumstances, as well as certain other employee incentives. In addition, although DBK is not required to make social benefits available, employees are provided with certain levels of social support, including financial aid on the occurrence of certain events, including child birth, marriage or death of any employee and for health improvement, which is paid for annual leave; and health and life insurance. DBK conducts annual salary surveys for comparison of its employee remuneration with market conditions.

DBK provides systematic training and staff development opportunities to its employees. The Bank conducts comprehensive training activities in various fields of activity, and in various formats designed to address market trends and business requirements. In general, a 70% on-the-job training, 20% internal training and 10% external training split is followed for the training programme. DBK expects to shift the focus of training and development towards motivating employees to self-development and learning through practical experience. Employees from DBK regularly attend a wide range of specialised training seminars organised by multinational financial institutions. In addition to the arrangement of specialist seminars and training courses, DBK's employees also participate in internships with banks and other financial institutions. Notwithstanding the restrictions and remote working imposed by the COVID-19 pandemic, DBK has hosted multiple training events online, including lectures from colleagues, open days for students and coaching sessions for employees.

DBK is committed to continuing to upgrade the level of the professional skills and knowledge of its personnel with a view to ensuring the availability of sufficiently trained personnel to implement its strategic objectives as set out in the DBK Law and the Credit Policy Memorandum. For this purpose, DBK has budgeted KZT 66.9 million for training expenses in each of 2021 and 2022. During 2020, 100% of DBK's employees received training at various seminars and courses at a total cost of approximately KZT 44.9 million.

Technology

DBK has developed its own internal documentation and information network protection system to assist efficient communication and data management and protection. Management believes that DBK is in compliance with applicable standards relating to automation and has installed a monitoring and analysis automated information system. The use of these communications systems enables DBK to have protected interactive access to SWIFT, the Kazakh Centre of Interbank Settlements for Tenge payments and the Reuters and Bloomberg information services. DBK is committed to further upgrading and maintaining these systems, as well as its data storage capacity and security.

On 19 December 2018, the Management Board approved the Information Technology Development Strategy for 2019-2021, which includes implementation of the following main information technology initiatives: (i) implementation of a business process management system; (ii) implementation of an electronic records archive; (iii) modernisation of information technology infrastructure; (iv) modernisation of the Colvir banking system; (v) implementation of an enterprise data warehouse and ETL; (vi) implementation of a business analytics system; (vii) increasing the efficiency of the information technology management model; and (viii) improving security and levels of business continuity.

Certain of these initiatives have already been implemented (including the business process management system, Colvir upgrade, the enterprise data warehouse, EDL and business analytics system).

Since 2017, DBK has invested more than KZT 1.85 billion in the development of IT systems and has strengthened its internal procedures to ensure that the most critical information is backed-up on an hourly basis, other important information is backed-up on a daily basis and stored within DBK, while other information is backed-up on a weekly basis. The systems are periodically improved and implemented based on the core banking system and electronic document management system ("EDMS").

Only information technology and information security personnel have access to DBK's servers and back-up information. DBK has also developed a disaster recovery plan, and actively uses the capacities of the remote data processing centre, which store back-up copies of all information systems, as well as DBK's EDMS virtual server. In order to ensure information security, DBK has installed a security information and event management information system, as well as a data loss prevention information system.

DBK invested KZT 248 million in 2020 in the acquisition of a business process management class information system that is expected to enable DBK to accept and process applications for financing through customers' personal accounts. This is intended to: (i) increase the transparency of relations with customers; (ii) automate internal business processes, which, in turn, are expected to improve the speed and quality of services provided by DBK to its customers; and (iii) permit Management to use analytical tools to make effective decisions.

In 2021, DBK plans to invest approximately KZT 624 million in further developing its existing information systems and information security, as well as acquiring specialised software designed to calculate models and provisions.

In 2019, an external consultant reviewed DBK's cyber security practices. While penetration tests conducted did not reveal any material deficiencies, the external consultant and DBK developed a roadmap with DBK to address those deficiencies identified. The measures identified in the roadmap have subsequently all been implemented. In 2020, one of DBK's interim servers was hacked. No secure data was held on this server and the attack was discovered and blocked and the server subsequently restructured. In late 2020, DBK established a dedicated cyber security team. See *"Risk Factors—Factors that may affect DBK's ability to fulfil its obligations under, or in connection with, Notes issued under the Programme—A. Operational Risks relating to DBK and its Business—DBK is subject to Information Systems Risk"*.

Credit ratings

DBK is rated by S&P, Moody's and Fitch and its credit ratings are as follows:

Rating Agency	Tenor	Rating	Outlook
S&P	Foreign Long Term Rating	BB+	Stable
	Foreign Short Term Rating	B	—
	Local Long Term Rating	BB+	Stable
	Local Short Term Rating	B	—
Moody's	Foreign Long Term Issuer Rating	Baa3	Positive
	Local Long Term Issuer Rating	Baa3	Positive
Fitch	Long Term Issuer Default Rating	BBB	Stable
	Short Term Issuer Default Rating	F2	—
	Local Currency Long Term Issuer Default Rating	BBB	Stable
	Local Currency Short Term Issuer Default Rating	F2	—
	Support Rating	2	—
	Support Rating Floor	BBB	—

In June 2020, S&P affirmed the BB+/B long- and short-term foreign- and local-currency issuer credit ratings assigned to DBK. S&P also affirmed the stable outlook on the long-term ratings.

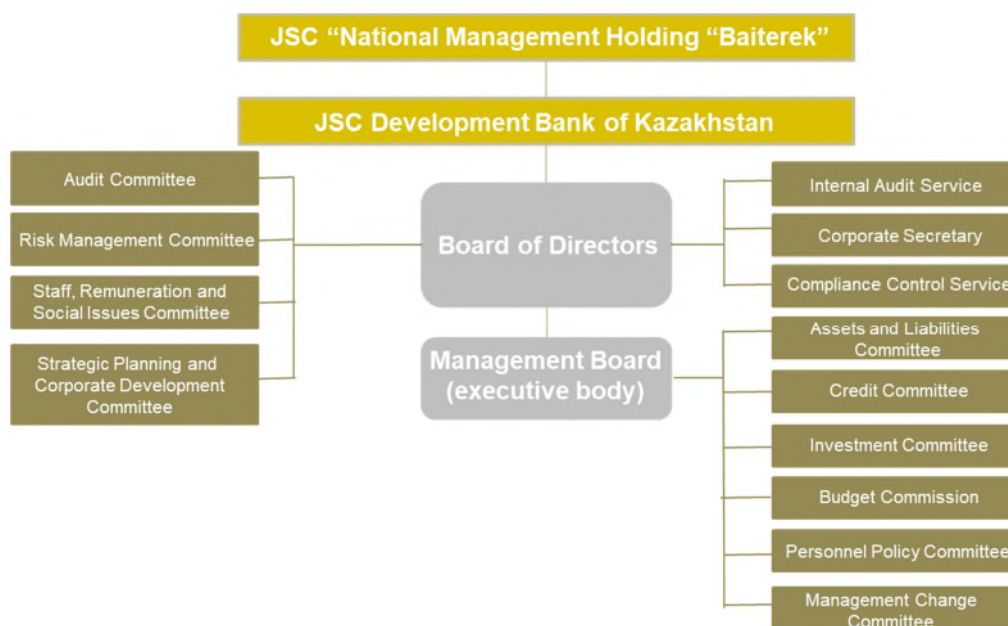
In September 2019, Moody's affirmed the Baa3 long-term ratings assigned to DBK. In August 2019, Moody's changed the outlook on DBK's long-term ratings from stable to positive, citing the change in the outlook rating of DBK's immediate parent, Baiterek JSC. In June 2020, Moody's completed a periodic review of DBK's ratings.

In March 2021, Fitch upgraded the long-term issuer default rating of DBK to BBB with a stable outlook (from BBB-) in line with the sovereign, as well as the other ratings listed in the table above.

A credit rating is not a recommendation by the rating organisation or any other person to buy, sell or hold securities and may be subject to revisions or withdrawal at any time by the assigning rating organisation and each should be evaluated independently from the other. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes.

MANAGEMENT

The following organisation chart sets forth the management reporting lines and principal business units of DBK as at the date of this Base Prospectus:



General

The DBK Charter provides for the following corporate governing bodies:

- the sole shareholder, Baiterek JSC, which represents the highest corporate governing authority of DBK. Baiterek JSC was established pursuant to the Decree of the President of the Republic of Kazakhstan № 571 dated 22 May 2013, which provided for, among other things, the transfer of the entire issued share capital of DBK from Samruk-Kazyna to Baiterek JSC. Among other matters, Baiterek JSC, as shareholder, sets DBK's dividend policy. See *"Share Capital, Sole Shareholder and Related Party Transactions—Share Capital—Dividend Policy"*;
- the Board of Directors, which is responsible for the general management of DBK and the approval of its strategic and operational plans;
- the Management Board, which is responsible for the day-to-day management and administration of DBK;
- the Credit Committee, which is responsible for making decisions with respect to DBK's internal credit policy (other than matters that fall within the exclusive competence of other bodies or officials of DBK);
- the Investment Committee, which is responsible for making decisions with respect to DBK's portfolio management (other than matters that fall within the exclusive competence of other bodies or officials of DBK); and
- the Internal Audit Service, which is responsible for DBK's internal control processes and reports to the Board of Directors.

Board of Directors

The Board of Directors must consist of not less than three members and not less 30% of all members must be independent directors. As at the date of this Base Prospectus, the Board of Directors consists of seven members, including the chairman of the Board of Directors, who is Chairman of the Management Board of Baiterek JSC, two other representatives of Baiterek JSC, as sole shareholder of DBK, the Chairman of the Management Board of DBK and three independent directors. The Board of Directors is tasked with ensuring the protection of rights of DBK's sole shareholder, the effective implementation of DBK's objectives, the approval of DBK's long-term strategy and mid-term development plans, the efficient operation of DBK's strategy and risk management system and controlling DBK's financial and economic activities.

The activities of the Board of Directors are governed by the Provision of the Board of Directors, dated 18 December 2018 (the “**Provision**”). The Provision sets forth information regarding the role of the Board of Directors and the rights, duties and responsibilities of members of the Board of Directors. The Board of Directors also carries out its activities in accordance with the JSC Law and other applicable legislation.

The business address of the members of the Board of Directors is the registered office of DBK, namely, n-r. pr. 15, building 55A Mangilik Yel Avenue, Yesil district, Nur-Sultan, Republic of Kazakhstan. The members of DBK’s Board of Directors are:

<u>Name</u>	<u>Other Positions</u>	<u>Date Appointed</u>	<u>Age</u>	<u>Date of Birth</u>
Aidar Arifkhanov (chairman)	Chairman of the Management Board of Baiterek JSC	20 December 2017	46	28 November 1974
Abay Sarkulov	Chairman of the Management Board of DBK	29 April 2019	39	13 August 1981
Rustam Karagoishin	Member of the Audit Committee, the Risk Management Committee, the Staff, Remuneration and Social Issues Committee and the Strategic Planning and Corporate Development Committee. Representative of Baiterek JSC.	10 June 2019	37	6 September 1983
Marcia Favale (independent director)	Chair of the Audit Committee and Strategic Planning and Corporate Development Committee, member of the Risk Management Committee and the Staff, Remuneration and Social Issues Committee	26 January 2015	51	17 October 1969
Gani Uzbekov (independent director)	Chairman of the Risk Management Committee, member of the Audit Committee, Strategic Planning and Corporate Development Committee and Staff, Remuneration and Social Issues Committee	3 March 2021	46	21 June 1974
Anvar Saidenov (independent director)	Chairman of the Staff, Remuneration and Social Issues Committee, member of the Risk Management, Audit and Strategic Planning and Corporate Development Committees	24 October 2018	60	19 September 1960
Adil Nurgozhin	Member of the Audit Committee, the Risk Management Committee, the Staff, Remuneration and Social Issues Committee and the Strategic Planning and Corporate Development Committee. Representative of Baiterek JSC	28 October 2020	38	28 March 1983

Information regarding the members of the Board of Directors is set out below:

Aidar Arifkhanov graduated from the Kazakh State Academy of Management and the Diplomatic Academy of Kazakhstan’s Foreign Affairs Ministry. Mr. Arifkhanov also graduated from Columbia University in 2008 with a Master’s degree in Public Administration and Economic Policy Management. Mr. Arifkhanov began his career in 1997 as Chief Specialist at the Programme and Social Loans Department of the External Debt Committee of the Ministry of Finance. Between 1998 and 2004, he held various positions, including Head of Departments, Head of the Office of Government Loans and State Guarantees, and Deputy Director of the Department of Public Debt and Lending of the Ministry of Finance of Kazakhstan. Between 2004 and 2007, Mr. Arifkhanov served as Vice Minister of Finance, Deputy Head of the Office of the Prime Minister and Vice Minister of Labour and Social Protection. In 2009, he served as advisor to the Prime Minister and, between 2009 and 2010, he served as Deputy Chairman of the Kazakhstan Agency for Information and Communication. Mr. Arifkhanov was appointed Managing Director of JSC “Kazakhtelecom in 2010 and, between 2011 and 2015, he served as Deputy Chairman of the National Joint Stock Company “Kazatomprom”. Between 2015 and 2017, Mr. Arifkhanov served as Deputy Minister of the National Economy of Kazakhstan. He was elected as Deputy Chairman of the Board of Baiterek JSC in January 2017 and as a Member of the Board of Directors of DBK on 16 February 2017. Mr. Arifkhanov became Chairman of the Board of Baiterek JSC in December 2017.

Abay Sarkulov graduated from Aktobe State University with a degree in Banking. Mr. Sarkulov began his career in 2004 as Marketing Manager at the Nur-Sultan branch of “Alma-Ata” International Bank” JSC. He held numerous positions at “Alma-Ata” International Bank JSC, including Currency Operations Manager between 2004 and 2005 and Loan Office Manager between 2005 and 2007 (as well as also holding the positions of Head of the Operations Office between 2005 and

2006 and Deputy Director between 2006 and 2007). In 2007, Mr. Sarkulov joined DBK as Manager of the Infrastructure Projects Credit Department. Between 2008 and 2017, he held various positions, including Senior Manager of the Infrastructure Projects Credit Department, Front-Manager of the Project Directorate, Head of the Credit Administration Department, Senior Front-Manager of the Project Directorate, Deputy Project Director of the Directorate, Project Director of the Directorate and Managing Director. Between February 2017 and April 2019, Mr. Sarkulov served as Chairman of the Management Board of “Damu” Entrepreneurship Fund” JSC. On 29 April 2019, he was appointed Chairman of the Management Board of DBK and a member of the Board of Directors.

Rustam Karagoishin graduated from the Kazakhstan Institute of Management, Economics and Forecasting in 2004 and the International Academy of Business in 2008. Between 2004 and 2011, Mr. Karagoishin held the positions of Manager, General Manager and Head of the Project Analysis Department at DBK. He then transferred to DBK-Leasing JSC (now IDF JSC), where he served as Managing Director and was a member of the Board of Directors. Between 2011 and 2019, Mr. Karagoishin held a number of positions, including Head of the Foreign Economic Activity Sector at the Oil and Petroleum Products Marketing Department of Petroleum Operating LLP, Chairman of Credit Systems LLP, Deputy Director General at Sberbank Leasing LLP, Director General at Sberbank Leasing LLP, Deputy Chairman of the Board of KazAgroFinance JSC and the Director General at Kazakhstan Grain Consortium LLP. He was elected as Deputy Chairman of the Board of “Baiterek” National Managing Holding” JSC in May 2019. On 10 June 2019, Mr. Karagoishin was appointed as a member of the Board of Directors of DBK. He is a member of the Risk Management, Audit, Strategic Planning and Corporate Development, Remuneration and Social Issues Committees of DBK.

Marcia Favale graduated from Said Business School, University of Oxford with a Master of Science in Major Programme Management, a Master of Business Administration and a Post-Graduate Diploma in Financial Strategy. She graduated with a B.A. in Political Science from New York University in 1992. Prior to founding her own company, Ms. Favale was Managing Director, Head of LATAM and CEEMEA Credit Research at UBS (between 1998 and 2005), a senior member of UBS’s global credit fixed income research group, as well as a member of UBS’s Emerging Market Credit Committee and a member of UBS’s Emerging Market Steering Committee. Ms. Favale worked at Banker’s Trust between 1992 and 1993 and at Merrill Lynch in the High Yield Department between 1993 and 1998. She worked as a Portfolio Manager at Brevan Howard and Advent Capital between 2006 and 2007 and has participated in and contributed to the E15 initiative meetings at the World Economic Forum. Ms. Favale teaches part-time at the Major Programme Management Graduate Programme and guest lectures on Private Equity at Said Business School, University of Oxford. She was Senior Advisor to the Prime Minister of Kazakhstan from 2009 to 2013. She is currently an Independent Board Member on the Kazakh Investment Committee Board of Directors and the Chair of the Board of the African Development Organisation. She has served as an Independent Director and a member of the Board of Directors of DBK since January 2015. Ms. Favale is Chair of the Audit and Strategy Committees and a member of the Risk Management Committee and the Staff, Remuneration and Social Issues Committee of DBK.

Gani Uzbekov graduated from the London School of Economics in 2000 and Harvard University’s Kennedy School of Government in 2003. Mr. Uzbekov was selected for the World Bank’s Young Professionals Program (2003) and World Economic Forum’s Global Leadership Program (2005). Mr. Uzbekov has previously served as Deputy Minister of Finance of Kazakhstan. Between 2006 and 2008, Mr. Uzbekov served as Deputy Chairman of Kazakhstan’s Kazakh Agency on Regulation and Supervision of the Financial Market and Financial Organizations (FSA). He has also served as Deputy Chairman of Kazyna, the Kazakh Sovereign Wealth Fund. During his term as the Deputy Minister of Finance, he served as Kazakhstan’s Alternate Governor on the Board of Governors of the World Bank, IMF, EBRD, Asian Development Bank and Islamic Development Bank. Mr. Uzbekov is Chief Executive Officer of Capital Bank Kazakhstan. Prior to assuming this role, Mr. Uzbekov served as Deputy Chief Executive Officer at KazInvestBank and as Deputy Chief Executive Officer and Chief Risk Officer at HSBC Bank Kazakhstan. Mr. Uzbekov was appointed as an Independent Director and a member of the Board of Directors of DBK in March 2021. He is the Chair of the Risk Management Committee and a member of the Audit Committee, Strategic Planning and Corporate Development Committee and Staff Remuneration and Social Issues Committee of DBK.

Anvar Saidenov graduated with a Ph.D. in Economics from the Faculty of Economics of Lomonosov Moscow State University in 1982. In 1994, Mr. Saidenov graduated from the school of Oriental and African Studies University of London with a Master of Science degree in Financial Economics. Between 1987 and 1993, he taught economic theory at the Dzhambul Irrigation and Construction Institute. From August 1993 to August 1996, Mr. Saidenov worked as an Intern, Consultant and Junior Banker at the European Bank for Reconstruction and Development in London. Since August 1996, he has been working in the financial sector in Kazakhstan, where he has held senior positions at the NBK, the State Investment Committee, the Investment Agency and the Ministry of Finance, Halyk Savings Bank and BTA Bank. Between January 2004 to January 2009, Mr. Saidenov was Chairman of the NBK. Since April 2016, he has been an Independent Director of the Board of Directors of Halyk Bank JSC and, since February 2018, he has been an Independent Director of the Board of Directors of Bank Home Credit SB JSC. On 24 October 2018, Mr. Saidenov was appointed as an Independent Director and member of the Board of Directors of DBK. On 29 November 2018, he was elected as an Ombudsman of DBK. DBK’s Ombudsman function was established to strengthen DBK’s internal control system and monitor compliance with

DBK's Code of Ethics. In addition to collecting information regarding violation of the Code of Ethics, the Ombudsman is tasked with initiating the settlement of disputes regarding such violations.

Adil Nurgozhin graduated from the Kazakh National University with a degree in International Relations (international law) in 2005 and from the University of Montana with a Masters of Business Administration (Finance and Entrepreneurship) in 2007, as well as from the Department of Chinese Language and Literature at Lanzhou University in China in 2004. Mr Nurgozhin is fluent in three foreign languages (English, Turkish and Chinese). He began his career in 2004 as a lawyer at the GRATA law firm in Almaty. In 2005, he worked as an assistant to the General Director of the RSE "National Center for Biotechnology of the Ministry of Education and Science of Kazakhstan. Between 2007 and 2009, Mr. Nurgozhin headed the Marketing and Advertising Departments, then the Strategic Development Department of JSC Regional Financial Center of Almaty. From 2009 to 2012, he served as Director of the Department for Investment Projects in the Mining and Chemical Industry, Managing Director of Samruk-Kazyna Invest LLP. From 2012 to 2018, Mr. Nurgozhin served as General Director of VTB Capital I2BF LLP. Since September 2018, he has served as a Managing Director of Baiterek National Managing Holding JSC. Mr Nurgozhin was appointed as a member of the Board of Directors of DBK in October 2020. He is a member of the Audit Committee, the Risk Management Committee, the Staff Remuneration and Social Issues Committee and the Strategic Planning and Corporate Development Committee of DBK.

Management Board

In February 2009, a number of changes were made to the DBK Law, including the creation of a new management structure which abolished the previous offices of the President and his Vice Presidents and replaced them with the Management Board. The Management Board is an executive board consisting of not less than five members. As at the date of this Base Prospectus, the Management Board consists of five members. The Management Board generally manages the day-to-day activities of DBK. Members of the Management Board are appointed by the Board of Directors, after consultation with the Staff, Remuneration and Social Issues Committee. The term of the members of the Management Board is determined by the Board of Directors.

The members of the Management Board are:

Name	Positions	Date Appointed	Age	Date of Birth
Abay Sarkulov	Chairman	29 April 2019	39	13 August 1981
Sandugash Kenzhebayeva	Deputy Chairman, Risk Management and Digital Development	10 April 2019	46	1 April 1975
Dmitry Babichev	Deputy Chairman, Financial Management	29 March 2016	39	13 September 1981
Duman Aubakirov	Deputy Chairman, Lending	31 March 2017	40	6 January 1981
Aset Sharipov	Deputy Chairman, Legal Affairs	16 March 2020	38	16 September 1982

Abay Sarkulov See "*—Board of Directors*".

Sandugash Kenzhebayeva graduated from the Kazakh State Academy of Management with a specialty in Banking Operations Management in 1996. Ms. Kenzhebayeva began her career as a Manager and Senior Manager at the Agency of Statistics of the Republic of Kazakhstan between 1998 and 2005. Between 2005 and 2007, she was a Senior Manager and then Head of the Department responsible for working with financial institutions in the CIS and Baltic countries at JSC Nurbank, in Almaty. In August 2007, Ms. Kenzhebayeva was appointed as Senior Manager and Credit Analyst of Corporate Business at JSC Nurbank, in Nur-Sultan. Between September 2007 and January 2008, she was Senior Manager of the Underwriting Department of JSC Astana-Finance. In January 2008, Ms. Kenzhebayeva began working as a Front-Manager of the Project Directorate of DBK, before being promoted in December 2011, to the position of Senior Front-Manager of the Project Directorate. In February 2015, she was appointed as Head of the Project Directorate and, between January 2016 and August 2016, she was Senior Banker of the Client Relations Department. Since August 2016, Ms. Kenzhebayeva has been Executive Director of the Department of Manufacturing Industry at Eurasian Development Bank. She has served as a Managing Director of DBK since December 2017 and was appointed as Deputy Chairman of the Management Board on 10 April 2019.

Dmitriy Babichev graduated from the Almaty State University specialising in Finance and Credit. In 2011, he also obtained an MBA from the Kazakh Economic University. In 2002, Mr. Babichev began his career in the banking industry and, between 2002 and 2008, he was employed as a Specialist, Leading Specialist, Chief Specialist and Head of the Internal Audit Service of Bank TuranAlem JSC. From 2008 to 2013, he held the position of Head of Internal Audit Service at Temirbank JSC. From June 2013 to March 2016, Mr. Babichev worked as Director of the Risk Management Department of Baiterek JSC. He has served as Deputy Chairman of the Management Board of DBK since March 2016.

Duman Aubakirov graduated from L. N. Gumilev Eurasian National University with a specialty in Economics and Management in the Social Sphere. Mr. Aubakirov began his career at Akim Administration of Egindykol district, Akmola Region, as a Specialist, before becoming the Advisor for the Akim District. From 2003 to 2004, he was a Leading Specialist in the Department of Analysis and Ongoing Forecasts of Income under the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan. Between 2004 and 2007, Mr. Aubakirov worked as the Chief Specialist of the Department of Income Analysis and Division Head of the Department of Analysis and Methodology of State Budget Execution. In July 2007, he was appointed as a Specialist of the Managing Director's Office of DBK and has since held the positions of Specialist, Front Manager, Chief Front Manager, Deputy Head of the Project Directorate and Head of the Project Directorate. Since February 2015, he has held the position of the Managing Director and Board member of DBK. Mr. Aubakirov was appointed to the position of Deputy Chairman of the Board of DBK on 31 March 2017.

Aset Sharipov graduated from the Kazakh Humanitarian Legal University with a degree in Law. He has a Master's degree from Kazakh Humanitarian Legal University, specialising in Labor Law and Social Security law. Mr. Sharipov began his career in 2003 as a Specialist at the OPSF Otan JSC of ATFBank. From 2004 to 2010, he held the positions of Lawyer, Chief Specialist, Head of Department and Senior Lecturer at International Bank "Alma-Ata" JSC, ABK-V LLP, ATF Bank JSC and RSE Kostanay State University named after A. Baitursynov. Between 2010 and 2014, Mr. Sharipov worked as Deputy Director of the Legal Support Department of DBK. From 2014 to 2016, he was a Deputy Director of the Legal Support Department of RSE National Bank of Kazakhstan. From 2016 to 2017, Mr. Sharipov was a Director of the Legal Support Department of DBK. Between July 2017 and March 2019, he held the position of Deputy Chairman of the Board of Damu Entrepreneurship Fund JSC. In March 2020, Mr. Sharipov was appointed to the position of Managing Director and member of the Management Board of DBK.

The business address of the members of the Management Board is the registered office of DBK, namely, n-r. pr. 15, building 55A Mangilik Yel Avenue, Yesil district, Nur-Sultan, Republic of Kazakhstan.

Corporate Governance DBK's Code of Corporate Governance, the most recent amendments to which were approved on 18 December 2019, is constructed upon the following principles:

- protection of the rights and interests of the sole shareholder;
- efficient management of DBK by the Board of Directors and the Management Board (as the executive body);
- division of powers;
- sustainable development;
- transparency and fair disclosure of information;
- risk management, compliance control and internal audit; and
- regulation of corporate conflicts.

Three members of the Board of Directors are independent directors, which exceeds the minimum share of independent directors required by the JSC Law. These directors are appointed by Baiterek JSC, the sole shareholder of DBK.

In addition to establishing committees of the Board of Directors, as described below, DBK also has a Corporate Secretary of the Board of Directors and a Compliance Controller to assist the Board of Directors in ensuring DBK's compliance with corporate rules and management policy. The Corporate Secretary works to assist the Board of Directors in fulfilling its duties and protecting the rights and interests of the sole shareholder. The Compliance Controller works to ensure effective management of compliance risks and has the exclusive right to exercise internal control over DBK's compliance with the legislation of Kazakhstan, including NBK regulations and DBK's internal regulations and procedures.

See *“Asset and Liability Management – Anti Money Laundering, Countering the Financing of Terrorism, Anti-Corruption and Anti-Bribery Policies and Procedures.”*

Board Committees

The Board of Directors has established the following committees:

Audit Committee

The Audit Committee was established to facilitate the monitoring of DBK's financial and economic activities and to ensure that there is an adequate system of internal control and risk management in operation. The Audit Committee is responsible for the promotion and strengthening of DBK's internal and external audit functions.

As at the date of this Base Prospectus, the members of the Audit Committee are Ms. Favale (Chair), Mr. Saidenov, Mr. Uzbekov, Mr. Karagoishin and Mr. Nurgozhin.

Risk Management Committee

The role of the Risk Management Committee is to assist the Board of Directors in risk monitoring, risk control and risk analysis. As at the date of this Base Prospectus, the members of the Risk Management Committee are Mr. Uzbekov (Chair), Mr. Saidenov, Ms. Favale, Mr. Karagoishin and Mr. Nurgozhin. See also "*Asset and Liability Management*".

Staff, Remuneration and Social Issues Committee

The Staff, Remuneration and Social Issues Committee is an advisory body of the Board of Directors, created in order to improve the efficiency of DBK's development management by preparing recommendations to the Board of Directors in respect of staff and motivation policy and addressing issues of appointment and remuneration falling under competence of the Board of Directors.

As at the date of this Base Prospectus, the members of the Staff, Remuneration and Social Issues Committee are Mr. Saidenov (Chair), Mr. Karagoishin, Ms. Favale, Mr. Uzbekov and Mr. Nurgozhin.

Strategic Planning and Corporate Development Committee

The role of the Strategic Planning and Corporate Development Committee is to make recommendations to the Board of Directors in relation to the development of the priority sectors and strategic aims of DBK. As at the date of this Base Prospectus, the members of the Strategic Planning Committee are Ms. Favale (Chair), Mr. Saidenov, Mr. Karagoishin, Mr. Uzbekov and Mr. Nurgozhin.

Other Committees and Support Bodies

The Management Board is also assisted by the Budget Commission, the Investment Committee, the ALMC, the Credit Committee, the Change Management Committee and the Personnel Policy Committee.

The Budget Commission assists with the timely development and execution of the budget for each financial year and the Personnel Policy Committee carries out management and development of human resources of DBK.

See "*Asset and Liability Management—Principal Committees*" for a description of the Investment Committee, the Credit Committee and the ALMC.

Internal Audit Service

The Internal Audit Service is tasked with ensuring the organisation and implementation of DBK's internal audits and developing an annual audit plan based on the recommendations of the Audit Committee, as well as a map of DBK's audit risks, including DBK's risk matrix and risk register. The Internal Audit reports and is accountable to the Board of Directors and is supervised by the Audit Committee. The Internal Audit Service carries out its activities in compliance with the legislation of the Republic of Kazakhstan, internal regulations of DBK and the International Professional Practices Framework promulgated by the Institute of Internal Auditors. The Internal Audit Service conducts its activities in line with specially designed methodologies and the annual audit plan. An external audit of the Internal Audit Service is generally performed every five years, with the last such audit completed in 2018.

The activities of the Internal Audit Service are aimed at providing the Board of Directors with an objective, independent assessment of, and advisory services with regard to, the status of DBK's internal control, risk management and corporate governance systems.

The head and other members of the Internal Audit Service are appointed by the Board of Directors. The Board of Directors approves the annual plan for the Internal Audit Service and key performance indicators applicable to the Internal Audit Service and the Head of the Internal Audit Service. The activity report of the Internal Audit Service is submitted to the Audit Committee and the Board of Directors on a quarterly basis.

Management Remuneration

Determination of the amounts and terms of remuneration for the Board of Directors is the responsibility of Baiterek JSC, as sole shareholder. The current policy of Baiterek JSC does not provide for the payment of remuneration to members of the Board of Directors who are representatives of Baiterek JSC. According to DBK's internal regulations, remuneration is paid to independent members of the Board of Directors in the form of annual fixed remuneration and additional remuneration for attendance at meetings of committees of the Board of Directors. Remuneration of executive management is based on DBK's financial results and is determined by the Board of Directors. As at 31 December 2020, there were no outstanding loans or guarantees granted by DBK to any member of the Board of Directors or the Management Board or to any parties related to them. See *"Share Capital, Sole Shareholder and Related Party Transactions—Related Party Transactions—Transactions with the Board of Directors and Management Board"*.

Conflicts of Interest

There are no potential conflicts of interest between any duties of the members of the Board of Directors and the Management Board of DBK towards DBK and their private interests or other duties.

DBK has instituted and maintains a policy regarding the settlement of corporate conflicts and conflicts of interest of interest involving officials and employees of DBK, which is aimed at ensuring the prevention and settlement of any actual or potential conflicts of interest.

SHARE CAPITAL, SOLE SHAREHOLDER AND RELATED PARTY TRANSACTIONS

Share Capital

As at 31 December 2020, DBK's outstanding share capital consisted of: 2,107,270 ordinary shares, as follows:

- 1,819,519 ordinary shares with a nominal value of KZT 50,000 per share;
- 250,000 ordinary shares with a nominal value of KZT 668,000 per share;
- 30,000 ordinary shares with a nominal value of KZT 1,000,000 per share;
- 5,000 ordinary shares with a nominal value of KZT 5,000,000 per share;
- 1,250 ordinary shares with a nominal value of KZT 40,000,000 per share;
- 1,000 ordinary shares with a nominal value of KZT 40,000,000 per share;
- 625 ordinary shares with a nominal value of KZT 40,000,000 per share;
- 500 ordinary shares with a nominal value of KZT 40,000,000 per share;
- 375 ordinary shares with a nominal value of KZT 40,000,000 per share;
- 300 ordinary shares with a nominal value of KZT 40,000,000 per share;
- 250 ordinary shares with a nominal value of KZT 40,000,000 per share;
- 250 ordinary shares with a nominal value of KZT 40,000,000 per share;
- 200 ordinary shares with a nominal value of KZT 40,000,000 per share; and
- one ordinary share with a nominal value of KZT 691,560,619,

all of which were issued and fully paid. Each ordinary share carries one vote. Baiterek JSC is the sole shareholder of DBK's outstanding ordinary shares. See "*Selected Statistical and other Data—Equity and Capital Adequacy Ratios*".

In the three months ended 31 March 2021, DBK issued a further 320 ordinary shares with a nominal value of KZT 38,393,750 per share, bring the total outstanding share capital to 2,109,590 ordinary shares as at 31 March 2021.

Baiterek JSC

As at 31 December 2012, the sole shareholder of DBK was Samruk Kazyna. In accordance with the Decree of the President of the Republic of Kazakhstan № 136 dated 10 August 2011, the entire issued share capital of DBK was transferred under trust management to the Ministry of Industry and Infrastructural Development.

Baiterek JSC was established pursuant to the Decree of the President of the Republic of Kazakhstan № 571 dated 22 May 2013 and the entire issued share capital of DBK was subsequently transferred to Baiterek JSC (and the trust management arrangement was terminated).

Baiterek JSC's objectives are to promote sustainable economic development in Kazakhstan in accordance with the Government's strategy for 2050. In line with this objective, Baiterek JSC's main activities consist of: (i) supporting the sustainable development of the non-oil sectors of the economy of Kazakhstan through the provision of financial support to priority sectors of the economy; (ii) supporting entrepreneurship and small and medium-sized business in the private sector of the economy; (iii) supporting urbanisation of the economy; (iv) supporting export activities of non-oil Kazakhstan companies; and (iv) supporting innovation.

Baiterek JSC's board of directors is appointed by the Government, as sole shareholder, and its members include, among others, the Prime Minister of Kazakhstan, the Minister of Finance of Kazakhstan, the Deputy Prime Minister of Kazakhstan, the Deputy Head of the Administration of the President, the Minister of Industry and Infrastructural Development of Kazakhstan and the Minister of the National Economy of Kazakhstan, as well as independent directors.

In March 2021, JSC "KazAgro" National Management Holding merged with Baiterek JSC, DBK's parent company. The merger has not impacted DBK's credit rating, nor did it disrupt the provision of financial and non-financial services for agricultural producers in Kazakhstan under the framework of state-funded programmes. Baiterek JSC is consolidating different development institutions operating in Kazakhstan and is the legal successor to the merged entities.

Related Party Transactions

Transactions with the Board of Directors and Management Board

For the year ended 31 December 2020, the total remuneration of members of the Board of Directors and the Management Board, including payroll and related taxes, was KZT 816.7 million, as compared to KZT 824.9 million for the year ended 31 December 2019 and KZT 673.0 million for the year ended 31 December 2018. Such amounts include cash benefits granted to members of the Board of Directors and the Management Board, as the case may be.

During the year ended 31 December 2020, DBK reversed accrued bonuses of KZT 43.6 million accrued to the Management Board. During the year ended 31 December 2019, DBK reversed accrued bonuses of KZT 52.7 million accrued to the Management Board. During the year ended 31 December 2018, DBK reversed accrued bonuses of KZT 42.6 million accrued to the Management Board.

Transactions with other Related Parties

DBK also enters into certain transactions with Baiterek JSC and other State and national companies and organisations, which are deemed to be related parties to DBK. See Note 36(c) to the 2020 Annual Financial Statements.

Loans from Baiterek JSC, Samruk-Kazyna and Government grants comprise significant sources of DBK's funding. See "Selected Statistical and Other Data—Principal Sources of Funding". In addition, DBK extends financing to state-owned companies, subsidiaries of Samruk-Kazyna and other organisations (other than Samruk-Kazyna). As at 31 December 2020, loans to companies with state participation of more than 50% (net of reserves) were KZT 467.8 billion at a weighted average interest rate of 8.86%.

The JSC Law provides that in the event that a member of the Board of Directors has a conflict of interest in relation to an investment project or other transaction, such member must inform the Board of Directors of the conflict and shall not participate in the vote to approve such transactions. Any vote shall then be passed by a majority of the remaining non-conflicted members. Only if there are insufficient non-conflicted members of the Board of Directors to pass a vote, shall a decision to approve a transaction be taken by DBK's sole shareholder.

Dividend Policy

Dividends are paid in accordance with Baiterek JSC's procedure for determining the amount of dividends payable by its subsidiaries, which are based on the following main principles:

- the need for making payments and expenses by Baiterek JSC on behalf of itself or the Government;
- the principle of needing to ensure financing of the activities of the sole shareholder, including the financing of new activities and investment projects implemented at the expense of the sole shareholder; and
- the principle of needing to finance development costs, including investment activities, by subsidiaries of Baiterek JSC.

In line with the above procedure, Baiterek JSC has established a target dividend size of 50% of total consolidated net income to be paid by DBK (an increase from 30% prior to the outbreak of the COVID-19 pandemic) and a maximum dividend size of 100% of total consolidated net income. On 31 March 2021 and in light of the ongoing impact of the COVID-19 pandemic in Kazakhstan, the Board of Directors of DBK passed a decision recommending to Baiterek JSC that no payment of dividends should be made in respect of 2020 in order to permit DBK to retain its liquidity levels and increase the coverage of its lending to the Kazakhstan economy without requiring additional funding.

During the year ended 31 December 2020, dividends of KZT 3,287.5 million were declared and paid, as compared to KZT 973.1 million in 2019 and KZT 1,428.4 million in 2018. The increase in dividends in 2020 was due to an increase in the net profit available for distribution (there was no change to the targeted dividend amount in respect of amounts paid in 2020, as compared to 2019).

THE BANKING SECTOR IN KAZAKHSTAN

Set forth below is certain information regarding Kazakhstan's banking sector. Unless specifically mentioned therein, this information does not apply to DBK due to its special status as a development bank. In particular, pursuant to the DBK Law, DBK is not subject to the prudential requirements of the banking regulator, which only apply to commercial banks in Kazakhstan.

Introduction

Kazakhstan has a two tier banking system with the NBK, comprising the first tier and the commercial banks comprising the second tier (with the exception of DBK, which has a special status and belongs to neither tier). Generally, all credit institutions in Kazakhstan are required to be licensed and regulated by the regulator, which is currently the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market (the “Agency”). From 2004 until April 2011, these functions were carried out by Financial Market Supervision Agency (the “FMSA”) and, prior to 2004, and from April 2011 until 1 January 2020, these functions were carried out by the Financial Market Supervision Committee (the “FMSC”) of the NBK. In May 2019, the NBK proposed changes to legislation providing for the establishment of a new independent regulatory body which would take charge of financial markets control and development, while the NBK will concentrate on monetary policy and inflation control. With effect from 1 January 2020, the Agency was established. The Agency is responsible for the licensing and supervision of financial institutions, supervision and development of the financial market, as well as consumer rights protection, while the NBK focuses on monetary and currency control policies as well as inflation control.

The Government, the NBK, the FMSA, the FMSC and subsequently, the Agency, have undertaken significant structural reforms in the banking sector, aimed at promoting consolidation in the banking sector and improving the overall stability of the system.

Global financial instability, market dislocation and, most recently, the COVID-19 pandemic have adversely affected the Kazakhstan banking sector, resulting in asset quality deterioration and reduced funding sources for Kazakhstan banks. Statistics published by the NBK show the considerable asset quality deterioration in 2009, with NPLs in the banking sector increasing to 21.2% as at 1 January 2010 from 8.2%, as at 1 January 2009. In 2009, the banking sector showed a net loss of KZT 2,834 billion, as compared to a profit of KZT 10.7 billion in 2008, and banking sector assets also declined during that period. According to statistics published by the FMSC and the NBK, NPLs in the banking sector further increased to 30.6% as at 1 January 2012, although this reflected a slight decrease from 31.0% as at 1 December 2011. As at 1 January 2012, the banking sector registered a net loss of KZT 35.4 billion, as well as a general decline in assets. As at 1 January 2013, NPLs in the banking sector slightly decreased to nearly 30% (including JSC BTA Bank's NPLs), and 19.5% (excluding JSC BTA Bank's NPLs) and the banking sector registered a net income of KZT 214.6 billion. As at 1 January 2014, NPLs in the banking sector accounted for 31.2% and the banking sector registered a net income of KZT 261.2 billion.

In 2014, the NBK took several systemic steps to promote the recovery of the Kazakhstan banking sector and ensure its further growth and development by introducing the 2014 Concept. The 2014 Concept provided for the increase of own capital requirements and sought to limit consumer loans and reduce NPLs at Kazakhstan banks.

In 2015, JSC Kazkommertsbank acquired JSC BTA Bank and converted JSC BTA Bank into a distressed asset management company. Alliance Bank, JSC Temirbank and JSC ForteBank merged in 2015. This reduced the total number of Kazakhstan banks to 35 and led to a decrease in NPLs in the first half 2015, to 9.98%. However, NPLs continued to adversely affect Kazakhstan banking sector and economy. A reduction in loans, as well as exchange-rate volatility and low commodity prices, resulted, among other things, in an increase in NPLs in 2016. According to a report published by Fitch in 2016, the rapid reduction of the total NPLs from 24% to 10% by early 2016 occurred only “on paper” due to the conversion of JSC BTA Bank into a distressed asset management company and the corresponding write-off of NPLs.

The NBK reported NPLs at 7.4% of all loans as at 1 January 2019. According to statistics published by the NBK, as at 1 December 2019 NPLs amounted to 8.2% of all loans. As at 1 December 2019, the NBK reported a net income of Kazakhstan banking sector of KZT 746.4 billion.

The Government has also taken a number of other steps to support the Kazakhstan banking sector, including significant capital injections. According to Fitch, in 2016, quasi-sovereign institutions were the main source of funding for Kazakhstan banks and accounted for almost one third of all liabilities of Kazakhstan banks. The key creditors are: (i) the Samruk-Kazyna group of companies (accounting for an 11.4% share of Kazakhstan banking sector's liabilities in 2016), the Integrated Pension Fund (with a 9.4% share), Baiterek JSC (with a 4.7% share), JSC “KazAgro” National Management Holding (with a 2.8% share), Non-performing Loans Fund (with a 1.1% share) and the NBK (with a 1.0% share).

In November 2016 and February 2017, then-President Nazarbayev expressed support for the consolidation of Kazakhstan banks. In January 2017, two major Kazakhstan banks, JSC Kazkommertsbank (“**KKB**”) and JSC Halyk Bank (“**Halyk Bank**”), announced a potential merger. The proposed merger was supported by the NBK, aimed at addressing a significant portion of KKB’s NPLs. In particular, nearly half of KKB’s assets totalling U.S.\$15.7 billion were tied up in a single loan to JSC BTA Bank. The authorities injected KZT 1 trillion into the Non-performing Loans Fund, increasing the Government’s 2017 budget by 24%. On 2 March 2017, then-President Nazarbayev signed a decree on the allocation of money from the National Fund in an amount of KZT 1 trillion. The transfer enabled the Non-performing Loans Fund to purchase the NPLs held by JSC Kazkommertsbank through JSC BTA Bank, which accounts for a majority of the NPLs in the Kazakhstan banking system.

On 5 July 2018, Halyk Bank reported the completion of the takeover of KKB and the injection of KZT 185 billion into the capital of KKB. Halyk Bank also reported that KKB had merged into Halyk Bank with all of KKB’s assets, rights and obligations transferred to Halyk Bank.

In order to promote consolidation of Kazakhstan banks, on 30 June 2017, the NBK announced the adoption of a new programme aimed at improving the banking sector’s financial health, targeting banks with an equity of not less than KZT 45 billion (the “**2017 Programme**”). On 18 October 2017, the NBK reported that JSC ATF Bank, JSC Eurasian Bank, JSC Tsesnabank and JC Bank Centercredit were approved as eligible participants of the 2017 Programme. Other banks in the process of consolidating, include JSC Tengri Bank and JSC Capital Bank, JSC Bank RBK and JSC Qazaq Banki. The regulator revoked the license of Delta Bank (in November 2017), as well as the licenses of JSC Qazaq Banki (in August 2018), Eximbank (in August 2018), and Astana Bank (in September 2018).

In December 2018, ForteBank announced its plans to acquire 100% shares in Bank Kassa Nova. The transaction was completed in May 2019 and Bank Kassa Nova is currently operating as a wholly-owned subsidiary of ForteBank.

In early 2019, First Heartland Jusan Bank JSC (originally named JSC Tsesnabank) was sold to JSC First Heartland Securities, a group controlled by the autonomous organisation of education “Nazarbayev University”, after the authorities agreed to remove KZT 604 billion of NPLs from its balance sheet. The NBK reported that the state support was necessary because agricultural companies, which were among the bank’s biggest borrowers, were unable to repay dollar-denominated loans.

In May 2019, the shareholders of Tengri Bank, AsiaCredit Bank and Capital Bank Kazakhstan announced a potential merger of these banks. However, in February 2020, Tengri Bank withdrew from the merger with Capital Bank Kazakhstan and AsiaCredit Bank. The Agency revoked the banking license of Tengri Bank in September 2020. In February 2021 the banking license of AsiaCredit Bank was also revoked.

As at 1 March 2021, the total number of Kazakhstan banks had decreased to 25, reflecting the continuing consolidation of the Kazakhstan banking sector. In November 2020, First Heartland Jusan Bank JSC reported that the bank and shareholder of ATF Bank, Mr. Yessenov, had reached a preliminary agreement on the purchase of 99.76% of the shares in ATF Bank by First Heartland Jusan Bank JSC, which transaction is expected to turn the latter into Kazakhstan’s second-largest bank in terms of assets.

COVID-19 Pandemic

In response to the outbreak of the COVID-19 pandemic, the Government encouraged Kazakhstan banks to introduce “repayment holidays” to citizens and SMEs affected by lockdowns for a period of 90 days from 16 March to 15 June. According to the Agency, banks had deferred loan payments for 41.5% of SMEs and 34% of individual borrowers as of June 2020. This measure was reintroduced for SMEs for an additional 60 days from 3 August 2020 to 1 October 2020. Credit repayment holidays were accompanied by regulatory relaxations for Kazakhstan banks introduced for a six-month period to 1 October 2020.

The Kazakhstan banking sector has remained profitable to date during the COVID-19 pandemic. The Agency reported an increase in the net income of the Kazakhstan banking sector from KZT 150.3 billion as at 1 March 2020 to KZT 194.3 billion as at 1 March 2021. According to the Agency, liquid assets of Kazakhstan banks accounted for 39.3% of total assets as at 1 March 2021, as compared to 34.9% as at 1 March 2020. NPLs increased from 8.4% as at 1 March 2020 to 11.3% as at 1 March 2021.

In November 2020, Fitch revised its outlooks on the credit ratings assigned to Halyk Bank, Halyk Finance, Alfa Bank and ForteBank to stable from negative. The long-term issuer default ratings were affirmed by Fitch at BB+ for Halyk Bank and Halyk Finance, BB- for Alfa Bank, and B for ForteBank. Fitch also affirmed the ratings assigned to Subsidiary Bank Sberbank of Russia at BBB- with a stable outlook.

The revision of the outlooks and affirmation of ratings on Halyk Bank, Alfa Bank and ForteBank were due to Fitch’s view that “the banks’ strong pre-impairment profitability and substantial capital buffers will be sufficient to mitigate

the ongoing pressure on their asset quality, stemming from the economic recession, lower oil prices, and negative implications from the spread of COVID-19 on the broader economy”.

The Agency

The Agency is the state authority performing regulation, control and supervision of financial market and financial organisation in Kazakhstan. Although it is an independent institution, it is subordinate to the President of Kazakhstan. The President of Kazakhstan has the power, among other things, to appoint and remove the Chairman of the Agency, to appoint and remove the NBK’s Deputy Chairman upon the proposal of the Chairman. Ms. Madyna Abylkassymova was appointed as Chairman of the Agency in December 2019. The principal governing body of the Agency is the Executive Board. The Executive Board consists of four members, including the Chairman.

The Agency is responsible for most of the supervisory and regulatory functions in the financial sector. These functions were performed by the FSMA from 2004 until April 2011, and, prior to 2004, and from April 2011 until 1 January 2020, by the FSMC, which is a sub-division of the NBK.

The Agency for Protection and Development of Competition of the Republic of Kazakhstan (the “**Competition Agency**”) administers anti-monopoly legislation in Kazakhstan with respect to the banking sector. However, certain issues of anti-monopoly regulation are under the jurisdiction of both the Competition Agency and the Agency. For example, economic concentrations involving a value exceeding certain thresholds require the prior consent of the Competition Agency. Such thresholds for the purposes of regulated financial organisations are established jointly by the Competition Agency and the Agency.

Banking Supervision

Capital Adequacy

The regulator refined its capital adequacy and credit exposure standards in September 2005, when it set limits and rules for calculating capital adequacy, single party exposure, liquidity ratios and open currency positions.

In November 2005, the regulations regarding regulatory capital and risk management came into effect in Kazakhstan. These regulations represented a substantial step towards the implementation of the Basel Accord. In particular, these regulations introduced the concepts of hybrid capital eligible to be included in Tier I and Tier II capital, Tier III capital (qualified subordinated debt) and operational and market risks and included rules for calculating risk with respect to derivatives.

The regulator plans to implement Basel III, which was adopted in December 2010. The implementation of Basel III has been postponed on several occasions in line with the extended implementation of the Third Basel Accord. On 13 September 2017, the NBK adopted Resolution № 170 setting forth amended and restated prudential requirements, which became effective on 25 September 2017. In line with Basel III, Resolution № 170 sets forth different requirements for banks that fall within the definition of systematically-important banks and those bank which do not have such status and introduced two additional capital buffers: a “capital conservation buffer” and a “systematic buffer”. Systematically-important banks are required to maintain k1 of 9.5%, k1-2 of 10.5% and k2 of 12% taking into account the “capital conservation buffer” and “systematic buffer”. Those banks which are not considered systematically-important are required to maintain k1 of 7.5%, k1-2 of 8.5% and k2 of 10% taking into account the “capital conservation buffer” and “systematic buffer”.

Currently the regulator continues implementing Basel III standards. In October 2019, the regulator reported its plans to gradually increase the liquidity coverage ratio to 100% by 2022. The net stable funding ratio was set at 100% on 1 January 2019. In March 2020, the regulator reported its plans to implement the second component of the Basel III standard, which implies the establishment of capital adequacy requirements taking into account a bank’s individual risk profile, risk management and internal control systems.

Risk –Focused Supervision

In 2018 and 2019, the then-regulator, the NBK, continued strengthening the financial system of Kazakhstan. On 1 January 2019, the regulator introduced risk-focused supervision of the banking sector. During the risk-focused supervisory process, the regulator reviews and analyses the activities of a financial institution and considers whether such activities are compliant with statutory requirements, as well as analyses the business model of the financial institution. The regulator further assesses corporate governance, capital adequacy and levels of liquidity of financial institutions. Risk-focused supervision also includes the concept of reasoned judgment. The regulator is now authorised, among other things, to identify, based on its reasoned judgment: (i) top managers of banks of other persons that have “special relations” with such banks; and (ii) loans and other financing that was provided by a bank on favourable terms. The regulator is further authorized, based on its reasoned judgment, to: (x) assess sufficiency of reserves; (y) identify and assess risks that a bank is exposed to; and (z) identify violations of statutory requirements committed by a bank.

Deposit Insurance

In December 1999, a self-funded domestic deposit insurance scheme was established and, as at 1 November 2017, 30 banks were covered by the 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 Tenge-denominated saving deposits, KZT 10 million for Tenge-denominated deposits (other than saving) and KZT 5 million for deposits denominated in foreign currencies. Only banks participating in the deposit insurance scheme are authorised to open accounts and take deposits from private individuals.

Commercial Banks

According to data published by the Agency, as at 1 March 2021, there were 25 commercial banks in Kazakhstan, excluding DBK and the NBK. Since 1 July 2011, the minimum capital requirements are KZT 10 billion for banks, including newly established banks, and KZT 4 billion for residential construction savings banks.

As at 1 March 2021, the total capital of commercial banks was KZT 4,078 billion, as compared to KZT 4,633 billion and KZT 3,761.8 billion as at March 2020 and 1 March 2019, respectively. During such period, the total assets (including reserves) of such banks increased to KZT 31,995.4 billion as at 1 March 2021 from KZT 26,730.5 billion as at 1 March 2020, which, in turn, increased from approximately KZT 24,578 billion as at 1 March 2019. Aggregate liabilities were approximately KZT 27,917 billion as at 1 March 2021, as compared to KZT 22,941.7 billion and KZT 21,586.1 billion as at 1 March 2020 and 1 March 2019, respectively. The aggregate net income of commercial banks amounted to KZT 194.3 billion as at 1 March 2021, as compared to KZT 150.4 billion and KZT 145.1 billion as at 1 March 2020 and 1 March 2019, respectively.

In 2015, the NBK introduced a so-called “base rate” of the NBK which constitutes the main tool of monetary policy of the NBK, and is used to regulate nominal interbank interest rates. By determining the level of the base rate, the NBK determines the target rate of the interbank short-term loans interest rate to ensure price stability in the medium term. Since October 2015, the base rate has decreased from 16% to 10.25% in October 2017 and further to 9% in June 2018. In December 2019, the base rate was increased to 9.25%. In July 2020, the NBK cut the base rate by 50 bps to 9%.

Foreign Capital in the Banking Sector

The liberalisation of the economy in Kazakhstan prior to the global financial crisis, which began in 2008, resulted in a number of foreign companies, including banks, establishing operations in Kazakhstan through direct investment or by participating in the banking and financial services sector. Foreign banks are prohibited from opening branches in Kazakhstan. Accordingly, foreign banks must establish a Kazakhstan subsidiary or joint venture in order to provide banking services in Kazakhstan.

A number of foreign banks have opened representative offices in Kazakhstan, including Bank of Tokyo-Mitsubishi UFJ Ltd, Commerzbank AG, Deutsche Bank AG, ING Bank N.V., JP Morgan Chase Bank, N.A., Landesbank Berlin AG, Société Générale, Standard Chartered Bank and UBS AG.

However, the slowdown in Kazakhstan’s economy in recent years has resulted in the withdrawal of a number of foreign investors from the Kazakhstan banking sector, including ABN Amro, Royal Bank of Scotland, HSBC and Uni Credit.

In December 2020, Kazakhstan law was amended to widen access to the local financial market for foreign banks. Foreign banks are now able to provide a full range of banking services in Kazakhstan through their Kazakhstan branch offices by submitting simplified applications. Previously, foreign banks were required to set up a local entity (*i.e.*, a Kazakhstan joint stock company) and obtain a regular local banking license to operate in Kazakhstan.

The scope of the license to be issued by the Agency to a branch office of a foreign bank under the simplified applications must correspond to the scope of the license that the foreign bank holds in its home jurisdictions. Branch offices of foreign banks are subject to Kazakhstan regulatory requirements including, *inter alia*, the relevant local capital requirements and other requirements related to risk management, internal controls system and corporate governance.

The Regulator’s Powers under the DBK Law

Under the DBK Law, the regulator may apply a number of compulsory restrictive measures to DBK if it finds DBK to be in breach of Kazakhstan laws relating to its operations, accounting practices and financial reporting requirements (including in respect of the application of IFRS). In this respect, Article 28 of the DBK Law allows the regulator:

- to give recommendations to DBK;
- to apply compulsory measures to improve its financial condition or minimize risks to DBK; and
- to apply compulsory supervisory measures to DBK.

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which, save for the wording in italics, as supplemented, amended or replaced by the relevant Final Terms, will be endorsed on each Definitive Note and attached to or incorporated by reference into each Global Note. The relevant Final Terms (or relevant provisions thereof) will be endorsed upon or attached to each Global Note and Definitive Note. The Terms and Conditions of the Notes applicable to Global Notes will differ from those which would apply to a Definitive Note to the extent described under “Form of Notes”.

1. INTRODUCTION

JSC Development Bank of Kazakhstan (the “**Issuer**”) has established a Medium Term Note Programme (the “**Programme**”) for the issuance of up to U.S.\$3,000,000,000 in aggregate principal amount of notes (the “**Notes**”) outstanding. The Notes are constituted by an amended and restated trust deed (as amended or supplemented or restated from time to time, the “**Trust Deed**”) dated 13 November 2012 between the Issuer and Deutsche Trustee Company Limited (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). The Notes are the subject of an amended and restated agency agreement dated 13 November 2012 (as amended or supplemented from time to time, the “**Agency Agreement**”) between the Issuer, the Trustee, Deutsche Bank AG, London Branch as Principal Paying and Transfer Agent (the “**Principal Paying and Transfer Agent**”, which expression includes any successor Principal Paying and Transfer Agent appointed from time to time in connection with the Notes), Deutsche Bank Trust Company Americas as U.S. Paying and Transfer Agent and U.S. Registrar (the “**U.S. Registrar**”) and Deutsche Bank Luxembourg S.A. as Luxembourg Registrar (the “**Luxembourg Registrar**”).

Notes issued under the Programme are issued in series (each, a “**Series**”) and each Series may comprise one or more tranches (each, a “**Tranche**”) of Notes. Each Tranche is the subject of Final Terms (the “**Final Terms**”) which supplements these terms and conditions (the “**Conditions**”). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended or replaced by Part A of the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail.

All subsequent references in these Conditions to “Notes” are to the Notes which are the subject of the relevant Final Terms. Copies of the relevant Final Terms are available for inspection by Noteholders during normal business hours at the Specified Office of the Principal Paying and Transfer Agent, the initial Specified Office of which is set out below.

Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. The holders of the Notes (the “**Noteholders**”) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Trustee and the Paying Agents, the initial Specified Offices of which are set out below.

2. INTERPRETATION

2.1. In these Conditions the following expressions have the following meanings:

“**Accrual Yield**” has the meaning given in the relevant Final Terms;

“**Additional Business Centre(s)**” means the city or cities specified as such in the relevant Final Terms;

“**Additional Financial Centre(s)**” means the city or cities specified as such in the relevant Final Terms;

“**Business Day**” means:

- (a) in the case of Euros, a TARGET Settlement Day;
- (b) in the case of a Specified Currency other than Euros, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for that currency; or

- (c) in the case of a Specified Currency or one or more Business Centre(s) specified in the relevant Final Terms, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Additional Business Centre(s) or, if no currency is indicated, generally in each of the Additional Business Centres so specified;

“Business Day Convention”, in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (a) **“Following Business Day Convention”** means that the relevant date shall be postponed to the first following day that is a Business Day;
- (b) **“Modified Following Business Day Convention”** or **“Modified Business Day Convention”** means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (c) **“Preceding Business Day Convention”** means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (d) **“FRN Convention”, “Floating Rate Convention”** or **“Eurodollar Convention”** means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of Months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:
 - (i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
 - (ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
 - (iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (e) **“No Adjustment”** means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

“Calculation Agent” means the Principal Paying and Transfer Agent or such other Person specified in the relevant Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and such other amount(s) as may be specified in the relevant Final Terms;

“Clearstream, Luxembourg” means Clearstream Banking *société anonyme*;

“Day Count Fraction” means (subject as provided in Condition 7), in respect of the calculation of an amount of interest for any Interest Period:

- (a) if “Actual/365 or “Actual/Actual (ISDA)” is specified in the relevant Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of the Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (ii) the actual number of days in that portion of the Interest Period falling in a non leap year divided by 365);
- (b) if “Actual/365” (Fixed)” is specified in the relevant Final Terms, the actual number of days in the Interest Period divided by 365;
- (c) if “Actual/360” is specified in the relevant Final Terms, the actual number of days in the Interest Period divided by 360;

- (d) if “30/360”, “360/360” or “Bond Basis” is specified in the relevant Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30 day months (unless (i) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30 day month, or (ii) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30 day month)); and
- (e) if “30E/360” or “Eurobond Basis” is specified in the relevant Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30 day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30 day month);

“Early Redemption Amount (Tax)” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

“Early Termination Amount” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Final Terms;

“Euroclear” means Euroclear Bank SA/NV;

“Euro Exchange Date” means the date on which the Issuer gives notice (the **“Euro Exchange Notice”**) to the Trustee and the Noteholders that replacement Notes denominated in Euros are available for exchange;

“Extraordinary Resolution” has the meaning given in the Trust Deed;

“Final Redemption Amount” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

“Indebtedness” means any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;

“Indebtedness for Borrowed Money” means, any Indebtedness of any Person for or in respect of (i) moneys borrowed, (ii) amounts raised by acceptance under any acceptance credit facility, (iii) amounts raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments, (iv) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with generally accepted accounting standards in the jurisdiction of incorporation of the lessee, be treated as finance or capital leases, (v) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred primarily as a means of raising finance or financing the acquisition of the relevant asset or service and (vi) amounts raised under any other transaction (including any forward sale or purchase agreement and the sale of receivables or other assets on a “with recourse” basis) having the commercial effect of a borrowing;

“Indebtedness Guarantee” means in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation) (i) any obligation to purchase such Indebtedness, (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness, (iii) any indemnity against the consequences of a default in the payment of such Indebtedness and (iv) any other agreement to be responsible for repayment of such Indebtedness;

“Interest Amount” means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

“Interest Commencement Date” means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms;

“Interest Determination Date” has the meaning given in the relevant Final Terms;

“Interest Payment Date” means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

- (a) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (b) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

“Interest Period” means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

“ISDA Definitions” means the 2000 ISDA Definitions (as supplemented by the Annex to the 2000 ISDA Definitions and as further amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms)) as published by the International Swaps and Derivatives Association, Inc. (formerly the International Swap Dealers Association, Inc.);

“Issue Date” has the meaning given in the relevant Final Terms;

“Maximum Redemption Amount” has the meaning given in the relevant Final Terms;

“Margin” has the meaning given in the relevant Final Terms;

“Material Subsidiary” means, at any given time, any Subsidiary of the Issuer whose gross assets or gross revenues represent at least 5.0%, of the consolidated gross assets, or, as the case may be, consolidated gross revenues of the Issuer and its consolidated Subsidiaries (in each case, determined by reference to the Issuer’s most recent consolidated financial statements prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as published at the time by the International Accounting Standards Board or its successor) or any other Subsidiary to which is transferred either (a) all or substantially all of the assets of another Subsidiary which immediately prior to the transfer was a Material Subsidiary or (b) sufficient assets of the Issuer that such Subsidiary would have been a Material Subsidiary had the transfer occurred on or before either (i) the date of the said most recent audited financial statements of the Issuer or (ii) if management accounts or other unaudited financial statements of the Issuer prepared in accordance with IFRS are available for any period subsequent to the said most recent audited financial statements, such accounts or financial statements and, for these purposes:

- (a) the gross assets and gross revenues of a Subsidiary shall be determined by reference to its then most recent audited financial statements prepared in accordance with IFRS (or, if none, its then most recent management accounts or other financial statements prepared in accordance with IFRS); and
- (b) the consolidated gross assets and consolidated gross revenues of the Issuer and its consolidated Subsidiaries shall be determined by reference to its then most recent audited consolidated financial statements prepared in accordance with IFRS (or, if none, its then most recent consolidated management accounts or other unaudited consolidated financial statements prepared in accordance with IFRS);

“Maturity Date” has the meaning given in the relevant Final Terms;

“Minimum Redemption Amount” has the meaning given in the relevant Final Terms;

“Optional Redemption Amount (Call)” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

“Optional Redemption Amount (Put)” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

“Optional Redemption Date (Call)” has the meaning given in the relevant Final Terms;

“Optional Redemption Date (Put)” has the meaning given in the relevant Final Terms or, following the occurrence of a Put Event, the sixtieth day after notice thereof is given by the Issuer pursuant to Condition 10.6;

“Participating Member State” means a Member State of the European Communities which adopts the Euro as its lawful currency in accordance with the Treaty;

“Payment Business Day” means:

- (a) if the currency of payment is Euros, any day which is:
 - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
 - (ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or
- (b) if the currency of payment is not Euros, any day which is:
 - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
 - (ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre and which, if the currency of payment is Australian dollars or New Zealand dollars, shall be Melbourne and Wellington, respectively;

“Permitted Security Interest” means any Security Interest:

- (a) granted in favour of the Issuer by any Subsidiary to secure Indebtedness for Borrowed Money owed by such entity to the Issuer;
- (b) which arises pursuant to any order of attachment, distraint or similar legal process arising in connection with court proceedings or as security for costs and expenses in any such proceedings, so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings;
- (c) being liens or rights of set off arising by operation of law and in the ordinary course of business, including, without limitation, any rights of set off with respect to demand or time deposits maintained with financial institutions and bankers’ liens with respect to property of the Issuer held by financial institutions;
- (d) arising in the ordinary course of the Issuer’s or a Subsidiary’s business and (i) which are necessary in order to enable the Issuer or such Subsidiary to comply with any mandatory or customary requirement imposed on it by a banking or other regulatory authority in connection with the Issuer’s or such Subsidiary’s business or (ii) limited to deposits made in the name of the Issuer or such Subsidiary to secure obligations of the Issuer’s or such Subsidiary’s customers;
- (e) on property acquired (or deemed to be acquired) under a financial lease, or claims arising from the use or loss of or damage to such property, provided that any such encumbrance secures only rentals and other amounts payable under such lease;
- (f) arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market (and not for the purpose of raising credit or funds for the operation of the Issuer or any Subsidiary), in connection with (i) contracts entered into substantially simultaneously for sales and purchases at market prices of securities, (ii) the establishment of margin deposits and similar securities in connection with interest rate and foreign currency hedging operations and trading in securities or precious metals or (iii) the Issuer’s foreign exchange dealings or other proprietary trading activities including, without limitation in the case of (i), (ii) and (iii), Repos,;

- (g) granted upon or with regard to any property hereafter acquired by the Issuer or any Subsidiary to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Security Interest created in contemplation of such acquisition), provided that the maximum amount of Indebtedness for Borrowed Money thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property;
- (h) any netting or set-off arrangement entered into by the Issuer in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances;
- (i) on the property, income or assets of the Issuer or any Subsidiary securing Indebtedness, provided that the aggregate amount of Indebtedness so secured pursuant to this clause (i) at any one time shall not exceed an amount in any currency or currencies equivalent to 15% of the Issuer's total assets, determined by reference to the Issuer's most recent audited consolidated IFRS financial statements; and
- (j) arising out of the refinancing, extension, renewal or refunding of any Indebtedness for Borrowed Money secured by a Security Interest either existing on or before the Issue Date of the Notes or permitted by any of the above exceptions, provided that the Indebtedness for Borrowed Money thereafter secured by such Security Interest does not exceed the amount of the original Indebtedness for Borrowed Money and such Security Interest is not extended to cover any property not previously subject to such Security Interest;

"Permitted Shareholder" has the meaning given in Condition 10.6;

"Person" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"Principal Financial Centre" means, in relation to any currency, the principal financial centre for that currency provided, however, that:

- (a) in relation to Euros, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and
- (b) in relation to Australian dollars, it means either Sydney or Melbourne and, in relation to New Zealand dollars, it means either Wellington or Auckland, in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

"Put Event" has the meaning given in Condition 10.6;

"Put Option Notice" means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"Put Option Receipt" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"Rate of Interest" means the rate or rates (expressed as a percentage *per annum*) of interest payable in respect of the Notes specified in relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and the relevant Final Terms;

"Redemption Amount" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Final Terms;

"Reference Banks" has the meaning given in the relevant Final Terms or, if none, four (or if the Principal Financial Centre is Helsinki, five) major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

“Reference Price” has the meaning given in the relevant Final Terms;

“Reference Rate” means one of the following benchmark rates (as specified in the relevant Final Terms);

(a) LIBOR; or

(b) EURIBOR;

“Registrar” means the U.S. Registrar or the Luxembourg Registrar, as the case may be;

“Relevant Date” means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Principal Paying and Transfer Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

“Relevant Financial Centre” has the meaning given in the relevant Final Terms;

“Relevant Screen Page” means the page, section or other part of a particular information service (including, without limitation, the Reuters Markets 3000 Money Rates Service and Telerate) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

“Relevant Time” has the meaning given in the relevant Final Terms;

“Repo” means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities borrowing agreement or any agreement relating to securities which is similar in effect to any of the foregoing and for purposes of this definition, the term “securities” means any capital stock, share, debenture or other debt or equity instrument, or derivative thereof, whether issued by any private or public company, any government or agency or instrumentality thereof or any supranational, international or multilateral organisation;

“Reserved Matter” means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

“Security Interest” means any mortgage, charge, pledge, lien, security interest or other encumbrance securing any obligation of any Person or any other type of preferential arrangement having similar effect over any assets or revenues of such Person;

“Specified Currency” has the meaning given in the relevant Final Terms; **“Specified Denomination(s)”** has the meaning given in the relevant Final Terms; **“Specified Interest Payment Date”** has the meaning given in the relevant Final Terms; **“Specified Office”** has the meaning given in the Trust Deed; **“Specified Period”** has the meaning given in the relevant Final Terms;

“Subsidiary” means, in relation to any Person (the **“first Person”**) at a given time, any other Person (the **“second Person”**) (i) whose affairs and policies the first Person directly or indirectly controls or (ii) as to whom the first Person owns directly or indirectly more than 50.0%, of the capital, voting stock or other right of ownership and **“Control,”** as used in this definition, means the power by the first Person to direct the management and the policies of the second Person, whether through the ownership of share capital, by contract or otherwise;

“TARGET System” means the Trans European Automated Real Time Gross Settlement Express Transfer (TARGET) System 2 or any successor thereto;

“TARGET Settlement Day” means any day on which the TARGET System is open; and

“**Treaty**” means the Treaty establishing the European Communities, as amended; and “**Zero Coupon Note**” means a Note specified as such in the relevant Final Terms.

2.2. Terms defined in the Trust Deed or the Agency Agreement shall, unless otherwise defined herein or the context requires otherwise, bear the same meanings herein.

2.3. In these Conditions:

- (a) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 9, any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;
- (b) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 9 and any other amount in the nature of interest payable pursuant to these Conditions;
- (c) references to Notes being “outstanding” shall be construed in accordance with the Trust Deed; and
- (d) if an expression is stated in Condition 2.1 to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is “not applicable” then such expression is not applicable to the Notes.

3. **FORM, DENOMINATION AND TITLE**

The Notes are issued in registered form in the Specified Denomination(s) shown in the relevant Final Terms or integral multiples thereof, without interest coupons, provided that:

- (a) the Specified Denomination(s) shall not be less than € 100,000 or its equivalent in another currency,
- (b) interests in the Rule 144A Notes shall be held in amounts of not less than U.S.\$200,000 or its equivalent in other currencies.

Title to the Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it or its theft or loss and no person shall be liable for so treating the holder.

In these Conditions, “**Noteholder**” means the person in whose name a Note is registered, “**holder**” shall be read accordingly and capitalised terms have the meanings given to them in the relevant Final Terms, the absence of any such meaning indicating that such term is not applicable to the Notes.

4. **TRANSFERS OF NOTES**

4.1. One or more Notes may be transferred, in whole or in part in the authorised denominations set out in the applicable Final Terms and subject to the minimum transfer amounts specified therein, upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the relevant Note or Notes, together with the form of transfer endorsed on such Note or Notes (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or the Transfer Agent may reasonably require, including for the purposes of establishing title to the relevant Note, and the identity of the person making the request. In the case of a transfer of part only of a holding of a Note, a new Note shall be issued to the transferee in respect of the part transferred and a further new Note in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

4.2. In the case of an exercise of an Issuer’s or Noteholders’ option in respect of, or a partial redemption of, a holding of Notes, a new Note shall be issued to the holder to reflect the exercise of such option or in respect

of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Notes of the same holding having different terms, separate Notes shall be issued in respect of those Notes of that holding that have the same terms. New Notes shall only be issued against surrender of the existing Notes to the Registrar or any Transfer Agent. In the case of a transfer of Notes to a person who is already a holder of Notes, a new Note representing the enlarged holding shall only be issued against surrender of the Note representing the existing holding.

- 4.3. Each new Note to be issued pursuant to Conditions 4.1 or 4.2 shall be available for delivery within five business days of receipt of the form of transfer or Put Option Notice and surrender of the Note for exchange. Delivery of the new Note(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Put Option Notice or Note shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Put Option Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Note to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and such insurance as it may specify. In this Condition 4.3, “**business day**” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).
- 4.4. Transfer of Notes on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and security as the Registrar or the relevant Transfer Agent may require).
- 4.5. No Noteholder may require the transfer of a Note to be registered:
- (a) during the period of 15 days ending on the due date for redemption of, or payment of interest amount in respect of, that Note;
 - (b) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 10.3; or
 - (c) after any such Note has been called for redemption, including partial redemption.
- 4.6. As specified in the Agency Agreement, if, at any time, the Issuer determines that any beneficial owner of Notes, or any account for which such owner purchased Notes, who is required to be a QIB and a QP is not a QIB and a QP, the Issuer may (i) require such beneficial owner to sell its Notes, or may sell such Notes on behalf of such beneficial owner, to a non U.S. person who purchases in an offshore transaction pursuant to Regulation S or to a person who is a QIB who is also a QP and who is otherwise qualified to purchase such Notes in a transaction exempt from registration under the Securities Act or (ii) require the beneficial owner to sell such Notes, or may sell such Notes on behalf of such beneficial owner at a price equal to the lesser of the purchase price paid by the beneficial owner for such Notes, 100% of the principal amount thereof and (z) the fair market value thereof. The Issuer also has the right to refuse to honour a transfer of an interest in a Note to a U.S. person who is not a QIB and a QP.

5. STATUS

The Notes constitute direct, general and unconditional obligations of the Issuer, which will at all times rank *pari passu* among themselves and *pari passu* in right of payment with all other present and future unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

6. NEGATIVE PLEDGE AND COVENANTS

- 6.1. So long as any Note remains outstanding the Issuer shall not, and shall not permit any Material Subsidiary to create, incur, assume or permit to arise or subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of their respective undertakings, assets or revenues, present or future, to secure any Indebtedness for Borrowed Money or any Indebtedness Guarantee in respect of such Indebtedness for Borrowed Money unless, at the same time or prior thereto, the Issuer's obligations under the Trust Deed and the Notes are secured equally and rateably therewith (to the satisfaction of the Trustee) or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution (as defined in the Trust Deed)

- of Noteholders or as the Trustee in its discretion shall deem to be not materially less beneficial to the Noteholders.
- 6.2. So long as any Note remains outstanding, the Issuer shall ensure that it is fully in compliance with the Law on Development Bank of Kazakhstan of 25 April 2001, as amended (the “**DBK Law**”), and the Memorandum on Credit Policy of the Issuer referred to in the DBK Law, as amended from time-to-time, (the “**Credit Policy Memorandum**”).
- 6.3. So long as any Note remains outstanding, the Issuer shall, and shall ensure that each of its Subsidiaries shall, at all times comply with all regulations and requirements of the National Bank of Kazakhstan and applicable to it in any jurisdiction where the Issuer or the relevant Subsidiary does business, including any prudential ratios and any regulations and requirements in relation to its equity capital or capital adequacy.
- 6.4. So long as any Note remains outstanding, the Issuer shall:
- (a) send to the Trustee and to the Principal Paying and Transfer Agent one copy of:
 - (i) the consolidated annual financial statements of the Issuer as soon as practicable after their date of publication and in any event not more than 120 days after the end of each financial year of the Issuer;
 - (ii) the consolidated interim condensed financial statements of the Issuer as soon as practicable after their date of publication and in any event not more than 90 days after the end of the first half of each financial year of the Issuer; and
 - (iii) every balance sheet, profit and loss account, report or other notice, statement or circular issued (or which under any legal or contractual obligation should be issued) to the members or holders of debentures or creditors (or any of them as a class) of the Issuer, as the case may be, in their capacity as such at the time of the actual (or legally or contractually required) issue or publication thereof,

and procure that the same are made available for inspection by Noteholders at the specified offices of the Principal Paying and Transfer Agent as soon as practicable thereafter;
 - (b) ensure that:
 - (i) each set of annual financial statements delivered by it pursuant to Condition 6.4(a)(i) is accompanied by an audit report of the Auditors;
 - (ii) each set of half yearly interim financial statements delivered by it pursuant to Condition 6.4(a)(ii) is accompanied by a review report of the Auditors;
 - (iii) each set of financial statements delivered pursuant to Condition 6.4(a)(i) or (ii) is prepared in accordance with IFRS, consistently applied, and certified for and on behalf of the Issuer as presenting fairly, in all material respects, its financial condition as at the end of the period to which those financial statements relate and its results of operations for such period; and
 - (iv) all information sent to the Trustee and to the Principal Paying and Transfer Agent and made available on the Issuer’s website pursuant to Condition 6.4 is in the English language or accompanied by a certified translation thereof;
 - (c) send to the Trustee, together with each set of audited financial statements delivered by it pursuant to Condition 6.4(a)(i), a separate opinion satisfactory to the Trustee from the Auditors as to the adequacy of the Issuer’s financial procedures, accounting systems and management information and cost control systems; and
 - (d) promptly upon sending any information to the Trustee and to the Principal Paying and Transfer Agent pursuant to Condition 6.4(a), and in any event within five Business Days of sending such information, make such information available on the Issuer’s website.
- 6.5. So long as any Notes are outstanding and are “**restricted securities**” within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer will furnish upon the request of a Noteholder or a beneficial owner of an

interest therein to such Noteholder or the beneficial owner or to a prospective purchaser of Notes designated by such Noteholder or beneficial owner, the information required to be delivered under Rule 144A(d)(4) under the Securities Act and will otherwise comply with the requirements of Rule 144A under the Securities Act, if at the time of such request the Issuer is not a reporting company under Section 13 or Section 15(d) of the Exchange Act, or exempt from reporting pursuant to Rule 12g3 2(b) thereunder.

7. FIXED RATE NOTE PROVISIONS

7.1. This Condition 7 is applicable to the Notes only if the relevant Final Terms specifies the Fixed Rate Note Provisions as being applicable.

7.2. The Notes bear interest on the outstanding principal amount from the Interest Commencement Date at the rate(s) *per annum* equal to Rate(s) of Interest payable in arrear on each Interest Payment Date in each year and on the Maturity Date if that does not fall on Interest Payment Date, subject as provided in Condition 11. Unless otherwise specified in the relevant Final Terms, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the relevant Final Terms, amount to the Broken Amount(s) so specified.

7.3. If interest is required to be calculated for a period ending other than on an Interest Payment Date, such interest shall be calculated by applying the Rate of Interest to each Calculation Amount, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest subunit of the Specified Currency, half of any such sub unit being rounded upwards or otherwise in accordance with applicable market convention. In these Conditions “**sub unit**” means, with respect of any currency other than the Euro, the lowest amount of such currency that is available as legal tender in the country of such currency, and with respect to Euros means one cent.

7.4. For the purposes of these Conditions, “**Day Count Fraction**” means:

(a) if “Actual/Actual (ICMA)” is specified in the relevant Final Terms:

(i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “**Accrual Period**”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the relevant Final Terms) that would occur in one calendar year; or

For the purposes of Condition 7.4(a), “**Determination Period**” means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date);

(ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (i) the number of days in such Determination Period and (ii) the number of Determination Dates (as specified in the relevant Final Terms) that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (i) the number of days in such Determination Period and (ii) the number of Determination Dates that would occur in one calendar year; and

(b) if “30/360” is specified in the relevant Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30 day months) divided by 360.

8. FLOATING RATE NOTE PROVISIONS

8.1. This Condition 8 is applicable to the Notes only if the relevant Final Terms specifies the Floating Rate Note Provisions.

8.2. The Notes bear interest on the outstanding principal amount from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (a) the Specified Interest Payment Date(s) (each, an “Interest Payment Date”) in each year specified in the relevant Final Terms; or
- (b) if no Specified Interest Payment Date(s) is/are specified in the relevant Final Terms, each date (each such date, together with each Specified Interest Payment Date, an “**Interest Payment Date**”) which falls in the number of months or other period specified as the Specified Period in the relevant Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall in these Conditions, mean the period from (and including) an Interest Payment Date (or, as the case may be, the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

8.3. The Rate of Interest payable from time to time in respect of the Notes shall be determined in the manner specified in the relevant Final Terms.

- (a) Where Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will, subject as provided below, be either:

- (i) the offered quotation; or
- (ii) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate *per annum*) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 am (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (i) above, no such offered quotation appears or, in the case of (ii) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

- (b) Where ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where “**ISDA Rate**” in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
- (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and

- (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms.

- 8.4. If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.
- 8.5. The Calculation Agent will, as soon as reasonably practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, determine the Rate of Interest for the relevant Interest Period and calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the principal amount of such Note during such Interest Period and multiplying the product by the relevant Day Count Fraction and rounding the resultant figure to the nearest sub unit of the relevant Specified Currency, half of any such sub unit being rounded upwards or otherwise in accordance with applicable market convention.
- 8.6. If the relevant Final Terms specify that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as reasonably practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Final Terms.
- 8.7. The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each listing authority, stock exchange and quotation system (if any) by which the Notes have than been admitted to listing, trading and quotation as soon as reasonably practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders in accordance with Condition 19. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period.
- 8.8. All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non exercise by it of its powers, duties and discretions for such purposes.

9. ZERO COUPON NOTE PROVISIONS

- 9.1. This Condition 9 is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Final Terms as being applicable.
- 9.2. If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:
 - (a) the Reference Price; and
 - (b) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying and Transfer Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

10. REDEMPTION AND PURCHASE

- 10.1. Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 11.
- 10.2. The Notes may be redeemed at the option of the Issuer in whole, but not in part:

- (a) at any time (if neither the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable); or
- (b) on any Interest Payment Date (if the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 19 (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

- (i) the Issuer satisfies the Trustee immediately before the giving of notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 12 as a result of any change in, or amendment to, the laws or regulations of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Notes; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided, however, that no such notice of redemption shall be given earlier than:
 - (A) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or
 - (B) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (A) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 10.2, the Issuer shall be bound to redeem the Notes in accordance with this Condition 10.2.

- 10.3. If the Call Option is specified in the relevant Final Terms as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Final Terms, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).
- 10.4. If the Notes are to be redeemed in part only on any date in accordance with Condition 10.3, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Principal Paying and Transfer Agent in its sole discretion approves and in such manner as the Trustee in its sole discretion considers appropriate, subject to compliance with the requirements, as certified to the Trustee and Principal Paying and Transfer Agent by the Issuer, of applicable law and the rules of each listing authority, stock exchange and quotation system (if any) on which the Notes have then been admitted to listing, trading and quotation, and the notice to Noteholders referred to in Condition 10.3 on which the Notes are then listed, and the notice to Noteholders referred to in Condition 10.3 shall specify the serial numbers of the Notes so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified. Neither the Trustee nor the Principal Paying Agent shall be liable for any selection made by it under this Condition 10.4.
- 10.5. If the Put Option is specified in the relevant Final Terms as being applicable, the Issuer shall, at the option of the holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to

such date. In order to exercise the option contained in this Condition 10.5, the holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10.5, may be withdrawn; provided, however, that if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10.5, the depositor of such Note and not such Paying Agent shall be deemed to be the holder of such Note for all purposes.

10.6. Whether or not the Put Option is specified under Condition 10.5, the Issuer shall, at the option of the holder of any Note, exercisable as set out in Condition 10.5, redeem such Note on the applicable Optional Redemption Date (Put) at 101% of its principal amount together with interest (if any) accrued to but excluding such date, if:

- (a) the Republic of Kazakhstan or its regional authorities cease to own, whether directly or indirectly, through JSC Sovereign Wealth Fund “Samruk-Kazyna” or another entity wholly owned by the Republic of Kazakhstan or its regional authorities (each, a “**Permitted Shareholder**”), 100.0% of the paid up share capital of the Issuer; or
- (b) the Issuer ceases to be a “financial agency” as defined in Kazakhstan’s Law “On Securities Market” or loses its status as a “financial agency” by virtue of the resolution of the Management Board of the National Bank of Kazakhstan “On Prudential Requirements for the Financial Agency and the Procedure for the Loss of the Status of the Financial Agency”,

(each of the foregoing a “**Put Event**”);

provided, however, that if any of the foregoing events results from any Permitted Shareholder selling, transferring or otherwise disposing of part of its shareholding to one or more supranational entities established by treaty, each having a credit rating assigned by at least one statistical rating organisation generally recognised by banks, securities houses and investors in the European financial markets of AAA or its equivalent (at the time of such sale, transfer or disposal), such event shall not constitute a Put Event under this Condition 10.6.

Notwithstanding any other provision of this Condition 10.6 to the contrary, if at any time the Republic of Kazakhstan ceases, whether directly or indirectly through a Permitted Shareholder owned by it, to own 51.0% or more of the paid up share capital of the Issuer, such circumstance shall constitute a Put Event under this Condition 10.6. Upon the occurrence of a Put Event, the Issuer shall promptly give notice thereof to the Noteholders in accordance with Condition 19 with a copy to the Trustee.

10.7. The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 10.1 to 10.6.

10.8. Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

- (a) the Reference Price; and
- (b) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 10.8 or, if none is so specified, a Day Count Fraction of 30E/360.

- 10.9. The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.
- 10.10. All Notes which are redeemed pursuant to Conditions 10.1 to 10.6 or purchased pursuant to Condition 10.9 by the Issuer or any of its Subsidiaries shall be cancelled and may not be reissued or resold. All Notes so cancelled shall be forwarded to the Principal Paying and Transfer Agent.
11. **PAYMENTS**
- 11.1. Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Notes at the Specified Office of any Transfer Agent or of the Registrar by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is Euros, any other account to which Euros may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency.
- 11.2. Payments of interest shall, subject to Condition 11.4, be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Note shall be made in the relevant currency by cheque drawn on a bank and mailed by uninsured post to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. The holder of such Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of such Notes as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank.
- 11.3. All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12. No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- 11.4. If the due date for payment of any amount in respect of any Note is not a Payment Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
12. **TAXATION**
- 12.1. All payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note presented for payment:
- (a) by a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with Kazakhstan other than the mere holding of such Note;
 - (b) more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had presented such Note on the last day of such period of 30 days;
 - (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
 - (d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a member state of the European Union.

- 12.2. If the Issuer becomes subject at any time to any taxing jurisdiction other than Kazakhstan, references in these Conditions to Kazakhstan shall be construed as references to Kazakhstan and such other jurisdiction. Notwithstanding anything to the contrary in this Condition 12, none of DBK, any Paying Agent or any other person shall be required to pay any additional amounts with respect to any withholding or deduction (i) imposed on or in respect of any Note pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), and the regulations promulgated thereunder (“**FATCA**”), the laws of Kazakhstan implementing FATCA, or any agreement between DBK and the United States or any authority thereof entered into for FATCA purposes, or (ii) imposed on or with respect to any “dividend equivalent” payment made pursuant to section 871 or 881 of the Code.

13. **EVENTS OF DEFAULT**

The Trustee at its discretion may, and if so requested in writing by the holders of not less than one fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (subject in each case to being indemnified and/or secured to its satisfaction) shall, give notice to the Issuer that the Notes are and they shall immediately become due and repayable at their principal amount together with accrued interest if any of the following events (each, an “**Event of Default**”) occurs and is continuing:

- 13.1. the Issuer fails to pay any of the principal of any of the Notes when the same becomes due and payable either at maturity, by declaration or otherwise or the Issuer is in default with respect to the payment of interest or Additional Amounts on any of the Notes and such default in respect of interest or Additional Amounts continues for a period of seven days; or
- 13.2. the Issuer is in default in the performance, or is otherwise in breach, of any covenant, obligation, undertaking or other agreement under the Notes or the Trust Deed (other than a default or breach elsewhere specifically dealt with in this Condition 13) and such default or breach is not remedied within 30 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to the Issuer by the Trustee; or
- 13.3. (a) any Indebtedness for Borrowed Money of the Issuer or any Material Subsidiary (i) becomes (or becomes capable of being declared) due and payable prior to the due date for payment thereof or (ii) is not repaid at maturity as extended by the period of grace, if any, applicable thereto or (b) any Indebtedness Guarantee given by the Issuer or any Material Subsidiary in respect of Indebtedness for Borrowed Money of any other Person is not honoured when due and called, provided that the aggregate principal amount of such Indebtedness for Borrowed Money exceeds U.S.\$20,000,000 (or its equivalent in other currencies (as determined by the Trustee)); or
- 13.4. (a) any Person shall have instituted a proceeding or entered a decree or order for the appointment of a receiver, administrator or liquidator in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities or similar arrangements involving the Issuer or any Material Subsidiary or all or (in the opinion of the Trustee) substantially all of their respective properties and such proceeding, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 60 days; or (b) the Issuer or any Material Subsidiary shall institute proceedings under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect to be adjudicated a bankrupt or shall consent to the filing of a bankruptcy, insolvency or similar proceeding against it or shall file a petition or answer or consent seeking reorganisation under any such law or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver, administrator or liquidator or trustee or assignee in bankruptcy or liquidation of the Issuer or any Material Subsidiary, as the case may be, or in respect of its property or (in the opinion of the Trustee) substantially all thereof, or shall make an assignment for the benefit of its creditors or shall otherwise be unable or admit its inability to pay its debts generally as they become due or the Issuer or any Material Subsidiary commences proceedings with a view to the general adjustment of its Indebtedness and, in any case as is specified in this Condition 13.4 in relation to a Material Subsidiary, the event is (in the opinion of the Trustee) materially prejudicial to the interests of the Noteholders; or
- 13.5. the Issuer makes or threatens to make any substantial change in the principal nature of its business as presently conducted which is (in the opinion of the Trustee) materially prejudicial to the interests of the Noteholders; or
- 13.6. the Issuer fails to take any action as is required of it under the DBK Law, the Credit Policy Memorandum or any applicable regulations in Kazakhstan or otherwise to maintain in effect its corporate existence or fails to take any action to maintain any material rights, privileges, titles to property, franchises and the like necessary or desirable in the normal conduct of its business, activities or operations which is (in the opinion of the

Trustee) materially prejudicial to the interests of the Noteholders and such failure is not remedied within 30 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to the Issuer; or

- 13.7. the Issuer fails to comply in any (in the opinion of the Trustee) material respect with any applicable laws or regulations (including any foreign exchange rules or regulations) of any governmental or other regulatory authority for any purpose to enable it lawfully to exercise its rights or perform or comply with its obligations under the Notes, the Trust Deed or the Agency Agreement or to ensure that those obligations are legally binding and enforceable or that all necessary agreements or other documents are entered into and that all necessary consents and approvals of, and registrations and filings with, any such authority in connection therewith are obtained and maintained in full force and effect; or
- 13.8. (a) the validity of the Notes, the Trust Deed or the Agency Agreement is contested by the Issuer or the Issuer shall deny any of its obligations under the Notes, the Trust Deed or the Agency Agreement (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise) or (b) it is or becomes unlawful for the Issuer to perform or comply with all or any of its obligations set out in the Notes, the Trust Deed or the Agency Agreement or (c) all or any of its obligations set out in the Notes, the Trust Deed or the Agency Agreement shall be or become unenforceable or invalid or (d) the DBK Law is repealed and, following the occurrence of any of the events specified in this Condition 13.8, the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders;
- 13.9. (a) all or any substantial part of the undertaking, assets and revenues of the Issuer or any Material Subsidiary is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (b) the Issuer or any Material Subsidiary is prevented by any such person from exercising normal control over all or any substantial part of its undertaking, assets and revenues and, following the occurrence of any of the events specified in this Condition 13.9, the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders; or
- 13.10. the Republic of Kazakhstan takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an agreement or composition with or for the benefit of its creditors or a moratorium is declared in respect of the payment of any class of obligations of the Republic of Kazakhstan (such payment being due in a currency other than the lawful currency for the time being of the Republic of Kazakhstan).

14. **PRESCRIPTION**

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

15. **REPLACEMENT OF NOTES**

If any Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders (and, if the Notes are then admitted to listing, trading or quotation by any listing authority, stock exchange or quotation by any listing authority, stock exchange or quotation system which requires the appointment of a Paying Agent in any particular place, the Paying Agent having its Specified Office in the place required by such listing authority stock exchange or quotation system), subject to all applicable laws and listing authority stock exchange or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

16. **AGENTS**

- 16.1. In acting under the Agency Agreement and in connection with the Notes, the Paying Agents act solely as agents of the Issuer and, in certain circumstances, the Trustee. The Paying Agents do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.
- 16.2. The initial Paying Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Final Terms. the Issuer, with the prior written approval of the Trustee, reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor

Principal Paying and Transfer Agent or Calculation Agent and additional or successor paying agents; provided, however, that:

- (a) the Issuer shall at all times maintain a Principal Paying and Transfer Agent;
- (b) if a Calculation Agent is specified in the relevant Final Terms, the Issuer shall at all times maintain a Calculation Agent;
- (c) if and for so long as the Notes are admitted to listing, trading or quotation, by any listing authority, stock exchange or quotation system which requires the appointment of a Paying Agent in any particular place, the Issuer shall maintain a Paying Agent having its Specified Office in the place required by such listing authority, stock exchange or quotation system; and
- (d) the Issuer shall maintain a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Union Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

17. MEETINGS OF NOTEHOLDERS; MODIFICATION; WAIVER AND ENFORCEMENT

- 17.1. The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Trustee or the Issuer and shall be convened by the Issuer upon the request in writing of Noteholders holding not less than one tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; provided, however, that Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than three quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- 17.2. The Trustee may agree, without the consent of the Noteholders, to (a) any modification of any of the provisions of the Trust Deed that is of a formal, minor or technical nature or is made to correct a manifest error, (b) any other modification (except as mentioned in the Trust Deed) and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed and (c) determine that any Event of Default or Potential Event of Default (as defined in the Trust Deed) will not be treated as such, provided that such modification, waiver or determination is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.
- 17.3. At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed and the Notes (whether by arbitration or by litigation), but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one fifth in principal amount of the Notes outstanding and (b) it shall have been indemnified and/or secured to its satisfaction. No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.
- 17.4. The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances and to be paid its costs and expenses in priority to claims of the Noteholders. The

Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

- 17.5. In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

18. **FURTHER ISSUES AND CONSOLIDATION**

- 18.1. The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of Notes of other series in certain circumstances where the Trustee so decides.

- 18.2. The Issuer may, with the prior approval of the Trustee and the Principal Paying and Transfer Agent (which shall not be unreasonably withheld), from time to time on any Interest Payment Date occurring on or after the Redenomination Date (as defined in Condition 22) on giving not less than 30 days' prior notice to the Noteholders in accordance with Condition 19, without the consent of the Noteholders, consolidate the Notes of one Series with the Notes of one or more other Series issued by it, whether or not originally issued in one of the European national currencies or in Euros, provided such other Notes have been redenominated in Euros (if not originally denominated in Euros) and which otherwise have, in respect of all periods subsequent to such consolidation, the same terms and conditions as the Notes.

19. **NOTICES**

Notices to the Noteholders shall be valid if published in a leading daily newspaper of general circulation in Europe and so long as the Notes are listed on any stock exchange, in a leading daily newspaper with general circulation in the city or cities where the stock exchange(s) on which the Notes are listed (which in the case of the London Stock Exchange, is expected to be the *Financial Times*). Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers).

20. **CURRENCY INDEMNITY**

If any sum due from the Issuer in respect of the Notes or any order, award or judgment given or made in relation thereto has to be converted from the currency (the “**first currency**”) in which the same is payable under these Conditions or such order or judgment into another currency (the “**second currency**”) for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying and Transfer Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, award judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

21. **ROUNDING**

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred thousandth of a percentage point (with 0.000005%, being rounded up to 0.00001%), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all

amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

22. **REDENOMINATION**

22.1. This Condition 22 is applicable to the Notes only if it is specified in the relevant Final Terms as being applicable.

22.2. If the country of the Specified Currency becomes or, announces its intention to become, a Participating Member State, the Issuer may, without the consent of the Noteholders, on giving at least 30 days' prior notice to the Trustee, the Noteholders and the Paying Agents, designate a date (the "**Redenomination Date**"), being an Interest Payment Date under the Notes falling on or after the date on which such country becomes a Participating Member State.

22.3. Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:

(a) the Notes shall be deemed to be redenominated into Euros in the denomination of Euros 0.01 with a principal amount for each Note equal to the principal amount of that Note in the Specified Currency, converted into Euros at the rate for conversion of such currency into Euros established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); provided, however, that, if the Issuer determines, with the agreement of the Trustee and the Principal Paying and Transfer Agent that the then market practice in respect of the re denomination into Euros 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, each listing authority, stock exchange or quotation system (if any) by which the Notes have then been admitted to listing, trading or quotation and the Paying Agents of such deemed amendments;

(b) if Notes have been issued in definitive form:

(i) the payment obligations contained in all Notes denominated in the Specified Currency will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition 22) shall remain in full force and effect; and

(ii) new Notes denominated in Euros will be issued in exchange for Notes denominated in the Specified Currency in such manner as the Principal Paying and Transfer Agent may specify and as shall be notified to the Noteholders in the Euro Exchange Notice; and

(c) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as the Specified Currency ceases to be a sub division of the Euros, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in Euros by cheque drawn on, or by credit or transfer to a Euros account (or any other account to which Euros may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Member State of the European Communities.

22.4. Following redenomination of the Notes pursuant to this Condition 22, where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of the Notes held by the relevant holder.

22.5. If the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable and Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, with effect from the Redenomination Date the Interest Determination Date shall be deemed to be the second TARGET Settlement Day before the first day of the relevant Interest Period.

23. **GOVERNING LAW, JURISDICTION AND ARBITRATION**

23.1. The Trust Deed and the Notes, and any non-contractual obligations arising out of or in connection with the Trust Deed or the Notes, are governed by, and shall be construed in accordance with, English law.

23.2. Subject to Condition 23.3, the Issuer has agreed in the Trust Deed for the benefit of the Noteholders that any claim, dispute or difference of whatever nature arising under, out of or in connection with the Trust Deed or

the Notes (including a claim, dispute or difference regarding its existence, termination or validity or any non-contractual obligations arising out of or in connection with the Trust Deed or the Notes) (a “**Dispute**”), shall be referred to and finally settled by arbitration in accordance with the rules of the LCIA (formerly the London Court of International Arbitration) (the “**Rules**”) as at present in force and as modified by this Condition, which Rules shall be deemed incorporated into this Condition. The number of arbitrators shall be three, each of whom shall be a lawyer experienced in international finance transactions. The claimant(s), irrespective of number, shall nominate jointly one arbitrator; the respondent(s), irrespective of number, shall nominate jointly one arbitrator; and a third arbitrator, who shall act as Chairman, shall be nominated by the two party-nominated arbitrators, provided that if the third arbitrator has not been nominated within the time limits specified by the Rules, such third arbitrator shall be appointed by the LCIA court. Any arbitrator, including the Chairman, may be of the same nationality as any of the parties to the Trust Deed. Any requirement in the Rules to take account of the nationality of a person considered for appointment as an arbitrator shall be disapplied and a person shall be nominated or appointed as an arbitrator (including as Chairman) without regard to her or his nationality. The seat of arbitration shall be London, England and the language of arbitration shall be English. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

- 23.3. The Issuer has agreed in the Trust Deed that at any time before the Trustee has nominated an arbitrator to resolve any Dispute(s) pursuant to Condition 23.2, the Trustee, at its sole option, may elect by notice in writing to the Issuer that such Dispute(s) shall instead be heard by the courts of England or by any other court of competent jurisdiction, as more particularly described in Condition 23.4. Following any such election, no arbitral tribunal shall have jurisdiction in respect of such Dispute(s)
- 23.4. In the event that the Trustee serves a written notice of election in respect of any Dispute(s) pursuant to Condition 23.3, the Issuer has agreed in the Trust Deed for the benefit of the Trustee and the Noteholders that the courts of England shall have jurisdiction to hear and determine any such Dispute(s) and, for such purposes, irrevocably submits to the jurisdiction of such courts.
- 23.5. The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of the Trustee to bring any suit, action or proceedings (the “**Proceedings**”) for the determination of any Dispute(s) in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.
- 23.6. For the purpose of Conditions 23.3, 23.4 and 23.5, the Issuer has irrevocably waived any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and agrees not to claim that any such court is not a convenient or appropriate forum.
- 23.7. The Issuer has agreed that the process by which any Proceedings in England are begun may be served on it by being delivered to Law Debenture Corporate Services Limited, Fifth Floor, 100 Wood Street, London EC2V 7EX, England or, if different, its registered office for the time being or at any address of the Issuer or in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985. If such Person is not or ceases to be effectively appointed to accept service of process on the Issuer’s behalf, the Issuer shall, on the written demand of any Noteholder addressed to the Issuer or and delivered to the Issuer or to the Specified Office of the Principal Paying and Transfer Agent, appoint a further Person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a Person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying and Transfer Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law.
- 23.8. The Issuer has consented generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be made or given in such Proceedings.
- 23.9. In relation to any Proceedings and to the enforcement of any judgment, order or award (whether or not given or made in those Proceedings), to the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from jurisdiction, suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, including in relation to the enforcement of any arbitration award, and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer has irrevocably consented to the enforcement of any judgment or award, agreed not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

24. **RIGHTS OF THIRD PARTIES**

No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

FORM OF FINAL TERMS

Final Terms dated [•]

JSC DEVELOPMENT BANK OF KAZAKHSTAN

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] under the U.S.\$3,000,000,000 Medium Term Note Programme

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or (ii) a customer within the meaning of Directive (EU) 2016/97 the (“**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the “**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) № 2017/565, as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“**EUWA**”); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (“**FSMA**”) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) № 1286/2014, as it forms part of domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

[MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

[UK MIFIR product governance / Professional investors and ECPs only target market – Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (“**COBS**”), and professional clients, as defined in Regulation (EU) № 600/2014, as it forms part of domestic law by virtue of the EUWA (“**UK MiFIR**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.]

PART A—CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “**Conditions**”) set forth in the Base Prospectus dated 28 April 2021 which constitutes a base prospectus for the purposes of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA (the “**UK Prospectus Regulation**”). This document constitutes the Final Terms of the Notes described herein for the purposes of the UK Prospectus Regulation and must be read in conjunction with such Base Prospectus in order to obtain all relevant information. The Base Prospectus has been published on [Issuer’s/financial intermediaries’/ regulated market/LSE] website.

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs (in which case the subparagraphs of the paragraphs which are not applicable can be deleted). Italics denote guidance for completing the Final Terms.]

1. Issuer: JSC Development Bank of Kazakhstan
2. [(i)] Series Number: [•]
 [(ii)] Tranche Number: [•]
 [(iii)] Date on which the Notes will be consolidated and form a single Series: The Notes will be consolidated and form a single series with [•] on [the Issue Date][Not Applicable]
3. Specified Currency or Currencies: [•]
4. Aggregate Nominal Amount of Notes:
 [(i)] Series: [•]
 [(ii)] Tranche: [•]
5. Issue Price: [•]% of the Aggregate Nominal Amount [plus accrued interest from [•]]
6. (i) Specified Denomination(s): [•]
(Note: No Notes may be issued which have a minimum denomination of less than €100,000 (or nearly equivalent amount in other currencies))
 (ii) Calculation Amount: [•]
7. [(i)] Issue Date: [Specify / Closing Date / Not Applicable]
 [(ii)] Interest Commencement Date: [•]
8. Maturity Date: [•]
9. Interest Basis: [[•]% Fixed Rate]
 [[•] month [LIBOR/EURIBOR]
 [•] +/- [•]% Floating Rate]
 [Zero Coupon]
 (further particulars specified below at paragraphs 13 to 15)
10. Redemption/Payment Basis: [Redemption at par]
11. Put/Call Options: [Investor Put]
 [Issuer Call]
 ((further particulars specified below at paragraphs 16 to 19))
12. Status of the Notes: [Senior]
13. Date [Board] approval for issuance of Notes obtained: [•]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14. Fixed Rate Note Provisions: [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: [•]% *per annum* [payable [annually/ semi-annually/quarterly/monthly/] in arrear on each Interest Payment Date]
- (ii) Interest Payment Date(s): [•] in each year [adjusted in accordance with Business Day Convention/ not adjusted]
- (iii) Fixed Coupon Amount[(s)]: [•] per Calculation Amount
- (iv) Broken Amount(s): [•] per Calculation Amount payable on the Interest Payment Date falling [in/on] [•]
- (v) Day Count Fraction: [Actual/365] / [Actual/Actual (ISDA)] / [Actual / 365 (Fixed)] / [Actual / 360] / [30/360] / [360/360] / [Bond Basis] / [30E/360] / [Eurobond Basis]
- (vi) Determination Date(s): [•] in each year [Not Applicable]
15. Floating Rate Note Provisions: [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Period(s): [[•] [,subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment, as the Business Day Convention in (iv) below is specified to be Not Applicable]]
- (ii) Specified Interest Payment Dates: [[•] in each year [,subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment, as the Business Day Convention in (iv) below is specified to be Not Applicable]]
- (iii) First Interest Payment Date: [•]
- (iv) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention] [Not Applicable]
- (v) Business Centre(s): [Not Applicable/[•]]
- (vi) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination]
- (vii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Principal Paying and Transfer Agent): [•]

(viii) Screen Rate Determination:

— Reference Rate: [[•] month LIBOR/EURIBOR]

— Interest Determination Date(s): [•]

— Relevant Screen Page: [•]

(ix) ISDA Determination: [•]

— Floating Rate Option: [•]

— Designated Maturity: [•]

— Reset Date: [•]

(x) Margin(s): [+/-][•]% *per annum*

(xi) Minimum Rate of Interest: [•]% *per annum*

(xii) Maximum Rate of Interest: [•]% *per annum*

(xiii) Day Count Fraction: [•]

16. Zero Coupon Note Provisions: [Applicable/Not Applicable]

(i) [Amortisation/Accrual] Yield: [•]% *per annum*

(ii) Reference Price: [•]

PROVISIONS RELATING TO REDEMPTION

17. Call Option: [Applicable/Not Applicable (except as specified in Condition 10.2)]

(i) Optional Redemption Date(s): [•]

(ii) Optional Redemption Amount(s) of each Note: [•] per Calculation Amount/[•] per Note of [•] specified denomination]

(iii) If redeemable in part:

(a) Minimum Redemption Amount: [•] per Calculation Amount

(b) Maximum Redemption Amount: [•] per Calculation Amount

18. Put Options: [Applicable/Not Applicable (except as specified in Condition 10.6)]

(i) Optional Redemption Date(s): [•]

(ii) Optional Redemption Amount(s) of each Note: [[•] per Calculation Amount/[•] per Note of [•] specified denomination]

19. Final Redemption Amount of each Note: [•]

20. Early Redemption Amount:

Early Redemption Amount(s) per Calculation [Not Applicable/[•] per Calculation Amount]
Amount payable on redemption for taxation
reasons or on event of default or other early
redemption:

GENERAL PROVISIONS APPLICABLE TO THE NOTES

21. Form of Notes: [Registered Global Notes exchangeable for Definitive Notes
in the limited circumstances specified in the Global Note.]
22. Financial Centre(s): [Not Applicable/[•].]

THIRD PARTY INFORMATION

[(*Relevant third party information*) has been extracted from [•]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [•], no facts have been omitted which would render the reproduced information inaccurate or misleading.] / [Not Applicable]

Signed on behalf of the Issuer:

By:
Duly authorised

PART B—OTHER INFORMATION

1. LISTING

- (i) Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to (i) the Official List of the Financial Conduct Authority and to trading on the Main Market of the London Stock Exchange plc and (ii) to the “Bonds” category of the “Debt Securities” sector of the “Main” platform of the Kazakhstan Stock Exchange with effect from [•].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on (i) the Official List of the Financial Conduct Authority and to trading on the Main Market of the London Stock Exchange plc and (ii) to the “Bonds” category of the “Debt Securities” sector of the “Main” platform of the Kazakhstan Stock Exchange with effect from [•].] [Not Applicable.]
- (ii) Estimate of total expenses related to admission to trading: [•]

2. RATINGS

- Ratings: The Notes to be issued have been rated:
- [S & P: [•]]
- [Moody's: [•]]
- [[Fitch: [•]]
- [Brief explanation of meaning of the ratings to be included if previously published by the rating provider]*
- [Each of] [Fitch] [and] [Moody's] is established in the United Kingdom and is registered under Regulation (EU) № 1060/2009 as it forms part of domestic law by virtue of the EUWA (the “**UK CRA Regulation**”). [S&P is not established in the UK but the rating it has given to Notes is endorsed by S&P Global Ratings UK Limited which is established in the UK and registered under the UK CRA Regulation.]

3. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

If applicable a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest is to be included. This may be satisfied by the inclusion of the following statement:

“Save as discussed in [Subscription and Sale], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”]

4. REASONS FOR THE OFFER AND ESTIMATED NET PROCEEDS

- Reasons for the offer: [See [“Use of Proceeds”] in Base Prospectus] / [Give details]
- Estimated net proceeds: [•]
- [5. Fixed Rate Notes only—YIELD

Indication of yield:	[•] [The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]
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6. OPERATIONAL INFORMATION

Legal Entity Identifier code:	213800LCDPGJ1BI7KX98
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ISIN Code (Reg S Notes):	[•]
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ISIN Code (Rule 144A Notes):	[•]
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Common Code (Reg S Notes):	[•]
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Common Code (Rule 144A Notes):	[•]
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Rule 144A Notes CUSIP number:	[•]
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Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. or DTC and the relevant identification number(s):	[Not Applicable/[•]]
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Names and addresses of additional Paying Agent(s) (if any):	[•]
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7. DISTRIBUTION

(i) Method of distribution:	[Syndicated/Non-syndicated]
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(ii) If syndicated:	
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(A) Names of Managers:	[Not Applicable/give names]
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(B) Stabilisation Manager(s) (if any):	[Not Applicable/give names]
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(iii) If non-syndicated, name of Dealer:	[Not Applicable/give names]
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(iv) U.S. Selling Restrictions:	[Reg. S Compliance Category [2/3]; [Rule 144A;] TEFRA C/TEFRA D/ TEFRA not applicable]
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(iv) Development Finance Structuring Agent:	[Not Applicable/[•]]
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SUMMARY OF THE PROVISIONS RELATING TO NOTES IN GLOBAL FORM

The Global Notes

Each Series of Notes will be evidenced on issue by, in the case of Regulation S Notes, a Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and, in the case of Rule 144A Notes, a Rule 144A Global Note deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See “—*Book Entry Procedures for the Global Notes*”. By acquisition of a beneficial interest in a Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person and that, prior to the expiration of 40 days after completion of the distribution of the Series of which such Notes are a part as determined and certified to the Principal Paying and Transfer Agent by the relevant Dealer (or in the case of a Series of Notes sold to or through more than one relevant Dealer, by each of such relevant Dealers as to the Notes of such Series sold by or through it, in which case the Principal Paying and Transfer Agent shall notify each such relevant Dealer when all relevant Dealers have so certified, (the “**distribution compliance period**”), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See “*Transfer Restrictions*”. Beneficial interests in a Rule 144A Global Note may only be held through DTC at any time. See “—*Book Entry Procedures for the Global Notes*”. By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that if it is a U.S. person, it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest only in accordance with the procedures and restrictions contained in the Agency Agreement. See “*Transfer Restrictions*”.

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Agency Agreement and, with respect to a Rule 144A Global Note, as set forth in Rule 144A, and the Rule 144A Notes will bear the legends set forth thereon regarding such restrictions set forth under “*Transfer Restrictions*”.

Any beneficial interest in a Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note will, upon transfer, cease to be an interest in that Regulation S Global Note and become an interest in the corresponding Rule 144A Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in that Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note will, upon transfer, cease to be an interest in that Rule 144A Global Note and become an interest in that Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the “**Definitive Notes**”). The Notes are not issuable in bearer form.

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the Terms and Conditions of the Notes. The following is a summary of those provisions:

- *Payments.* Payments of principal and interest in respect of Notes evidenced by a Global Note will be made against presentation for endorsement by the Principal Paying and Transfer Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying and Transfer Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes.
- *Record Date.* Condition 11.2, which defines “Record Date”, shall be amended in relation to Global Notes to the effect that Record Date shall mean the close of business on the Payment Business Date immediately preceding the relevant Interest Payment Date.
- *Notices.* So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for

communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of the Notes provided that for so long as the Notes are listed on the Market and the rules of the Market so require, notices will also be published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*).

- *Meetings.* The holder of each Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of Notes for which the relevant Global Note may be exchangeable.
- *Trustee's Powers.* In considering the interests of Noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.
- *Cancellation.* Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.
- *Redemption at the Option of the Issuer.* Any Call Option provided for in the Terms and Conditions of the Notes shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Terms and Conditions of the Notes, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required.
- *Redemption at the Option of Noteholders.* Any Put Option provided for in the Terms and Conditions of the Notes may be exercised by the holder of the Global Note (i) giving notice to the Issuer within the time limits relating to the deposit of Notes set out in the Terms and Conditions of the Notes substantially in the form of the notice available from any Paying Agent, the Registrar or any Transfer Agent (except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised) stating the nominal amount of Notes in respect of which the option is exercised and (ii) at the same time depositing the Global Note with the Registrar or any Transfer Agent at its specified office.

Exchange for Definitive Notes

Exchange

Registration of title to Notes initially represented by a Rule 144A Global Note in a name other than DTC or a successor depositary or one of their respective nominees will not be permitted unless such depositary notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Rule 144A Global Note or ceases to be a "clearing agency" registered under the United States Securities Exchange Act of 1934, as amended, or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depositary and the Registrar has received a notice from the registered holder of a Rule 144A Global Note requesting an exchange of a specified amount of the Rule 144A Global Note for Definitive Notes.

Registration of title to Notes initially represented by a Regulation S Global Note in a name other than the nominee of a common depositary for Euroclear and Clearstream, Luxembourg will only be permitted if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or following the failure to pay principal in respect of any Note at maturity or upon acceleration of any Note and the Registrar has received a notice from the registered holder (i.e., the nominee of the common depositary) of the relevant Regulation S Global Note requesting an exchange of the Regulation S Global Note for Definitive Notes.

On or after the Exchange Date, the holder of the relevant Global Note may surrender such Global Note to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Note, as provided in the Paying Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Notes in or substantially in the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for Definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

“Exchange Date” means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Issuer (but against such indemnity and/or security as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and, in the case of a Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Definitive Notes issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under “*Transfer Restrictions*”.

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under “*Transfer Restrictions*” or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book Entry Procedures for the Global Notes

For each Series of Notes evidenced by both a Regulation S Global Note and a Rule 144A Global Note, custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross market transfers of the Notes associated with secondary market trading. See “—*Book Entry Ownership*” and “—*Settlement and Transfer of Notes*”.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (“**Direct Participants**”) or indirectly (“**Indirect Participants**”) and, together with Direct Participants, “**Participants**”) through organisations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a “banking organisation” under the laws of the State of New York, a member of the U.S. 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 was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain

other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Rule 144A Global Notes directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Notes as to which such Participant or Participants has or have given such direction. However, in the circumstances described under “*Exchange for Definitive Notes*”, DTC will surrender the relevant Rule 144A Global Notes for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note representing Regulation S Notes of any Series will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depository on behalf of, Euroclear and Clearstream, Luxembourg.

DTC

The Rule 144A Global Note representing Rule 144A Notes of any Series will have a CUSIP number, unless otherwise agreed, and will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depository by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants’ or accountholders’ accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system’s records. The ownership interest of each actual purchaser of each such Note (the “**Beneficial Owner**”) will in turn be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within a clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading Between Euroclear and Clearstream, Luxembourg Participants

Secondary market sales of book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading Between DTC Participants

Secondary market sales of book entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same Day Funds Settlement system in same day funds, 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, Luxembourg Purchaser

When book entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in a Regulation S Global Note (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12:00 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Note will instruct the Registrar to decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note of the relevant class and increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading Between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser

When book entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Note (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by a Regulation S Global Note and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre issue Trades Settlement

It is expected that the delivery of Notes will be made against payment therefor on the relevant closing date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within two business days (T+2), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until two days prior to the relevant closing date will be required, by virtue of the fact that the Notes initially will settle beyond T+2, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant closing date should consult their own advisers.

Redenomination

If the Notes are redenominated pursuant to Condition 22, then following redenomination:

- if Definitive Notes are required to be issued, they shall be issued at the expense of the Issuer in denominations in excess of €100,000 as determined by the Principal Paying and Transfer Agent and such other denominations as the Principal Paying and Transfer Agent shall determine and notify to the Noteholders; and
- the amount of interest due in respect of Notes represented by a Permanent Global Note and/or a Temporary Global Note will be calculated by reference to the aggregate principal amount of such Notes and the amount of such payment shall be rounded down to the nearest €0.01.

TAXATION

The following is a general description of certain material tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

United States Federal Income Taxation

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership, disposition and retirement of Notes by a holder thereof. This summary does not address the U.S. federal income tax consequences of every type of Note which may be issued under the Programme, and additional or modified disclosure concerning certain U.S. federal income tax consequences relevant to such type of Note may be provided, as appropriate. This summary only applies to holders that acquire Notes as part of the initial distribution at their initial issue price and that hold the Notes as capital assets for U.S. federal income tax purposes. This overview does not discuss all aspects of U.S. federal income taxation that may be applicable to all members of a class of holders subject to special treatment under United States federal income taxation (except as may be specifically set forth below), such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, tax-exempt organisations, dealers or traders in securities or currencies, persons that mark their securities to market, holders that will hold Notes through a partnership or other pass through entity, holders that will hold a Note as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes, controlled foreign corporations, passive foreign investment companies, accrual basis tax payers subject to specific rules for the taxable year of inclusion under Section 451(b) of the Internal Revenue Code of 1986, as amended (the "Code"), U.S. Holders (as defined below) that have a functional currency other than the U.S. Dollar, or certain expatriates and long-term residents of the United States. Moreover, this summary does not address the U.S. federal estate and gift tax, the "net investment income" tax imposed under Section 1411 of the Code or alternative minimum tax consequences of the acquisition, ownership or retirement of Notes and does not include any description of the tax laws of any non-U.S., U.S. State or local governments.

This summary is based on the Code, existing and proposed U.S. Treasury Regulations, administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing are subject to change, possibly with retroactive effect, or differing interpretations which could affect the tax consequences described herein. Any special U.S. federal income tax considerations relevant to a particular issue of the Notes will be provided in a supplement to this Base Prospectus.

For purposes of this description, a **"U.S. Holder"** is a beneficial owner of the Notes who for U.S. federal income tax purposes is (i) a citizen or resident of the United States; (ii) a corporation (or entity treated as a corporation for U.S. federal income tax purposes) created or organised in or under the laws of the United States or any State thereof, including the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust (1) that validly elects to be treated as a "United States person" for U.S. federal income tax purposes (**"U.S. person"**) or (2)(a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more U.S. persons have the authority to control.

If a partnership (or any other entity or arrangement treated as a partnership) for U.S. federal income tax purposes holds Notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor concerning the U.S. federal income tax consequences of the acquisition, ownership or disposition of Notes by the partnership.

A Non-U.S. Holder is a beneficial owner of Notes that is neither a U.S. Holder nor a partnership (or any other entity treated as a partnership) for U.S. federal income tax purposes.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR OWN TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

U.S. Holders

Classification of the Notes

The determination of whether an obligation represents debt, equity or some other instrument or interest is based on all the relevant facts and circumstances. There may be no statutory, judicial or administrative authority directly addressing the appropriate characterisation of the Notes, and no rulings have been or will be sought from the Internal Revenue Service (“**IRS**”) with respect to the appropriate characterisation of the Notes for U.S. federal income tax purposes. To the extent it is required to take a position, DBK intends to take the position that the Notes are characterised as debt for U.S. federal income tax purposes. Additional alternative characterisations may also be possible. Further possible characterisations, if applicable, may be discussed in any supplemental prospectus or series prospectus. Prospective purchasers of the Notes should consult their own tax advisers about the consequences in the event the Notes are treated as any other characterisation for U.S. federal income tax purposes and the consequences of acquiring, owning or disposing of Notes. The remainder of this discussion assumes that the Notes will be treated as debt for U.S. federal income tax purposes.

Interest

Except as set forth below, interest paid on a Note, whether payable in U.S. Dollars or a currency, composite currency or basket of currencies other than U.S. Dollars (a “**foreign currency**”), including any additional amounts, will be includible in a U.S. Holder’s gross income as ordinary interest income at the time it is received or accrued, in accordance with the U.S. Holder’s usual method of accounting for U.S. federal income tax purposes, reduced by the allocable amount of amortisable bond premium, subject to the discussion below. In addition, interest and original issue discount (“**OID**”), if any, accrued with respect to the Notes (as described below under “—*Original Issue Discount*”) on the Notes will generally be treated as income from sources outside the United States for U.S. federal income tax purposes. For purposes of calculating the U.S. Holder’s foreign tax credit limitation, interest on the Notes should generally constitute “passive category income” or, in the case of certain U.S. Holders, “general category income”. The U.S. federal income tax rules relating to foreign tax credits and limitations thereof are complex and may vary depending on the facts and circumstances of each U.S. Holder. Accordingly, U.S. Holders should consult their own tax advisers regarding the availability of a foreign tax credit for foreign taxes, if any, withheld under such U.S. Holder’s particular situation.

Foreign Currency Denominated Qualified Stated Interest

Except as set forth below, if any payment of “qualified stated interest” (as defined below), including any additional amounts, is denominated in, or determined by reference to, a foreign currency (a “**Foreign Currency Note**”), the amount of income recognised by a U.S. Holder will be the U.S. Dollar value of the foreign currency, including the amount of any applicable withholding tax thereon, regardless of whether the foreign currency is converted into U.S. Dollars. Generally, a U.S. Holder that uses the cash method of tax accounting will determine such U.S. Dollar value using the spot rate of exchange on the date of receipt. Generally, a U.S. Holder that uses the accrual method of tax accounting will determine the U.S. Dollar value of accrued interest income using the average rate of exchange for the accrual period (or, in the case of an accrual period that spans two taxable years of the U.S. Holder, the part of the period within each taxable year) or, at the U.S. Holder’s election, at the spot rate of exchange on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years of the U.S. Holder, the part of the period within each taxable year) or the spot rate on the date of receipt, if that date is within five days of the last day of the accrual period. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS. A U.S. Holder that uses the accrual method of accounting for tax purposes will recognise U.S. source foreign currency gain or loss on the receipt of an interest payment if the exchange rate in effect on the date of payment is received differs from the rate applicable to an accrual of that interest, regardless of whether the payment is converted to U.S. Dollars at such time. This foreign currency gain or loss will be treated as ordinary income or loss, but generally will not be treated as an adjustment to interest income received on the debt security.

Original Issue Discount

U.S. Holders of Notes issued with OID, including Zero Coupon Notes, with a term of over one year (an “**Original Issue Discount Note**”), will be subject to special tax accounting rules, as described in greater detail below. Additional rules applicable to Original Issue Discount Notes that are denominated in or determined by reference to a currency other than the U.S. Dollar are described under Foreign Currency Discount Notes below.

The following discussion does not address the application of the U.S. Treasury Regulations governing OID to, or address the U.S. federal income tax consequences of, an investment in Notes that are contingent payment debt instruments. In the event DBK issues contingent payment debt instruments, the relevant supplemental prospectus will describe certain U.S. federal income tax consequences thereof.

For U.S. federal income tax purposes, a Note (including a Zero Coupon Note), other than a Note with a term of one year or less (a “**Short Term Note**”), will be treated as issued with OID if the excess of the Note’s stated redemption price at maturity over its issue price equals or exceeds a *de minimis* amount (0.25% of the Note’s stated redemption price at maturity multiplied by the number of complete years to its maturity (or, in the case of a Note that provides for payments other than qualified stated interest before maturity, its weighted average maturity)). The “issue price” of each Note in a particular offering will be the first price at which a substantial amount of that particular offering is sold (other than to an underwriter, broker, agent or wholesaler). The “stated redemption price at maturity” of a Note is the total of all payments provided by the Note that are not payments of “qualified stated interest”. The term “qualified stated interest” means stated interest that is unconditionally payable in cash or in property (other than debt instruments of the issuer) at least annually at a single fixed rate or a variable rate (in the circumstances described below under “—*Variable Rate Debt Instruments*”). Interest is payable at a single fixed rate only if the rate appropriately takes into account the length of the interval between payments. Notice will be given if it is determined that a particular Note will bear interest that is not qualified stated interest. In the case of a Note issued with *de minimis* OID, a U.S. Holder of such Note will recognise capital gain with respect to any *de minimis* OID as stated principal payments on the Note are made. The amount of such gain with respect to each principal payment will equal the product of the total amount of the Note’s *de minimis* OID and a fraction, the numerator of which is the amount of the principal payment made and the denominator of which is the stated principal amount of the Note.

U.S. Holders of Original Issue Discount Notes with a maturity upon issuance of more than one year must, in general, include OID in income in advance of the receipt of some or all of the related cash payments. The amount of OID includible in income by the initial U.S. Holder of an Original Issue Discount Note is the sum of the “daily portions” of OID with respect to the Note for each day during the taxable year or portion of the taxable year in which such U.S. Holder held such Note (“**accrued OID**”). The daily portion is determined by allocating to each day in any “accrual period” a *pro rata* portion of the OID allocable to that accrual period. The “accrual period” for an Original Issue Discount Note may be of any length and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period is an amount equal to the excess, if any, of (a) the product of the Note’s adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of any qualified stated interest allocable to the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The “yield to maturity” of a Note is the discount rate that causes the present value of all payments on the Note as of its original issue date to equal the issue price of such Note. The “adjusted issue price” of a Note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period (determined without regard to the amortisation of any acquisition or bond premium, as described below) and reduced by any payments made on such Note (other than qualified stated interest) on or before the first day of the accrual period. Under these rules, a U.S. Holder will have to include in income increasingly greater amounts of OID in successive accrual periods.

Certain of the Notes may be redeemed prior to their maturity at DBK’s option and/or at the option of the holder. Original Issue Discount Notes containing such features may be subject to rules that differ from the general rules discussed herein. Persons considering the purchase of Original Issue Discount Notes with such features should carefully examine the relevant Final Terms and should consult their own tax advisors with respect to such features since the tax consequences with respect to OID will depend, in part, on the particular terms and features of the Notes.

In the case of an Original Issue Discount Note that is a Floating Rate Note (as described below under “*Variable Rate Debt Instruments*”), both the “yield to maturity” and “qualified stated interest” will be determined solely for purposes of calculating the accrual of OID as though the Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the Note on its date of issue or, in the case of certain Floating Rate Notes, the rate that reflects the yield to maturity that is reasonably expected for the Note. Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index or if the principal amount of the Note is indexed in any manner. Persons considering the purchase of Floating Rate Notes should carefully examine the relevant supplemental prospectus and should consult their own tax advisors regarding the U.S. federal income tax consequences of the holding and disposition of such Notes.

Election to Treat All Interest as Original Issue Discount

U.S. Holders may elect to treat all interest on any Note as OID and calculate the amount includible in gross income under the constant yield method described above. For the purposes of this election, interest includes stated interest, acquisition discount, OID, *de minimis* OID and unstated interest, as adjusted by any amortisable bond premium or acquisition premium. This election generally will apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS. U.S. Holders should consult their own tax advisors about this election.

Acquisition Premium

A U.S. Holder that purchases an Original Issue Discount Note for an amount that is greater than its adjusted issue price but less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, will be considered to have purchased the Original Issue Discount Note at an “acquisition premium”. If the U.S. Holder does not make the election described above under “*Election to Treat All Interest as Original Issue Discount*,” under the acquisition premium rules, the daily portions of OID which the U.S. Holder must include in its gross income with respect to such Original Issue Discount Note will be reduced by an amount equal to the daily portion of the OID for such day multiplied by the acquisition premium fraction. The numerator of the “acquisition premium fraction” is the excess of the U.S. Holder’s adjusted basis in the Note immediately after its purchase over the adjusted issue price of the Note, and the denominator is the sum of the daily portions of OID for such Note for all days after the date of purchase and ending on the stated maturity date (i.e., the total OID remaining on the Note).

Amortisable Bond Premium

A U.S. Holder that purchases Notes for an amount in excess of its principal amount (or, in the case of an Original Issue Discount Note, in excess of the sum of all amounts payable on the Note after the acquisition date (other than payments of qualified stated interest)), may elect to treat the excess as “amortisable bond premium”. If a U.S. Holder makes this election, it will reduce the amount required to be included in income for each accrual period with respect to interest on the Note by the amount of amortisable bond premium allocable, based on the Note’s yield to maturity, to that accrual period.

If the amortisable bond premium allocable to an accrual period exceeds interest income from the Note for such accrual period, such excess is first allowed as a deduction to the extent of interest included in income in respect of the Note in previous accrual periods and is then carried forward to the next accrual period. If the amortisable bond premium allocable and carried forward to the accrual period in which the Note is sold, retired or otherwise disposed of exceeds interest income for such accrual period, a U.S. Holder would be allowed an ordinary deduction equal to such excess.

If the Note is denominated in, or determined by reference to, a foreign currency, the amortisable bond premium is computed in units of the foreign currency and the amortisable bond premium will reduce interest income in units of the foreign currency. Gain or loss recognized that is attributable to changes in exchange rates between the time the amortised bond premium offsets interest income and the time of the acquisition of the Note is generally taxable as ordinary income or loss. If a U.S. Holder makes an election to amortise the bond premium, it will apply to all debt instruments, other than debt instruments the interest on which is excludible from gross income, that the U.S. Holder owns at the beginning of the first taxable year to which the election applies, and to all debt instruments that the U.S. Holder thereafter acquires, and the U.S. Holder may not revoke it without the consent of the IRS.

Variable Rate Debt Instruments

Generally, a Note that provides for interest at a variable rate (a “**Floating Rate Note**”) will qualify as a “variable rate debt instrument” under U.S. Treasury Regulations governing the accrual of OID if: (a) its issue price does not exceed the total non-contingent principal payments due under the Floating Rate Note by more than an amount equal to the lesser of (i) 0.015 multiplied by the product of the total non-contingent principal payments and the number of complete years to maturity from the issue date or (ii) 15 percent of the total non-contingent principal payments; (b) it does not provide for stated interest other than stated interest that pays or compounds at least annually at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate; and (c) each qualified floating rate or objective rate taken into account in stated interest that is in effect at any time during the term of the Note is set at a current value of that rate (i.e., the value of the rate on any day that is no earlier than three months prior to the first day on which the value is in effect and no later than one year following that first day).

A “qualified floating rate” is any variable rate where: (a) variations in the value of such rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Floating Rate Notes are denominated; or (b) the rate is equal to such a rate multiplied by either a fixed multiple that is greater than 0.65 but not more than 1.35, or a fixed multiple greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Floating Rate Notes together will constitute a single qualified floating rate. Two or more qualified floating rates will be presumed to meet the requirements of the previous sentence if the values of all rates on the issue date are within 25 basis points of each other. A variable rate is not a qualified floating rate if it is subject to certain restrictions (including caps, floors, governors, or other similar restrictions) unless such restrictions are fixed throughout the term of the Note or are not reasonably expected to significantly affect the yield on the Note.

An “objective rate” is a rate that: (a) is not a qualified floating rate; and (b) is determined using a single fixed formula that is based on objective financial or economic information that is not within the control of or unique to the circumstances of the issuer or a related party. Despite the foregoing, a variable rate of interest on Floating Rate Notes will not constitute an objective rate if it is reasonably expected that the average value of such rate during the first half of the Floating Rate Notes’ term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Floating Rate Notes’ term. A “qualified inverse floating rate,” is any objective rate where such rate is equal to a fixed rate minus a qualified floating rate, and the variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the cost of newly borrowed funds in the currency in which the Floating Rate Notes are denominated.

Generally, if a Floating Rate Note provides for stated interest (payable unconditionally at least annually) at a fixed rate for an initial period of one year or less followed by a variable rate that is either a single qualified floating rate or a single objective rate, and the value of the variable rate on the Floating Rate Notes’ issue date is intended to approximate the fixed rate, then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be. If the Notes pay interest at a single objective rate or a single qualified floating rate, the amount of OID, if any, is determined by using a fixed rate equal to, in the case of a qualified floating rate or qualified inverse floating rate, the value as of the issue date, of the qualified floating rate or qualified inverse floating rate, or, for any other objective rate, a fixed rate that reflects the yield reasonably expected for such Floating Rate Note.

If a Floating Rate Note that is a variable rate debt instrument does not provide for stated interest at a single qualified floating rate or single objective rate, or at a single fixed rate (other than at a single fixed rate for an initial period), the amount of qualified stated interest and the amount and accrual of OID on the Note are generally determined by: (a) determining a fixed rate substitute for each variable rate provided under the Floating Rate Note (generally, the value of each variable rate as of the issue date or, in the case of an objective rate that is not a qualified inverse floating rate, a rate that reflects the yield that is reasonably expected for the Note); (b) constructing the equivalent fixed rate debt instrument (using the fixed rate substitutes described above); (c) determining the amount of qualified stated interest and OID with respect to the equivalent fixed rate debt instrument (by applying the general OID rules as described above under “Original Issue Discount”); and (d) making the appropriate adjustment for actual variable rates during the applicable accrual period.

If a Floating Rate Note provides for stated interest either at one or more qualified floating rates or at a qualified inverse floating rate and in addition provides for stated interest at a single fixed rate (other than a single fixed rate for an initial period), a U.S. Holder generally must determine the amount of interest and OID accruals by using the method described in the preceding paragraph with the modification that the Floating Rate Note is treated, for purposes of the first three steps of the determination, as if it provided for a qualified floating rate (or qualified inverse floating rate, if the Note provides for a qualified inverse floating rate) rather than the fixed rate. The qualified floating rate (or qualified inverse floating rate) replacing the fixed rate must be such that the fair market value of the Note as of the issue date would be approximately the same as the fair market value of an otherwise identical debt instrument that provides for a qualified floating rate (or qualified inverse floating rate) rather than a fixed rate.

A Floating Rate Note that does not qualify as a variable rate debt instrument will be treated as a contingent payment debt obligation. Certain consequences of the treatment of such a Note for U.S. federal income tax purposes will be more fully described in the relevant supplemental prospectus.

Short Term Notes

In the case of Short Term Notes, all payments (including all stated interest) will be included in the stated redemption price at maturity and, thus, U.S. Holders generally will be taxable on the discount in lieu of any stated interest. The discount will be equal to the excess of the stated redemption price at maturity over the issue price of a Short Term Note, unless the U.S. Holder elects to compute this discount using tax basis instead of issue price. Under the OID regulations, in general, individuals and certain other cash method U.S. Holders of a Short Term Note are not required to include accrued discount in their income currently unless the U.S. Holder elects to do so (but may be required to include any stated interest in income as it is received). U.S. Holders that report income for U.S. federal income tax purposes on the accrual method and certain other U.S. Holders are required to accrue discount on such Short Term Notes (as ordinary income) on a straight-line basis, unless an election is made to accrue the discount according to a constant yield method based on daily compounding. In the case of a U.S. Holder that is not required, and does not elect, to include discount in income currently, any gain realised on the sale, exchange or retirement of the Short Term Note will generally be ordinary income to the extent of the discount accrued on a straight-line basis (unless an election is made to accrue the OID under the constant yield method) through the date of sale, exchange or retirement. In addition, a U.S. Holder that does not elect to include currently accrued discount in income may be required to defer deductions for a portion of the U.S. Holder’s interest expense with respect to any indebtedness incurred or continued to purchase or carry such Notes.

Foreign Currency Discount Notes

OID for any accrual period on an Original Issue Discount Note that is denominated in, or determined by reference to, a foreign currency will be determined for any accrual period in the foreign currency and then translated into U.S. Dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described under “*Foreign Currency Denominated Qualified Stated Interest*” above. Upon receipt of an amount attributable to OID (whether in connection with a payment of interest or the sale or retirement of a Note), a U.S. Holder will recognise foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. Dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. Dollars.

Sale, Exchange or Retirement

A U.S. Holder’s adjusted tax basis in a Note generally will be its U.S. Dollar cost (as defined herein) increased by the amount of any OID included in the U.S. Holder’s income with respect to the Note and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortisable bond premium applied to reduce interest on the Note. The U.S. Dollar cost of a Note purchased with a foreign currency generally will be the U.S. Dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable U.S. Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase.

A U.S. Holder generally will recognise gain or loss on the sale, exchange or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the U.S. Holder’s adjusted tax basis of the Note. The amount realised does not include the amount attributable to accrued but unpaid interest or OID, which will be taxable as interest income to the extent not previously included in income. The amount realised on a sale, exchange or retirement for an amount in foreign currency will be the U.S. Dollar value of such amount on the date of sale or retirement or, in the case of Notes traded on an established securities market, within the meaning of the applicable U.S. Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale.

Except with respect to (i) gains or losses attributable to changes in exchange rates (as described in the next paragraph), and (ii) gain on the disposition of a Short Term Note (see “—*Short Term Notes*”), gain or loss recognised on the sale, exchange or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held for more than one year at the time of such sale. The deductibility of capital losses is subject to limitation. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source income or loss. Prospective investors should consult their tax advisors as to the foreign tax credit implications of such sale, exchange or retirement of Notes.

Gain or loss recognised by a U.S. Holder on the sale, exchange or retirement of a Note that is attributable to changes in exchange rates will be treated as U.S. source ordinary income or loss; however, exchange gain or loss is taken into account only to the extent of total gain or loss realised on the transaction.

Reportable Transaction Reporting

Under certain U.S. Treasury Regulations, U.S. Holders that participate in “reportable transactions” (as defined in the regulations) must attach to their U.S. federal income tax returns a disclosure statement on IRS Form 8886. Under the relevant rules, if the Notes are denominated in a foreign currency, a U.S. Holder may be required to treat foreign currency exchange loss from the Notes as a reportable transaction if this loss exceeds the relevant threshold in the regulations (U.S.\$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amount for other non-individual U.S. Holders), and to disclose its investment by filing IRS Form 8886 with the IRS. A penalty of up to U.S. \$10,000 in the case of a natural person and U.S.\$50,000 in all other cases may be imposed in any taxable year on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. U.S. Holders should consult their own tax advisors as to the possible obligation to file IRS Form 8886 with respect to the ownership or disposition of the Notes, or any related transaction, including without limitation, the disposition of any foreign currency received as interest or as proceeds from the sale, exchange or retirement of the Notes.

Foreign Asset Reporting

Certain U.S. Holders who are individuals are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by U.S. financial institutions). U.S. Holders are urged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of the Notes.

Non-U.S. Holders

Under U.S. federal income tax law currently in effect, subject to the discussion below under the caption “U.S. Backup Withholding and Information Reporting,” payments of interest (including OID) on a Note to a Non-U.S. Holder generally will not be subject to U.S. federal income tax unless the income is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States.

Subject to the discussion below under the caption “U.S. Backup Withholding and Information Reporting,” any gain realised by a Non-U.S. Holder upon the sale, exchange or retirement of a Note generally will not be subject to U.S. federal income tax, unless (i) the gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States or (ii) in the case of any gain realised by an individual Non-U.S. Holder, such Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met.

U.S. Backup Withholding and Information Reporting

Backup withholding and information reporting requirements apply to certain payments of principal of, and interest and accruals of OID on, an obligation and to proceeds of the sale or redemption of an obligation, to certain non-corporate holders of Notes that are U.S. persons. Information reporting generally will apply to payments of principal of, and interest and accruals of OID on, an obligation, and to proceeds from the sale or redemption of, an obligation made within the United States, or by a U.S. payor or U.S. middleman, to a holder (other than an exempt recipient, including a corporation, a payee that is not a U.S. person that provides an appropriate certification and certain other persons). The payor will be required to withhold backup withholding on payments made within the United States, including payments of accrued OID, or by a U.S. payor or U.S. middleman, on a Note to a holder of a Note that is a U.S. person, other than an exempt recipient, such as a corporation, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments within the United States, or by a U.S. payor or U.S. middleman, of principal and interest to a holder of a Note that is not a U.S. person will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect. The backup withholding tax rate is currently 24%.

Backup withholding is not an additional tax. Holders generally will be entitled to credit any amounts withheld under the backup withholding rules against such holder’s U.S. federal income tax liability provided the required information is furnished to the IRS in a timely manner.

Kazakhstan Taxation

Kazakhstan Taxation

Payments of principal on the Notes are not subject to Kazakhstan taxation. Due to DBK’s status as a Financial Agency, payments of interest on the Notes and gains realised on disposal, sale, exchange or transfer of the Notes are not subject to taxation in Kazakhstan.

There are no stamp duties or registration or other taxes payable in Kazakhstan in connection with the transfer of any Notes.

Certain ERISA Considerations

Subject to the following discussion, the Notes may be acquired by pension, profit-sharing or other employee benefit plans that are subject to Title I of the United States Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”), individual retirement accounts, Keogh plans and other plans that are subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended and entities deemed to hold the plan assets of the foregoing (each a “**Benefit Plan**”). Section 406 of ERISA and Section 4975 of the Code, which are among the various provisions of ERISA and the Code governing Benefit Plans, prohibit a Benefit Plan from engaging in certain transactions with persons that are “parties in interest” under ERISA or “disqualified persons” under the Code with respect to such Benefit Plan. A violation of these “prohibited transaction” rules may result in an excise tax or other penalties and liabilities under ERISA and the Code for such persons or the fiduciaries of the Benefit Plan.

The acquisition or holding of Notes by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if DBK, the Trustee, the Dealers, the Registrar or any of their respective affiliates is or becomes a party in interest or a disqualified person with respect to such Benefit Plan. Certain exemptions from the prohibited transaction rules could be applicable to the purchase and holding of Notes by a Benefit Plan depending on the type and circumstances of the plan fiduciary making the decision to acquire such Notes. Even if the conditions specified in one or more exemptions are

met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. There can be no assurance that any exemption will be available with respect to any particular transaction involving the Notes and prospective purchasers that are Benefit Plans should consult with their advisers regarding the applicability of any such exemption and the impact of ERISA, the Code and other applicable law relating to the potential consequences of the acquisition and holding of Notes based on their specific circumstances.

This summary does not include a discussion of any laws that may apply to employee benefit plans that are not subject to ERISA or Section 4975 of the Code. Such plans (and entities in which they invest, as applicable) should consult their own professional advisors about any laws applicable thereto.

By acquiring a Note or any interest therein, each purchaser and transferee will be deemed to represent, warrant and covenant that either (i) it is not, and is not acquiring the Note or any interest therein with the assets of (and is not acting on behalf of) an entity or other person that is or will be, a Benefit Plan or any other plan subject to a law, regulation or rule that is substantially similar to Section 406 of ERISA or Section 4975 of the Code or (ii) the acquisition and holding of the Note or any interest therein is permitted by ERISA, the Code and other applicable law (to the extent applicable) and will not give rise to a non-exempt prohibited transaction under Section 406 of ERISA, Section 4975 of the Code or any such other substantially similar applicable law.

No information herein or provided in connection herewith by DBK or any party associated with this (collectively, the “**Covered Parties**”) is providing, or shall be considered to be providing, advice on which any Benefit Plan may rely for any investment decision. Benefit Plans need to make their own decisions, with whatever third-party advice they may wish to obtain, and are not authorised to rely on any information any Covered Party is providing as advice that is a basis for their decisions. The Covered Parties have not made, and are not making, a recommendation, have not provided, and are not providing, investment advice of any kind whatsoever (whether impartial or otherwise), and have not given, and are not giving, any advice in a fiduciary capacity in connection with any Benefit Plan’s decision to purchase Notes.

PRIOR TO MAKING AN INVESTMENT IN NOTES, PROSPECTIVE BENEFIT PLAN INVESTORS SHOULD CONSULT WITH THEIR LEGAL AND OTHER ADVISORS CONCERNING THE IMPACT OF ERISA AND THE CODE (AND, PARTICULARLY IN THE CASE OF NON-ERISA PLANS AND ARRANGEMENTS, ANY ADDITIONAL LEGAL CONSIDERATIONS), AS APPLICABLE.

TRANSFER RESTRICTIONS

Rule 144A Notes

Each purchaser of a beneficial interest in a Rule 144A Note, by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is (a) a QIB that is also a QP, (b) not a broker dealer which owns and invests on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers, (c) not a participant directed employee plan, such as a 401(k) plan, (d) acquiring such interest for its own account or for the account of one or more QIBs each of which is also a QP, (e) not formed for the purpose of investing in the Notes and (f) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.
- (2) It will (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the relevant Rule 144A Note in a principal amount that is not less than U.S.\$200,000 and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, it understands that DBK may receive a list of participants holding positions in its securities from one or more book entry depositaries.
- (3) It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of one or more QIBs each of which is also a QP, each of which is purchasing not less than U.S.\$200,000 in principal amount of the Rule 144A Notes or (b) to a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- (4) It understands that DBK has the power to compel any beneficial owner of Rule 144A Notes that is a U.S. person and is not a QIB and a QP to sell its interest in the Rule 144A Notes or may sell such interest on behalf of such owner. DBK has the right to refuse to honour the transfer of an interest in the Rule 144A Notes to a U.S. person who is not a QIB and a QP.
- (5) It understands that its purchase and holding of the Rule 144A Notes or any interest therein constitutes a representation and warranty by it that at the time of its purchase and throughout the period in which it holds such Notes or any interest therein that (i) it is not, and is not acquiring such Notes or any interest therein with assets of (and for so long as it holds such Note or any interest therein will not be and will not be acting on behalf of), a pension, profit sharing or other employee benefit plans that are subject to Title I of the United States Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”), individual retirement accounts, Keogh plans and other plans that are subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”) and entities deemed to hold the plan assets of the foregoing (each a “**Benefit Plan**”) or any other plan subject to a law, regulation or rule that is substantially similar to Section 406 of ERISA or Section 4975 of the Code or (ii) the acquisition and holding of the Note or any interest therein will not give rise to a non-exempt prohibited transaction under Section 406 of ERISA, Section 4975 of the Code or any such other substantially similar applicable law.
- (6) It understands that the Rule 144A Notes (and any individual Note Certificates issued in respect thereof), unless otherwise agreed between DBK and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. 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 AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“**RULE 144A**”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT (A “**QIB**”) AND A QUALIFIED PURCHASER (“**QUALIFIED PURCHASER**”) WITHIN THE MEANING OF SECTION 2(a)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE “**INVESTMENT COMPANY ACT**”), PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs, EACH OF WHICH ALSO A QUALIFIED PURCHASER AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN U.S.\$200,000 PRINCIPAL AMOUNT OF NOTES WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT

OR (2) TO NON U.S. PERSONS WITHIN THE MEANING OF REGULATIONS UNDER THE SECURITIES ACT (“**REGULATIONS**”) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATIONS, AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID AB INITIO AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO DBK, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR REALES OF THIS NOTE.

EACH BENEFICIAL OWNER HEREOF REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QUALIFIED PURCHASER; (2) IT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.\$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (4) IT IS HOLDING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs EACH OF WHICH IS ALSO A QUALIFIED PURCHASER; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN DBK OR THIS NOTE; (6) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS RULE 144A NOTES, WILL HOLD AND TRANSFER AT LEAST U.S.\$200,000 IN PRINCIPAL AMOUNT OF RULE 144A NOTES; (7) IT UNDERSTANDS THAT DBK MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK ENTRY DEPOSITARIES AND (8) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES. THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT IS A PERSON WHO IS NOT A QIB THAT IS ALSO A QUALIFIED PURCHASER, DBK MAY (A) SELL ITS INTEREST IN THIS NOTE TO A PERSON (I) WHO IS A QIB WHO IS ALSO A QUALIFIED PURCHASER AND WHO IS OTHERWISE QUALIFIED TO PURCHASE THIS NOTE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) TO A NON U.S. PERSON PURCHASING THIS NOTE IN AN OFFSHORE TRANSACTION PURSUANT TO REGULATIONS OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THIS NOTE TO DBK OR AN AFFILIATE OF DBK OR TRANSFER ITS INTEREST IN THIS NOTE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO DBK AT A PRICE EQUAL TO THE LESSER OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100% OF THE PRINCIPAL AMOUNT THEREOF AND (Z) THE FAIR MARKET VALUE THEREOF. DBK HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THIS NOTE TO A U.S. PERSON WHO IS NOT A QIB AND A QUALIFIED PURCHASER. DBK HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

EACH BENEFICIAL OWNER HEREOF OR OF ANY INTEREST HEREIN REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN THAT AT THE TIME OF SUCH PURCHASE AND THROUGHOUT THE PERIOD IT HOLDS SUCH NOTE OR ANY INTEREST THEREIN THAT (A) IT IS NOT, AND IT IS NOT ACTING ON BEHALF OF, AN EMPLOYEE BENEFIT PLAN (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“**ERISA**”)), SUBJECT TO THE PROVISIONS OF PART 4 OF SUBTITLE B OF TITLE I OF ERISA, A PLAN TO WHICH SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED, (“**CODE**”), APPLIES, OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” BY REASON OF SUCH AN EMPLOYEE BENEFIT PLAN’S AND/OR PLAN’S INVESTMENT IN SUCH ENTITY OR ANY OTHER PLAN SUBJECT TO A LAW, REGULATION OR RULE THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR (B) THE ACQUISITION AND HOLDING OF THIS NOTE OR ANY INTEREST HEREIN WILL NOT GIVE RISE TO A NONEXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA, SECTION 4975 OF THE CODE OR ANY SUCH OTHER SUBSTANTIALLY SIMILAR APPLICABLE LAW.

DBK MAY COMPEL EACH BENEFICIAL HOLDER HEREOF TO CERTIFY PERIODICALLY THAT SUCH HOLDER IS A QIB AND A QUALIFIED PURCHASER.

- (7) It acknowledges that DBK, the Registrar, the Dealers and their respective affiliates and others will rely upon the trust and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify DBK and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts who are QIBs that are also QPs, it represents that it has sole investment

discretion with respect to each such account, and that it has full power to make the above acknowledgements, representations and agreements on behalf of each such account.

- (8) It understands that Rule 144A Notes will be evidenced by Rule 144A Global Note. Before any interest in Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the corresponding Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
- (9) Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of Regulation S Notes outside the United States and each subsequent purchaser of Regulation S Notes in resales, throughout the period that it holds such Note, by accepting delivery of this Base Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of DBK or a person acting on behalf of such an affiliate.
- (2) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of one or more QIB each of which is also a QP, each of which is purchasing not less than U.S.\$200,000 in principal amount of the Rule 144A Notes or (b) to a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- (3) It understands that Regulation S Notes will be evidenced by a Regulation S Global Note. Before any interest in a Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the corresponding Rule 144A Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
- (4) It acknowledges that DBK, the Registrar, the Dealers and their respective affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify DBK and the Dealers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.
- (5) It understands that its purchase and holding of the Regulation S Notes or any interest therein constitutes a representation and warranty by it that at the time of its purchase and throughout the period in which it holds such Notes or any interest therein that (a)(i) it is not, and is not acquiring such Notes or any interest therein with assets of (and for so long as it holds such Note or any interest therein will not be and will not be acting on behalf of), a Benefit Plan or any other plan subject to a law, regulation or rule that is substantially similar to Section 406 of ERISA or Section 4975 of the Code or (ii) the acquisition and holding of the Note or any interest therein will not give rise to a non-exempt prohibited transaction under Section 406 of ERISA, Section 4975 of the Code or any such other substantially similar applicable law.

FORM OF THE NOTES

The Notes of each Series will be in registered form, without interest coupons attached. The Notes will be issued either outside the United States in reliance on Regulation S or both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule 144A.

The Regulation S Notes of each Tranche will initially be represented by a Regulation S Global Note. Prior to expiry of the distribution compliance period (as defined in “*Summary of the Provisions Relating to the Notes in Global Form*”) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 4 (*Transfers of Notes*) and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Notes of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions to QIBs that are also QPs. The Rule 144A Notes of any Tranche will initially be represented by a Rule 144A Global Note.

Global Notes will either be deposited with a custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream, Luxembourg or be deposited with a common depository for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg, as specified in the applicable Final Terms. Persons holding beneficial interests in Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

Payments of principal, interest and any other amount in respect of the Global Notes shall, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 11 (*Payments*)) as the registered holder of the Global Notes. None of DBK, any Principal Paying and Transfer Agent, the Trustee or the Registrar shall have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Notes in definitive form shall, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 11 (*Payments*)) immediately preceding the due date for payment in the manner provided in that Condition.

TRANSFER OF INTERESTS

Interests in a Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Global Note. No beneficial owner of an interest in a Global Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. Notes are also subject to the restrictions on transfer set forth herein and will bear a legend regarding such restrictions. See “*Transfer Restrictions*”.

GENERAL

Pursuant to the Agency Agreement (as defined in “*Terms and Conditions of the Notes*”), the Principal Paying and Transfer Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CUSIP and CINS number which are different from the common code, ISIN, CUSIP and CINS assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 13 (*Events of Default*).

SUBSCRIPTION AND SALE

*Notes may be sold from time to time by DBK to any one or more of Citigroup Global Markets Limited, J.P. Morgan Securities plc, JSC Halyk Finance, VTB Capital plc and any other Dealer (as the case may be) appointed under the terms of the Programme Agreement (as defined below). The arrangements under which Notes may from time to time be agreed to be sold by DBK to, and purchased by, Dealers are set out in an amended and restated programme agreement dated 13 November 2012 (as from time to time supplemented, amended or restated, the “**Programme Agreement**”), and made between DBK and the Dealers. Any such agreement will, inter alia, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by DBK in respect of such purchase. The Programme Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.*

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

Each Dealer has agreed that it will not offer, sell or deliver any Notes, (a) as part of their distribution at any time, or (b) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each Dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this and the preceding paragraph have the meanings given to them by Regulation S under the Securities Act. The Programme Agreement provides that the Dealers may directly or through their respective U.S. broker dealer affiliates only (or, in the case of VTB Capital plc only, through Xtellus Capital Partners Inc., which acts as an agent of VTB Capital plc pursuant to Rule 15a-6 under the Exchange Act in connection with securities transactions effected with U.S. investors), arrange for the offer and resale of Notes within the United States only to QIBs that are QPs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Prohibition of Sales to UK Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision the expression “retail investor” means a person who is one (or more) of the following:

- a retail client, as defined in point (8) of Article 2 of Regulation (EU) № 2017/565, as it forms part of domestic law by virtue of the EUWA; or
- a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) № 600/2014, as it forms part of domestic law by virtue of the EUWA.

Other regulatory restrictions

Each Dealer has represented and agreed that:

- (a) in relation to any Notes which have a maturity of less than a year (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell the Notes other than to persons whose ordinary

activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by DBK;

- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to DBK; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Republic of Kazakhstan

Each Dealer has agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell the Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in Kazakhstan except in compliance with the laws of Kazakhstan.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (as amended), (the “**Financial Instruments and Exchange Law**”) and, accordingly, each Dealer has undertaken and agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of and otherwise in compliance with the Financial Instruments and Exchange Law and any other applicable laws and regulations and ministerial guidelines of Japan.

Prohibition of Sales to EEA Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision the expression “retail investor” means a person who is one (or more) of the following:

- a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

General

These selling restrictions may be modified by the agreement of DBK and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Base Prospectus.

No action has been or will be taken in any jurisdiction that would, or is intended to, permit a public offering of any of the Notes, or possession or distribution of the Base Prospectus or any other offering material or any set of Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it will, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Base Prospectus, any other offering material or any set of Final Terms and neither DBK nor any other Dealer shall have responsibility therefor.

Other Relationships

Certain of the Dealers and their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and/or its affiliates in the ordinary

course of business. Certain of the Dealers and their respective affiliates may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its respective affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities. In addition, in the ordinary course of their business activities, the Dealers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. Certain of the Dealers or their respective affiliates routinely hedge their credit exposures to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

GENERAL INFORMATION

Listing and Trading

The admission of Notes to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Notes which is to be admitted for listing on the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of the Global Note(s) representing the Notes of that Tranche. The listing of the Programme in respect of such Notes is expected to be granted on or about 4 May 2021.

However, Notes may be issued pursuant to the Programme which will not be listed on the London Stock Exchange or any other stock exchange outside of Kazakhstan or which will be listed on such stock exchange as DBK and the relevant Dealer(s) may agree. DBK shall apply for Notes issued under the Programme to be listed on the KASE.

In addition, unless otherwise agreed with the relevant Dealer(s) and provided for in the Final Terms or Drawdown Prospectus, DBK will use its reasonable endeavours to cause all Notes issued under the Programme to be submitted to the “Bonds” category of the “Debt Securities” sector of the “Main” platform of the official list of the KASE. No Notes issued by DBK may be issued and/or placed (including the listing thereof) outside of Kazakhstan without prior getting the Agency Permissions.

Legal Entity Identifier

The Legal Entity Identifier is 213800LCDPGJ1BI7KX98.

Authorisations

The establishment of the Programme was authorised by a duly convened meeting of the shareholders’ of DBK held on 2 September 2002. The increase of the programme size was authorised by a resolution of DBK’s sole shareholder on 23 October 2007. The issuance of Notes under the updated Programme was authorised by a resolution passed by DBK’s Board of Directors on 31 March 2021. DBK has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes and in particular, each Tranche will require a specific authorisation by DBK’s Board of Directors.

Clearing of the Notes

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg and/or DTC. The appropriate common code and the International Securities Identification Number and/or (where applicable) the CUSIP number in relation to the Notes of each Series will be specified in the Final Terms relating thereto. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

Use of Proceeds

The net proceeds of the issue of each Tranche of Notes will be applied by DBK for general corporate purposes, including for the funding of various investment and export projects, trade finance activities and for the refinancing of existing debt.

Commissions, fees and expenses may be deducted from the gross proceeds of each Tranche of Notes, as set out in the applicable Final Terms.

Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which DBK is aware), during the 12 months preceding the date of this Base Prospectus, which may have, or have had in the recent past, a significant effect on the financial position or profitability of DBK or of the Group, taken as a whole.

No Material Adverse or Significant Change

Since 31 December 2020 (the end of the last financial period for which audited financial information has been published), there has been no material adverse change in the prospects of the Group nor has there been a significant change in the financial performance or financial position of the Group.

No Material Contracts

Neither DBK nor either of its subsidiaries has entered into any material contracts outside the ordinary course of its business which could result in it being under an obligation or entitlement that is material to DBK's ability to make payments under the Notes.

Independent Auditors

The independent auditors of DBK are KPMG Audit LLC ("KPMG"), acting as auditors under State License № 0000021, dated 6 December 2006 issued by the Ministry of Finance of Kazakhstan. KPMG is a member of the Chamber of Auditors of Kazakhstan, the professional body which oversees audit firms in Kazakhstan. KPMG audited the Financial Statements, which were prepared in accordance with IFRS, and have issued unqualified opinions thereon. See also "*Presentation of Financial and Other Information*".

As the Notes have not been and will not be registered under the Securities Act, KPMG has not filed and would not be required to file a consent under the Securities Act.

Website

The website of the Issuer is <https://www.kdb.kz/en/>. The information on <https://www.kdb.kz/en/> does not form part of this Base Prospectus, except where that information has been incorporated by reference into this Base Prospectus.

Documents Available for Inspection

For the period of 12 months following the date of this Base Prospectus, copies and, where appropriate, English translations of the following documents may be inspected during normal business hours at the specified office of the Principal Paying and Transfer Agent or be accessed on the website of the Issuer at <https://www.kdb.kz/investors/eurobonds-and-credit-ratings/>

- (a) the constitutional documents of DBK;
- (b) the Financial Statements including, in each case, the audit opinion relating to such Financial Statements;
- (c) the Agency Agreement;
- (e) the Trust Deed (which contains the forms of the Notes in global and definitive form);
- (f) the Procedures Memorandum;
- (g) a copy of this Base Prospectus together with any supplements to this Base Prospectus or any further base prospectus;
- (h) any Final Terms relating to Notes which are listed on any stock exchange (in the case of any Notes which are not listed on any stock exchange outside of Kazakhstan, copies of the relevant Final Terms will only be available for inspection by the relevant Noteholders or otherwise in accordance with the rules of the KASE); and
- (i) the DBK Law.

This Base Prospectus will also be published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html>.

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Банк развития
Казахстана

Development Bank of Kazakhstan JSC

Consolidated Financial Statements
for the year ended 31 December 2020



«КПМГ Аудит» жауапкершілігі
шектеулі серіктестік
Қазақстан, А25D6T5, Алматы,
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KPMG Audit LLC
180 Dostyk Avenue, Almaty,
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Independent Auditors' Report

To the Board of Directors of Development Bank of Kazakhstan JSC

Opinion

We have audited the consolidated financial statements of Development Bank of Kazakhstan JSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the : the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the unconsolidated financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

«КПМГ Аудит» ЖШС, Қазақстан Республикасы заңнамасына сәйкес тіркелген компания, жауапкершілігі өз қатысушыларының кепілдіктерімен шектелген KPMG International Limited жекеше ағылшын компаниясының құрамына кіретін KPMG тәуелсіз фирмалары жаһандық ұйымының қатысушысы.

KPMG Audit LLC, a company incorporated under the Laws of the Republic of Kazakhstan and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

Expected credit losses for loans to customers and finance lease receivables

Please refer to the Notes 3(e)(iv), 4,16, 17 and 32(a) in the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
<p>Loans to customers measured at amortised cost and finance lease receivables represent 57% and 11% of total assets, respectively. Loans to customers and finance lease receivables are stated net of allowance for expected credit losses (ECL) that is estimated on a regular basis and is sensitive to assumptions used.</p> <p>The Group applies the ECL valuation model, which requires management to apply professional judgement and to make assumptions related to the following key areas:</p> <ul style="list-style-type: none"> - timely identification of significant increase in credit risk and default events related to loans to customers (allocation between stages 1, 2 and 3 in accordance with the IFRS 9 Financial Instruments); - assessment of probability of default (PD) and loss given default (LGD); - assessment of add-on adjustment to account for different scenarios and forward-looking information; - assessment of expected cash flows forecast for loans to customers and finance lease receivables which are classified as credit-impaired. <p>There is an increased risk of material misstatement of expected credit losses in the current year due to the higher uncertainty related to judgements and estimates resulting from COVID-19.</p> <p>Due to the significant volume of loans to customers and finance lease receivables and related estimation uncertainty, this area is a key audit matter.</p>	<p>We analysed the key aspects of the Group's methodology and policies related to ECL estimate for compliance with the requirements of IFRS 9, with the involvement of financial risks management specialists. We tested the principle of operation of the respective models used by the Group.</p> <p>To analyse the adequacy of professional judgement and assumptions made by the Group in relation to the allowance for ECL estimate, we performed the following:</p> <ul style="list-style-type: none"> - We tested the design and implementation of the controls used over allocation of loans to customers and finance lease receivables by the credit risk stages; - For a sample of loans to customers and finance lease receivables, for which potential changes in ECL estimate may have a significant impact on the consolidated financial statements, we tested whether stages are correctly assigned by the Group and tested overall adequacy of the rating assigned by the Group by analysing financial and non-financial information, as well as assumptions and professional judgements applied. We paid attention to the allocation by credit risk stages of the loans that were restructured as a result of COVID-19 outbreak, as well as of the counterparties related to the industries particularly affected by COVID-19; - For a sample of loans to customers and finance lease receivables we critically assessed the assumptions used by the Group to assess LGD, including cash flows from collateral received, based on our understanding and available market information; - Regarding loans issued to customers and finance lease receivables, we agree input data used in the models on a sample basis; - We also analysed the overall adequacy of the adjustment to account for various scenarios and forward-looking information and compared it with our estimates taking into account the current and future economic situation and operating conditions of borrowers and debtors. As part of this work we tested the appropriateness of the Group's assessment of the economic uncertainty related to COVID-19;

	<ul style="list-style-type: none"> - For a sample of stage 3 loans and finance lease receivables we assessed adequacy of ECL allowance by critically assessing assumptions used by the Group to value expected cash flows, including estimated proceeds from realisation of collateral and their timing. We compared assumptions used by the Group for these loans with industry, financial and economic data from available public sources. <p>We also assessed whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk.</p>
Government grants	
Please refer to the Notes 3(q), 5, 9, 25, 26 and 27 in the consolidated financial statements.	
Key audit matter	How the matter was addressed in our audit
<p>During 2020 the Group received loans from the Parent Company in the amount of KZT 116,200,000 thousand, that bore interest rates ranging from 0.08% p.a. to 0.15% p.a. and issued debt securities with the total nominal value of KZT 20,000,000 thousand bearing an interest rate of 0.15 p.a. At initial recognition these loans and debt securities were recognised at fair values measured by applying relevant market interest rates to discount the contractual future cash flows.</p> <p>The difference between the fair value and the nominal value received of KZT 76,891,125 thousand and KZT 18,456,560, respectively, was recognised as a government grant, which is subsequently amortised in profit or loss.</p> <p>In addition, during 2020 the Group recognised a government grant receivable of KZT 6,567,443 thousand in relation to one of the objects of financing under implementation.</p> <p>We focused on the estimate of the fair value of the loans received due to significant judgment involved in arriving at the estimate.</p>	<p>Our audit procedures included assessing whether the difference between the fair value and nominal value of the loans received and debt securities issued represent government grant.</p> <p>We compared the management's estimates of market rates applied to calculate fair values of the loans received and debt securities issued and compared them to available market information.</p> <p>We assessed the appropriateness of methods used to amortise government grants.</p> <p>We also assessed whether the financial statement disclosures appropriately reflect the information in relation to government grants recognised in the consolidated financial statements.</p>

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Group for 2020 but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report of the Group for 2020 year is expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



Development Bank of Kazakhstan JSC

Independent Auditors' Report

Page 5

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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


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



Assel Urdabayeva
Certified Auditor
of the Republic of Kazakhstan
Auditor's Qualification Certificate
MΦ-0000096 of 27 August 2012

KPMG Audit LLC

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



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

1 March 2021

Development Bank of Kazakhstan JSC
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2020

		For the year ended 31 December 2020 KZT'000	For the year ended 31 December 2019 KZT'000
Interest income calculated using the effective interest method	5	155,607,219	144,098,438
Other interest income	5	43,310,879	30,354,669
Interest expense	5	(144,536,056)	(123,647,472)
Net interest income		54,382,042	50,805,635
Fee and commission income	6	727,240	3,699,481
Fee and commission expense	6	(960,119)	(3,010,132)
Net commission (expense)/income		(232,879)	689,349
Net foreign exchange loss	7	(2,179,832)	(1,487,076)
Net realised gain/(loss) on debt securities at fair value through other comprehensive income		6,808,483	(61,823)
Net gain on financial instruments at fair value through profit or loss	8	6,459,130	936,632
Net loss resulting from derecognition of financial assets measured at amortised cost		(266,162)	(1,550,426)
Other expenses, net	9	(4,462,205)	(1,996,581)
Operating income		60,508,577	47,335,710
Impairment losses on debt financial assets	10	(37,207,877)	(20,907,251)
Recovery of impairment losses on loan commitments and financial guarantee contracts	10	1,763,517	1,744,902
Recovery/(charge) of impairment losses on other non-financial assets	10	5,270,199	(5,927,239)
General administrative expenses	11	(7,094,769)	(7,204,437)
Profit before income tax		23,239,647	15,041,685
Income tax expense	12	(869,805)	(4,083,209)
Profit for the year		22,369,842	10,958,476
Other comprehensive income			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Movement in fair value reserve (debt instruments):			
Net change in fair value		7,565,416	5,296,345
Net amount reclassified to profit or loss		(6,808,483)	61,823
Other comprehensive income for the year		756,933	5,358,168
Total comprehensive income for the year		23,126,775	16,316,644

The consolidated financial statements as set out on pages 8 to 104 were approved by the Management Board of the Bank on 1 March 2021 and were signed on its behalf by:


 Abay Serikovich Sarkulov
 Chairman of the Management Board




 Saule Mamyrovna Mamekova
 Chief Accountant

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The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

Development Bank of Kazakhstan JSC
Consolidated Statement of Financial Position as at 31 December 2020

	Note	31 December 2020 KZT'000	31 December 2019 KZT'000
ASSETS			
Cash and cash equivalents	13	242,786,137	144,173,738
Placements with banks and other financial institutions	14	121,779,502	91,562,878
Loans to banks	15	124,810,690	110,945,839
Loans to customers	16	1,845,916,215	1,618,204,464
Finance lease receivables	17	326,539,861	190,340,340
Debt securities	18	209,257,679	225,466,058
Advances paid under finance lease agreements	19	123,158,997	133,273,093
Assets to be transferred under finance lease agreements		27,855,425	14,822,012
Equity investments	20	14,841,000	19,506,343
Investment property		222,507	227,181
Property, plant and equipment and intangible assets		5,991,289	5,951,423
Other assets	21	31,327,781	26,056,766
Current tax asset		963,526	124,719
Deferred tax assets	30	1,040,108	-
Derivative financial instruments	22	11,489,170	10,160,691
Total assets		3,087,979,887	2,590,815,545
LIABILITIES			
Current accounts and deposits from customers	23	15,793,749	17,236,307
Loans from SWF “Samruk-Kazyna” JSC		27,966,887	26,986,268
Loans and deposits from banks and other financial institutions	24	640,007,969	540,295,369
Loans from the Parent Company	25	227,596,965	175,228,967
Government grants	26	261,838,993	210,933,386
Debt securities issued	27	1,241,012,715	1,051,544,268
Subordinated debt	28	111,163,010	104,534,649
Other liabilities	29	47,741,111	27,916,528
Provisions		2,825,438	7,563,543
Deferred tax liabilities	30	-	198,412
Total liabilities		2,575,946,837	2,162,437,697
EQUITY			
Share capital	31	503,667,511	445,667,511
Revaluation reserve for changes in fair value of securities		(1,380,134)	(2,137,067)
Additional paid-in capital		34,239,190	28,423,220
Accumulated losses		(24,493,517)	(43,575,816)
Total equity		512,033,050	428,377,848
Total liabilities and equity		3,087,979,887	2,590,815,545

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

Development Bank of Kazakhstan JSC
Consolidated Statement of Cash Flows for the year ended 31 December 2020

	For the year ended 31 December 2020 KZT'000	For the year ended 31 December 2019 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	142,769,972	141,834,400
Interest payments	(105,078,969)	(99,792,950)
Fee and commission receipts	826,348	3,487,717
Fee and commission payments	(375,449)	(2,974,092)
Net receipts/(payments) from foreign exchange	21,846	(220,350)
Net gain on financial instruments at fair value through profit or loss	2,074,100	558,114
Other receipts, net	160,822	273,189
General administrative payments	(5,791,526)	(6,779,197)
	34,607,144	36,386,831
Decrease/(increase) in operating assets		
Placements with banks and other financial institutions	(29,487,974)	(21,431,841)
Loans to banks	(20,474,180)	(75,905,425)
Loans to customers	(201,545,550)	2,167,933
Finance lease receivables	28,362,035	13,865,518
Advances paid under finance lease agreements	(170,314,926)	(163,149,973)
Derivative financial instruments	(816,278)	(816,278)
Other assets	399,629	959,778
Increase/(decrease) in operating liabilities		
Current accounts and deposits from customers	(1,627,659)	(2,603,764)
Loans from Government of the Republic of Kazakhstan and SWF "Samruk-Kazyna" JSC	(333,333)	(9,262,333)
Loans from the Parent Company	112,533,334	93,879,333
Government grants received in the form of discount on debt securities issued at below market rate (Note 26)	18,456,560	17,096,041
Loans and deposits from banks and other financial institutions	72,911,512	(174,611,240)
Other liabilities	24,239,507	1,174,120
Net cash used in operating activities before income tax	(133,090,179)	(282,251,300)
Income tax paid	(4,438,490)	(6,093,203)
Net cash flows used in operating activities	(137,528,669)	(288,344,503)

Development Bank of Kazakhstan JSC
Consolidated Statement of Cash Flows for the year ended 31 December 2020

	For the year ended 31 December 2020 KZT'000	For the year ended 31 December 2019 KZT'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment and intangible assets, investment property	(546,721)	(890,463)
Disposal of property, plant and equipment and intangible assets	26,919	2,574
Redemption/(acquisition) of equity investments (Note 20)	4,205,956	(10,134,676)
Acquisition of debt securities	(417,844,713)	(169,639,637)
Disposal and redemption of debt securities	439,618,680	181,293,161
Dividends received	960,312	-
Net cash flows from investing activities	26,420,433	630,959
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from shares issued (Note 31)	58,000,000	37,000,000
Proceeds from debt securities issued (Note 27)	274,121,565	101,387,959
Repurchase/redemption of debt securities issued (Note 27)	(140,861,000)	-
Dividends paid (Note 31)	(3,287,543)	(973,143)
Net cash flows from financing activities	187,973,022	137,414,816
Net increase/(decrease) in cash and cash equivalents	76,864,786	(150,298,728)
Effect of movements in exchange rates on cash and cash equivalents	21,747,634	4,291,672
Effect of changes in impairment allowance on cash and cash equivalents	21	12,385
Cash and cash equivalents at the beginning of the year	144,173,738	290,168,409
Cash and cash equivalents at the end of the year (Note 13)	242,786,137	144,173,738

	Share capital KZT'000	Revaluation reserve for changes in fair value of securities KZT'000	Additional paid-in capital KZT'000	Accumulated losses KZT'000	Total equity KZT'000
Balance at 1 January 2020	445,667,511	(2,137,067)	28,423,220	(43,575,816)	428,377,848
Profit for the year	-	-	-	22,369,842	22,369,842
Other comprehensive income					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Net change in fair value	-	7,565,416	-	-	7,565,416
Net amount reclassified to profit or loss	-	(6,808,483)	-	-	(6,808,483)
Total other comprehensive income	-	756,933	-	-	756,933
Total comprehensive income for the year	-	756,933	-	22,369,842	23,126,775
Transactions with owners recorded directly in equity					
Shares issued (Note 31)	58,000,000	-	-	-	58,000,000
Dividends declared and paid (Note 31)	-	-	-	(3,287,543)	(3,287,543)
Discount on debt securities issued, net of taxes of thousand	-	-	5,815,970	-	5,815,970
Total transactions with owners, recorded directly in equity	58,000,000	-	5,815,970	(3,287,543)	60,528,427
Balance at 31 December 2020	503,667,511	(1,380,134)	34,239,190	(24,493,517)	512,033,050
Balance at 1 January 2019	408,667,511	(7,495,235)	28,423,220	(53,561,149)	376,034,347
Profit for the year	-	-	-	10,958,476	10,958,476
Other comprehensive income					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Net change in fair value	-	5,296,345	-	-	5,296,345
Net amount reclassified to profit or loss	-	61,823	-	-	61,823
Total other comprehensive income	-	5,358,168	-	-	5,358,168
Total comprehensive income for the year	-	5,358,168	-	10,958,476	16,316,644
Transactions with owners recorded directly in equity					
Shares issued (Note 31)	37,000,000	-	-	-	37,000,000
Dividends declared and paid (Note 31)	-	-	-	(973,143)	(973,143)
Total transactions with owners, recorded directly in equity	37,000,000	-	-	(973,143)	36,026,857
Balance at 31 December 2019	445,667,511	(2,137,067)	28,423,220	(43,575,816)	428,377,848

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

1 Background

(a) Principal activities

These consolidated financial statements include the financial statements of the Development Bank of Kazakhstan JSC (the “Bank”) and its subsidiaries, Industrial Development Fund JSC and DBK Capital Structure Fund B.V. (the “Group”).

Development Bank of Kazakhstan JSC was established in the Republic of Kazakhstan as a closed joint-stock company as defined in the Civil Code of the Republic of Kazakhstan, in accordance with the legislation of the Republic of Kazakhstan. The Bank was established in 2001 in accordance with the Law of the Republic of Kazakhstan “On the Development Bank of Kazakhstan” No.178-II dated 25 April 2001 (the “Law”). On 18 August 2003, the Bank underwent the state re-registration procedure due to change of its name – from Development Bank of Kazakhstan CJSC to Development Bank of Kazakhstan JSC. The Bank operates in accordance with the Law of the Republic of Kazakhstan dated 31 August 1995 “On Banks and Banking Activity in the Republic of Kazakhstan”, the Law of the Republic of Kazakhstan dated 13 May 2003 “On Joint-Stock Companies”, the Charter of the Development Bank of Kazakhstan JSC approved by the Resolution of the Management Board of National Management Holding “Baiterek” JSC No.41/14 dated 24 December 2014; Credit Policy Memorandum of the Development Bank of Kazakhstan JSC approved by the decisions of the Management Board of the National Managing Holding “Baiterek JSC No. 43/16 dated 27 October 2016, other legal acts of the Republic of Kazakhstan and internal regulations of the Bank.

The Bank is a national development institution. The main purpose of the Bank is to improve and increase the efficiency of state investment activity, promote the development of production infrastructure and processing industry and assist in attraction of external and internal investments to the national economy of the Republic of Kazakhstan.

The Bank’s registered office is: n-r. pr. 15, building 55A Mangilik El Avenue, Yessil district, Nur-Sultan city, Republic of Kazakhstan.

As at 31 December 2020 the Bank is the parent company of two wholly owned subsidiaries (the “Subsidiaries”).

DBK-Leasing JSC was established on 6 September 2005 in accordance with legislation of the Republic of Kazakhstan. Pursuant to the Decree No.521 of the Government of the Republic of Kazakhstan dated 18 August 2020 "On Establishment of the Industrial Development Fund," the Board of Directors of the Bank by its resolution No. 243-2020-14 dated 21 September 2020 changed the brand name of “DBK-Leasing” JSC (Subsidiary of “Development Bank of Kazakhstan” JSC) to the name “Industrial Development Fund JSC” (hereinafter, “IDF JSC”). IDF JSC principal activities are leasing operations, realisation of industrial-innovative development strategy and stimulation of leasing in the following industries: machinery construction, and metalworking production, chemical and pharmaceutical industry, production of construction supplies, light and woodworking industry, transportation and warehousing.

DBK Capital Structure Fund B.V. (a closed private limited company) was established in the Netherlands on 19 July 2017. The principal activity of DBK Capital Structure Fund B.V. is participation as a limited partner in the direct investment funds or other companies through cash payments for subsequent investing thereof in the charter capitals of the companies as part of financing of the investment projects of the Bank and IDF JSC.

Eurobonds issued by the Bank and IDF JSC are listed on London Stock Exchange, Luxembourg Stock Exchange and Kazakhstan Stock Exchange (the “KASE”).

(b) Shareholders

As at 31 December 2012, the sole shareholder of the Bank was Sovereign Wealth Fund “Samruk-Kazyna” JSC (SWF “Samruk-Kazyna”). In accordance with the Decree of the President of the Republic of Kazakhstan No.136 dated 10 August 2011 “On Measures for Further Improvement of the Public Management System of the Republic of Kazakhstan” the entire block of ordinary shares of the Bank was transferred under trust management to the Ministry of Industry and New Technologies of the Republic of Kazakhstan.

In accordance with the Decree of the President of the Republic of Kazakhstan No.571 dated 22 May 2013 “On Certain Measures for Optimisation of the System of Management of the Development Institutions, Financial Organisations and for Development of the National Economy”, the entire block of ordinary shares of the Bank and risks and control associated therewith were transferred as a payment of the charter capital of Baiterek National Managing Holding JSC. As at 31 December 2020 and 31 December 2019 the Group’s sole shareholder was Baiterek National Managing Holding JSC (the “Parent Company” or Baiterek). The ultimate controlling party is the Government of the Republic of Kazakhstan (the “Government”). Related party transactions are detailed in Note 36.

(c) Kazakhstan business environment

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

In addition, the first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus. The World Health Organization declared on 11 March 2020 the coronavirus (COVID-19) outbreak a pandemic. Responding to the potentially serious threat the COVID-19 presents to public health, for the purpose of protection of life and health of the citizens, the Government of the Republic of Kazakhstan, pursuant to the legislation of the Republic of Kazakhstan, has imposed state of emergency throughout the Republic of Kazakhstan for the period from 16 March 2020 to 12 May 2020. During the state of emergency period, regional authorities gradually introduced additional measures to enhance social distancing, including closing schools, universities, restaurants, cinemas, theatres and museums and sport facilities.

Due to business disruption and lockdown in many countries, global oil demand has drastically decreased leading to oversupply and sharp fall in oil prices. On 12 April 2020, major global oil producers including Kazakhstan agreed to a record cut in crude oil production for stabilizing the oil market, which, however, has not been able to reverse the downward pressure on the oil market. Sharp decrease in oil prices and production volumes results in corresponding decrease of oil producers’ income and payments to the republican budget, which is likely to have major economic and social consequences and unavoidably affect public sector spending.

To continue as a going concern, the Group keeps carrying out its operations using a remote access and takes measures to protect health of the employees working on site, including provision of the individual protective devices, observance of distancing regime, and disinfection of the Group’s premises.

Taking into account the Group’s current operational and financial performance along with other currently available public information, during the year ended 31 December 2020 the Group adjusted macroeconomic indicators in estimates of expected credit losses. However, management cannot preclude the possibility that extended lockdown periods, an escalation in severity of such measures, or a consequential adverse impact of such measures on the economic environment will have an adverse effect on the Group in the medium and longer term. Moreover, the Group also considers negative development scenarios and is ready to adapt its operational plans accordingly. The Group continues to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.

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

2 Basis of preparation

(a) Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”).

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss.

(c) Functional and presentation currency

The functional currency of the Bank and its subsidiaries is the Kazakhstan Tenge (KZT) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The KZT is also the presentation currency for the purposes of these consolidated financial statements. Financial information presented in KZT is rounded to the nearest thousand.

(d) Use of estimates and judgments

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

Judgements

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- setting the criteria to assess whether credit risk on the financial asset has increased significantly since initial recognition including methodology of incorporation of forward-looking information in the measurement of ECL – Note 4;
- initial recognition of debt securities issued - Note 27.

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

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the consolidated financial statements for the year ended 31 December 2020 is included in the following notes:

- Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Notes 4, 15, 16 and 17;
- initial recognition of the borrowings and investments under the state economic development programs in 2020 – Notes 3(q), 5, 9, 15, 16, 25-28;
- Estimates of fair values of financial assets and liabilities – Note 38.

The Group has reassessed the expected credit losses, having updated the models of macro-adjustments to reflect the current economic conditions. Increase in the average point-in-time probability of default due to macro-adjustments is 108%.

3 Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group entities at the exchange rate at the dates of the transactions.

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

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

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

(c) Interest income and expense

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

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

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

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

Presentation

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

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at fair value through other comprehensive income.

Other interest income presented in the consolidated statement of profit or loss and other comprehensive income includes interest income on non-derivative debt financial instruments measured at FVTPL and net investment in finance lease.

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

(d) Fee and commission income and expense

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

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

The contract with a customer, which resulted in a financial instrument recognised in the consolidated financial statements of the Group may be partially within the scope of IFRS 9 and partially within the scope of IFRS 15. In this case, the Group first applies IFRS 9 to separate and measure the part of the contract, which is within the scope of IFRS 9 and then applies IFRS 15 to the remaining part of this contract.

Other fee and commission expense includes mostly the service costs, which are expenses as soon as the respective services are received.

(e) Financial assets and financial liabilities

(i) Classification of financial instruments

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

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

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

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

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements);
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Non-recourse loans

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion.

The Group typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Bank's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

Reclassification

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

(ii) Derecognition

Financial assets

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

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

Financial liabilities

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

(iii) Modification of financial assets and financial liabilities

Financial assets

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

Any fees received as part of the modification are accounted for as follows:

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

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

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

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with SPPI criterion (e.g. inclusion of conversion feature).

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

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities

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

The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. The Group concludes that the modification is substantial as a result of the following qualitative factors:

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

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

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

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

(iv) Impairment

See also Note 4.

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

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

No impairment loss is recognised on equity investments.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECLs.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments, other than purchased or originated credit-impaired assets, for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and 'Stage 3' financial instruments (if the financial instruments are credit-impaired).

Measurement of ECL

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

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

See also Note 4.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

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

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

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

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.

- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

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

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

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

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

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

(f) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship.

(g) Loans to customers

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

- loans to customers measured at amortised cost (see Note 3(e)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.
- loans to customers mandatory measured at FVTPL due to non-compliance with the SPPI-criterion (see Note 3(e)(i)); these are measured at fair value with changes recognised immediately in profit or loss.

(h) Debt securities

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

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

(i) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with NBRK, and highly liquid financial assets with original maturities of less than three months, which are not subject to significant risk of changes in their fair value, and are used by the Group in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

(j) Placements with banks and other financial institutions

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks with a fixed maturity term are subsequently measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at amortised cost based on expected maturities. Amounts due from credit institutions are carried net of an allowance for impairment losses, if any.

(k) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. *Subsequently they are measured* at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

For other loan commitments the Group recognises loss allowance.

Financial liabilities arising from financial guarantees and loan commitments are included within provisions.

(l) Non-financial assets

Other non-financial assets, other than deferred tax assets, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

(m) Property, plant and equipment

Items of property, plant and equipment are stated in the consolidated financial statements at cost less accumulated amortisation and impairment losses.

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

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Land	not depreciated;
Buildings and constructions	8-100 years;
Vehicles	5-7 years;
Office and computer equipment	2-10 years;
Other	3-20 years.

(n) Intangible assets

Intangible assets that are acquired by the Group are measured at cost less accumulated amortisation and accumulated impairment losses.

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life of intangible assets ranges from 3 to 5 years.

(o) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for the use by the Group.

Investment property is initially measured at cost less accumulated depreciation and impairment allowance, if any.

(p) Deposits, debt securities issued and subordinated liabilities

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

(q) Government grants

Government grants are assistance by the Government, Government agencies and state-owned entities in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the Group. Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached to them and the grants will be received. If there are conditions that may require repayment, the grant is recognised as a “deferred income” in other liabilities.

The benefit of a government loan at a below-market rate of interest is treated as a government grant. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan and the proceeds received.

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

(r) Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees.

Provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except commitments to provide a loan at a below-market interest rate.

(s) Income tax

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

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised in respect of temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

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

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

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

(t) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) As a lessee

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

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

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

The lease liability is measured subsequently at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments.

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

(ii) As a lessor

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

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

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

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

(u) Share capital

(i) Ordinary shares

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

(ii) Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of Kazakhstan legislation.

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

(v) Financial assets or liabilities originated at below market interest rates in transactions with the Parent Bank

Financial assets or liabilities originated at below market interest rates in transactions with the Parent Company are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference between the fair value and consideration received is recognized as a contribution directly in equity when the Parent Company acts in its capacity as a shareholder.

(w) Segment reporting

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

(x) New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 with earlier application permitted. However, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The Phase 2 amendments provide practical relief from certain requirements in the standards. These reliefs relate to modifications of financial instruments, lease contracts or hedging relationships when a benchmark interest rate in a contract is replaced with a new alternative benchmark rate. When the basis for determining the contractual cash flows of a financial instrument is changed as a direct consequence of interest rate benchmark reform and is made on an economically equivalent basis, the Phase 2 amendments provide a practical expedient to update the effective interest rate of a financial instrument before applying the existing requirements in the standards. The amendments also provide an exception to use a revised discount rate that reflects the change in interest rate when remeasuring a lease liability because of a lease modification that is required by interest rate benchmark reform.

Finally, the Phase 2 amendments provide a series of reliefs from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument and consequently the hedge relationship can be continued without any interruption.

Other standards

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

- *COVID-19 Related Rent Concessions* (Amendment to IFRS 16).
- *Property, Plant and Equipment: Proceeds before Intended Use* (Amendments to IAS 16 *Property, Plant and Equipment*).
- *Reference to Conceptual Framework* (Amendments to IFRS 3).
- *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1).
- *Onerous contracts - Cost of Fulfilling a Contract* (Amendments to IAS 37).
- *IFRS 17 Insurance Contracts*.

4 Financial risk review

This note presents information about the Group's exposure to financial risks. For information on the Group's financial risk management framework, see Note 32.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

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

Significant increase in credit risk

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

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

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

The Group uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in probability of default (PD);
- qualitative indicators; and
- backstop of 30 days past due.

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement.

Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

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

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

The monitoring typically involves use of the following data.

- Information obtained during periodic review of counterparties' files – e.g. audited financial statements, management accounts, budgets and projections;
- Payment record – this includes overdue status;
- Data from credit reference agencies, press articles, changes in external credit ratings;
- Requests for and granting of forbearance;
- Quoted bond prices for the issuer where available;
- Existing and forecast changes in business, financial and economic conditions;
- Actual and expected significant changes in the political, regulatory and technological environment of the issuer or in its business activities.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region, type of product and counterparty as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

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

Determining whether credit risk has increased significantly

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument.

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

The Group considers credit risk of a particular exposure is deemed to have increased significantly since initial recognition, if the issuer's credit rating decreased by 2 points and more since initial recognition.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria. Such qualitative factors are based on its expert judgement and relevant historical experience.

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

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payments, directed for repayment in the amount of not less than 25% of the gross carrying amount of the financial asset as at the date when the terms have been modified, against the modified contractual terms.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (Stage 1) and lifetime ECL measurements (stage 2).

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a counterparty is in default, the Group considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporating of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Group formulates a base scenario of future development of relevant economic variables and also considers a presented selection of other forecast scenarios. This process involves developing two or more additional economic scenarios and considering the appropriate probabilities of occurring of each scenario. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, such international organisations as the OECD, International Monetary Fund.

A base scenario is the most likely to occur and it is aligned with information used by the Group for other purposes, such as strategic planning and budget formation. Other are less likely to occur scenarios where some are upside and other downside scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk and credit losses.

The key driver is GDP forecasts. The economic scenarios include the following key indicators for the Republic of Kazakhstan for 2021-2025.

	2021	2022	2023	2024	2025
GDP growth (upside scenario)	4.40%	4.80%	4.60%	4.70%	4.70%
GDP growth (base scenario)	3.57%	4.27%	3.85%	4.00%	4.16%
GDP growth (downside scenario)	2.80%	3.60%	3.10%	3.26%	3.43%

Taking into account lack of sufficient historical default data, the Group determined that the data provided by rating agencies would serve as a source of information for economic scenarios. Scenarios are updated on a regular basis and used in assessment of credit risks.

Modified financial assets and financial lease

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

If the modification is not an individual lease and the lease has not been classified as operating lease, and if the modification had been effective at the inception date, the lessor accounts for the modification of finance lease under IFRS 9.

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

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

When modification results in derecognition, a new loan or finance lease is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Group renegotiates loans to customers or finance leases in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan or finance lease forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

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

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

Measurement of expected credit losses

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

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

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

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

The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

Exposure at default represents the expected exposure in the event of a default.

The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD is potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of a loan or terminate a loan commitment.

For portfolios in respect of which the Group has limited historical data, external benchmark information will be used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECLs are as follows.

	Carrying amount as at 31 December 2020	External benchmarks used	
		PD	LGD
Placements with banks and other financial institutions	121,779,502	S&P default studies	70%
Loans to banks	124,810,690	S&P default studies	70%
Debt securities	208,310,612	S&P default studies	Moody's recovery studies

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt instruments as at 31 December 2020 and 31 December 2019. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired financial assets are included in Note 3(e)(iv).

'000 KZT	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
- rated from AA- to AA+	44,765,922	-	-	44,765,922
- rated from A- to A+	308,591	-	-	308,591
- rated from BBB- to BBB+	129,521,987	-	-	129,521,987
- rated from BB- to BB+	39,405,203	-	-	39,405,203
- rated from B- to B+	117	-	-	117
- not rated	28,784,338	-	-	28,784,338
	242,786,158	-	-	242,786,158
	(21)	-	-	(21)
Total cash and cash equivalents	242,786,137	-	-	242,786,137

'000 KZT	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
- rated from AA- to AA+	7,902,112	-	-	7,902,112
- rated from A- to A+	20,098,178	-	-	20,098,178
- rated from BBB- to BBB+	94,479,378	-	-	94,479,378
- rated from BB- to BB+	14,728,173	-	-	14,728,173
- rated from B- to B+	100	-	-	100
- not rated	6,965,797	-	-	6,965,797
Total cash and cash equivalents	144,173,738	-	-	144,173,738

'000 KZT	31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Placements with banks and other financial institutions				
- rated from BBB- to BBB+	66,468,205	-	-	66,468,205
- rated from BB- to BB+	55,352,521	-	40,745	55,393,266
- not rated	-	-	395,997	395,997
	121,820,726	-	436,742	122,257,468
Loss allowance	(41,224)	-	(436,742)	(477,966)
Total placements with banks and other financial institutions	121,779,502	-	-	121,779,502

'000 KZT	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Placements with banks and other financial institutions				
- rated from BBB- to BBB+	56,491,019	-	-	56,491,019
- rated from BB- to BB+	35,039,929	-	45,335	35,085,264
- rated from B- to B+	35,300	-	-	35,300
- not rated	-	-	402,576	402,576
	91,566,248	-	447,911	92,014,159
Loss allowance	(3,370)	-	(447,911)	(451,281)
Total placements with banks and other financial institutions	91,562,878	-	-	91,562,878

31 December 2020					
'000 KZT	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
<i>Loans to banks</i>					
- rated from BB- to BB+	46,194,114	-	-	-	46,194,114
- rated from B- to B+	72,190,551	6,670,022	-	1,680,682	80,541,255
- not rated	-	-	3,770,771	-	3,770,771
	118,384,665	6,670,022	3,770,771	1,680,682	130,506,140
Loss allowance	(975,790)	(948,889)	(3,770,771)	-	(5,695,450)
Total loans to banks	117,408,875	5,721,133	-	1,680,682	124,810,690

31 December 2019					
'000 KZT	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
<i>Loans to banks</i>					
- rated from BB- to BB+	38,435,865	-	-	-	38,435,865
- rated from B- to B+	64,420,201	3,618,243	4,868,912	1,609,498	74,516,854
- not rated	-	-	3,875,728	-	3,875,728
	102,856,066	3,618,243	8,744,640	1,609,498	116,828,447
Loss allowance	(592,629)	(700,219)	(4,589,760)	-	(5,882,608)
Total loans to banks	102,263,437	2,918,024	4,154,880	1,609,498	110,945,839

31 December 2020					
'000 KZT	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
<i>Loans to customers measured at amortised cost</i>					
- rated from BBB- to BBB+	305,879,515	87,154,058	-	-	393,033,573
- rated from BB- to BB+	252,723,754	11,055,344	-	-	263,779,098
- rated from B- to B+	863,257,395	114,870,653	-	965,289	979,093,337
- rated from CCC- to CCC+	10,261,522	86,018,081	22,836,242	8,931,991	128,047,836
- rated D	-	-	110,056,709	3,891,662	113,948,371
- not rated	244,373	-	-	-	244,373
	1,432,366,559	299,098,136	132,892,951	13,788,942	1,878,146,588
Loss allowance	(15,699,426)	(19,951,453)	(72,201,227)	(3,440,260)	(111,292,366)
Total loans to customers measured at amortised cost	1,416,667,133	279,146,683	60,691,724	10,348,682	1,766,854,222

31 December 2019					
'000 KZT	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
<i>Loans to customers measured at amortised cost</i>					
- rated from BBB- to BBB+	322,226,325	63,833,960	-	-	386,060,285
- rated from BB- to BB+	498,715,553	7,799,743	-	-	506,515,296
- rated from B- to B+	371,163,353	129,149,492	-	-	500,312,845
- rated from CCC- to CCC+	2,175,525	124,589,960	38,956,295	9,729,767	175,451,547
- rated D	-	-	54,997,730	4,768,089	59,765,819
- not rated	293,359	-	-	-	293,359
	1,194,574,115	325,373,155	93,954,025	14,497,856	1,628,399,151
Loss allowance	(4,933,654)	(25,669,725)	(44,155,856)	(4,328,505)	(79,087,740)
Total loans to customers measured at amortised cost	1,189,640,461	299,703,430	49,798,169	10,169,351	1,549,311,411

31 December 2020					
'000 KZT	Stage 1	Stage 2	Stage 3	FVTPL (embedded derivative)	Total
<i>Finance lease receivables</i>					
<i>With externally rated credit risk</i>					
- rated from BBB- to BBB+	89,691,733	-	-	-	89,691,733
- rated from B- to B+	866,488	-	-	-	866,488
<i>With internally rated credit risk</i>					
- rated from BB- to BB+	56,211,918	3,884,401	-	559,358	60,655,677
- rated from B- to B+	84,316,197	2,708,484	50,117	2,058,394	89,133,192
- rated CCC+	20,939,396	8,321,445	-	-	29,260,841
- rated from CCC- to CCC	14,474,140	42,476,891	12,757,816	-	69,708,847
- rated D	-	-	7,750,843	-	7,750,843
	266,499,872	57,391,221	20,558,776	2,617,752	347,067,621
Loss allowance	(5,005,407)	(4,922,573)	(10,599,780)	-	(20,527,760)
Total finance lease receivables	261,494,465	52,468,648	9,958,996	2,617,752	326,539,861

31 December 2019					
'000 KZT	Stage 1	Stage 2	Stage 3	FVTPL (embedded derivative)	Total
<i>Finance lease receivables</i>					
<i>With externally rated credit risk</i>					
- rated from BBB- to BBB+	61,324,574	-	-	-	61,324,574
- rated from B- to B+	6,750,757	-	-	3,094,473	9,845,230
<i>With internally rated credit risk</i>					
- rated from BB- to BB+	21,507,292	-	136,350	619,194	22,262,836
- rated from B- to B+	64,216,948	9,085,963	-	2,938,264	76,241,175
- rated CCC+	3,830,140	-	819,798	-	4,649,938
- rated from CCC- to CCC	7,640,208	-	2,155,051	-	9,795,259
- rated D	-	-	18,120,744	-	18,120,744
	165,269,919	9,085,963	21,231,943	6,651,931	202,239,756
Loss allowance	(2,702,783)	(74,558)	(9,122,075)	-	(11,899,416)
Total finance lease receivables	162,567,136	9,011,405	12,109,868	6,651,931	190,340,340

31 December 2020					
'000 KZT	Stage 1	Stage 2	Stage 3	Credit- impaired on initial recognition	Total
<i>Debt securities measured at fair value through other comprehensive income</i>					
- rated from AA- to AA+	38,446,137	-	-	-	38,446,137
- rated from A- to A+	67,710,185	-	-	-	67,710,185
- rated from BBB- to BBB+	72,726,749	-	-	-	72,726,749
- rated from BB- to BB+	17,729,053	-	-	-	17,729,053
	196,612,124	-	-	-	196,612,124
Loss allowance	(31,873)	-	-	-	(31,873)
Gross carrying amount	197,445,907	-	-	-	197,445,907
Total debt securities at FVOCI	196,612,124	-	-	-	196,612,124

31 December 2019					
'000 KZT	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
<i>Debt securities measured at fair value through other comprehensive income</i>					
- rated from AA- to AA+	87,835,700	-	-	-	87,835,700
- rated from A- to A+	17,751,952	-	-	-	17,751,952
- rated from BBB- to BBB+	37,678,389	-	-	-	37,678,389
- rated from BB- to BB+	67,628,701	-	-	-	67,628,701
- rated from B- to B+	-	2,898,797	-	-	2,898,797
	210,894,742	2,898,797	-	-	213,793,539
Loss allowance	(50,775)	(211,159)	-	-	(261,934)
Gross carrying amount	213,132,343	3,257,974	-	-	216,390,317
Total debt securities at FVOCI	210,894,742	2,898,797	-	-	213,793,539

31 December 2020					
'000 KZT	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
<i>Debt securities at amortised cost</i>					
- rated from BBB- to BBB+	4,147,789	-	-	-	4,147,789
- rated from BB- to BB+	6,991,949	-	-	-	6,991,949
- rated from B- to B+	-	-	-	1,976,863	1,976,863
	11,139,738	-	-	1,976,863	13,116,601
Loss allowance	(9,707)	-	-	(1,408,406)	(1,418,113)
Total debt securities at amortised cost	11,130,031	-	-	568,457	11,698,488

31 December 2019					
'000 KZT	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
<i>Debt securities at amortised cost</i>					
- rated from BBB- to BBB+	3,747,747	-	-	-	3,747,747
- rated from BB- to BB+	6,516,175	-	-	-	6,516,175
- rated from B- to B+	-	-	-	1,891,309	1,891,309
	10,263,922	-	-	1,891,309	12,155,231
Loss allowance	(4,212)	-	-	(1,408,406)	(1,412,618)
Total debt securities at amortised cost	10,259,710	-	-	482,903	10,742,613

31 December 2020					
'000 KZT	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
<i>Loan commitments</i>					
- rated from BBB- to BBB+	58,577,932	-	-	-	58,577,932
- rated from BB- to BB+	10,023,791	-	-	-	10,023,791
Total loan commitments	68,601,723	-	-	-	68,601,723
Loss allowance	529,106	-	-	-	529,106

'000 KZT	31 December 2019				
	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
<i>Loan commitments</i>					
- rated from BBB- to BBB+	46,061,800	-	-	-	46,061,800
- rated from BB- to BB+	111,656,667	-	-	-	111,656,667
- rated from B- to B+	129,239,272	-	-	-	129,239,272
- rated from CCC- to CCC+	-	331,491	-	-	331,491
<i>Total loan commitments</i>	286,957,739	331,491	-	-	287,289,230
Loss allowance	2,029,985	-	-	-	2,029,985

'000 KZT	31 December 2020				
	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
<i>Financial guarantee contracts</i>					
- rated from B- to B+	5,386,024	-	-	-	5,386,024
Loss allowance	20,994	-	-	-	20,994

'000 KZT	31 December 2019				
	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
<i>Financial guarantee contracts</i>					
- rated from B- to B+	8,570,443	-	-	-	8,570,443
Loss allowance	84,634	-	-	-	84,634

The following table sets out information about overdue status of loans to customers and finance lease receivables by credit quality stages.

'000 KZT	31 December 2020				
	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
<i>Loans to customers measured at amortised cost</i>					
- not overdue	1,432,366,559	299,098,136	75,889,234	9,897,280	1,817,251,209
- overdue less than 90 days	-	-	33,455,811	-	33,455,811
- overdue more than 90 days and less than 180 days	-	-	-	240,244	240,244
- overdue more than 1 year	-	-	23,547,906	3,651,418	27,199,324
	1,432,366,559	299,098,136	132,892,951	13,788,942	1,878,146,588
Loss allowance	(15,699,426)	(19,951,453)	(72,201,227)	(3,440,260)	(111,292,366)
Total loans to customers measured at amortised cost	1,416,667,133	279,146,683	60,691,724	10,348,682	1,766,854,222

'000 KZT	31 December 2019				
	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
Loans to customers measured at amortised cost					
- not overdue	1,194,574,115	325,373,155	61,206,416	9,729,767	1,590,883,453
- overdue less than 90 days	-	-	10,582,431	-	10,582,431
- overdue more than 180 days but less than 1 year	-	-	22,165,178	-	22,165,178
- overdue more than 1 year	-	-	-	4,768,089	4,768,089
	1,194,574,115	325,373,155	93,954,025	14,497,856	1,628,399,151
Loss allowance	(4,933,654)	(25,669,725)	(44,155,856)	(4,328,505)	(79,087,740)
Total loans to customers measured at amortised cost	1,189,640,461	299,703,430	49,798,169	10,169,351	1,549,311,411
'000 KZT	31 December 2020				
	Stage 1	Stage 2	Stage 3	FVTPL (embedded derivative)	Total
Finance lease receivables					
- not overdue	262,014,420	23,788,348	12,757,815	2,617,752	301,178,335
- overdue less than 30 days	4,310,865	8,552	38,850	-	4,358,267
- overdue 30-89 days	174,587	3,056,405	11,268	-	3,242,260
- overdue 90-360 days	-	30,537,916	4,872,434	-	35,410,350
- overdue more than 360 days	-	-	2,878,409	-	2,878,409
	266,499,872	57,391,221	20,558,776	2,617,752	347,067,621
Loss allowance	(5,005,407)	(4,922,573)	(10,599,780)	-	(20,527,760)
Total finance lease receivables	261,494,465	52,468,648	9,958,996	2,617,752	326,539,861
'000 KZT	31 December 2019				
	Stage 1	Stage 2	Stage 3	FVTPL (embedded derivative)	Total
Finance lease receivables					
- not overdue	160,973,718	7,646,802	3,963,165	6,651,931	179,235,616
- overdue less than 30 days	4,291,283	-	14,167,493	-	18,458,776
- overdue 30-89 days	4,918	1,439,161	260,981	-	1,705,060
- overdue 90-360 days	-	-	1,073,566	-	1,073,566
- overdue more than 360 days	-	-	1,766,738	-	1,766,738
	165,269,919	9,085,963	21,231,943	6,651,931	202,239,756
Loss allowance	(2,702,783)	(74,558)	(9,122,075)	-	(11,899,416)
Total finance lease receivables	162,567,136	9,011,405	12,109,868	6,651,931	190,340,340

5 Net interest income

	For the year ended 31 December 2020 '000 KZT	For the year ended 31 December 2019 '000 KZT
Interest income calculated using effective interest rate method		
Loans to customers	124,466,818	106,262,427
Loans to banks	11,840,786	7,243,237
Placements with banks and other financial institutions	7,708,531	6,668,857
Debt securities	6,299,546	6,547,990
Cash and cash equivalents	3,131,110	15,410,804
Other financial assets	2,160,428	1,965,123
	155,607,219	144,098,438
Other interest income		
Finance lease receivables	35,088,039	24,422,267
Loans to customers	8,091,516	5,707,697
Debt securities measured at fair value through profit or loss	131,324	224,705
	43,310,879	30,354,669
	For the year ended 31 December 2020 '000 KZT	For the year ended 31 December 2019 '000 KZT
Interest expense		
Debt securities issued	(93,014,664)	(74,616,647)
Loans and borrowings from banks and other financial institutions	(24,974,485)	(27,492,779)
Loans from the Parent Company	(17,236,408)	(12,697,610)
Subordinated debt	(7,014,847)	(6,579,121)
Loans from SWF "Samruk-Kazyna"	(1,395,652)	(1,364,615)
Current accounts and deposits from customers	(900,000)	(896,700)
	(144,536,056)	(123,647,472)

Included within various line items under interest income on finance lease receivables is a total of KZT 10,419,019 thousand of government grant amortisation (2019: KZT 7,198,444 thousand).

6 Net fee and commission (expense)/income

	For the year ended 31 December 2020 '000 KZT	For the year ended 31 December 2019 '000 KZT
Fee and commission income		
Fee and commission on loans to customers	490,093	3,222,926
Letters of credit and guarantees	197,635	464,176
Other	39,512	12,379
	727,240	3,699,481
Fee and commission expense		
Write-off of commission for provisioning of cash under unused credit limit due to expiry of the availability period	(547,493)	-
Fees for early loan repayments	(277,628)	(2,803,844)
Services of professional participants of the securities market	(50,344)	(87,241)
Commission expenses on guarantees	(38,357)	(37,250)
Custodian services	(24,449)	(23,128)
Maintenance of current accounts	(6,926)	(35,977)
Commissions for confirming letter of credit	(2,056)	(7,374)
Other	(12,866)	(15,318)
	(960,119)	(3,010,132)

Net fees and commission income includes income of KZT 611,310 thousand (2019: KZT 3,427,740 thousand) relating to financial assets not measured at fair value through profit or loss. These figures exclude amounts incorporated in determining the effective interest rate on such financial assets.

Net fee and commission expense for 2019 includes fee and commission expense of KZT 2,803,844 thousand for partial early repayment of the loan from a foreign bank (Note 24). In addition, during 2019, the Group recognised income of KZT 2,801,622 thousand related to reimbursement of these expenses within fee and commissions on loans to customers.

Contract balances

The following table provides information about receivables and contract liabilities from contracts with customers.

'000 KZT	31 December 2020	31 December 2019
Receivables, which are included in 'other assets'	347,289	331,398
Contract liabilities, which are included in 'other liabilities'	6,304	23,080

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

The Group provides services related to provision of financial guarantees and letters of credit. Fees for provision of guarantees are charged on a quarterly basis. Revenues is recognised by the Group over time as the services are provided.

7 Net foreign exchange loss

	For the year ended 31 December 2020 '000 KZT	For the year ended 31 December 2019 '000 KZT
Translation differences, net	(2,189,078)	(1,266,461)
Dealing operations, net	9,246	(220,615)
	(2,179,832)	(1,487,076)

8 Net gain on financial instruments at fair value through profit or loss

	For the year ended 31 December 2020 '000 KZT	For the year ended 31 December 2019 '000 KZT
Unrealised gain/(loss) on revaluation of financial instruments at fair value through profit or loss		
Loans to customers	2,796,280	(2,884,312)
Derivative financial instruments	1,590,061	3,952,705
Debt securities	(72,636)	(36,303)
Realised gain/(loss) on financial instruments at fair value through profit or loss		
Derivative financial instruments	1,246,334	(383,834)
Debt securities	187,655	288,376
Loans to customers	711,436	-
	6,459,130	936,632

In determining the fair value of financial derivatives management determined that the following rates are appropriate: ranging from 10.92% in KZT, 2.58% in USD (2019: ranging from 10.08% to 15.67% in KZT, 2.32% in USD).

9 Other expenses, net

	For the year ended 31 December 2020 '000 KZT	For the year ended 31 December 2019 '000 KZT
Other income from utilisation of government grants	40,590,502	26,742,526
Income from initial recognition of debt liabilities acquired	23,922,634	-
Income from partial early repayments of loans issued	2,042,011	6,045,211
Dividend income	960,312	-
Fines and penalties received	108,033	266,749
Rental income from property	27,939	43,700
Net gain on disposal of property, plant and equipment	26,919	-
Income from reversal of reserve due to expiry of the contract term of credit line upon derecognition of estimated loan commitment at below-market interest rate	-	10,966,934
Loss on early repayment of loans from banks and other financial institutions	(353,434)	(2,712,811)
Restructuring (expense)/income	(645,735)	80,198
Loss on derecognition of finance lease receivables	(2,321,403)	-
Expense on valuation of liabilities on provision of loans at below market rates	(21,801,435)	(8,686,364)
Losses arising on initial recognition of loans issued	(47,504,168)	(35,546,442)
Other income	485,620	803,718
	(4,462,205)	(1,996,581)

Other income from utilisation of government grants was recognised as income based on the results of compliance with the terms of the relevant government programs in the amount of KZT 40,590,502 thousand (2019: KZT 37,709,460 thousand) (Note 26).

During 2019, expenses on estimation of provision in relation to loan commitments to provide loans at below market rates that were recognised the year before in the amount of KZT 10,966,934 thousand have been recovered. The respective amount of government grant recognised in 2018 within other income has been reversed within the government grant liabilities.

During 2020, the Group recognised income of KZT 23,922,634 thousand from initial recognition of financial liabilities at the below market rate including that from obtaining tied loans from a foreign bank in the amount of KZT 22,617,282 thousand (Note 24) and from issue of bonds in the amount of KZT 1,305,352 thousand (Note 27). The funds of the tied loan were used to extend loans to customers. During 2020, loss on initial recognition of the loans to customers was KZT 19,252,316 thousand. As at 31 December 2020, the Group recognises commitment to provide a loan at below market interest rate of KZT 328,831 thousand for unused limit of credit facility issued to such borrowers.

During 2020, due to a partial early repayment of the loans issued, the Group recognised income of KZT 2,042,011 thousand as a result of revision of repayment schedule (2019: KZT 6,045,211 thousand).

During 2020, the Group recognised expense of KZT 47,504,168 thousand (2019: KZT 35,546,442 thousand) upon initial recognition of the value of loans issued at below market rates. This amount includes expense of KZT 17,838,458 thousand arising from initial recognitions of loans to banks (2019: KZT 31,402,922 thousand) and expense of KZT 29,665,710 thousand arising from initial recognitions of loans to customers (2019: KZT 4,143,520 thousand).

During 2020 expense at initial recognition of loans to banks arose from issue of loans with a nominal interest rate of 1.0% per annum, the market interest rates of which ranged from 15.45% to 18.67% per annum (2019: nominal rate from 1.0% to 8.0%, the market rates on which ranged from 8.5% to 14.5%).

During 2020 expense at initial recognition of loans to customers arose from issue of loans with a nominal interest rate from 6.0% to 15.0% per annum, the market interest rates of which ranged from 9.23% to 18.29% per annum (2019: nominal rate ranging from 6.0% to 11.0% per annum, the market rates on which ranged from 6.3% to 15.7% per annum).

During 2020, the Group recognised expense of KZT 21,801,435 thousand (2019: KZT 10,968,511 thousand) upon initial recognition of the fair value of liabilities on provision of loans at below market rates.

Included in expenses arising at initial recognition of loans issued and on assessment of commitments to extend loans at below market rates is expense of KZT 9,462,785 thousand not associated with obtaining and issue of tied loans and use of government grants (2019: KZT 6,523,346 thousand).

During 2020, the Group recognised loss on derecognition of KZT 2,321,403 thousand due to early repayment of finance lease receivables (Note 17).

10 Impairment losses

	For the year ended 31 December 2020 '000 KZT	For the year ended 31 December 2019 '000 KZT
Losses on impairment of debt financial assets		
Loans to customers (Note 16)	(27,026,059)	(19,681,241)
Finance lease receivables (Note 17)	(8,629,752)	(1,093,825)
Other financial assets (Note 21)	(1,926,102)	98,405
Placements with banks and other financial institutions (Note 14)	(26,685)	234,250
Cash and cash equivalents	(21)	12,344
Loans to banks (Note 15)	176,176	(352,149)
Debt securities	224,566	(125,035)
	(37,207,877)	(20,907,251)
Reversal of loss on impairment of loan commitments and financial guarantee contracts		
Loan commitments	1,687,722	1,790,655
Financial guarantee contracts	75,795	(45,753)
	1,763,517	1,744,902
Reversal of impairment losses/(impairment losses) on other non-financial assets		
Advances paid under finance lease agreements (Note 19)	5,449,844	(5,463,509)
Other assets	(179,645)	(453,164)
Assets to be transferred under finance lease agreements	-	(10,566)
	5,270,199	(5,927,239)

11 General administrative expenses

	For the year ended 31 December 2020 '000 KZT	For the year ended 31 December 2019 '000 KZT
Wages and salaries	(3,560,392)	(3,623,104)
Taxes other than income tax	(451,129)	(419,147)
Maintenance and repair of property, plant and equipment and intangible assets	(431,687)	(335,593)
Consulting services	(416,398)	(431,365)
Administrative expense of the Board of Directors	(322,260)	(352,596)
Depreciation of property, plant and equipment, intangible assets and investment property	(291,694)	(236,949)
Recruiting of the outsourcing unit's employees - expenses and deductions	(269,335)	(332,049)
Wagebill deduction	(254,648)	(332,349)
Information services	(215,317)	(209,632)
Amortisation of intangible assets	(213,868)	(142,238)
Communication services	(126,875)	(30,042)
Rating services	(123,942)	(120,385)
Social expenditure	(71,668)	(70,021)
Audit expenses	(70,000)	(72,200)
Marketing and advertising expenses	(59,440)	(97,456)
Employee training and advanced training	(50,415)	(87,069)
Travel expenses	(30,830)	(103,417)
Charity and sponsorship expenses	(19,288)	-
Office rental	(17,931)	(21,639)
Insurance	(16,505)	(5,230)
Inventories	(12,174)	(1,657)
Occupational health and safety	(6,827)	-
Transport services	(4,454)	(9,027)
Banking services	(4,234)	(2,293)
Office supplies and printing expenses	(2,901)	(20,528)
Holding festive, entertainment and sports events	(2,840)	(2,500)
Security services	(2,616)	(2,645)
Other	(45,101)	(143,306)
	(7,094,769)	(7,204,437)

12 Income tax expense

	For the year ended 31 December 2020 '000 KZT	For the year ended 31 December 2019 '000 KZT
Current year tax expense		
Current period	(3,367,209)	(6,011,376)
Income tax overprovided in prior periods	727,310	583,802
Income tax withheld at the source of payment	(922,419)	(1,041,939)
	(3,562,318)	(6,469,513)
Deferred income tax benefit		
Origination and reversal of temporary differences	1,731,964	2,068,350
Movement in unrecognised deferred tax asset	960,549	317,954
	2,692,513	2,386,304
Total income tax expense	(869,805)	(4,083,209)

The applicable tax rate for current and deferred tax of the Group is 20% (2019: 20%).

Reconciliation of effective tax rate

	For the year ended 31 December 2020 '000 KZT	%	For the year ended 31 December 2019 '000 KZT	%
Profit before income tax	23,239,647	100	15,041,685	100
Income tax at the applicable tax rate	(4,647,929)	(20)	(3,008,337)	(20)
Non-deductible expenses	(835,705)	(4)	(1,140,192)	(8)
Non-taxable income on securities	447,438	2	1,284,636	9
Non-deductible impairment loss	(309,616)	(1)	(2,423,765)	(16)
Non-taxable income/(non-deductible expense) on revaluation of loans measured at fair value through profit or loss	559,256	2	(576,862)	(4)
Tax exempt interest on finance lease receivables	3,151,311	14	1,921,494	13
Change in unrecognised deferred tax assets and liabilities	960,549	4	317,954	2
Income tax overprovided in prior periods	727,310	3	583,802	4
Income tax withheld at the source of payment	(922,419)	(4)	(1,041,939)	(7)
	(869,805)	(4)	(4,083,209)	(27)

13 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the consolidated statement of cash flows comprise the following:

	31 December 2020 '000 KZT	31 December 2019 '000 KZT
Demand deposits		
National Bank of the Republic of Kazakhstan	1,927,579	2,989,994
Total demand deposits	1,927,579	2,989,994
Current bank accounts balances		
National Bank of the Republic of Kazakhstan	127,580,592	91,470,715
<i>Other banks</i>		
- rated from AA- to AA+	44,765,922	7,902,112
- rated from A- to A+	308,591	20,098,178
- rated from BBB- to BBB+	13,816	18,669
- rated from BB- to BB+	39,405,203	14,728,173
- rated from B- to B+	117	100
- not rated	4,438,752	2,740
Total current bank accounts balances	216,512,993	134,220,687
Reverse repurchase agreements with original maturities of less than three months	24,345,200	6,962,855
Cash on hand	386	202
Gross cash and cash equivalents	242,786,158	144,173,738
Loss allowance	(21)	-
Net cash and cash equivalents	242,786,137	144,173,738

As at 31 December 2020, the Group entered into reverse repurchase agreements at Kazakhstan Stock Exchange. The subject of these agreements were treasury notes of the Ministry of finance issued by the Government of the Republic of Kazakhstan and discount notes issued by the National Bank of the Republic of Kazakhstan. The carrying amount of those agreements and fair value of securities pledged amounted to KZT 24,345,200 thousand and KZT 24,338,488 thousand, respectively (31 December 2019: KZT 6,962,855 thousand and KZT 7,187,725 thousand, respectively).

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

Concentration of cash and cash equivalents

As at 31 December 2020 the Group had one bank (31 December 2019: one bank), whose balances exceeded 10% of equity. The gross value of these balances as of 31 December 2020 and 31 December 2019 was KZT 129,508,171 thousand and KZT 94,460,709 thousand, respectively.

14 Placements with banks and other financial institutions

	31 December 2020 '000 KZT	31 December 2019 '000 KZT
Placements with banks and other financial institutions		
rated from BBB- to BBB+	66,468,205	56,491,019
rated from BB- to BB+	55,393,266	35,085,264
rated from B- to B+	-	35,300
not rated	395,997	402,576
Gross placements with banks other financial institutions	122,257,468	92,014,159
Loss allowance	(477,966)	(451,281)
Net placements with banks other financial institutions	121,779,502	91,562,878

The above table is based on the credit ratings assigned by Standard & Poor's or other agencies converted into Standard & Poor's scale.

Concentration of placements with banks

As at 31 December 2020 the Group had no banks (31 December 2019: one bank), whose balances exceeded 10% of equity. The gross value of such balance as at 31 December 2019 is KZT 56,491,019 thousand.

Movements in the loss allowance on placements with banks and other financial institutions for the twelve months ended 31 December 2020 and 31 December 2019 are as follows:

Analysis of movements in loss allowance

	2020		
	Stage 1 12-month expected credit losses	Stage 3 Life-time expected credit losses for credit impaired assets	Total
'000 KZT			
Balance at the beginning of the reporting period	(3,370)	(447,911)	(451,281)
Net recovery of loss allowance	(37,854)	11,169	(26,685)
Balance at the end of the reporting period	(41,224)	(436,742)	(477,966)

	2019		
	Stage 1 12-month expected credit losses	Stage 3 Life-time expected credit losses for credit impaired assets	Total
'000 KZT			
Balance at the beginning of the period	(218,956)	(466,688)	(685,644)
Net recovery of loss allowance	215,473	18,777	234,250
Foreign exchange differences	113	-	113
Balance at the end of the period	(3,370)	(447,911)	(451,281)

As at 31 December 2020 the Group had deposit with one bank that was fully impaired (31 December 2019: with one bank).

15 Loans to banks

	31 December 2020 '000 KZT	31 December 2019 '000 KZT
Loans to banks		
rated from BB- to BB+	46,194,114	38,435,865
rated from B- to B+	80,541,255	74,516,854
not rated	3,770,771	3,875,728
Gross loans to banks	130,506,140	116,828,447
Loss allowance	(5,695,450)	(5,882,608)
Net loans to banks	124,810,690	110,945,839

As at 31 December 2020 the Group had no outstanding balances of loans issued to banks whose balances exceeded 10% of equity (31 December 2019: one bank). The gross value of these balances as at 31 December 2019 is KZT 44,631,904 thousand.

(a) Analysis of movements in the loss allowance on loans to banks

Movements in the loss allowance for loans to banks for the years ended 31 December 2020 and 31 December 2019 are as follows:

2020				
'000 KZT	Stage 1 12-month expected credit losses	Stage 2 Life-time expected credit losses for credit unimpaired assets	Stage 3 Life-time expected credit losses for credit impaired assets	Total
Balance at the beginning of the period	(592,629)	(700,219)	(4,589,760)	(5,882,608)
Transfer to Stage 2	-	(343,974)	343,974	-
New financial assets originated or purchased	(8,606)	-	-	(8,606)
Net recovery/(charge) for the period	(374,555)	95,304	464,033	184,782
Write off	-	-	14,790	14,790
Unwinding of discount on present value of ECLs	-	-	(3,808)	(3,808)
Balance at the end of the period	(975,790)	(948,889)	(3,770,771)	(5,695,450)

2019				
'000 KZT	Stage 1 12-month expected credit losses	Stage 2 Life-time expected credit losses for credit unimpaired assets	Stage 3 Life-time expected credit losses for credit impaired assets	Total
Balance at the beginning of the period	(709,955)	-	(6,663,736)	(7,373,691)
Transfer to Stage 2	153,049	(153,049)	-	-
New financial assets originated or purchased	(318,724)	-	-	(318,724)
Net recovery/(charge) for the period	283,001	(547,170)	230,744	(33,425)
Write off	-	-	1,854,214	1,854,214
Unwinding of discount on present value of ECLs	-	-	(10,982)	(10,982)
Balance at the end of the period	(592,629)	(700,219)	(4,589,760)	(5,882,608)

(b) Analysis of movements in gross carrying amounts

The note further explains how significant movements in the gross carrying amounts of loans to banks have contributed to changes in loss allowances for expected credit losses.

Transfer from 12-months ECL stage in the amount of KZT 3,581,633 thousand to lifetime ECL for assets not credit-impaired stage for 2019 increased expected credit losses by KZT 547,170 thousand.

During 2019 issue of new loans resulted in increase of gross carrying amount of loans to banks by KZT 64,613,772 thousand and increase in expected credit loss allowance by KZT 318,724 thousand.

During 2019 the Group issued a loan of KZT 51,000,000 thousand to Eurasian Development Bank (hereinafter -EADB), which bears a nominal interest rate of 8% per annum, for subsequent financing of Astana Gas KMG JSC, to implement the project of provision of gas supply in the city of Nur-Sultan, as well as to implement other programmes for development of gas industry. Fair value of this financial asset on initial recognition amounted to KZT 42,288,117 thousand and was calculated using a discount rate of 11.8% per annum. On initial recognition of this financial asset the Group recognised an allowance for expected credit losses of KZT 44,966 thousand. With regard to this loan the Group applies a credit rating of Astana Gas KMG JSC (B+) to manage the financial risks. In the event of default of Astana Gas KMG JSC, the rights of claim held by EADB against Astana Gas KMG JSC will be transferred to the Group for repayment of liabilities of EADB to the Group.

As at 22 January 2019, debt of First Heartland Jýsan Bank JSC (formerly, Tsesnabank JSC) owed to the Group amounted to KZT 8,407,990 thousand. As at that date, the claims were restructured in accordance with the terms and conditions of the Framework Agreement. Under the restructuring scheme, use of loan proceeds for intended purposes was excluded, and the nominal interest rate on loans was lowered from 2.0% to 0.1%. The carrying amount of the claims before restructuring was KZT 2,338,433 thousand. The fair value of a new financial asset recognised as credit-impaired on initial recognition amounted to KZT 788,007 thousand, which was calculated using a discounting rate of 16.8% per annum. As a result, during 2019, the Group recognised loss of KZT 1,550,426 thousand in profit or loss, resulting from derecognition of financial assets measured at amortised cost. During 2019, write-off of claims in the amount of KZT 1,854,214 thousand resulted in decrease of expected credit losses by KZT 1,854,214 thousand.

16 Loans to customers

	31 December 2020	31 December 2019
	'000 KZT	'000 KZT
Loans to customers measured at amortised cost		
Loans to corporate customers	1,764,252,815	1,534,219,887
Mortgage loans	110,331	159,318
Accrued interest	113,783,442	94,019,946
Gross loans to customers measured at amortised cost	1,878,146,588	1,628,399,151
Loss allowance	(111,292,366)	(79,087,740)
Net loans to customers measured at amortised cost	1,766,854,222	1,549,311,411
Loans to customers measured at fair value through profit or loss	79,061,993	68,893,053
Total loans to customers	1,845,916,215	1,618,204,464

To estimate the fair value of loans to customers measured at fair value through profit or loss, management made an assumption that the following market rates would be appropriate to be used by the Group: from 13.90% to 14.81% in KZT and 2.84% in USD (2019: from 12.60% to 15.92% in KZT and 5.26% in USD). None of the loans to customers measured at fair value through profit or loss are past due.

(a) Analysis of movements in loss allowance on loans to customers

Movements in loss allowance on loans to customers for the years ended 31 December 2020 and 31 December 2019 are presented as follows:

	2020				
	Stage 1	Stage 2	Stage 3	Assets credit-impaired on initial recognition	Total
'000 KZT					
Balance at the beginning of the period	(4,933,654)	(25,669,725)	(44,155,856)	(4,328,505)	(79,087,740)
Transfer to Stage 1	15,167	(15,167)	-	-	-
Transfer to Stage 2	-	(976,292)	976,292	-	-
Transfer to Stage 3	-	5,151,630	(5,151,630)	-	-
New financial assets originated or purchased	(7,565,056)	-	-	-	(7,565,056)
Net recovery/(charge) for the period	(2,723,407)	1,882,335	(18,464,500)	(155,431)	(19,461,003)
Write off	-	-	-	1,160,933	1,160,933
Unwinding of discount on present value of ECLs	-	-	(4,265,335)	-	(4,265,335)
Effect of changes in foreign exchange rates	(492,476)	(324,234)	(1,140,198)	(117,257)	(2,074,165)
Balance at the end of the period	(15,699,426)	(19,951,453)	(72,201,227)	(3,440,260)	(111,292,366)
2019					
	Stage 1	Stage 2	Stage 3	Assets credit-impaired on initial recognition	Total
'000 KZT					
Balance at the beginning of the period	(5,230,127)	(28,389,683)	(18,359,190)	(6,528,377)	(58,507,377)
Transfer to Stage 1	(73,362)	73,362	-	-	-
Transfer to Stage 2	400,086	(400,086)	-	-	-
Transfer to Stage 3	-	10,351,113	(10,351,113)	-	-
New financial assets originated or purchased	(2,518,348)	-	-	-	(2,518,348)
Net recovery/(charge) for the period	2,462,829	(7,354,605)	(14,446,013)	2,174,896	(17,162,893)
Unwinding of discount on present value of ECLs	-	-	(1,173,516)	-	(1,173,516)
Effect of changes in foreign exchange rates	25,268	50,174	173,976	24,976	274,394
Balance at the end of the period	(4,933,654)	(25,669,725)	(44,155,856)	(4,328,505)	(79,087,740)

(b) Analysis of movements in gross carrying amounts

The note further explains how significant movements in the gross carrying amounts of loans to customers have contributed to changes in loss allowances for expected credit losses.

During 2020, the high volume of loans originated resulted in the increase of the gross carrying amount of loans to customers by KZT 450,370,281 (2019: 426,211,338 thousand) with a corresponding increase in loss allowance measured on a 12-month basis by KZT 7,565,056 thousand (during 2019: KZT 2,518,348 thousand).

During 2020, transfer of the loans issued to customers from Stage 1 to Stage 2, with gross carrying amount of KZT 41,239,713 thousand (in 2019: KZT 10,604,499 thousand) contributed to increase in allowance for expected credit losses of KZT 1,943,659 thousand (in 2019: KZT 479,835 thousand).

During 2020, loans to customers with the gross carrying amount of KZT 38,596,200 thousand (in 2019: KZT 43,682,444 thousand) were transferred from Stage 2 to Stage 3. During 2020, the Group increased allowance for expected credit losses on these loans for a total amount of KZT 14,973,731 thousand (in 2019: KZT 18,942,587 thousand).

Analysis of collateral

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers (net of loss allowance) by types of collateral.

31 December 2020 '000 KZT	Carrying amount of loans to customers	Fair value of collateral: for collateral assessed during the reporting period	Fair value of collateral: for collateral assessed before the reporting period
Stage 1 (12-month expected credit losses)			
Cash and deposits	3,792,528	3,792,528	-
Bank guarantees and guarantees received from legal entities (rated from B- to BBB+)	433,561,215	-	-
Bank guarantees and guarantees received from legal entities (not rated)	346,445,864	-	-
The Government guarantees	3,004,953	3,004,953	
Vehicles	20,845,409	992,207	19,853,202
Real estate	182,355,066	59,549,115	122,805,951
Equipment	8,051,225	6,628,761	1,422,464
Shares, equity share	8,180,242	8,180,242	-
Other collateral	123,499,594	25,057,376	98,442,218
Future assets	286,931,037	63,655,649	223,275,388
Total Stage 1 (12-month expected credit losses)	1,416,667,133	170,860,831	465,799,223
Stage 2 (Lifetime expected credit losses on assets not credit-impaired)			
Bank guarantees and guarantees received from legal entities (rated from B- to BBB+)	132,736,952	-	-
Vehicles	323,684	-	323,684
Real estate	102,209,652	51,564,973	50,644,679
Equipment	43,876,395	18,878,231	24,998,164
Total Stage 2 (Lifetime expected credit losses on assets not credit-impaired)	279,146,683	70,443,204	75,966,527
Stage 3 (Lifetime expected credit losses on assets credit-impaired)			
Cash and deposits	2,539,996	2,539,996	-
Bank guarantees and guarantees received from legal entities (not rated)	3,005,338	-	-
Real estate	52,058,934	13,411,139	38,647,795
Equipment	3,087,456	3,087,456	-
Total Stage 3 (Lifetime expected credit losses on assets credit-impaired)	60,691,724	19,038,591	38,647,795
POCI-assets			
Bank guarantees and guarantees received from legal entities (rated from B- to BBB+)	1,768,442	-	-
Vehicles	489,048	198,661	290,387
Real estate	7,324,564	-	7,324,564
Other collateral	766,628	766,628	-
Total POCI-assets	10,348,682	965,289	7,614,951

31 December 2019 '000 KZT	Carrying amount of loans to customers	Fair value of collateral: for collateral assessed during the reporting period	Fair value of collateral: for collateral assessed before the reporting period
Stage 1 (12-month expected credit losses)			
Cash and deposits	295,947	295,947	-
Bank guarantees and guarantees received from legal entities (rated from B- to BBB+)	443,996,879	-	-
Bank guarantees and guarantees received from legal entities (not rated)	236,582,027	-	-
Vehicles	659,478	563,793	95,685
Real estate	171,512,135	169,657,861	1,854,274
Equipment	4,102,469	3,413,677	688,792
Shares, equity share	1,370,470	1,370,470	-
Other collateral	104,178,751	6,719,444	97,459,307
Future assets	226,942,305	46,437,845	180,504,460
Total Stage 1	1,189,640,461	228,459,037	280,602,518
Stage 2 (Lifetime expected credit losses on assets not credit-impaired)			
Bank guarantees and guarantees received from legal entities (rated from B- to BBB+)	110,489,013	-	-
Vehicles	346,041	81,036	265,005
Real estate	135,780,688	69,969,835	65,810,853
Equipment	53,087,688	16,323,275	36,764,413
Total Stage 2	299,703,430	86,374,146	102,840,271
Stage 3 (Lifetime expected credit losses on assets credit-impaired)			
Cash and deposits	2,308,753	2,308,753	-
Bank guarantees and guarantees received from legal entities (not rated)	7,127,929	-	-
Real estate	25,628,242	6,329,045	19,299,197
Equipment	13,256,861	13,256,861	-
No collateral or other credit enhancements	1,476,384	-	-
Total Stage 3 (Lifetime expected credit losses on assets credit-impaired)	49,798,169	21,894,659	19,299,197
POCI-assets			
Bank guarantees and guarantees received from legal entities (rated from B- to BBB+)	1,468,027	-	-
Vehicles	572,411	571,559	852
Real estate	7,381,748	6,295,599	1,086,149
Other collateral	747,165	747,165	-
Total POCI-assets	10,169,351	7,614,323	1,087,001

The tables above exclude overcollateralisation. For loans secured by multiple types of collateral, collateral that is most relevant for assessment of impairment is disclosed. Certain guarantees and sureties received from individuals, such as shareholders of borrowers, are not considered for impairment assessment purposes.

The recoverability of loans to corporate customers, which are not credit - impaired, is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

(c) Industry analysis of the loan portfolio

Loans were issued to customers located within the Republic of Kazakhstan, which operate in the following economic sectors:

	31 December 2020	31 December 2019
	'000 KZT	'000 KZT
Petrochemicals manufacturing	585,581,324	531,518,483
Metal industry	334,248,733	348,927,074
Mining	297,412,792	212,440,584
Electric power supply, and gas and steam supply, and air conditioning	234,712,997	271,162,155
Transportation and warehousing	112,478,652	59,040,108
Machinery manufacturing	92,982,506	71,598,611
Catering and accommodation services	77,382,674	40,198,872
Information and telecommunications	66,354,734	61,029,363
Chemical	56,585,736	60,096,905
Foodstuff manufacturing	42,340,618	36,218,600
The arts; entertainment and leisure industry	29,443,874	-
Construction materials manufacturing	27,439,568	4,768,089
Financial services	244,373	293,360
	1,957,208,581	1,697,292,204
Loss allowance for expected credit losses	(111,292,366)	(79,087,740)
Total loans to customers	1,845,916,215	1,618,204,464

(d) Significant credit exposures

As at 31 December 2020, the Group had six borrowers (31 December 2019: eight borrowers) whose balances exceeded 10% of equity. The net carrying value of these loans as at 31 December 2020 was KZT 1,080,742,887 thousand (31 December 2019: KZT 1,060,862,682 thousand).

(e) Loan maturities

The maturity of the Group's loan portfolio is presented in Note 32(e), which shows the remaining period from the reporting date to the contractual maturity of the loans.

17 Finance lease receivables

The components of net investments in finance lease as at 31 December 2020 and 31 December 2019 are presented as follows:

'000 KZT	31 December 2020	31 December 2019
Less than 1 year	95,247,727	43,037,080
From 1 to 2 years	73,071,897	49,613,311
From 2 to 3 years	61,410,937	36,566,992
From 3 to 4 years	58,944,968	28,412,243
From 4 to 5 years	52,610,912	28,962,943
More than 5 years	165,260,785	129,159,473
Minimum lease payments	506,547,226	315,752,042
Less unearned finance income:		
Less than 1 year	(24,867,538)	(16,760,681)
From 1 to 5 years	(84,981,851)	(66,351,258)
More than 5 years	(52,247,968)	(37,052,278)
Less unearned finance income, total	(162,097,357)	(120,164,217)
Loss allowance	(20,527,760)	(11,899,416)
Net investment in finance lease	323,922,109	183,688,409
Embedded derivative financial instrument at fair value through profit or loss	2,617,752	6,651,931
Finance lease receivables	326,539,861	190,340,340

‘000 KZT	31 December 2020	31 December 2019
Leases to large corporates	140,916,183	99,339,088
Leases to small- and medium-sized companies	203,533,686	96,248,737
Loss allowance	(20,527,760)	(11,899,416)
Net investment in finance lease	323,922,109	183,688,409
Embedded derivative financial instrument at fair value through profit or loss	2,617,752	6,651,931
Finance lease receivables	326,539,861	190,340,340

Finance lease origination fees, lease servicing fees and other fees, differences between the actual cost of the lease items and cost of the lease items at the time of their transfer under the finance lease agreement are recognised as deferred income and amortised to interest income over the estimated life of the financial instrument in the amount of KZT 1,801,075 thousand (31 December 2019: KZT 1,876,569 thousand), that is considered to be integral part of the finance lease.

As at 31 December 2020 the Group has 18 lessees or 3 groups of related lessees, whose balances make over 37% of total carrying amount of the lease receivables. As at 31 December 2020 the total carrying amount of receivables from these lessees is KZT 120,197,059 thousand (31 December 2019: KZT 91,678,358 thousand). Up to 85% of the total carrying amount relate to the group of National Company “Kazakhstan Temir Zholy” JSC (“KTZh”) and the company, which is economically dependent on KTZh, for the total amount of KZT 102,396,675 thousand that gives rise to risk of credit concentration due to the nature of their business activity and industry specifics.

Movements in loss allowance under finance lease agreements for the years ended 31 December 2020 and 2019 are as follows:

‘000 KZT	2020			Total
	Stage 1 12-month expected credit losses	Stage 2 Life-time expected credit losses for assets not credit impaired	Stage 3 Life-time expected credit losses for credit- impaired assets	
Finance lease receivables				
Balance at the beginning of the year	(2,702,783)	(74,558)	(9,122,075)	(11,899,416)
Transfer to Stage 2	1,238,209	(1,238,209)	-	-
Transfer from Stage 3	-	(630,001)	630,001	-
Net remeasurement of loss allowance	(3,540,833)	(2,979,805)	(2,109,114)	(8,629,752)
Unwinding of discount for the year	-	-	1,408	1,408
Balance at the end of the year	(5,005,407)	(4,922,573)	(10,599,780)	(20,527,760)

‘000 KZT	2019			Total
	Stage 1 12-month expected credit losses	Stage 2 Life-time expected credit losses for assets not credit impaired	Stage 3 Life-time expected credit losses for credit- impaired assets	
Finance lease receivables				
Balance at the beginning of the year	(2,966,742)	(135,588)	(8,799,909)	(11,902,239)
Transfer to Stage 2	35,880	(35,880)	-	-
Transfer to Stage 3	57,649	154,446	(212,095)	-
Net remeasurement of loss allowance	170,445	(57,536)	(1,206,734)	(1,093,825)
Recovery of the previously written-off amount	-	-	(54)	(54)
Transfer to other assets	-	-	471,671	471,671
Transfer of allowance to other assets for foreclosed leased items	-	-	753,015	753,015
Unwinding of discount for the year	(15)	-	(127,969)	(127,984)
Balance at the end of the year	(2,702,783)	(74,558)	(9,122,075)	(11,899,416)

Analysis of movements in gross carrying amount

Increase in financing of lease transactions for 2020 caused increase in gross carrying amount of lease portfolio for the total amount of KZT 181,607,618 thousand and appropriate increase in loss allowance for the portfolio by KZT 9,874,926 thousand.

- Stage 1: increase in gross carrying amount of lease portfolio for KZT 129,281,222 thousand and increase in loss allowance for the portfolio by KZT 3,839,648 thousand;
- Stage 2: increase in gross carrying amount of lease portfolio by KZT 48,355,945 thousand resulted in increase in loss allowance by KZT 2,979,805 thousand;
- Stage 3: increase in gross carrying amount of lease portfolio by KZT 3,970,451 thousand and increase in loss allowance by KZT 3,055,473 thousand.

Decrease in the receivables of gross carrying amount of KZT 36,779,753 thousand resulted in decrease in loss allowance for the portfolio by KZT 1,245,174 thousand, including by stages :

- Stage 1: decrease in gross carrying amount of lease portfolio by KZT 32,085,447 thousand and decrease in loss allowance by KZT 298,815 thousand;
- Stage 2: decrease in gross carrying amount of lease portfolio by KZT 50,687 thousand and not any movements in loss allowance;
- Stage 3: decrease in gross carrying amount of lease portfolio by KZT 4,643,619 thousand and decrease in loss allowance by KZT 946,359 thousand.

Embedded derivative financial instrument

The repayment of investment in finance leases of KZT 15,893,577 thousand is linked to appreciation of the rate of the Russian rouble (RUB) against KZT (2019: KZT 7,908,031 thousand and KZT 14,980,142 is linked to appreciation of the US dollar and the Russian rouble against KZT). If the rate of RUB rises, the amount receivable is increased by the respective index. If the rate of RUB goes down, the amount receivable is not adjusted below the original amount in KZT. The base for calculation of the embedded derivative includes all future payments under finance lease agreements and contingent liabilities linked to appreciation of RUB against KZT and as at 31 December 2020 amounts to KZT 22,482,285 thousand (31 December 2019: KZT 10,100,626 thousand linked to appreciation of USD against KZT and KZT 23,639,588 thousand linked to appreciation of RUB against KZT).

These embedded derivatives were recorded at fair value in the financial statements in finance lease receivables. The estimated amount of the embedded derivatives, which is included in finance lease receivables as at 31 December 2020 is KZT 2,617,752 thousand (31 December 2019: KZT 6,651,931 thousand). Fair value is calculated using a model based on the Black-Scholes option pricing model.

The management uses the following assumptions for valuation of the embedded derivatives:

- risk-free rates are estimated using yield curves for respective currencies and range from 4.808% to 7.155% for RUB, and from 8.995% to 9.943% for KZT (31 December 2019: from 1.581% to 1.851% for USD, from 6.431% to 6.726% for RUB and from 9.058% to 9.149% for KZT);
- volatility in the model is defined based on the historical half-year observations of fluctuations in actual foreign exchange rates;
- no transaction cost is included in the model.

If the spreads between KZT and RUB risk-free rates narrows by 0.5% under all the contracts, the fair value of the derivatives would increase by KZT 226,386 thousand. Decline in volatility of RUB rates by 50% would result in decrease of the fair value of embedded derivative by KZT 194,071 thousand.

Due to early repayment of finance lease receivables by Eastcomtrans LLP on 26 August 2020, according to the decision of the Credit Committee of IDF JSC of 24 August 2020, the Group recognised loss on derecognition of KZT 2,321,403 thousand (Note 9).

Credit quality of finance lease portfolio

The following table sets out information about the credit quality of the finance lease portfolio as at 31 December 2020:

‘000 KZT	Stage 1 12-month expected credit losses (ECL)	Stage 2 Lifetime expected credit losses on assets not credit- impaired	Stage 3 Lifetime expected credit losses on assets credit- impaired	At fair value through profit or loss (embedded derivative financial instrument)	Total
Leases to large corporates					
- not overdue	124,963,487	4,021,692	11,596,278	1,867,642	142,449,099
- overdue 90-360 days	-	334,726	-	-	334,726
Total gross leases to large corporates	124,963,487	4,356,418	11,596,278	1,867,642	142,783,825
Loss allowance	(1,056,901)	(117,370)	(6,702,924)	-	(7,877,195)
Total leases to large corporates	123,906,586	4,239,048	4,893,354	1,867,642	134,906,630
Leases to small- and medium-sized companies					
- not overdue	137,050,933	19,766,656	1,161,537	750,110	158,729,236
- overdue up to 30 days	4,310,865	8,552	38,850	-	4,358,267
- overdue 30-89 days	174,587	3,056,405	11,268	-	3,242,260
- overdue 90-360 days	-	30,203,190	4,872,434	-	35,075,624
- overdue more than 360 days	-	-	2,878,409	-	2,878,409
Total gross leases to small- and medium-sized companies	141,536,385	53,034,803	8,962,498	750,110	204,283,796
Loss allowance	(3,948,506)	(4,805,203)	(3,896,856)	-	(12,650,565)
Total leases to small- and medium-sized companies	137,587,879	48,229,600	5,065,642	750,110	191,633,231
Total finance leases	261,494,465	52,468,648	9,958,996	2,617,752	326,539,861

The Group had not classified separate projects overdue more than 90 days into Stage 3 due to the following reasons:

1. Social Entrepreneurial Corporation “Shymkent” JSC (SEC “Shymkent” JSC) (a leaseholder), with a credit rating of “Lower than CCC”, 100% subsidiary of the City Administration (Akimat) of Shymkent city, is engaged, jointly with the Group, in phased implementation of projects related to renewal of bus fleet of Shymkent city. The Group, the leaseholder and Akimat of Shymkent city signed a project support agreement under which Akimat undertakes to take all measures to ensure the financial stability of the project.

As to the first phase of the project: a finance lease agreement was concluded in 2018, the city purchased 300 buses; operation of buses has started along the regular routes; the carriers have been receiving subsidies to reduce their costs; lease payments are being made regularly; the amount due as at 31 December 2020 was KZT 7,596,115 thousand. The receivables is included in ‘not overdue’ category of Stage 2 in the table above.

As to the second phase of the project: a finance lease agreement was concluded in 2019; the city purchased 590 buses; the amount due as at 31 December 2020 was KZT 28,709,898 thousand; lease payments were overdue 92 days at the year-end due to completion of relevant technical and budgetary procedures:

- Significant cash proceeds under the project are funded by the budget subsidies. To get an approval on subsidies to passenger services takes at least 6 months, and requires that a carrier has operated buses on the routes at least within 1 month, calculated the amount of a subsidy and proved it at tariff commission, obtained a decision of the City Council agreed on the social importance of the route, and the amount of the subsidy has to be approved to be included in the city budget.

- To optimise tax payments and reduce the monopoly share in the passenger services market, SEC “Shymkent” JSC is planning to transfer all leased items to private carriers in Shymkent city under secondary lease agreements (the current leasing structure is based on the joint operation agreement signed between the leaseholder and private carriers).

Taking into account the above factors, the Group completed technical restructuring of the second phase of the project of SEC “Shymkent” JSC, and is considering implementing the secondary leasing structure against guarantees of SEC “Shymkent” JSC and conclusion of agreements with the Akimat of Shymkent city for the latter to support the project if new leaseholders are having financial difficulties.

The Group has been transacting with SEC “Shymkent” JSC under the finance lease agreements since 2018, and in the past periods, all overdue payments of principal and interest were repaid. Based on the above, SEC “Shymkent” JSC is not considered ‘a default risk’.

2. Kompaniya KHOZU-AVTO LLP has a credit rating of ‘Lower than CCC’; the amount due as at 31 December 2020 was KZT 1,381,718 thousand, and lease payments were overdue 95 days; the project had been commissioned. The restrictions brought about by coronavirus caused that the deliveries of leased items to the leaseholder planned for 2020, funded with the republican budget, had been put back to 2021. The leaseholder applied to the Group on 4 December 2020 for postponing lease payments under the project and the Group’s competent body approved the decision on the issue in January 2021. The Group has been transacting with Kompaniya KHOZU-AVTO LLP under the finance lease agreements since 2014. In the past periods, all overdue payments of principal and interest were repaid by the leaseholder. Based on the above, Kompaniya KHOZU-AVTO LLP is not considered ‘a default risk’.

The following table sets out information about the credit quality of the finance lease portfolio as at 31 December 2019:

‘000 KZT	Stage 1 12-month expected credit losses (ECL)	Stage 2 Lifetime expected credit losses on assets not credit- impaired	Stage 3 Lifetime expected credit losses on assets that are credit- impaired	At fair value through profit or loss (embedded derivative financial instrument)	Total
Leases to large corporates					
- not overdue	86,943,033	-	-	5,504,617	92,447,650
- overdue up to 30 days	-	-	11,316,289	-	11,316,289
- overdue more than 360 days	-	-	1,079,766	-	1,079,766
Total gross leases to large corporates	86,943,033	-	12,396,055	5,504,617	104,843,705
Loss allowance	(687,158)	-	(6,624,756)	-	(7,311,914)
Total leases to large corporates	86,255,875	-	5,771,299	5,504,617	97,531,791
Leases to small- and medium-sized companies					
- not overdue	74,030,685	7,646,802	3,963,165	1,147,314	86,787,966
- overdue up to 30 days	4,291,283	-	2,851,204	-	7,142,487
- overdue 30-89 days	4,918	1,439,161	260,981	-	1,705,060
- overdue 90-360 days	-	-	1,073,566	-	1,073,566
- overdue more than 360 days	-	-	686,972	-	686,972
Total gross leases to small- and medium-sized companies	78,326,886	9,085,963	8,835,888	1,147,314	97,396,051
Loss allowance	(2,015,625)	(74,558)	(2,497,319)	-	(4,587,502)
Total leases to small- and medium-sized companies	76,311,261	9,011,405	6,338,569	1,147,314	92,808,549
Total finance leases	162,567,136	9,011,405	12,109,868	6,651,931	190,340,340

Analysis of collateral

The following table provides information on collateral, leased assets and other credit enhancements securing finance lease receivables (net of loss allowance and excluding embedded derivative) as at 31 December 2020, by types of collateral:

31 December 2020 '000 KZT	Finance lease receivables, carrying amount	Fair value of collateral: for collateral assessed as of reporting date
Leases for which ECL are measured at the amount up to 12-month ECL:		
Real estate	2,316,128	2,316,128
Vehicles	189,330,919	189,330,919
Equipment	39,988,684	39,988,684
Guarantees from legal entities (rated from BB- to BB+)	27,612,776	-
No collateral or other credit enhancements	2,245,958	-
Total leases for which ECL are measured at the amount up to 12-month ECL:	261,494,465	231,635,731
Leases for which ECL are measured at an amount equal to lifetime ECL for assets that are not credit-impaired:		
Real estate	3,689,290	3,689,290
Vehicles	41,992,418	41,992,418
Equipment	6,785,767	6,785,767
No collateral or other credit enhancements	1,173	-
Total leases for which ECL are measured at an amount equal to lifetime ECL for assets that are not credit-impaired	52,468,648	52,467,475
Leases for which ECL are measured at an amount equal to lifetime ECL for assets that are credit-impaired:		
Real estate	1,027,900	1,027,900
Vehicles	3,817,954	3,817,954
Equipment	5,113,142	5,113,142
Total leases for which ECL are measured at an amount equal to lifetime ECL for assets that are credit-impaired	9,958,996	9,958,996
Total finance lease receivables	323,922,109	294,062,202

The following table provides information on collateral, leased assets and other credit enhancements securing finance lease receivables, net of impairment allowance, as at 31 December 2019, by types of collateral.

31 December 2019 '000 KZT	Finance lease receivables, carrying amount	Fair value of collateral: for collateral assessed as of reporting date
Leases for which ECL are measured at the amount up to 12-month ECL:		
Real estate	3,170,630	3,170,630
Vehicles	115,186,711	115,186,711
Equipment	27,279,858	27,279,858
Guarantees from legal entities (rated from BB- to BB+)	16,306,103	-
No collateral or other credit enhancements	623,834	-
Total leases for which ECL are measured at the amount up to 12-month ECL:	162,567,136	145,637,199
Leases for which ECL are measured at an amount equal to lifetime ECL for assets that are not credit-impaired:		
Real estate	479,480	479,480
Vehicles	8,340,927	8,340,927
No collateral or other credit enhancements	190,998	-
Total leases for which ECL are measured at an amount equal to lifetime ECL for assets that are not credit-impaired	9,011,405	8,820,407
Leases for which ECL are measured at an amount equal to lifetime ECL for assets that are credit-impaired:		
Real estate	2,654,403	2,654,403
Vehicles	2,636,013	2,636,013
Equipment	6,819,452	6,819,452
Total leases for which ECL are measured at an amount equal to lifetime ECL for assets that are credit-impaired	12,109,868	12,109,868
Total finance lease receivables	183,688,409	166,567,474

The tables above exclude overcollateralisation.

The Group has no finance lease receivables, for which the fair value of collateral was assessed at the loan inception date and it was not updated for further changes, and finance lease receivables for which the fair value of collateral is not determined, except guarantees from legal entities. Information on the valuation of collateral is based on when this estimate was made, if any.

For finance lease receivables secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Sureties received from individuals, such as shareholders of small- and medium-sized leaseholders, are not considered for impairment assessment purposes. Therefore, such finance lease receivables and unsecured portions of partially secured exposures are presented as leases without collateral or other credit enhancement.

The recoverability of finance lease receivables, which are neither past due nor credit -impaired, primarily depends on the creditworthiness of lessees rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

As at 31 December 2020, the gross carrying amount of credit-impaired finance lease receivables was KZT 20,558,776 thousand, while value of collateral (mostly equipment) securing these finance lease receivables was KZT 9,958,996 thousand. Fair value of collateral is limited by maximum nominal value of finance lease receivables.

As at 31 December 2019, the gross carrying amount of credit-impaired finance lease receivables was KZT 21,231,943 thousand, while value of collateral (mostly equipment) securing these finance lease receivables was KZT 12,109,868 thousand. Fair value of collateral is limited by maximum nominal value of finance lease receivables.

Foreclosed leased assets

During the year ended 31 December 2020, the Group has not foreclosed on leased items (in 2019: for the amount of KZT 956,836 thousand).

18 Debt securities

	31 December 2020 ‘000 KZT	31 December 2019 ‘000 KZT
Debt securities measured at fair value through other comprehensive income	196,612,124	213,793,539
Debt securities measured at amortised cost	11,698,488	10,742,613
Debt securities measured at fair value through profit or loss	947,067	929,906
	209,257,679	225,466,058

Debt securities measured at fair value through other comprehensive income

	31 December 2020 ‘000 KZT	31 December 2019 ‘000 KZT
Debt securities of the government bodies of other countries	177,507,946	138,633,191
Bonds of Kazakhstan banks	10,945,383	10,307,197
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	5,476,015	6,656,138
Corporate bonds of non-resident issuers	2,682,780	7,940,231
Corporate bonds of Kazakhstan issuers	-	26,465,487
Bonds of the SWF “Samruk-Kazyna” JSC	-	23,791,295
Total debt assets measured at fair value through other comprehensive income	196,612,124	213,793,539

Debt securities measured at amortised cost

	31 December 2020 ‘000 KZT	31 December 2019 ‘000 KZT
Bonds of the SWF “Samruk-Kazyna” JSC	6,991,949	6,516,175
Corporate bonds of Kazakhstan issuers	4,147,789	3,747,747
Bonds of Kazakhstan banks (POCI-asset)	1,976,863	1,891,309
	13,116,601	12,155,231
Loss allowance	(1,418,113)	(1,412,618)
Total debt securities measured at amortised cost	11,698,488	10,742,613

Debt securities measured at fair value through profit or loss

	31 December 2020 ‘000 KZT	31 December 2019 ‘000 KZT
Corporate bonds (not rated)	947,067	929,906
Total debt securities measured at fair value through profit or loss	947,067	929,906

19 Advances paid under finance lease agreements

	31 December 2020 ‘000 KZT	31 December 2019 ‘000 KZT
Advances paid to suppliers of equipment under finance lease agreements	112,000,242	107,306,831
Cash placed under irrevocable letters of credits	11,172,420	31,429,544
Other	-	227
	123,172,662	138,736,602
Loss allowance	(13,665)	(5,463,509)
Total advances paid under finance lease agreements	123,158,997	133,273,093

As at 31 December 2020, an impairment allowance of KZT 13,665 thousand was recognised for advances paid under finance lease agreement, related to cash placed under irrevocable letters of credits (31 December 2019: an impairment allowance of KZT 5,451,754 thousand was recognised for advances paid under finance lease agreement in the amount of KZT 6,487,178 thousand with respect to one supplier), which took into account the terms of restructuring, the financial condition of the counteragent and availability of finished goods for transfer.

In 2019, the Group recognised an impairment allowance of KZT 5,451,754 thousand for advances paid to Ziksto JSC, supplier of leased items, due the fact the supplier failed to deliver leased items to the Group’s customer.

In calculating the allowance for advances paid under finance lease agreements, the following assumptions were made:

- the supplier of rail cars Ziksto JSC (the counteragent) was internally rated D, based on the analysis of its financial position and considering the delay in delivery of leased items;
- the amount of loss, net of value of finished goods to be shipped, is equal to 84% of the advance paid or KZT 5,451,754 thousand.

In 2020, Ziksto JSC repaid the advance and the Group reversed the impairment allowance of KZT 5,451,754 thousand.

Movements in the impairment allowance on advances paid under finance lease agreements for the years ended 31 December 2020 and 2019 are as follows:

‘000 KZT	31 December 2020	31 December 2019
Balance at the beginning of the year	(5,463,509)	-
Net charge for the year	5,449,844	(5,463,509)
Balance at the end of the year	(13,665)	(5,463,509)

20 Equity investments

‘000 KZT	31 December 2020	31 December 2019
DBK Equity Fund C.V.	14,841,000	19,506,343
	14,841,000	19,506,343

In accordance with the terms and conditions of the Agreement on establishment of the limited liability partnership dated 3 November 2017, concluded by BV Management LLP, DBK Capital Structure B.V. and Kazyna Capital Management JSC (the “Agreement”), which jointly established DBK Equity Fund C.V. (the “Fund”), the gross investments contribution to the Fund amounted to KZT 33,515,000 thousand. The share of the contributions held by the parties are as follows:

- The Group (via DBK Capital Structure B.V.) (Limited Partner A)– 97% ownership interest;
- Kazyna Capital Management JSC (Limited Partner B)– 2.99% ownership interest;
- BV Management LLP (General Partner) - 0.01% ownership interest.

The main purpose to have established the Fund is investing in share capital of corporates whose principal activities are development of infrastructure projects in target areas. The Fund’s operations are primarily located in Kazakhstan, while the country of incorporation is the Netherlands.

Nature and extent of the Group's involvement

The Group holds a 97% interest in the Fund via DBK Capital Structure B.V., and being a limited liability partner under the Agreement is not involved in the decision-making process related to the Fund’s investing activities. The Fund’s management company is the General Partner (BV Management LLP) who is responsible for making investing decisions, and governed by the Investment Policy in accordance with the Agreement. The General Partner is free to select assets for capital investment and makes key decisions on the Fund’s operating activities and investees’ capital, including budgets and key management remuneration.

The Investment Policy is amended by the General Partner subject to approval by the Supervisory Board. The Group has the right to appoint one of the four members of the Supervisory Board. Significant decisions on investment activity are made by the General Partner upon approval by the Investment Committee. The Group has the right to appoint one of the five members of the Investment Committee.

Under the Agreement, the Group has no right to individually make decisions on re-appointment of the General Partner who manages the Fund. Decisions on re-appointment of the General Partner under the Agreement are made upon joint consent by limited partners. Under the terms of the Agreement, there are certain conditions which are attached to the reappointment of the General Partner, including:

- notification of the General Partner 6 month prior to re-appointment;

- searching for a new general partner who is prepared for buy-out of the predecessor General Partner's rights and obligations.
- a new General Partner is appointed by common consent of the limited liability partners.

These conditions make the general partner's reappointment process more difficult.

In accordance with the above, under the IFRS 10 *Consolidated Financial Statements*, the Group has no control over the Fund as at 31 December 2020, does not exercise control over the Fund and does not consolidate the Fund.

As the Fund's Investment Policy has been approved in the Agreement, and the Fund is managed by the General Partner in compliance with such Policy without involvement of the limited partners, the Group believes that it does not have a significant impact on the Fund's activity. Thus, the Group accounts for the Fund in compliance with IFRS 9.

Under IFRS 9, there are exceptions to general requirements to the classification of financial instruments related to investments in equity instruments. On initial recognition of an equity investment that is not held for trading, an entity can make an irrevocable decision to present changes in fair value of such investments in OCI. The Group decided to use such exception. As at 31 December 2020 and 2019 equity investments are recognised by the Group at fair value through other comprehensive income.

During 2020, the Group decreased investments in the Fund by KZT 4,205,956 thousand (in 2019: invested KZT 10,134,676 thousand).

As at 31 December 2020, the fair value of equity investments of KZT 14,841,000 thousand (in 2019: KZT 19,506,343 thousand) was calculated by estimating present value of projected cash flows using market discount rates ranging from 15.71% to 18.00% (as at 31 December 2019: 15.60%-17.94%).

21 Other assets

	31 December 2020 '000 KZT	31 December 2019 '000 KZT
Other financial assets measured at amortised cost		
Accounts receivable from IFK JSC	24,724,308	22,346,686
Fee and commission income accrued	347,289	331,398
Trade and other receivables	260,483	116,341
Accounts receivable under legal claims	14,826	222,588
Fee prepaid for an undrawn loan commitment	-	851,684
Interest unpaid on finance leases under which leased items were foreclosed	-	471,671
Other	16,249	5,502
Total other financial assets measured at amortised cost, gross	25,363,155	24,345,870
Loss allowance	(2,619,601)	(691,324)
Total other financial assets measured at amortised cost, net	22,743,554	23,654,546
Other assets at fair value through profit or loss	14,059	61,886
Total financial assets	22,757,613	23,716,432
 Government grant receivable (Note 26)	 6,567,444	
Assets foreclosed under lease agreements	2,184,721	2,260,183
Prepayments	608,148	537,809
Non-current assets held for sale	420,138	403,416
Assets received as additional collateral	212,817	212,817
Taxes and duties other than income tax	45,174	237,607
Trade and other receivables	26,923	57,961
Raw materials and supplies	26,787	21,937
Other	6,414	18,269
Total other non-financial assets, gross	10,098,566	3,749,999
Impairment allowance	(1,528,398)	(1,409,665)
Total non-financial assets	8,570,168	2,340,334
Total other assets	31,327,781	26,056,766

As at 31 December 2020, net carrying amount of the past due receivables was KZT 7,258 thousand (31 December 2019: KZT 4,133 thousand).

Accounts receivable from IFK JSC were secured as at 31 December 2020 by the term deposit of KZT 10,225,000 thousand (as at 31 December 2019: KZT 10,225,000 thousand) which bears an annual interest rate of 9%. In addition, these accounts receivable are secured by debt securities issued by the Group, the carrying amount of which is KZT 8,887,233 thousand as at 31 December 2020 (31 December 2019: KZT 8,015,729 thousand).

As at 31 December 2020, the Group recognised loss allowance for expected credit losses on the accounts receivable from IFK JSC in the amount equal to lifetime expected credit losses (Stage 2) (31 December 2019: in the amount equal to 12-month expected credit losses).

Analysis of movements in impairment allowance

Movements in loss allowance for other financial assets for the years ended 31 December 2020 and 2019 are presented as follows:

	2020 ‘000 KZT	2019 ‘000 KZT
Balance at the beginning of the year	(691,324)	(324,394)
Net reversal/(charge) of impairment allowance	(1,926,102)	98,405
Transfer from finance lease receivables (Note 17)	-	(471,671)
Other changes	(1,183)	-
Effect of changes in foreign exchange rates	(777)	76
(Reversal)/ write-off for the year	(215)	6,260
Balance at the end of the year	(2,619,601)	(691,324)

Movements in loss allowance for other financial assets for the years ended 31 December 2020 and 2019 are presented as follows:

	2020 ‘000 KZT	2019 ‘000 KZT
Balance at the beginning of the year	(1,409,665)	(671,036)
Net charge of impairment allowance	(179,645)	(453,164)
Reclassified from assets to be transferred under finance lease agreements	-	(323,174)
Write-off for the year	60,912	37,709
Balance at the end of the year	(1,528,398)	(1,409,665)

22 Derivative financial instruments

(a) The Group's approach to derivative transactions

As at 31 December 2020 and 2019, the Group had the following derivative financial instruments. For information on the Group's embedded derivatives see Note 17.

Type of instrument	Notional amount	Maturity	Payments made by the Group	Payments received by the Group	31 December 2020 ‘000 KZT	31 December 2019 ‘000 KZT
Cross-currency interest rate swap	USD 50,000,000	07/08/2022	Fixed at 8.7% p.a. and KZT 9,382,500 thousand at maturity	USD 50,000,000 at maturity	11,489,170	10,012,213
Options	KZT 3,219,509 thousand	15/06/2020	-	KZT 3,219,509 thousand at maturity	-	148,478
					11,489,170	10,160,691

The Group may enter into swap agreements and other types of over-the-counter transactions with broker's dealers or other financial institutions. A swap involves the exchange by the Group with another party of their respective commitments to pay or receive cash flows, e.g. an exchange of floating rate payments for fixed-rate payments.

Swap agreements and similar transactions can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structures, swap agreements may increase or decrease the Group's exposure to long or short-term interest rates, foreign currency values, corporate borrowing rates, or other factors such as security prices or inflation rates. The value of the swap positions would increase or decrease depending on the changes in value of the underlying rates or currency values. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the Group's investments.

The Group's ability to realise a profit from such transactions will depend on the ability of the financial institution with which it enters into the transaction to meet their obligations to the Group. If a counterparty's creditworthiness declines, the value of the agreement would be likely to decline, potentially resulting in losses. In case of default on obligations by the other party to such transaction, the Group will have contractual remedies pursuant to the agreements related to the transaction, which may be limited by applicable law in case of the counterparty's insolvency.

(b) Significant foreign currency transactions

During the period ended 31 December 2020, management revised assumptions applied to currency swap valuation due to changes in the base market terms. To determine a fair value of the swaps, management made an assumption that the following rates would be appropriate to be used by the Group: 10.92% in KZT and 2.58% in USD (2019: 10.08% in KZT and 2.32% in USD).

None of derivative financial instruments are past due.

In case of default on obligations by the other party to such transaction, the Group will have contractual remedies pursuant to the agreements related to the transaction, which may be limited by applicable law in case of the counterparty's insolvency.

23 Current accounts and deposits from customers

	31 December 2020	31 December 2019
	'000 KZT	'000 KZT
Term deposits from customers	10,225,000	10,225,000
Deposits used as collateral for loans issued to customers	2,807,162	2,604,700
Current accounts and demand deposits	763,544	2,590,467
Deposits pledged as collateral	1,998,043	1,816,140
	15,793,749	17,236,307

As at 31 December 2020, current accounts and deposits from customers serve as collateral for loans issued to customers in the amount of KZT 2,807,162 thousand (as at 31 December 2019: KZT 2,604,700 thousand) and for other financial assets in the amount of KZT 10,225,000 thousand (as at 31 December 2019: KZT 10,225,000 thousand).

24 Loans and due from banks and other financial institutions

	31 December 2020	31 December 2019
	'000 KZT	'000 KZT
Loans with fixed interest rate		
Loans from the OECD banks	-	11,088,390
Loans from the non-OECD banks	173,962,291	176,983,933
Total loans with fixed interest rate	173,962,291	188,072,323
Loans with floating interest rate		
Loans from the non-OECD banks	497,585,889	364,305,254
Total loans with floating interest rate	497,585,889	364,305,254
Unamortised portion of borrowing costs	(31,540,211)	(12,082,208)
	640,007,969	540,295,369

In April 2020, the Group raised a loan of USD 80,000 thousand from China Development Bank, bearing an annual interest rate of 2.46% and maturing in November 2034. On initial recognition of the loan the Group recognised gain on the remeasurement of the loan of KZT 7,821,328 thousand in other comprehensive income (Note 9). The fair value of the loan was calculated using the market interest rate of 7.29%. The fair value of the loan on initial recognition was categorised into Level 2 of the fair value hierarchy.

In May 2020, the Group raised a loan of USD 130,000 thousand from the foreign bank China Development Bank, bearing an annual interest rate of 2.91% and with maturity in April 2030. On initial recognition of the loan the Group recognised gain on the remeasurement of the loan of KZT 9,143,917 thousand in other comprehensive income (Note 9). The fair value of the loan on initial recognition was calculated using the market interest rate of 6.75%. The fair value of the loan on initial recognition was categorised into Level 2 of the fair value hierarchy.

In October 2020, the Group raised a loan of USD 100,000 thousand from the foreign bank China Development Bank, bearing an annual interest rate of 2.45% and with maturity in November 2034. On initial recognition of the loan the Group recognised gain on the remeasurement of the loan of KZT 5,652,037 thousand in other comprehensive income (Note 9). The fair value of the loan on initial recognition was calculated using the market interest rate of 4.51%. The fair value of the loan on initial recognition was categorised into Level 2 of the fair value hierarchy.

During the year ended 31 December 2020, the Group repaid in full the loans raised from HSBC Bank Plc in the total amount of EUR 22,266 thousand and China Development Bank in the total amount of USD 12,000 thousand.

During 2020, the Group recognised expenses on early repayment of loans from banks and other financial institutions in the amount of KZT 353,434 thousand (in 2019: KZT 2,712,811 thousand)(Note 9) and fee and commission expense of KZT 277,628 thousand (in 2019: KZT 2,803,844 thousand) repaid by the borrowers under the terms of the loan agreements (Notes 6).

As at 31 December 2020, included in loans and due from banks and other financial institutes is accrued interest expense of KZT 4,110,025 thousand (31 December 2019: KZT 4,136,302 thousand).

25 Loans from the Parent Company

	31 December 2020	31 December 2019
	'000 KZT	'000 KZT
Loans from the Parent Company	227,596,965	175,228,967
	227,596,965	175,228,967

As at 31 December 2020 the loans from the Parent Company comprised twenty-four long-term loans provided by NMH Baiterek JSC (as at 31 December 2019: eighteen long-term loans). The terms of the loans subsequently extended under these agreements are defined by the terms and conditions of the Government programme.

	Loan amount	Nominal interest rate	Effective interest rate	Borrowing date	Maturity date	Carrying amount 31 December 2020	Carrying amount 31 December 2019
1	75,000,000	0.15	9.75	28.10.2016	27.10.2036	36,192,552	33,075,350
2	10,000,000	0.15	10.30	28.10.2016	27.10.2026	6,036,819	6,745,296
3	12,861,805	0.08	9.75	28.10.2016	27.10.2036	6,183,449	5,642,183
4	17,500,000	0.15	9.42	14.04.2017	29.03.2027	11,553,575	12,813,083
5	18,600,000	0.08	8.78	25.04.2017	13.04.2037	9,182,326	8,453,556
6	80,000,000	0.15	8.78	25.04.2017	20.04.2037	39,596,199	36,505,602
7	10,000,000	0.15	8.91	25.12.2017	10.12.2037	4,538,005	4,179,934
8	10,000,000	0.15	8.48	30.05.2018	06.04.2027	7,799,231	7,202,254
9	13,000,000	0.15	8.48	03.08.2018	25.07.2033	7,346,914	6,789,991
10	12,000,000	0.15	8.50	29.08.2018	08.08.2038	5,475,036	5,062,404
11	12,537,182	0.08	8.46	19.12.2018	07.11.2038	5,584,657	5,157,296
12	10,000,000	0.15	8.72	29.04.2019	12.04.2037	4,527,615	4,177,842
13	14,000,000	0.15	8.80	28.06.2019	14.04.2027	10,426,954	9,601,356
14	23,546,000	0.15	10.80	01.07.2019	03.06.2029	14,749,557	13,339,413
15	11,258,978	0.08	10.89	29.07.2019	21.07.2039	3,817,740	3,447,347
16	11,000,000	0.15	10.37	24.09.2019	18.08.2038	4,052,743	3,682,337
17	18,741,022	0.08	10.57	09.12.2019	29.11.2039	6,303,115	5,712,331
18	6,000,000	0.15	10.59	20.12.2019	27.11.2027	4,018,957	3,641,392
19	20,000,000	0.08	13.46	30.04.2020	15.04.2040	4,983,874	-
20	10,000,000	0.15	13.44	12.06.2020	01.06.2035	3,352,918	-
21	30,000,000	0.15	13.08	09.10.2020	17.09.2040	7,477,733	-
22	20,000,000	0.08	11.83	11.12.2020	03.12.2040	5,380,868	-
23	13,700,000	0.15	11.82	20.12.2020	02.12.2035	4,900,128	-
24	22,500,000	0.15	11.36	20.12.2020	03.12.2027	14,116,000	-
Total						227,596,965	175,228,967

A loan of KZT 20,000,000 thousand was received in April 2020 at the interest rate of 0.08% per annum and matures on 15 April 2040. The loan with an interest rate of 0.10 % per annum was provided to further finance Industrial Development Fund JSC (formerly DBK-Leasing JSC) for the latter to provide financing to Passazhirskiye Perevozki JSC (*Passenger Transportation JSC*) for renewal of its fleet of passenger cars. The loan was initially recognised at fair value estimated by discounting its contractual cash flows using a market interest rate of 13.46%. Discount of KZT 15,411,929 thousand between the fair value and consideration received was recognised as a government grant.

A loan of KZT 10,000,000 thousand was received in June 2020 at the interest rate of 0.15% per annum and matures on 1 June 2035. The loan was issued for financing Industrial Development Fund JSC (formerly DBK-Leasing JSC), at the interest rate of 0.20% per annum, to provide the lease financing to sell or lease buses under the bus fleet renewal programme. The loan was initially recognised at fair value estimated by discounting its contractual cash flows using a market interest rate of 13.44%. Discount of KZT 6,862,289 thousand between the fair value and consideration received was recognised as a government grant.

A loan of KZT 30,000,000 thousand bearing an interest rate of 0.15% per annum and maturing on 17 September 2040 was received in October 2020. The loan is intended to boost export financing (the purchase of iron cast machinery by domestic manufacturers for manufacturing of cast iron products, financed under finance lease agreements). The loan was initially recognised at fair value estimated by discounting its contractual cash flows using a market interest rate of 13.08%. Discount on remeasurement of KZT 22,719,851 thousand between the fair value and consideration received was recognised as a government grant.

A loan of KZT 20,000,000 thousand bearing an interest rate of 0.08% per annum and maturing on 3 December 2040 was received in December 2020. The loan is intended to finance the renewal of passenger car fleet. The loan was initially recognised at fair value estimated by discounting its contractual cash flows, using a market interest rate of 11.83%. Discount on remeasurement of KZT 14,651,466 thousand between the fair value and consideration received was recognised as a government grant.

A loan of KZT 13,700,000 thousand bearing an interest rate of 0.15% per annum and maturing on 2 December 2035 was received in December 2020. The loan is intended to finance the purchase of buses under finance lease agreements. The loan was initially recognised at fair value estimated by discounting its contractual cash flows using a market interest rate of 11.82%. Discount on remeasurement of KZT 8,816,171 thousand between the fair value and consideration received was recognised as a government grant.

A loan of KZT 22,500,000 thousand bearing an interest rate of 0.15% per annum and maturing on 3 December 2027 was received in December 2020. The loan was provided to secure lease financing for the projects realised under the State Programme of Industrial and Innovative Development of the Republic of Kazakhstan for 2020-2025. The loan was initially recognised at fair value estimated by discounting its contractual cash flows, using a market interest rate of 11.36%. Discount on remeasurement of KZT 8,429,419 thousand between the fair value and consideration received was recognised as a government grant.

26 Government grants

The Group recorded as government grants the benefits obtained by means of low-interest rates borne by loans from the Parent Company, Baiterek Development JSC and SWF “Samruk-Kazyna”.

	2020 ‘000 KZT	2019 ‘000 KZT
Balance at the beginning of the year	210,933,386	175,264,813
A government grant on loans received from the Government through the Parent Company	83,458,568	52,513,502
A government grant received from the National Bank of the RK by means of issuing bonds (Note 27)	18,456,560	17,096,041
Recovery of the allocated amount of the Government grant (Note 9)	-	10,966,934
Use of the Government grant upon issuance of low interest rate loans to commercial banks (Note 9)	(14,524,662)	(26,628,762)
Use of the Government grant upon issuance of loans to other borrowers (Note 9)	(21,218,881)	(6,137,822)
Use of the Government grant for finance lease agreements entered (Note 5)	(10,419,019)	(7,198,444)
Amortisation for the year (Note 9)	(4,846,959)	(4,942,876)
Balance at the end of the year	261,838,993	210,933,386

The Group bears responsibility for allocation of benefits to the end borrowers through setting low interest rate on loans. Subsequent to initial recognition the Group allocated to profit or loss an amount corresponding to the debt relief provided to the borrowers.

During the year ended 31 December 2020 the Government grants transferred to profit or loss amounted to KZT 40,590,502 thousand (31 December 2019: KZT 37,709,460 thousand) and were included in other expenses (Note 9).

As at 31 December 2020, the Group recognised the amount due of KZT 6,567,444 thousand (as at 31 December 2019: nil) related to government grants in ‘other assets’.

During the year ended 31 December 2019, the government grant of KZT 10,966,934 thousand was reversed due to recovery of recognised expenses on estimated liabilities to extend loans at the below-market interest rate, upon expiry of the availability of the credit facility (Note 9).

As at 31 December 2020 and 2019, the government grants broken by the programmes are presented as follows:

	2020 ‘000 KZT	2019 ‘000 KZT
Nurly Zhol –lease financing for replacement of passenger cars fleet of Passenger Carriages JSC	69,175,299	42,201,517
Financing of the investment projects under the State Programme of Industrial-Innovative Development of the Republic of Kazakhstan for 2015-2019	68,778,182	90,543,621
Nurly Zhol - financing export and pre-export lending, domestic car and passenger car manufacturers	23,962,929	25,653,104
Long-term lease financing under the Uniform Programme of Business Development and Support “Business Roadmap 2020”	23,642,258	20,995,311
Boosting export financing	22,558,726	-
Lease financing for lease sale of buses, tractors and combine harvesters	21,029,549	6,178,784
Financing the local car manufacturers, through providing the financing under the special terms to commercial banks for the latter to extend loans to individuals--buyers of the locally manufactured cars, and as well as financing legal entities and individual entrepreneurs, which purchase under finance lease agreements motor vehicles and automotive equipment of special purpose, except for agricultural vehicles manufactured in Kazakhstan	15,534,115	11,828,266
Nurly Zhol - financing export and pre-export lending	8,354,344	8,907,917
Financing of the Karavan Saray Multi-Service Tourist Centre project	4,860,818	-
Boosting export of domestic locomotives - by financing export deliveries of Locomotive Kurastyru Zauyty JSC under finance lease agreements	1,546,556	1,793,213
Financing private entrepreneurship projects in the processing industry	1,070,889	1,256,900
Nurly Zhol – lease financing of medium and large businesses (including non-residents), which export domestic goods and import products manufactured in the Republic of Kazakhstan, in manufacturing industry	1,019,969	1,092,400
Financing of a number of industries including textile, gas processing and chemicals	276,183	440,200
Financing, including replacement of sources of financing of the end borrowers which implement investment projects in manufacturing industries	29,176	42,153
Balance at the end of the year	261,838,993	210,933,386

27 Debt securities issued

	31 December 2020 ‘000 KZT	31 December 2019 ‘000 KZT
Debt securities with fixed interest rate		
Eurobonds denominate in USD	573,035,293	559,124,678
Eurobonds denominate in KZT	162,500,000	200,000,000
KZT- denominated bonds	543,042,000	312,492,000
	1,278,577,293	1,071,616,678
Unamortised discount, net	(53,986,275)	(30,330,953)
	1,224,591,018	1,041,285,725
Accrued interest	16,421,697	10,258,543
	1,241,012,715	1,051,544,268

Development Bank of Kazakhstan JSC
Notes to the Consolidated Financial Statements for the year ended 31 December 2020

As at 31 December 2020 and 2019, debt securities issued by the Group comprised the following instruments:

Type of instrument	Coupon rate	Effective rate	Date of issue	Maturity date	Carrying amount 31 December 2020	Carrying amount 31 December 2019
Eurobonds						
XS0220743776	6.50%	6.84%	03.06.2005	03.06.2020	-	38,390,693
Eurobonds						
XS0248160102	6.00%	6.37%	23.03.2006	23.03.2026	41,183,987	37,359,032
Eurobonds						
XS0860582435, US25159XAB91	4.125%	5.05%	10.12.2012	10.12.2022	524,929,794	473,453,909
Bonds						
KZ2C00003002	8.13%	8.30%	29.12.2014	29.12.2024	20,004,846	20,000,651
Bonds						
KZ2C00003580	14.00%	14.48%	25.05.2016	25.05.2026	65,897,710	65,875,707
Bonds						
KZ2C00003713	15.00%	15.56%	28.07.2016	28.07.2031	15,949,609	15,944,506
Bonds						
KZ2C00003648	14.00%	14.49%	01.08.2016	01.08.2026	18,508,203	18,502,142
Bonds						
KZ2C00003903	10.50%	10.80%	31.05.2017	31.05.2022	20,171,730	20,162,478
Bonds						
KZ2C00003911	10.50%	10.79%	06.06.2017	06.06.2024	30,199,568	30,189,495
Bonds						
KZ2C00004000	11.25%	11.57%	22.08.2017	22.08.2032	9,181,762	9,179,384
Bonds						
KZ2C00004018	11.25%	11.57%	23.08.2017	23.08.2030	9,183,270	9,180,939
Bonds						
KZ2C00004026	11.00%	11.30%	24.08.2017	24.08.2028	9,171,699	9,169,300
Eurobonds						
XS1734574137	9.50%	9.78%	14.12.2017	14.12.2020	-	100,148,371
Eurobonds						
XS1814831563	8.95%	9.54%	04.05.2018	04.05.2023	100,638,352	100,329,440
Bonds						
KZ2C00005908	10.00%	10.26%	18.06.2019	18.06.2026	27,571,081	27,563,313
Bonds						
KZ2C00005916	10.27%	10.53%	16.07.2019	16.07.2024	42,923,219	42,912,301
Bonds						
KZ2C00006286	0.15%	10.64%	07.10.2019	07.10.2039	3,246,794	2,962,155
Bonds						
KZ2C00004190	11.00%	11.31%	03.12.2019	03.12.2029	30,228,757	30,220,452
Bonds						
XS2106835262	10.75%	11.38%	12.02.2020	12.02.2025	64,393,630	-
Bonds						
KZ2C00006765	0.15%	14.50%	14.05.2020	14.05.2040	1,651,514	-
Bonds						
KZ2C00004273	11.00%	13.73%	18.06.2020	18.06.2030	9,309,296	-
Bonds						
KZ2C00006864	11.80%	12.15%	28.07.2020	28.07.2025	52,484,867	-
Bonds						
KZ2C00006898	11.80%	12.15%	09.12.2020	09.12.2030	50,325,017	-
Bonds						
KZ2C00007102	11.80%	12.16%	09.12.2020	09.12.2027	50,322,348	-
Bonds						
KZ2C00007011	11.80%	15.14%	11.11.2020	11.11.2030	43,535,662	-
Total					1,241,012,715	1,051,544,268

On 14 May 2020, the Group issued debt securities of par value of KZT 20,000,000 thousand at the interest rate of 0.15% per annum and with maturity on 14 May 2040. Debt securities were issued for the subsequent lending of the loans provided at a low interest rate under the State Programme “Lending Programmes for Buyers of Motor Vehicles Manufactured in Kazakhstan” approved by the Resolution No. 79 of the Board of the National Bank of the Republic of Kazakhstan dated 31 May 2019 (the “Programme”), intended for designated use of cash funds received from placement of Bonds, for financing second-tier banks through a loan mechanism for lending to individuals - buyers of Kazakhstan made passenger cars - on terms defined by the Programme”. On initial recognition, the debt securities issued were recognised at fair value calculated by discounting contractual cash flows on securities using the market interest rate of 13.97%. Discount of KZT 18,456,560 thousand between the fair value and consideration received was recognised as a government grant (Note 26).

On 18 June 2020, the Group issued debt securities of par value of KZT 10,550,000 thousand at the interest rate of 11.0% per annum and with maturity on 18 June 2030. On initial recognition, the debt securities issued were recognised at fair value calculated by discounting contractual cash flows on securities using the market interest rate of 13.27%. On initial recognition, the discount of KZT 1,305,352 thousand was recognised in other income (Note 9). The majority of the funds raised was channelled to finance leasing activities.

On 11 November 2020, the Group issued debt securities of par value of KZT 50,000,000 thousand at the interest rate of 11.8% per annum and with maturity on 11 November 2030. Debt securities were issued to subsequently provide financing under finance lease agreements. On initial recognition, the debt securities were recognised at fair value calculated by discounting contractual cash flows on securities using the market interest rate of 15.14%. The discount of KZT 5,815,970 thousand was recognised as additional paid-in capital (net of the income tax of KZT 1,453,992 thousand) as these financing instruments were provided by the Group at the below-market interest rates, under no additional conditions.

Reconciliation of movements of liabilities to cash flows arising from financing activities

	2020	2019
	‘000 KZT	‘000 KZT
Balance at 1 January	1,051,544,268	946,066,085
Changes from financing cash flows		
Proceeds from debt securities issued	274,121,565	101,387,959
Repurchase / repayment of debt securities issued	(140,861,000)	-
Total changes from financing cash flows	133,260,565	101,387,959
Changes from operating cash flows		
Government grants received in the form of discount on debt securities issued at the below-market interest rate	18,456,560	17,096,041
Total changes from operating cash flows	18,456,560	17,096,041
Other changes		
Interest expense	93,014,664	74,616,647
Discount on initial recognition	(27,031,874)	(17,096,041)
Interest paid	(81,540,225)	(68,248,163)
Effect of movements in exchange rates	53,308,757	(2,278,260)
Balance at 31 December	1,241,012,715	1,051,544,268

28 Subordinated debt

	2020	2019
	‘000 KZT	‘000 KZT
Subordinated debt with fixed interest rate		
Nominal in KZT	364,859,334	364,859,334
Unamortised discount, net	(253,790,598)	(260,418,959)
	111,068,736	104,440,375
Accrued interest	94,274	94,274
	111,163,010	104,534,649

In case of bankruptcy, the subordinated debt will be repaid once all other Group’s liabilities have been repaid in full.

29 Other liabilities

	31 December 2020 ‘000 KZT	31 December 2019 ‘000 KZT
Financial liabilities		
Funds placed by customers as security for letters of credit	20,207,343	1,323,744
Other accrued expenses and accounts payable	1,004,808	833,015
Proceeds from sale of leased items	494,984	395,555
Provision for payments to be made	306,188	672,112
Payables to employees	69,703	59,852
Fee and commission expense accrued	34,122	10,064
Total financial liabilities	22,117,148	3,294,342
Non-financial liabilities		
Advances received under finance lease agreements	17,750,446	19,146,798
Payables to suppliers of equipment to be transferred under finance lease agreements	2,922,700	1,058,295
Short-term payables under grant funds	2,225,525	1,268,421
Prepayments	1,146,867	2,412,112
Tax liabilities other than income tax	1,098,932	580,205
Provision for interest payments	379,622	-
Liabilities under contracts with customers	6,304	23,080
Other liabilities	93,567	133,275
Total non-financial liabilities	25,623,963	24,622,186
	47,741,111	27,916,528

30 Deferred tax liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to deferred tax liabilities as at 31 December 2020 and 31 December 2019.

(a) Recognised deferred tax assets and liabilities

Movements in temporary differences for the year ended 31 December 2020 are presented as follows:

‘000 KZT	Balance at 1 January 2020	Recognised in profit or loss	Recognised in equity	Balance at 31 December 2020
Property, plant and equipment and intangible assets	(191,779)	(47,718)	-	(239,497)
Loans to banks	18,540,122	2,278,518	-	20,818,640
Loans to customers	26,117,336	7,900,010	-	34,017,346
Finance lease receivables	-	1,453,993	-	1,453,993
Other assets	3,020,013	(413,951)	-	2,606,062
Loans from the Parent Company	(68,466,511)	4,572,758	-	(63,893,753)
Loans and balances from banks and other financial institutions	(980,800)	(4,064,373)	-	(5,045,173)
Government grants	26,624,393	(8,118,100)	-	18,506,293
Loans received from SWF “Samruk-Kazyna”	(788,627)	262,823	-	(525,804)
Debt securities issued	(3,396,042)	(190,442)	(1,453,993)	(5,040,477)
Derivative financial instruments	(1,904,036)	(295,391)	-	(2,199,427)
Other liabilities	137,734	(85,496)	-	52,238
Provisions	1,089,785	(560,118)	-	529,667
Net deferred liabilities	(198,412)	2,692,513	(1,453,993)	1,040,108

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

‘000 KZT	Balance at 1 January 2019	Recognised in profit or loss	Balance at 31 December 2019
Property, plant and equipment and intangible assets	(89,454)	(102,325)	(191,779)
Loans to banks	13,413,494	5,126,628	18,540,122
Loans to customers	19,972,602	6,144,734	26,117,336
Other assets	3,405,592	(385,579)	3,020,013
Loans from the Parent Company	(61,568,821)	(6,897,690)	(68,466,511)
Loans and balances from banks and other financial institutions	(1,143,554)	162,754	(980,800)
Government grants	23,900,891	2,723,502	26,624,393
Loans received from SWF “Samruk-Kazyna”	(1,042,130)	253,503	(788,627)
Debt securities issued	(11,013)	(3,385,029)	(3,396,042)
Derivative financial instruments	(1,653,403)	(250,633)	(1,904,036)
Other liabilities	37,412	100,322	137,734
Provisions	2,193,668	(1,103,883)	1,089,785
Net deferred liabilities	(2,584,716)	2,386,304	(198,412)

(b) Unrecognised deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2020 and 2019. These deferred tax assets are not recognised in these financial statements. Future tax benefits will only be realised if profits will be available against which unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Group’s ability to claim deductions in future periods.

Deferred tax assets and liabilities have not been recognised in respect of the following items:

	2020 ‘000 KZT	2019 ‘000 KZT
Finance lease receivables	1,220,426	2,386,891
Embedded derivative financial instrument	(133,727)	(495,567)
Off-balance interest income on finance lease receivables	64,664	64,664
Other deferred tax assets	27,760	28,930
	1,179,123	1,984,918

Temporary differences of KZT 1,179,123 thousand (2019: KZT 1,984,918 thousand) have not been recognised in the financial statements due to uncertainties concerning their realisation.

31 Share capital

(a) Issued share capital

As at 31 December 2020, the issued and authorised share capital comprised 2,107,270 ordinary shares (31 December 2019: 2,107,820 ordinary shares).

During the year ended 31 December 2020, the Group issued 1,450 ordinary shares with a nominal value of KZT 40,000,000 each (31 December 2019: 925 ordinary shares with a nominal value of KZT 40,000,000 each). All ordinary shares were issued at their nominal value.

Nominal values and number of ordinary shares as at 31 December were as follows:

2020	Number of ordinary shares	Nominal value per share KZT	Paid-up capital '000 KZT
Ordinary shares	1,819,519	50,000	90,975,950
Ordinary shares	250,000	668,000	167,000,000
Ordinary shares	30,000	1,000,000	30,000,000
Ordinary shares	5,000	5,000,000	25,000,000
Ordinary shares	1,250	40,000,000	50,000,000
Ordinary shares	1,000	40,000,000	40,000,000
Ordinary shares	625	40,000,000	25,000,000
Ordinary shares	500	40,000,000	20,000,000
Ordinary shares	375	40,000,000	15,000,000
Ordinary shares	300	40,000,000	12,000,000
Ordinary shares	250	40,000,000	10,000,000
Ordinary shares	250	40,000,000	10,000,000
Ordinary shares	200	40,000,000	8,000,000
Ordinary shares	1	691,560,619	691,561
At 31 December 2020	2,109,270	-	503,667,511

2019	Number of ordinary shares	Nominal value per share KZT	Paid-up capital '000 KZT
Ordinary shares	1,819,519	50,000	90,975,950
Ordinary shares	250,000	668,000	167,000,000
Ordinary shares	30,000	1,000,000	30,000,000
Ordinary shares	5,000	5,000,000	25,000,000
Ordinary shares	1,000	40,000,000	40,000,000
Ordinary shares	625	40,000,000	25,000,000
Ordinary shares	500	40,000,000	20,000,000
Ordinary shares	375	40,000,000	15,000,000
Ordinary shares	300	40,000,000	12,000,000
Ordinary shares	250	40,000,000	10,000,000
Ordinary shares	250	40,000,000	10,000,000
Ordinary shares	1	691,560,619	691,561
At 31 December 2019	2,107,820	-	445,667,511

(b) Carrying value of ordinary shares

According to the Listing Rules of Kazakhstan Stock Exchange (the “Rules”) the Group discloses the carrying amount of ordinary shares as required by the Rules:

	2020 '000 KZT	2019 '000 KZT
Carrying value of ordinary shares	242.35	202.87

The carrying amount of an ordinary share as at 31 December 2020 is estimated as the amount of consolidated capital decreased by the amount of intangible assets that the Group would be unable to sell to third parties in the amount of KZT 511,180,137 thousand (31 December 2019: KZT 427,609,875 thousand) and divided by a number of outstanding ordinary shares, i.e. 2,107,270 ordinary shares (31 December 2019: 2,107,820 ordinary shares).

(c) Dividends

In accordance with Kazakhstan legislation the Group’s distributable dividends are limited to the maximum balance of the Group’s retained earnings. During the year ended 31 December 2020, the Bank declared and paid dividends of KZT 3,287,543 thousand (2019: KZT 973,143 thousand). Dividends per ordinary share are KZT 1,559.69 (2019: KZT 461.88).

32 Risk Management

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

(a) Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits.

Risk management policies and procedures are reviewed regularly to reflect changes in market conditions and emerging best practice.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within established risk parameters. The Director of the Risk Management Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Management Board and indirectly to the Board of Directors.

Credit, market and liquidity risks are managed and controlled through a system of Credit and Investment Committees and Assets and Liabilities Management Committee (ALCO).

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Apart from the standard credit and market risk analysis, the designated organisation departments monitor financial and non-financial risks by holding regular meetings with operational units in order to obtain judgments in their areas of expertise.

The Group's Risk Department and internal audit function regularly prepare reports, which cover the Group's significant risks management issues. The reports include observations as to assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement.

To adequately reflect the uncertainty related to drop in market prices for assets and the COVID-19 pandemic, the Group updated the forward- looking information used in ECL models including forecast macro-economic indicators for 2020, considering the following:

- Reduction in economic activity due to decline in income of enterprises and individuals.
- Updated projected prices for fuel and energy resources, and commodities export.
- The impact of changes on various sectors of economy.
- 'Deterioration in liquidity' scenarios, growing costs and drop in revenue generated by leaseholders, according to the survey.

To estimate loss allowance for expected credit losses at 31 December 2020, the Group:

- re-estimated the 12-months and the remaining lifetime PDs by updating risk factors including adjustment of macroeconomic indicators. Deterioration of forecasts for the 12-month risk factors resulted in increase in the 12-month PDs;
- 'GDP growth' projection was revised to negative as compared to GDP growth projection for the Republic of Kazakhstan for 2019.
- Unemployment projection was revised to upward from 5.0% to 7.8%;
- Significant decline in energy index projection from - 4.8% to - 40.1%.
- re-estimated the 12-month and the remaining lifetime PDs;

- transferred some borrowers from Stage 1 to Stage 2;
- revised downward the internal credit ratings of some borrowers.

(b) Market risk

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

The market risk management objectives are to manage and control that exposure to market risk does not fall out of the acceptable parameters, ensuring the optimisation of profitability obtained for risk accepted.

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis.

The management of interest rates risk, component of market risk, by monitoring interest rate gap is supplemented by monitoring the sensitivity of the net interest margin to various standard and non-standard interest rate scenarios.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

31 December 2020 ‘000 KZT	Non-interest bearing	Less than 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Overdue	Carrying amount
ASSETS								
Cash and cash equivalents	134,501,204	108,284,933	-	-	-	-	-	242,786,137
Placements with banks and other financial institutions	745,176	104,016,933	1,592,941	15,277,317	147,135	-	-	121,779,502
Loans to banks	-	-	-	-	1,916,208	122,894,482	-	124,810,690
Loans to customers	-	269,842,520	317,190,099	56,099,004	393,550,373	802,810,731	6,423,488	1,845,916,215
Finance lease receivables	-	11,182,918	12,802,833	30,484,077	155,320,068	112,095,471	4,654,494	326,539,861
Debt securities	-	10,945,383	-	44,178	7,673,095	190,595,023	-	209,257,679
Equity investments	14,841,000	-	-	-	-	-	-	14,841,000
Other financial assets	404,819	--	-	-	22,348,855	-	3,939	22,757,613
	150,492,199	504,272,687	331,585,873	101,904,576	580,955,734	1,228,395,707	11,081,921	2,908,688,697
LIABILITIES								
Current accounts and deposits from customers	5,568,749	-	-	-	10,225,000	-	-	15,793,749
Loans from SWF “Samruk-Kazyna”	-	-	12,306,991	-	13,459,146	2,200,750	-	27,966,887
Loans from the Parent Company	-	-	-	-	-	227,596,965	-	227,596,965
Loans and deposits from banks and other financial institutions	-	198,331,556	276,133,591	1,965,993	159,221,846	4,354,983	-	640,007,969
Debt securities issued	-	-	803,056	-	855,746,006	384,463,653	-	1,241,012,715
Subordinated debt	-	-	-	-	-	111,163,010	-	111,163,010
Other financial liabilities	22,117,148	-	-	-	-	-	-	22,117,148
	27,685,897	198,331,556	289,243,638	1,965,993	1,038,651,998	729,779,361	-	2,285,658,443
	122,806,302	305,941,131	42,342,235	99,938,583	(457,696,264)	498,616,346	11,081,921	623,030,254

A summary of the interest gap position for major interest-bearing financial instruments is as follows:

31 December 2019	Non-interest bearing	Less than 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Overdue	Carrying amount
'000 KZT								
ASSETS								
Cash and cash equivalents	97,155,814	47,017,924	-	-	-	-	-	144,173,738
Placements with banks and other financial institutions	3,415,266	76,349,964	4,353,011	7,297,442	147,195	-	-	91,562,878
Loans to banks	-	-	-	-	2,240,003	108,705,836	-	110,945,839
Loans to customers	-	233,332,871	249,570,177	53,959,249	253,426,610	825,740,997	2,174,560	1,618,204,464
Finance lease receivables	-	4,960,497	13,682,125	12,303,677	67,638,688	90,810,635	944,718	190,340,340
Debt securities	-	-	-	25,063,209	23,670,745	176,732,104	-	225,466,058
Equity investments	19,506,343	-	-	-	-	-	-	19,506,343
Other financial assets	1,444,936	-	-	-	7,122,142	15,145,403	3,951	23,716,432
	121,522,359	361,661,256	267,605,313	98,623,577	354,245,383	1,217,134,975	3,123,229	2,423,916,092
LIABILITIES								
Current accounts and deposits from customers	7,011,307	-	-	-	-	10,225,000	-	17,236,307
Loans from SWF "Samruk-Kazyna"	-	-	-	-	24,606,101	2,380,167	-	26,986,268
Loans from the Parent Company	-	-	-	-	-	175,228,967	-	175,228,967
Loans and deposits from banks and other financial institutions	-	238,796,485	121,876,140	958,095	33,844,957	144,819,692	-	540,295,369
Debt securities issued	-	-	38,390,693	100,148,371	687,048,274	225,956,930	-	1,051,544,268
Subordinated debt	-	-	-	-	-	104,534,649	-	104,534,649
Other financial liabilities	3,294,342	-	-	-	-	-	-	3,294,342
	10,305,649	238,796,485	160,266,833	101,106,466	745,499,332	663,145,405	-	1,919,120,170
	111,216,710	122,864,771	107,338,480	(2,482,889)	(391,253,949)	553,989,570	3,123,229	504,795,922

Average interest rate

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2020 and 2019.

	31 December 2020			31 December 2019		
	Average effective interest rate, %			Average effective interest rate, %		
	KZT	USD	Other currencies	KZT	USD	Other currencies
Interest bearing assets						
Cash and cash equivalents	8.52%	0.05%	2.00%	7.36%	0.77%	2.00%
Placements with banks and other financial institutions	7.80%	-	-	7.69%	-	4.00%
Loans to banks	10.46%	-	-	10.24%	-	-
Reverse REPO agreements	8.21%	-	-	9.71%	-	-
Loans to customers	10.91%	5.93%	-	9.58%	5.90%	5.90%
Finance lease receivables	6.71%	-	-	6.92%	-	-
Debt securities measured at fair value through other comprehensive income	7.10%	1.71%	-	6.56%	2.87%	-
Debt securities at fair value through profit or loss	12.54%	-	-	12.54%	-	-
Debt securities measured at amortised cost	8.50%	3.97%	-	8.44%	3.97%	-
Interest bearing liabilities						
Current accounts and deposits from customers	9.46%	-	-	9.46%	-	-
Loans from SWF “Samruk-Kazyna”	5.13%	-	-	5.14%	-	-
Loans from the Parent Company	9.89%	-	-	9.39%	-	-
Loans and deposits from banks and other financial institutions	9.15%	4.49%	10.18%	7.00%	4.08%	7.94%
Debt securities issued	11.83%	5.14%	-	11.08%	5.27%	-
Subordinated debt	6.72%	-	-	6.72%	-	-

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

Cash flow interest rate sensitivity analysis

An analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2020 and 31 December 2019, is as follows:

‘000 KZT	31 December 2020		31 December 2019	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel rise	2,551,570	2,551,570	1,391,780	1,391,780
100 bp parallel fall	(2,551,570)	(2,551,570)	(1,391,780)	(1,391,780)

Fair value interest rate sensitivity analysis

An analysis of the sensitivity of net profit or loss and equity as a result of changes in the fair value of debt securities at FVOCI due to changes in the interest rates, based on positions existing as at 31 December 2020 and 31 December at 2019 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, is as follows:

‘000 KZT	31 December 2020		31 December 2019	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel rise	-	(10,259,850)	-	(11,828,065)
100 bp parallel fall	-	10,982,249	-	12,833,654

(ii) Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecast assets in a foreign currency are either greater or less than the liabilities in that currency.

The following table shows the currency structure of assets and liabilities at 31 December 2020:

	KZT ‘000 KZT	USD ‘000 KZT	EUR ‘000 KZT	Other currencies ‘000 KZT	Total ‘000 KZT
Assets					
Cash and cash equivalents	189,859,126	52,411,842	73,628	441,541	242,786,137
Placements with banks and other financial institutions	121,609,724	144,162	25,616	-	121,779,502
Loans to banks	124,810,690	-	-	-	124,810,690
Loans to customers	947,611,605	898,304,610	-	-	1,845,916,215
Finance lease receivables**	326,539,861	-	-	-	326,539,861
Debt securities	13,973,782	195,283,897	-	-	209,257,679
Equity investments	14,841,000	-	-	-	14,841,000
Advances paid under finance lease agreements	123,158,997	-	-	-	123,158,997
Assets to be transferred under finance lease agreements	27,855,425	-	-	-	27,855,425
Investment property	222,507	-	-	-	222,507
Property, plant and equipment and intangible assets	5,991,289	-	-	-	5,991,289
Other assets	22,995,816	8,286,630	45,335	-	31,327,781
Current tax asset	963,526	-	-	-	963,526
Deferred tax asset	1,040,108	-	-	-	1,040,108
Derivative financial instruments*	668,474	-	-	-	668,474
Total assets	1,922,141,930	1,154,431,141	144,579	441,541	3,077,159,191
Liabilities					
Current accounts and deposits from customers	11,073,483	4,720,253	13	-	15,793,749
Loans from SWF “Samruk-Kazyna”	27,966,887	-	-	-	27,966,887
Loans from the Parent Company	227,596,965	-	-	-	227,596,965
Loans and deposits from banks and other financial institutions	26,362,524	599,892,271	-	13,753,174	640,007,969
Government grants	261,838,993	-	-	-	261,838,993
Debt securities issued	674,898,934	566,113,781	-	-	1,241,012,715
Subordinated debt	111,163,010	-	-	-	111,163,010
Reserves	2,475,613	349,825	-	-	2,825,438
Other liabilities	25,923,890	21,738,902	59,740	18,579	47,741,111
Derivative financial instruments*	-	842,304	-	-	842,304
Total liabilities	1,369,300,299	1,193,657,336	59,753	13,771,753	2,576,789,141
Net on balance sheet positions as at 31 December 2020	552,841,631	(39,226,195)	84,826	(13,330,212)	500,370,050
Notional amount of derivative liabilities as at 31 December 2020*	(9,382,500)	21,045,500	-	-	11,663,000
Net on and off balance sheet positions as at 31 December 2020	543,459,131	(18,180,695)	84,826	(13,330,212)	512,033,050

The following table shows the currency structure of assets and liabilities at 31 December 2019:

	KZT ‘000 KZT	USD ‘000 KZT	EUR ‘000 KZT	Other currencies ‘000 KZT	Total ‘000 KZT
Assets					
Cash and cash equivalents	108,913,385	32,782,304	2,084,004	394,045	144,173,738
Placements with banks and other financial institutions	89,054,409	-	2,451,334	57,135	91,562,878
Loans to banks	110,945,839	-	-	-	110,945,839
Loans to customers	806,353,148	800,381,034	11,470,282	-	1,618,204,464
Finance lease receivables**	190,340,340	-	-	-	190,340,340
Debt securities	41,271,003	184,195,055	-	-	225,466,058
Equity investments	19,506,343	-	-	-	19,506,343
Advances paid under finance lease agreements	133,273,093	-	-	-	133,273,093
Assets to be transferred under finance lease agreements	14,822,012	-	-	-	14,822,012
Investment property	227,181	-	-	-	227,181
Property, plant and equipment and intangible assets	5,951,423	-	-	-	5,951,423
Other assets	18,014,762	8,036,711	257	5,036	26,056,766
Current tax asset	124,719	-	-	-	124,719
Derivative financial instruments*	676,316	-	-	-	676,316
Total assets	1,539,473,973	1,025,395,104	16,005,877	456,216	2,581,331,170
Liabilities					
Current accounts and deposits from customers	11,143,517	4,291,790	1,801,000	-	17,236,307
Loans from SWF “Samruk-Kazyna”	26,986,268	-	-	-	26,986,268
Loans from the Parent Company	175,228,967	-	-	-	175,228,967
Loans and deposits from banks and other financial institutions	15,195,999	498,434,761	10,715,626	15,948,983	540,295,369
Government grants	210,933,386	-	-	-	210,933,386
Debt securities issued	502,340,634	549,203,634	-	-	1,051,544,268
Subordinated debt	104,534,649	-	-	-	104,534,649
Reserves	5,940,728	1,622,815	-	-	7,563,543
Other liabilities	24,062,778	3,824,629	19,053	10,068	27,916,528
Deferred tax liability	198,412	-	-	-	198,412
Derivative financial instruments*	-	262,625	-	-	262,625
Total liabilities	1,076,565,338	1,057,640,254	12,535,679	15,959,051	2,162,700,322
Net on balance sheet positions as at 31 December 2019	462,908,635	(32,245,150)	3,470,198	(15,502,835)	418,630,848
Notional amount of derivative liabilities as at 31 December 2019*	(9,382,500)	19,129,500	-	-	9,747,000
Net on and off balance sheet positions as at 31 December 2019	453,526,135	(13,115,650)	3,470,198	(15,502,835)	428,377,848

*The notional amounts and fair value adjustments of the derivative financial instruments are presented separately as off balance and on balance components, respectively, for better presentation of net positions in foreign currencies that is used as a basis for sensitivity analysis.

** Finance lease receivables for the year ended 31 December 2020 comprise the amount of embedded derivative of KZT 2,617,752 thousand (31 December 2019: KZT 6,651,931 thousand).

An analysis of sensitivity of profit or loss for the year and equity to changes in the foreign currency exchange rates based on positions, and embedded derivatives, existing as at 31 December 2020 and 2019 and a simplified scenario of change in US Dollar, Euro and other currencies to Kazakhstan Tenge exchange rates is as follows:

	2020		2019	
	Profit or loss	Equity	Profit or loss	Equity
20% appreciation of USD against KZT	(2,908,911)	(2,908,911)	(2,098,504)	(2,098,504)
5% depreciation of USD against KZT	727,228	727,228	524,626	524,626
20% appreciation of EUR against KZT	13,572	13,572	555,232	555,232
5% depreciation of EUR against KZT	(3,393)	(3,393)	(138,808)	(138,808)
20% appreciation of other currencies against KZT	(2,132,834)	(2,132,834)	(2,480,454)	(2,480,454)
5% depreciation of other currencies against KZT	533,208	533,208	620,113	620,113

This analysis is on a net-of-tax basis, and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

(c) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has developed policies and procedures for the management of credit exposures (both for on balance position and off balance position exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. Loans to customers, finance lease receivables, placements with banks and other financial institutions, amounts receivable under reverse repurchase agreements, debt securities at FVOCI and accounts receivable are subject to credit risk. The Group's exposure is monitored on an ongoing basis.

The credit policy establishes:

- procedures for review and approval of loan credit applications;
- methodology for the credit assessment of borrowers (corporate and retail);
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis, focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Department and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Legal, Accounting and Tax Departments, depending on the specific risks and pending final approval of the Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. Revaluation procedures are based on analysis of the financial statements of the borrower as at the latest reporting date, or other information provided by the borrower itself or otherwise obtained by the Group.

Apart from individual customer analysis, the credit portfolio is assessed by the departments responsible for risk management with regard to credit concentration and market risks.

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

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

	2020	2019
	‘000 KZT	‘000 KZT
ASSETS		
Cash and cash equivalents	242,786,137	144,173,536
Placements with banks and other financial institutions	121,779,502	91,562,878
Loans to banks	124,810,690	110,945,839
Loans to customers	1,845,916,215	1,618,204,464
Finance lease receivables	326,539,861	190,340,340
Debt securities	209,257,679	225,466,058
Advances paid under finance lease agreements	123,158,997	133,273,093
Other financial assets	22,757,613	23,716,432
Derivative financial instruments	11,489,170	10,160,691
Total maximum exposure	3,028,495,864	2,547,843,331

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 34.

Offsetting financial assets and liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group’s consolidated statement of financial position, or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below unless they are offset in the statement of financial position.

The Group’s derivative transactions that are not transacted on the exchange are entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed, and only a single net amount is due or payable in settlement transactions.

The Group’s sale and repurchase, reverse sale and repurchase transactions, and securities borrowings and lendings are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

The above ISDA and similar master netting arrangements do not meet the criteria for offsetting in the consolidated statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties. In addition the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The following table provides information on financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2020:

‘000 KZT

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial asset/liability offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
				Financial instruments (including non-cash collateral)	Cash collateral (received)/pledged	
Financial assets						
Reverse repurchase agreements with original maturities of less than three months	24,345,200	-	24,345,200	(24,338,488)	-	6,712
Loans to customers	13,424,436	-	13,424,436	-	(2,807,162)	10,617,274
Other financial assets	22,348,856	-	22,348,856	(8,887,233)	(10,225,000)	3,236,623
Total financial assets	60,118,492	-	60,118,492	(33,225,721)	(13,032,162)	13,860,609
Financial liabilities						
Current accounts and deposits from customers	(13,032,162)	-	(13,032,162)	13,032,162	-	-
Debt securities issued	(8,887,233)	-	(8,887,233)	8,887,233	-	-
Total financial liabilities	(21,919,395)	-	(21,919,395)	21,919,395	-	-

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2019:

‘000 KZT

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial asset/liability offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
				Financial instruments (including non-cash collateral)	Cash collateral (received)/pledged	
Financial assets						
Reverse repurchase agreements with original maturities of less than three months	6,962,855	-	6,962,855	(6,962,855)	-	-
Loans to customers	12,106,347	-	12,106,347	-	(2,604,700)	9,501,647
Other financial assets	22,346,686	-	22,346,686	(8,015,719)	(10,225,000)	4,105,967
Total financial assets	41,415,888	-	41,415,888	(14,978,574)	(12,829,700)	13,607,614
Financial liabilities						
Current accounts and deposits from customers	(12,829,700)	-	(12,829,700)	12,829,700	-	-
Debt securities issued	(8,015,719)	-	(8,015,719)	8,015,719	-	-
Total financial liabilities	(20,845,419)	-	(20,845,419)	20,845,419	-	-

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position on the following basis:

- derivative assets and liabilities – fair value;
- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing – amortised cost. The amounts in the above tables that are offset in the consolidated statement of financial position are measured on the same basis.

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched, since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Management Board of the Group has approved Liquidity Management Rules to determine methods and procedures to manage liquidity.

The liquidity management rules require:

- projecting cash flows by major currencies and taking into account the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flows;
- maintaining liquidity and funding contingency plans.

The Treasury receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The daily liquidity position is monitored and is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a monthly basis. Decisions on liquidity management are made by ALCO.

The following table shows liabilities on a consolidated basis by remaining contractual maturity dates as at 31 December 2020. Unrecognised commitments are discussed in Note 34.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total	Carrying amount
	‘000 KZT	‘000 KZT	‘000 KZT	‘000 KZT	‘000 KZT	‘000 KZT	‘000 KZT
Non-derivative financial liabilities							
Current accounts and deposits from customers	988,543	-	225,000	2,713,264	16,349,442	20,276,249	15,793,749
Loans from SWF “Samruk-Kazyna”	-	-	12,915,163	27,809	17,815,899	30,758,871	27,966,887
Loans from the Parent Company	9,750	1,206,542	1,687,282	4,082,029	476,543,532	483,529,135	227,596,965
Loans and deposits from banks and other financial institutions	20,247,901	2,274,429	19,142,116	41,034,809	680,002,852	762,702,107	640,007,969
Debt securities issued	6,180,350	7,294,506	35,920,608	49,395,464	1,692,282,014	1,791,072,942	1,241,012,715
Subordinated debt	-	118,243	75,000	193,243	370,305,799	370,692,285	111,163,010
Other financial liabilities	1,036,830	585,842	47,972	205,549	20,240,955	22,117,148	22,117,148
Derivative financial instruments							
Addition	(21,045,500)	-	-	-	-	(21,045,500)	(11,489,170)
Disposal	9,382,500	-	-	-	-	9,382,500	-
Total liabilities	16,800,374	11,479,562	70,013,141	97,652,167	3,273,540,493	3,469,485,737	2,274,169,273
Credit related commitments	75,039,369	43,741,179	6,513,770	26,662,395	58,261,700	210,218,413	-

The Group assumes that will be able to obtain sufficient funding from a variety of sources, mainly being drawings on unutilised credit facilities opened by foreign banks and loans from the Parent Company in case of claims under any commitments. Moreover, the Group on a constant basis makes assessments of liquidity risk to avoid any payment shortfalls.

The following table shows liabilities on a consolidated basis by remaining contractual maturity dates as at 31 December 2019. Unrecognised commitments are discussed in Note 34.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total	Carrying amount
	‘000 KZT	‘000 KZT	‘000 KZT	‘000 KZT	‘000 KZT	‘000 KZT	‘000 KZT
Non-derivative financial liabilities							
Current accounts and deposits from customers	2,815,467	-	225,000	745,687	18,832,653	22,618,807	17,236,307
Loans from SWF “Samruk-Kazyna”	-	-	374,350	40,683	30,758,871	31,173,904	26,986,268
Loans from the Parent Company	9,750	1,192,458	874,867	2,073,600	365,840,820	369,991,495	175,228,967
Loans and deposits from banks and other financial institutions	16,123,012	1,485,655	15,543,193	38,946,638	590,439,030	662,537,528	540,295,369
Debt securities issued	3,230,350	3,823,142	69,728,770	137,279,845	1,206,003,257	1,420,065,364	1,051,544,268
Subordinated debt	-	118,243	75,000	193,243	370,692,285	371,078,771	104,534,649
Other financial liabilities	2,083,842	6,351	64,333	877,615	262,201	3,294,342	3,294,342
Derivative financial instruments							
Addition	-	-	-	(19,129,500)	-	(19,129,500)	(10,160,691)
Disposal	-	-	-	9,382,500	-	9,382,500	-
Total liabilities	24,262,421	6,625,849	86,885,513	170,410,311	2,582,829,117	2,871,013,211	1,908,959,479
Credit related commitments	304,247,168	2,440,696	45,097,269	71,001,493	6,308,718	429,095,344	-

(e) Maturity

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2020.

	On demand ‘000 KZT	Less than 1 month ‘000 KZT	From 1 to 3 months ‘000 KZT	From 3 months to 1 year ‘000 KZT	From 1 to 5 years ‘000 KZT	More than 5 years ‘000 KZT	No maturity ‘000 KZT	Overdue ‘000 KZT	Total ‘000 KZT
Assets									
Cash and cash equivalents	218,440,937	24,345,200	-	-	-	-	-	-	242,786,137
Placements with banks and other financial institutions	-	104,762,109	-	16,870,258	147,135	-	-	-	121,779,502
Loans to banks	-	-	-	-	1,916,208	122,894,482	-	-	124,810,690
Loans to customers	-	542,493	20,732,441	76,798,435	477,049,191	1,264,370,167	-	6,423,488	1,845,916,215
Finance lease receivables	-	4,728,245	6,454,673	43,286,910	155,320,068	112,095,471	-	4,654,494	326,539,861
Debt securities	-	10,945,383	-	44,178	7,673,095	190,595,023	-	-	209,257,679
Equity investments	-	-	-	-	-	-	14,841,000	-	14,841,000
Investment property	-	-	-	-	-	-	222,507	-	222,507
Property, plant and equipment and intangible assets	-	-	-	-	-	-	5,991,289	-	5,991,289
Advances paid under finance lease agreements	-	494,361	36,439,172	22,786,261	63,439,203	-	-	-	123,158,997
Assets to be transferred under finance lease agreements	-	1,039,023	18,703,788	8,112,614	-	-	-	-	27,855,425
Other assets	486,628	6,731,286	150,033	298,031	22,432,860	-	1,221,685	7,258	31,327,781
Current tax asset	-	-	30	963,496	-	-	-	-	963,526
Deferred tax asset	-	-	-	-	-	1,040,108	-	-	1,040,108
Derivative financial instruments	-	-	-	-	11,489,170	-	-	-	11,489,170
Total assets	218,927,565	153,588,100	82,480,137	169,160,183	739,466,930	1,690,995,251	22,276,481	11,085,240	3,087,979,887

	On demand ‘000 KZT	Less than 1 month ‘000 KZT	From 1 to 3 months ‘000 KZT	From 3 months to 1 year ‘000 KZT	From 1 to 5 years ‘000 KZT	More than 5 years ‘000 KZT	No maturity ‘000 KZT	Overdue ‘000 KZT	Total ‘000 KZT
Liabilities									
Current accounts and deposits from customers	763,543	-	-	2,263,264	10,226,946	2,539,996	-	-	15,793,749
Loans from SWF “Samruk-Kazyna”	-	-	-	12,306,991	13,459,146	2,200,750	-	-	27,966,887
Loans from the Parent Company	-	-	-	-	-	227,596,965	-	-	227,596,965
Loans and deposits from banks and other financial institutions	-	73,962	1,729,928	2,448,989	242,446,844	393,308,246	-	-	640,007,969
Government grants	-	1,154,261	2,233,873	9,212,063	55,706,901	193,531,895	-	-	261,838,993
Debt securities issued	-	-	-	803,056	855,746,006	384,463,653	-	-	1,241,012,715
Subordinated debt	-	-	-	-	-	111,163,010	-	-	111,163,010
Other liabilities	1,146,624	1,659,085	12,050,202	11,091,392	20,831,959	961,849	-	-	47,741,111
Reserves	-	-	845,539	1,651,068	328,831	-	-	-	2,825,438
Total liabilities	1,910,167	2,887,308	16,859,542	39,776,823	1,198,746,633	1,315,766,364	-	-	2,575,946,837
Net position as at 31 December 2020	217,017,398	150,700,792	65,620,595	129,383,360	(459,279,703)	375,228,887	22,276,481	11,085,240	512,033,050

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2019.

	On demand ‘000 KZT	Less than 1 month ‘000 KZT	From 3 months to 1 year			From 1 to 5 years ‘000 KZT	More than 5 years ‘000 KZT	No maturity ‘000 KZT	Overdue ‘000 KZT	Total ‘000 KZT
			From 1 to 3 months ‘000 KZT	From 3 months to 1 year ‘000 KZT	From 1 to 5 years ‘000 KZT					
Assets										
Cash and cash equivalents	137,210,883	6,962,855	-	-	-	-	-	-	-	144,173,738
Placements with banks and other financial institutions	-	79,058,725	706,505	11,650,453	147,195	-	-	-	-	91,562,878
Loans to banks	-	-	11,091,395	83,269,443	2,240,003	108,705,836	-	-	-	110,945,839
Loans to customers	-	-	-	-	259,144,279	1,262,524,787	-	-	2,174,560	1,618,204,464
Finance lease receivables	-	1,393,988	3,937,677	18,120,139	72,628,477	93,315,341	-	-	944,718	190,340,340
Debt securities	-	-	-	25,063,209	23,670,745	176,732,104	-	-	-	225,466,058
Equity investments	-	-	-	-	-	-	19,506,343	-	-	19,506,343
Investment property	-	-	-	-	-	-	227,181	-	-	227,181
Property, plant and equipment and intangible assets	-	-	-	-	-	-	5,951,423	-	-	5,951,423
Advances paid under finance lease agreements	-	732,365	3,388,197	82,552,621	46,599,910	-	-	-	-	133,273,093
Assets to be transferred under finance lease agreements	-	8,524,332	1,098,475	1,476,174	3,723,031	-	-	-	-	14,822,012
Other assets	467,704	272,664	298,658	1,361,340	7,223,974	15,158,252	1,270,041	4,133	-	26,056,766
Current tax asset	-	-	124,719	-	-	-	-	-	-	124,719
Derivative financial instruments	-	-	-	10,160,691	-	-	-	-	-	10,160,691
Total assets	137,678,587	96,944,929	20,645,626	233,654,070	415,377,614	1,656,436,320	26,954,988	3,123,411	2,590,815,545	

	On demand ‘000 KZT	Less than 1 month ‘000 KZT	From 1 to 3 months ‘000 KZT	From 3 months □ to 1 year ‘000 KZT	From 1 to 5 years ‘000 KZT	More than 5 years ‘000 KZT	No maturity ‘000 KZT	Overdue ‘000 KZT	Total ‘000 KZT
Liabilities									
Current accounts and deposits from customers	-	-	-	295,687	1,816,400	12,533,753	-	-	17,236,307
Loans from SWF “Samruk- Kazyna”	-	-	-	-	24,606,101	2,380,167	-	-	26,986,268
Loans from the Parent Company	-	-	-	-	-	175,228,967	-	-	175,228,967
Loans and deposits from banks and other financial institutions	-	83,585	148,397	1,420,357	39,576,475	499,066,555	-	-	540,295,369
Government grants	-	803,940	846,251	7,169,126	30,476,648	171,637,421	-	-	210,933,386
Debt securities issued	-	-	-	138,539,064	687,048,274	225,956,930	-	-	1,051,544,268
Subordinated debt	-	-	-	-	-	104,534,649	-	-	104,534,649
Other liabilities	2,417,903	4,883,774	2,740,328	14,675,899	2,662,678	535,170	776	-	27,916,528
Reserves	-	8,533	2,445,563	3,920,335	1,189,112	-	-	-	7,563,543
Deferred tax liability	-	-	-	-	-	198,412	-	-	198,412
Total liabilities	5,008,370	5,779,832	6,180,539	166,020,468	787,375,688	1,192,072,024	776	-	2,162,437,697
Net position as at 31 December 2019	132,670,217	91,165,097	14,465,087	67,633,602	(371,998,074)	464,364,296	26,954,212	3,123,411	428,377,848

33 Capital management

The Group defines capital as its total equity measured in accordance with IFRS.

In accordance with legislation, as at 31 December 2020 and 2019 the Group was not subject to capital requirements set by the National Bank of the Republic of Kazakhstan.

The Group is subject to minimum capital and maximum debt-to-equity ratio requirements established by covenants under certain liabilities incurred by the Group. As at 31 December 2020 and 31 December 2019, the Group complied with all externally imposed capital adequacy requirements.

34 Credit related commitments

At any time, the Group has outstanding credit related commitments to extend credit. These credit related commitments take the form of approved loans and overdrafts, and are cancellable on certain conditions. The Group plans to fund these commitments with the issue of debt securities, loans from the Parent Company and a number of foreign counterparties.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced.

The amounts reflected in the table for letters of credit represent the maximum accounting loss that would be recognised at the consolidated statement of financial position date if counterparties failed completely to perform as contracted.

	2020 ‘000 KZT	2019 ‘000 KZT
Contracted amount		
Loan, credit line and finance lease commitments	204,832,389	420,524,901
Letters of credit, guarantees and other commitments related to settlement operations	5,386,024	8,570,443

The Group uses the same credit control and management policies in undertaking unrecognised commitments as it does for recognised operations.

As at 31 December 2020, included in loan, credit line and finance lease commitments related to settlement operations is the amount of KZT 48,168,567 thousand, related to four borrowers (2019: KZT 270,704,270 thousand, related to ten borrowers), which, if aggregated with current amount of loans in the amount of KZT 369,113,73 thousand (2019: KZT 932,697,752 thousand), carrying value will comprise a significant credit exposure.

The total outstanding credit related contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded.

35 Contingencies

(a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigations

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial conditions or the results of future operations.

(c) Taxation contingencies

The taxation system in Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities, in particular recognition of income, expenses and other items of the financial statements under IFRS. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges.

A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

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

36 Related party transactions

(a) Control relationships

As at 31 December 2020 and 31 December 2019 the Group's controlling party is National Management Holding "Baiterek" JSC. The party with ultimate control over the Group is the Government of the Republic of Kazakhstan.

Publicly available financial statements will be produced by the Group's Parent Company, however, no publicly available financial statements are produced by the Group's ultimate controlling party.

(b) Transactions with the members of the Board of Directors and the Management Board, Managing Directors

Total remuneration included in payroll and related taxes (refer to Note 11) is as follows:

	2020	2019
	‘000 KZT	‘000 KZT
Members of the Board of Directors and the Management Board, Managing Directors	816,704	824,927

The above amounts include cash benefits in respect of the members of the Board of Directors and the Management Board, Managing Directors.

(c) Transactions with other related parties

Other related parties comprise the State, national companies and organisations, including the National Bank of the Republic of Kazakhstan, the Ministry of Finance of the Republic of Kazakhstan, SWF "Samruk-Kazyna" and its subsidiaries.

The outstanding balances and the related average contractual interest rates as at 31 December 2020 and 2019 and related profit or loss amounts of transactions for the years ended 31 December 2020 and 2019 with other related parties are as follows.

31 December 2020

Statement of financial position

ASSETS

Cash and cash equivalents
Placements with banks and other financial institutions
Loans to customers
Finance lease receivables
Debt securities
Equity investments
Advances paid under finance lease agreements
Current tax asset
Other assets
Deferred tax assets
Derivative financial instruments

LIABILITIES

Current accounts and deposits from customers
Loans from SWF “Samruk-Kazyna”
Loans from the Parent Company
Loans and deposits from banks and other financial institutions
Government grants
Debt securities issued
Subordinated debt
Reserves
Other liabilities

	Parent Company		Other subsidiaries of the Parent Company		Other companies and state organisations		Total
	‘000 KZT	Average interest rate	‘000 KZT	Average interest rate	‘000 KZT	Average interest rate	‘000 KZT
-	-	-	-	-	139,506,705	-	139,506,705
-	-	-	25,722,872	7.50	-	-	25,722,872
-	-	-	134,042	-	467,753,389	8.86	467,887,431
-	-	-	193,566	-	197,784,202	6.00	197,977,768
-	-	-	-	-	16,608,246	0.38	16,608,246
-	-	-	14,841,000	-	-	-	14,841,000
-	-	-	-	-	36,078,383	-	36,078,383
-	-	-	-	-	963,526	-	963,526
6,614,284	-	-	22,351,193	-	452,497	-	29,417,974
-	-	-	-	-	1,040,108	-	1,040,108
-	-	-	11,489,170	-	-	-	11,489,170
-	-	-	10,591,260	9.00	116,755	-	10,708,015
-	-	-	-	-	27,966,887	0.27	27,966,887
227,596,965	0.13	-	-	-	-	-	227,596,965
-	-	-	16,067,732	1.00	-	-	16,067,732
-	-	-	1,070,889	-	260,768,104	-	261,838,993
144,183,028	11.80	-	16,463,932	6.90	272,822,694	10.20	433,469,654
104,171,061	0.15	-	-	-	6,991,949	0.01	111,163,010
-	-	-	-	-	841,685	-	841,685
-	-	-	933	-	9,768,661	-	9,769,594

2020	Parent Company	Other subsidiaries of the Parent Company	Other companies and state organisations	Total
	‘000 KZT	‘000 KZT	‘000 KZT	‘000 KZT
Profit				
Interest income calculated using the effective interest method	-	5,360,465	40,164,621	45,525,086
Other interest income	-	-	11,641,155	11,641,155
Interest expense	(25,290,719)	(3,209,741)	(32,307,422)	(60,807,882)
Fee and commission income	-	-	16,814	16,814
Fee and commission expense	(38,358)	-	(32,787)	(71,145)
Net foreign exchange gain	-	900	8,872,863	8,873,763
Net realised gain on debt securities at FVOCI	-	-	292,502	292,502
Net receipts from financial instruments at fair value through profit or loss	-	660,679	11,827	672,506
Net gain arising from derecognition of financial assets measured at amortised cost	-	-	216,855	216,855
Impairment losses on debt financial assets	-	(2,269,312)	(11,861,799)	(14,158,111)
Reversal of impairment allowance in relation to loan commitments issued and financial guarantee contracts	-	-	11,538	11,538
Impairment losses on other non-financial assets	-	-	(165)	(165)
Other income	-	1,169,685	29,084,675	30,254,360
General administrative expenses	-	(2,273)	(822,855)	(825,128)
Income tax expense	-	-	(869,805)	(869,805)

During the year ended 31 December 2020 the amount of KZT 40,590,502 thousand was transferred to profit or loss to compensate the Group's losses incurred as a result of issuance of loans at lower than market rates in accordance with the conditions of the Government Programs (Note 26).

31 December 2019	Parent Company		Company		organisations		Total
	‘000 KZT	Average interest rate	‘000 KZT	Average interest rate	‘000 KZT	Average interest rate	
Statement of financial position							
ASSETS							
Cash and cash equivalents	-	-	-	-	94,460,709	-	94,460,709
Placements with banks and other financial institutions	-	-	56,491,019	7.75	-	-	56,491,019
Loans to customers	-	-	134,042	-	410,512,690	7.56	410,646,732
Finance lease receivables	-	-	233,182	-	92,560,886	5.91	92,794,068
Debt securities	-	-	-	-	47,067,921	1.51	47,067,921
Equity investments	-	-	19,506,343	-	-	-	19,506,343
Advances paid under finance lease agreements	-	-	-	-	58,671,872	-	58,671,872
Current tax asset	-	-	-	-	124,719	-	124,719
Other assets	42,579	-	22,269,348	-	496,874	-	22,808,801
Derivative financial instruments	-	-	10,012,213	-	-	-	10,012,213
LIABILITIES							
Current accounts and deposits from customers	-	-	10,281,250	9.00	2,590,317	-	12,871,567
Loans from SWF “Samruk-Kazyna”	-	-	-	-	26,986,286	0.27	26,986,286
Loans from the Parent Company	175,228,967	0.14	-	-	-	-	175,228,967
Loans and deposits from banks and other financial institutions	-	-	15,195,999	1.00	-	-	15,195,999
Government grants	-	-	-	-	210,933,386	-	210,933,386
Debt securities issued	-	-	22,298,611	6.88	254,693,351	10.89	276,991,962
Subordinated debt	98,018,474	0.15	-	-	6,516,175	0.01	104,534,649
Reserves	-	-	-	-	4,489,511	-	4,489,511
Deferred tax liabilities	-	-	-	-	198,412	-	198,412
Other liabilities	-	-	157	-	5,716,947	-	5,717,104

2019	Parent Company	Other subsidiaries of the Parent Company	Other companies and state organisations	Total
	‘000 KZT	‘000 KZT	‘000 KZT	‘000 KZT
Profit				
Interest income calculated using the effective interest method	-	5,960,549	39,979,066	45,939,615
Other interest income	-	-	6,908,234	6,908,234
Interest expense	(18,824,039)	(3,426,704)	(24,987,751)	(47,238,494)
Fee and commission income	-	-	2,836,194	2,836,194
Fee and commission expense	(37,250)	-	(24,097)	(61,347)
Net foreign exchange loss	-	49,713	(3,815,307)	(3,765,594)
Net realised gain on debt securities at FVOCI	-	(78,614)	389,294	310,680
Net receipts from financial instruments at fair value through profit or loss	-	372,129	119,075	491,204
Impairment losses on debt financial assets	-	194,685	(34,091)	160,594
Impairment losses on loan commitments and financial guarantee contracts	-	-	(2,683,659)	(2,683,659)
Impairment losses on other non-financial assets	-	-	(5,451,754)	(5,451,754)
Other income		19,270	27,262,228	27,281,498
General administrative expenses	-	(2,573)	(800,998)	(803,571)
Income tax expense	-	-	(4,083,209)	(4,083,209)

During the year ended 31 December 2019 the amount of KZT 37,709,460 thousand was transferred to profit or loss to compensate the Group's losses incurred as a result of issuance of loans at lower than market rates in accordance with the conditions of the Government Programs (Note 27).

37 Analysis by segments

The Group has two reportable segments, as described below, which are the Group's main components. The components offer different types services, and are managed separately. For each of the segment, management of the Group reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- *Bank lending.* Includes financing of investment projects and export operations, interbank lending and other operations of the Bank, which is a national development institution.
- *Leasing activities.* Includes leases, which mainly represent leasing of machinery, equipment and vehicles that act as collateral.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies, of these consolidated financial statements. Management of the Group reviews discrete financial information for each of its segments, including measures of operating income, which do not include the effects of intercompany eliminations.

Information on operating segments is presented below.

‘000 KZT	Total		
	Bank lending	Leasing activities	For the year ended 31 December 2020
Interest income calculated using the effective interest method	174,915,776	6,474,423	181,390,199
Other interest income	8,222,840	24,669,020	32,891,860
Interest expense	(142,055,601)	(18,214,159)	(160,269,760)
Impairment losses on debt financial assets	(29,315,191)	(8,274,146)	(37,589,337)
Net non-interest income/(expense)	9,697,053	5,841,789	15,538,842
General administrative expenses	(5,804,982)	(1,430,849)	(7,235,831)
Income tax (expense)/benefit	(1,401,379)	1,105,134	(296,245)
Segments' financial performance	14,258,516	10,171,212	24,429,728

	Total		
	Bank lending	Leasing activities	31 December 2020
Segments assets	2,903,551,042	641,643,809	3,545,194,851
Segments liabilities	2,404,471,843	527,954,420	2,932,426,263

‘000 KZT	For the year ended		
	Bank lending	Leasing activities	31 December 2019
Interest income calculated using the effective interest method	156,613,877	7,462,011	164,075,888
Other interest income	5,932,402	17,223,820	23,156,222
Interest expense	(122,164,392)	(14,484,173)	(136,648,565)
Impairment losses on debt financial assets	(19,818,901)	(873,258)	(20,692,159)
Net non-interest expense	(1,828,234)	(4,332,154)	(6,160,388)
General administrative expenses	(5,965,346)	(1,361,092)	(7,326,438)
Income tax expense	(3,041,270)	(118,067)	(3,159,337)
Financial results of segments	9,728,136	3,517,087	13,245,223

	Total		
	Bank lending	Leasing activities	31 December 2020
Segments assets	2,487,182,012	453,981,898	2,941,163,910
Segments liabilities	2,058,252,870	365,556,041	2,423,808,911

Reconciliations of reportable segment net interest income and profit or loss may be presented as follows:

‘000 KZT	2020	2019
Reportable segment revenue	54,012,299	50,583,545
Consolidation effect	(369,743)	(222,090)
Total revenue	54,382,042	50,805,635
‘000 KZT	2020	2019
Reportable segment profit	24,429,728	13,245,223
Consolidation effect	(2,059,886)	(2,286,747)
Total profit	22,369,842	10,958,476

Consolidation effect occurs due to the fact that management of the Group reviews internal reports on a stand-alone basis.

Reconciliations of reportable segment total assets and total liabilities may be presented as follows:

‘000 KZT	2020	2019
Total assets for reportable segments	3,545,194,851	2,941,163,910
Consolidation effect	(457,214,964)	(350,348,365)
Total assets	3,087,979,887	2,590,815,545
‘000 KZT	2020	2019
Total liabilities for reportable segments	2,932,426,263	2,423,808,911
Consolidation effect	(356,479,426)	(261,371,214)
Total liabilities	2,575,946,837	2,162,437,697

Information about major customers and geographical areas

For the year ended 31 December 2020, there are no revenues from large customers individually exceed 10% of total revenue (31 December 2019: none).

The Group's assets are concentrated in the Republic of Kazakhstan and the Group derives income from operations mainly performed in the Republic of Kazakhstan.

38 Fair values of financial instruments

(a) Determining fair values

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

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

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

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

The following assumptions are used by management to estimate the fair values of financial instruments:

- Discount rates of 2.96% to 16.57% p.a. for USD and of 10.61% to 26.76% p.a. for KZT are used for discounting future cash flows on loans to customers (31 December 2019: 3.12% to 20.36% p.a. for USD and 10.06% to 30.09% p.a. for KZT).
- Discount rates of 2.09% p.a. for USD and 13.23% to 14.84% p.a. for KZT are used for discounting future cash flows on debt securities measured at amortised cost (31 December 2019: 3.67% p.a. for USD and 11.69% to 14.39% p.a. for KZT).
- Discount rate of 12.94% to 15.37% p.a. is used for discounting future cash flows on loans to banks (31 December 2019: 9.45% to 12.8% p.a.).
- Discount rates of 1.28% to 2.48% p.a. for USD and 10.80% to 11.83% p.a. for KZT are used for discounting future cash flows on debt securities issued (31 December 2019: 2.47% to 3.95% p.a. for USD and 10.49% to 10.77% p.a. for KZT).
- Discount rates of 11.76% to 13.23% p.a. are used for discounting future cash flows on subordinated debt (31 December 2019: 10.50% p.a. to 11.69% p.a.).
- Discount rates of 11.30% to 11.83% p.a. are used for discounting future cash flows on loans from the Parent Company (31 December 2019: 10.49% p.a. to 10.60% p.a.).
- Discount rates of 2.09% to 4.38% p.a. for foreign currency loans and 11.15% p.a. for KZT loans are used for discounting future cash flows on loans from banks and other financial institutions (31 December 2019: 2.44% to 5.58% p.a. foreign currency loans and 10.69% p.a. for KZT loans).
- Discount rates of 10.80% to 11.43% p.a. are used for discounting future cash flows on loans from SWF "Samruk-Kazyna" (31 December 2019: 10.56% to 10.77% p.a.).
- Discount rate of 11.25% p.a. is used to discount future cash flows on customers' deposits (31 December 2019: 10.64% p.a.).

(b) Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

The control framework implemented by the Group includes preparation of fair value measurements by the responsible front-office specialists and subsequent review by the Head of corresponding department. Specific controls implemented by the Group include:

- verification of observable pricing;
- a review and approval process for new models and changes to models involving the Head of the corresponding front-office;
- a review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous reporting period.

(i) Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value at 31 December 2020, by the level in the fair value hierarchy into which the fair value measurement is categorised: The amounts are based on the values recognised in the statement of financial position:

	Note	Level 1 ‘000 KZT	Level 2 ‘000 KZT	Level 3 ‘000 KZT	Total ‘000 KZT
Assets					
Debt securities	18	191,136,108	5,476,016	947,067	197,559,191
Loans to customers	16	-	-	79,061,993	79,061,993
Equity investments	20	-	-	14,841,000	14,841,000
Other assets	21	4,070	9,989	-	14,059
Derivative financial instruments	22	-	11,489,170	-	11,489,170
Embedded derivatives	17	-	-	2,617,752	2,617,752
		191,140,178	16,975,175	97,467,812	305,583,165

The table below analyses financial instruments measured at fair value as at 31 December 2019, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

	Note	Level 1 ‘000 KZT	Level 2 ‘000 KZT	Level 3 ‘000 KZT	Total ‘000 KZT
Assets					
Debt securities	18	180,447,309	33,346,230	929,906	214,723,445
Loans to customers	16	-	-	68,893,053	68,893,053
Equity investments	20	-	-	19,506,343	19,506,343
Other assets	21	3,913	57,973	-	61,886
Derivative financial instruments	22	-	10,160,691	-	10,160,691
Embedded derivatives	17	-	-	6,651,931	6,651,931
		180,451,222	43,564,894	95,981,233	319,997,349

The table below sets out information about significant unobservable inputs used at year end in the measuring financial instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2020:

Type of instrument	Fair value	Valuation technique	Significant unobservable inputs	Range of estimates (weighted average) for unobservable input	Fair value measurement sensitivity to unobservable inputs
Equity investments	14,841,000	Discounted cash flow	Discount rate	15.71-18.00%	Increase in discount rate would result in lower fair value
Loans to customers measured at fair value through profit or loss	79,061,993	Discounted cash flow	Discount rate	USD 2.84%, KZT: 13.90%-14.81%	Increase in discount rate would result in lower fair value
Embedded derivative	2,617,752	Option model	Volatility of FX rate	RUB: 8.31%	An increase in volatility would result in a higher fair value.
Debt securities measured at fair value through profit or loss	947,067	Discounted cash flow	Discount rate	13.59%	Increase in discount rate would result in lower fair value

The table below sets out information about significant unobservable inputs used at year end in the measuring financial instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2019:

Type of instrument	Fair value	Valuation technique	Significant unobservable inputs	Range of estimates (weighted average) for unobservable input	Fair value measurement sensitivity to unobservable inputs
Equity investments	19,506,343	Discounted cash flow	Discount rate	15.60-17.94%	Increase in discount rate would result in lower fair value
Loans to customers measured at fair value through profit or loss	68,893,053	Discounted cash flow	Discount rate	USD 5.26%, KZT: 12.60%-15.92%	Increase in discount rate would result in lower fair value
Embedded derivative	6,651,931	Option model	Volatility of FX rate	USD 2.07%, RUB: 4.89%	An increase in volatility would result in a higher fair value.
Debt securities measured at fair value through profit or loss	929,906	Discounted cash flow	Discount rate	10.52%	Increase in discount rate would result in lower fair value

The financial assets at FVOCI with fair values determined using valuation techniques that use observable inputs were classified into Level 2. Observable inputs included transaction prices in markets that are active for similar, but not identical, instruments and transaction prices in markets that are not active for identical instruments. Although all the instruments are listed on KASE, management believes that the market for these identical instruments is not active.

The Group applies discounted cash flow methodology in respect of valuation of impaired financial assets, for which fair values cannot be determined based on observable market inputs.

For impaired debt securities cash flow projections were based on publicly available information on expected post-restructuring payoff schedule for each respective type of security. Assumptions on discount rates were made based on issuers' credit risk premiums implied by market quotes of the issues on which the trades were not suspended.

Certain assets measured at FVOCI that do not have observable market prices and cannot be valued based on observable market inputs were also valued applying discounted cash flow methodology. Cash flow projections for these securities were derived from contractual payment schedules. Assumptions regarding discount rates were made based on quoted prices in active markets of similar instruments of an issuer with adjacent credit rating adjusted to the difference in credit ratings.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as at 31 December 2020:

	Loans to customers measured at fair value through profit or loss	Debt securities measured at fair value through profit or loss	Equity investments	Embedded derivative
	'000 KZT	'000 KZT	'000 KZT	'000 KZT
Balance at 1 January	68,893,053	929,906	19,506,343	6,651,931
Total gains or losses:				
- net gain recognised in profit or loss	10,070,933	234,855	960,312	2,103,761
Other comprehensive income	-	-	(459,387)	-
Repayments	(11,540,129)	(217,694)	(5,166,268)	(2,062,612)
Acquisition	11,638,136	-	-	-
Settlement of receivables	-	-	-	(4,196,970)
Acquisition as part of finance lease receivable	-	-	-	121,642
Balance at 31 December	79,061,993	947,067	14,841,000	2,617,752

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as at 31 December 2019:

	Loans to customers measured at fair value through profit or loss	Debt securities measured at fair value through profit or loss	Equity investments	Embedded derivative
	'000 KZT	'000 KZT	'000 KZT	'000 KZT
Balance at 1 January	38,256,025	862,486	9,152,911	3,834,190
Total gains or losses:				
- net gain recognised in profit or loss	2,823,385	81,491	-	3,223,329
Other comprehensive income	-	-	218,756	-
Repayments	(1,979,804)	(14,071)	-	(497,200)
Acquisition	29,793,447	-	10,134,676	-
Acquisition as part of finance lease receivable	-	-	-	91,612
Balance at 31 December	68,893,053	929,906	19,506,343	6,651,931

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects as at 31 December 2020:

‘000 KZT	Effect on profit or loss		Effect on other comprehensive income	
	Favourable	Unfavourable	Favourable	Unfavourable
Debt securities	25,341	(24,467)	-	-
Equity investments	-	-	1,484,100	(1,484,100)
Loans to customers	2,002,322	(1,908,028)	-	-
Finance lease receivables				
- Embedded derivative	578,187	(420,457)	-	-
Total	2,605,850	(2,352,952)	1,484,100	(1,484,100)

For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects as at 31 December 2019:

‘000 KZT	Effect on profit or loss		Effect on other comprehensive income	
	Favourable	Unfavourable	Favourable	Unfavourable
Debt securities	63,765	(58,332)	-	-
Equity investments	-	-	1,950,634	(1,950,634)
Loans to customers	2,246,277	(2,128,439)	-	-
Finance lease receivables				
- Embedded derivative	527,727	(461,798)	-	-
Total	2,837,769	(2,648,569)	1,950,634	(1,950,634)

The favourable and unfavourable effects of using reasonably possible alternative assumptions are calculated by recalibrating the model values:

- for embedded derivatives: using unobservable inputs based on averages of the upper and lower quartiles respectively of the Group’s ranges of possible estimates. Key inputs and assumptions used in the models as at 31 December 2020 and 31 December 2019:
 - Changing the volatility of USD/RUB exchange rates by 50%;
 - Changing in spread between risk-free rates in KZT and USD/RUB by 0.5;
 - Changing the estimated discount rate by 100 basis points.
- for loans to customers measured at FVTPL: decrease and increase of the discount rate by 1%;
- for derivatives: increase of the estimated transaction terms by 3 months and decrease of the estimated transaction terms by 3 months;
- for equity investments: changes of expected cash flows by 10%;
- for debt securities: changes of the discount rate by 100 bp.

(ii) Financial instruments not measured at fair value

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2020:

‘000 KZT	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
ASSETS					
Cash and cash equivalents	-	242,786,137	-	242,786,137	242,786,137
Placements with banks and other financial institutions	-	121,779,502	-	121,779,502	121,779,502
Loans to banks	-	98,944,557	2,212,775	101,157,332	124,810,690
Loans to customers	-	1,638,292,924	50,517,944	1,688,810,868	1,766,854,222
Finance lease receivables (except for embedded derivative)	-	248,516,216	8,513,219	257,029,435	323,922,109
Debt securities	-	5,452,199	871,369	6,323,568	11,698,488
Other financial assets	-	25,343,870	50,270	25,394,140	22,743,554
LIABILITIES					
Current accounts and deposits from customers	-	15,103,529	-	15,103,529	15,793,749
Loans from SWF “Samruk-Kazyna”	-	26,006,124	-	26,006,124	27,966,887
Loans from the Parent Company	-	205,553,456	-	205,553,456	227,596,965
Loans and deposits from banks and other financial institutions	-	639,528,510	-	639,528,510	640,007,969
Debt securities issued	829,038,190	472,537,152	-	1,301,575,342	1,241,012,715
Subordinated debt	-	55,717,217	-	55,717,217	111,163,010
Other financial liabilities	-	22,117,148	-	22,117,148	22,117,148

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2019:

‘000 KZT	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
ASSETS					
Cash and cash equivalents	-	144,173,738	-	144,173,738	144,173,738
Placements with banks and other financial institutions	-	91,562,878	-	91,562,878	91,562,878
Loans to banks	-	97,586,422	6,772,758	104,359,180	110,945,839
Loans to customers	-	1,443,892,491	43,202,677	1,487,095,168	1,549,311,411
Finance lease receivables (except for embedded derivative)	-	168,238,249	-	168,238,249	183,688,409
Debt securities	-	5,323,806	805,254	6,129,060	10,742,613
Other financial assets	-	24,822,803	37,402	24,860,205	23,654,546
LIABILITIES					
Current accounts and deposits from customers	-	16,682,203	-	16,682,203	17,236,307
Loans from SWF “Samruk-Kazyna”	-	23,999,733	-	23,999,733	26,986,268
Loans from the Parent Company	-	162,136,947	-	162,136,947	175,228,967
Loans and deposits from banks and other financial institutions	-	516,249,123	17,701,280	533,950,403	540,295,369
Debt securities issued	807,369,516	289,529,549	-	1,096,899,065	1,051,544,268
Subordinated debt	-	59,706,723	-	59,706,723	104,534,649
Other financial liabilities	-	3,294,342	-	3,294,342	3,294,342

The following tables show the valuation techniques used in measuring Level 3 fair values as at 31 December 2020:

Financial instruments not measured at fair value

Type of instrument	Valuation technique	Significant unobservable inputs
Loans to banks	Discounted cash flows	Expected cash flows
Loans to customers	Discounted cash flows	Expected cash flows
Finance lease receivables (except for embedded derivatives)	Discounted cash flows	Expected cash flows
Debt securities	Discounted cash flows	Expected cash flows
Other financial assets	Discounted cash flows	Expected cash flows

The following tables show the valuation techniques used in measuring Level 3 fair values as at 31 December 2019:

Financial instruments not measured at fair value

Type of instrument	Valuation technique	Significant unobservable inputs
Loans to banks	Discounted cash flows	Expected cash flows
Loans to customers	Discounted cash flows	Expected cash flows
Debt securities	Discounted cash flows	Expected cash flows
Other financial assets	Discounted cash flows	Expected cash flows
Loans and deposits from banks and other financial institutions	Discounted cash flows	Liquidity premium



Банк развития
Казахстана

Development Bank of Kazakhstan JSC

Consolidated Financial Statements

for the year ended

31 December 2019



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Independent Auditors' Report

To the Board of Directors of Development Bank of Kazakhstan JSC

Opinion

We have audited the consolidated financial statements of Development Bank of Kazakhstan JSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

«КПМГ Аудит» ЖШС, Қазақстанда тіркелген жауапкершілігі шектеулі серіктестік, Швейцария заңнамасы бойынша тіркелген KPMG International Cooperative ("KPMG International") қауымдастығына кіретін KPMG тәуелсіз фирмалар желісінің мүшесі.

KPMG Audit LLC, a company incorporated under the Laws of the Republic of Kazakhstan, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Key Audit Matters

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

Expected credit losses (ECL) for loans to customers

Please refer to the Notes 3(e)(iv), 4 and 16 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>Loans to customers measured at amortised cost represent more than 60% of total assets and are stated net of allowance for expected credit losses (ECL) that is estimated on a regular basis and is sensitive to assumptions used.</p> <p>Estimate of ECL allowance requires management to apply professional judgement and to make subjective assumptions related to the following key areas:</p> <ul style="list-style-type: none"> - timely identification of significant increase in credit risk and default events related to loans to customers (allocation between stages 1, 2 and 3 in accordance with IFRS 9 <i>Financial Instruments</i>); - assessment of probability of default (PD) and loss given default (LGD); - assessment of add-on adjustment to account for different scenarios and forward-looking information; - expected cash flows forecast for loans to customers classified in stage 3. 	<p>We analysed the key aspects of the Group's methodology and policies related to the ECL estimate for compliance with the requirements of IFRS 9, with the involvement of financial risks management specialists.</p> <p>To analyse the adequacy of professional judgement and assumptions made by the Group in relation to the allowance for ECL estimate, we performed the following:</p> <ul style="list-style-type: none"> - For a sample of loans to customers, for which potential changes in ECL estimate may have a significant impact on the consolidated financial statements, we tested whether stages are correctly assigned by the Group by analysing financial and non-financial information, as well as assumptions and professional judgements, applied by the Group; - Regarding loans issued to customers and assigned to stages 1 and 2, we tested the effectiveness of design and implementation of the models used as well as agreeing input data used in the models on a sample basis; - We also analysed the overall adequacy of the adjustment to account for various scenarios and forward-looking information and compared it with our estimates taking into account the current and future economic situation and operating conditions of borrowers included in relevant grades;

<p>Due to the significant volume of loans to customers and the related estimation uncertainty, this area is a key audit matter.</p>	<p>- For a sample of stage 3 loans we assessed adequacy of ECL allowance by critically assessing assumptions used by the Group to estimate expected cash flows, including estimated proceeds from realisation of collateral and their timing. We compared assumptions used by the Group for these loans with industry, financial and economic data from available public sources.</p> <p>We also assessed whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk.</p>
<p>Government Grants</p>	
<p>Please refer to Notes 3(q) and 28 in the consolidated financial statements.</p>	
Key audit matter	How the matter was addressed in our audit
<p>During 2019 the Group received loans from the Parent Company in the amount of KZT 94,546,000 thousand, that bore interest rates ranging from 0.08% p.a. to 0.15% p.a. At initial recognition these loans were recognised at fair values measured by applying relevant market interest rates to discount the contractual future cash flows.</p> <p>The difference between the fair value and the nominal value of the loans received of KZT 52,513,502 thousand was recognised as a government grant, which is subsequently amortised in profit or loss.</p> <p>We focused on the estimate of the fair value of the loans received due to significant judgment involved in arriving at the estimate.</p>	<p>Our audit procedures included assessing whether the difference between the fair value of the loan and consideration received represent government grant.</p> <p>We compared the management's estimates of market rates applied to calculate fair values of the loans received at below-market rates and compared them to available market information.</p> <p>We assessed the appropriateness of the methods used to amortise government grants.</p> <p>We also assessed whether the financial statement disclosures appropriately reflect the information in relation to government grants recognised in the consolidated financial statements.</p>

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of the Group for 2019 but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report of the Group for 2019 is expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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





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



Assel Urdabayeva
Certified Auditor
of the Republic of Kazakhstan
Auditor's Qualification Certificate
MΦ-0000096 of 27 August 2012

KPMG Audit LLC

State Licence to conduct audit No.0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan




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

17 March 2020

		For the year ended 31 December 2019	For the year ended 31 December 2018
	Note	'000 KZT	'000 KZT
Interest income calculated using the effective interest method	5	144,098,438	147,148,236
Other interest income	5	30,354,669	23,947,251
Interest expense	5	(123,647,472)	(121,868,101)
Net interest income		50,805,635	49,227,386
Fee and commission income	6	3,699,481	643,692
Fee and commission expense	6	(3,010,132)	(1,762,906)
Net fee and commission income/(expense)		689,349	(1,119,214)
Net foreign exchange loss	7	(1,487,076)	(1,524,503)
Net realised loss on debt securities at fair value through other comprehensive income		(61,823)	(46,841)
Net gain/(loss) on financial instruments at fair value through profit or loss	8	936,632	(3,369,211)
Net loss resulting from derecognition of financial assets measured at amortised cost	15	(1,550,426)	-
Other expenses, net	9	(1,996,581)	(1,018,584)
Operating income		47,335,710	42,149,033
Impairment loss on debt financial assets	10	(20,907,251)	(20,832,046)
Reversal of impairment allowance/(impairment loss) in relation to loan commitments issued and financial guarantee contracts	10	1,744,902	(1,114,450)
Impairment loss on other non-financial assets	10	(5,927,239)	(160,976)
General administrative expenses	11	(7,204,437)	(6,729,594)
Profit before income tax		15,041,685	13,311,967
Income tax expense	12	(4,083,209)	(10,068,159)
Profit for the year		10,958,476	3,243,808
Other comprehensive income/(loss)			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Movement in fair value reserve (debt instruments):			
Net change in fair value		5,296,345	(5,115,316)
Net amount reclassified to profit or loss		61,823	46,841
Other comprehensive income/(loss) for the year		5,358,168	(5,068,475)
Total comprehensive income/(loss) for the year		16,316,644	(1,824,667)

The consolidated financial statements as set out on pages 9 to 110 were approved by the Management Board of the Bank on 17 March 2020 and were signed on its behalf by:

 Документ подписан с помощью ЭЦП: МАМЕКОВА САУЛЕ 29.04.2020 18:38; САРКУЛОВ АБАЙ 30.04.2020 13:12

Abay Serikovich Sarkulov
Chairman of the Management Board

Saule Mamyrovna Mamekova
Chief Accountant

Лист согласования

29.04.2020 18:33:51	Бапанова Г.Н.: СОГЛАСЕН (Заместитель Главного бухгалтера - Начальник управления)
29.04.2020 18:35:48	Мамекова С.М.: ПОДПИСАЛ (Директор департамента - Главный бухгалтер)
30.04.2020 13:12:04	Саркулов А.С.: ПОДПИСАЛ (Председатель Правления)

Development Bank of Kazakhstan JSC
Consolidated Statement of Financial Position as at 31 December 2019

		31 December 2019	31 December 2018
	Note	‘000 KZT	‘000 KZT
ASSETS			
Cash and cash equivalents	13	144,173,738	290,168,409
Placements with banks and other financial institutions	14	91,562,878	70,173,723
Loans to banks	15	110,945,839	57,350,911
Loans to customers	16	1,618,204,464	1,638,865,153
Finance lease receivables	17	190,340,340	113,323,460
Debt securities	18	225,466,058	238,373,507
Advances paid under finance lease agreements	19	133,273,093	70,677,802
Assets to be transferred under finance lease agreements	20	14,822,012	8,774,701
Equity investments	21	19,506,343	9,152,911
Investment property		227,181	319,438
Property, plant and equipment and intangible assets		5,951,423	5,363,879
Other assets	22	26,056,766	24,464,168
Current tax asset		124,719	501,029
Derivative financial instruments	23	10,160,691	9,099,781
Total assets		2,590,815,545	2,536,608,872
LIABILITIES			
Current accounts and deposits from customers	24	17,236,307	19,325,697
Loans from the Government of the Republic of Kazakhstan and SWF “Samruk-Kazyna” JSC	25	26,986,268	34,988,272
Loans and deposits from banks and other financial institutions	26	540,295,369	718,773,160
Loans from the Parent Company	27	175,228,967	121,561,866
Government grants	28	210,933,386	175,264,813
Debt securities issued	29	1,051,544,268	946,066,085
Subordinated debt	30	104,534,649	98,342,014
Other liabilities	31	27,916,528	28,858,832
Provisions	32	7,563,543	14,809,070
Deferred tax liabilities	33	198,412	2,584,716
Total liabilities		2,162,437,697	2,160,574,525
EQUITY			
Share capital	34	445,667,511	408,667,511
Revaluation reserve for changes in fair value of securities		(2,137,067)	(7,495,235)
Additional paid-in capital		28,423,220	28,423,220
Accumulated losses		(43,575,816)	(53,561,149)
Total equity		428,377,848	376,034,347
Total liabilities and equity		2,590,815,545	2,536,608,872

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Development Bank of Kazakhstan JSC
Consolidated Statement of Cash Flows for the year ended 31 December 2019

	2019	2018
	‘000 KZT	‘000 KZT
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	141,834,400	148,858,440
Interest payments	(99,792,950)	(100,274,710)
Fee and commission receipts	3,487,717	878,268
Fee and commission payments	(2,974,092)	(3,095,185)
Net (payments)/receipts from foreign exchange	(220,350)	866,428
Net receipts from financial instruments at fair value through profit or loss	558,114	120,384
Other income receipts, net	273,189	745,682
General administrative payments	(6,779,197)	(6,578,522)
	36,386,831	41,520,785
(Decrease)/increase in operating assets		
Placements with banks and other financial institutions	(21,431,841)	3,524,968
Loans to banks	(75,905,425)	6,933,861
Loans to customers	2,167,933	(50,832,391)
Finance lease receivables	13,865,518	11,399,909
Advances paid under finance lease agreements	(163,149,973)	(39,001,759)
Derivative financial instruments	(816,278)	45,057,219
Other assets	959,778	30,326,209
Increase/(decrease) in operating liabilities		
Current accounts and deposits from customers	(2,603,764)	(8,240,997)
Loans from the Government of the Republic of Kazakhstan and SWF “Samruk-Kazyna” JSC	(9,262,333)	(4,633,333)
Loans from the Parent Company	93,879,333	47,537,182
Government grants received as discount at a below-market rate on debt securities issued (Note 29)	17,096,041	-
Loans and deposits from banks and other financial institutions	(174,611,240)	(253,544,771)
Other liabilities	1,174,120	(2,209,874)
Net cash used in operating activities before income tax paid	(282,251,300)	(172,162,992)
Income tax paid	(6,093,203)	(9,950,277)
Cash flows used in operating activities	(288,344,503)	(182,113,269)

Development Bank of Kazakhstan JSC
Consolidated Statement of Cash Flows for the year ended 31 December 2019

	2019 ‘000 KZT	2018 ‘000 KZT
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equipment and intangible assets, investment property	(890,463)	(5,339,749)
Disposal of equipment and intangible assets	2,574	4,071
Acquisition of equity investments (Note 21)	(10,134,676)	(9,152,911)
Acquisition of debt securities	(169,639,637)	(123,333,892)
Disposal and redemption of debt securities	181,293,161	70,540,598
Cash flows from/(used in) investing activities	630,959	(67,281,883)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from shares issued (Note 34)	37,000,000	10,000,000
Proceeds from debt securities issued (Note 29)	101,387,959	100,000,000
Repurchase/redemption of debt securities issued (Note 29)	-	(31,246,530)
Dividends paid (Note 34)	(973,143)	(1,428,367)
Cash flows from financing activities	137,414,816	77,325,103
Net decrease in cash and cash equivalents	(150,298,728)	(172,070,049)
Effect of changes in exchange rates on cash and cash equivalents	4,291,672	9,655,001
Effect of changes in loss allowance on cash and cash equivalents	12,385	(12,385)
Cash and cash equivalents at the beginning of the year	290,168,409	452,595,842
Cash and cash equivalents at the end of the year (Note 13)	144,173,738	290,168,409

Development Bank of Kazakhstan JSC
Consolidated Statement of Changes in Equity for the year ended 31 December 2019

	Share capital ‘000 KZT	Revaluation reserve for financial assets reclassified from debt securities at fair value through other comprehensive income to loans to customers measured at amortised cost ‘000 KZT	Revaluation reserve for changes in fair value of securities ‘000 KZT	Additional paid-in capital ‘000 KZT	Accumulated losses ‘000 KZT	Total equity ‘000 KZT
Balance at 31 December 2017	398,667,511	914,412	(3,029,141)	28,423,220	(16,808,848)	408,167,154
Impact of adopting IFRS 9 at 1 January 2018	-	(914,412)	602,381	-	(24,975,059)	(25,287,090)
Restated balance as at 1 January 2018	398,667,511	-	(2,426,760)	28,423,220	(41,783,907)	382,880,064
Profit for the year	-	-	-	-	3,243,808	3,243,808
Other comprehensive loss						
<i>Items that are or may be reclassified subsequently to profit or loss:</i>						
Net change in fair value	-	-	(5,115,316)	-	-	(5,115,316)
Net amount reclassified to profit or loss	-	-	46,841	-	-	46,841
Total other comprehensive loss	-	-	(5,068,475)	-	-	(5,068,475)
Total comprehensive loss for the year	-	-	(5,068,475)	-	3,243,808	(1,824,667)
Transactions with owners, recorded directly in equity						
Shares issued (Note 34)	10,000,000	-	-	-	-	10,000,000
Dividends declared and paid (Note 34)	-	-	-	-	(1,428,367)	(1,428,367)
Discount on assets transferred to subsidiary of the Parent Company, net of tax of KZT 3,398,171 thousand (Note 22)	-	-	-	-	(13,592,683)	(13,592,683)
Total transactions with owners, recorded directly in equity	10,000,000	-	-	-	(15,021,050)	(5,021,050)
Balance at 31 December 2018	408,667,511	-	(7,495,235)	28,423,220	(53,561,149)	376,034,347

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

	Share capital '000 KZT	Revaluation reserve for changes in fair value of securities '000 KZT	Additional paid-in capital '000 KZT	Accumulated losses '000 KZT	Total equity '000 KZT
Balance as at 1 January 2019	408,667,511	(7,495,235)	28,423,220	(53,561,149)	376,034,347
Profit for the year	-	-	-	10,958,476	10,958,476
Other comprehensive loss					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Net change in fair value	-	5,296,345	-	-	5,296,345
Net amount reclassified to profit or loss	-	61,823	-	-	61,823
Total other comprehensive income	-	5,358,168	-	-	5,358,168
Total comprehensive income for the year	-	5,358,168	-	10,958,476	16,316,644
Transactions with owners, recorded directly in equity					
Shares issued (Note 34)	37,000,000	-	-	-	37,000,000
Dividends declared and paid (Note 34)	-	-	-	(973,143)	(973,143)
Total transactions with owners, recorded directly in equity	37,000,000	-	-	(973,143)	36,026,857
Balance at 31 December 2019	445,667,511	(2,137,067)	28,423,220	(43,575,816)	428,377,848

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

1 Background

(a) Principal activities

These consolidated financial statements include the financial statements of Development Bank of Kazakhstan JSC (the “Bank”) and its subsidiaries - DBK Leasing JSC and DBK Capital Structure Fund B.V. (together referred to as the “Group”).

Development Bank of Kazakhstan JSC was established in the Republic of Kazakhstan as a closed joint-stock company as defined in the Civil Code of the Republic of Kazakhstan, in accordance with the legislation of the Republic of Kazakhstan. The Bank was established in 2001 in accordance with the Law of the Republic of Kazakhstan “On the Development Bank of Kazakhstan” No.178-II dated 25 April 2001 (the “Law”). On 18 August 2003, the Bank underwent the state re-registration procedure due to change of its name – from Development Bank of Kazakhstan CJSC to Development Bank of Kazakhstan JSC. The Bank operates in accordance with the Law of the Republic of Kazakhstan dated 31 August 1995 “On Banks and Banking Activity in the Republic of Kazakhstan”, the Law of the Republic of Kazakhstan dated 13 May 2003 “On Joint-Stock Companies”, the Charter of the Development Bank of Kazakhstan JSC approved by the Resolution of the Management Board of National Management Holding “Baiterek” JSC No.41/14 dated 24 December 2014; Credit Policy Memorandum of the Development Bank of Kazakhstan JSC approved by the decisions of the Management Board of the National Managing Holding “Baiterek JSC No. 43/16 dated 27 October 2016, other legal acts of the Republic of Kazakhstan and internal regulations of the Bank.

The Bank is a national development institution. The main purpose of the Bank is to improve and increase the efficiency of state investment activity, promote the development of production infrastructure and processing industry and assist in attraction of external and internal investments to the national economy of the Republic of Kazakhstan.

The Bank’s registered office is: n.p. 15, 55A Mangilik El avenue, Yessil district, Nur-Sultan city, Republic of Kazakhstan.

As at 31 December 2019 the Bank is the parent company of two wholly owned subsidiaries (the “Subsidiaries”).

DBK-Leasing JSC was established on 6 September 2005 in accordance with legislation of the Republic of Kazakhstan. The principal activity of DBK-Leasing JSC is finance lease operations.

DBK Capital Structure Fund B.V. (a closed private limited company) was established in the Netherlands on 19 July 2017. The principal activity of DBK Capital Structure Fund B.V. is participation as a limited partner in the direct investment funds or other companies through cash payments for subsequent investing thereof in the charter capitals of the companies as part of financing of the investment projects of the Bank and DBK-Leasing.

Eurobonds issued by the Bank are listed on London Stock Exchange, Luxembourg Stock Exchange and Kazakhstan Stock Exchange (the “KASE”).

(b) Shareholders

As at 31 December 2012, the sole shareholder of the Bank was Sovereign Wealth Fund “Samruk-Kazyna” JSC (SWF “Samruk-Kazyna”). In accordance with the Decree of the President of the Republic of Kazakhstan No.136 dated 10 August 2011 “On Measures for Further Improvement of the Public Management System of the Republic of Kazakhstan” the entire block of ordinary shares of the Bank was transferred under trust management to the Ministry of Industry and New Technologies of the Republic of Kazakhstan.

In accordance with the Decree of the President of the Republic of Kazakhstan No.571 dated 22 May 2013 “On Certain Measures for Optimisation of the System of Management of the Development Institutions, Financial Organisations and for Development of the National Economy”, the entire block of ordinary shares of the Bank and risks and control associated therewith were transferred as a payment of the charter capital of the National Management Holding “Baiterek” JSC. As at 31 December 2019 the Group’s sole shareholder was National Management Holding “Baiterek” JSC (the “Parent Company” or “Baiterek”).

The ultimate controlling party is the Government of the Republic of Kazakhstan (the “Government”). Related party transactions are detailed in Note 39.

(c) Kazakhstan business environment

The Group’s operations are primarily located in Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan. In addition, the first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus. Together with other factors, this has resulted in a sharp decrease in the oil price and the stock market indices, as well as a continuing depreciation of the Kazakhstan Tenge. These developments are further increasing the level of uncertainty in the Kazakhstan business environment.

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

2 Basis of preparation

(a) Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”).

This is the first set of the Group’s annual financial statements where IFRS 16 *Leases* has been applied. Changes to significant accounting policies are described in Note 2(e).

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial assets measured at fair value through other comprehensive income and through profit or loss are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Group and its subsidiaries is the Kazakhstani tenge (“KZT”) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The KZT is also the presentation currency for the purposes of these consolidated financial statements. Financial information presented in KZT is rounded to the nearest thousand.

(d) Use of estimates and judgements

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

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

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the consolidated financial statements for the year ended 31 December 2019 is included in the following notes:

- Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 4;
- Initial recognition of the borrowings and investments under the state economic development programs in 2018-2019 – Notes 3(c), 5, 9, 15, 16, 27-29;
- Estimates of fair values of financial assets and liabilities – Note 41.

(e) Changes in accounting policies and presentation

IFRS 16 Leases

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

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

(i) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*.

The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3(t).

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

Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

(ii) As a lessee

The Group leases vehicles and equipment. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group.

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

Leases classified as operating leases under IAS 17

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets.

(iii) As a lessor

Generally, the accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16.

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

(iv) Impacts on financial statements

On transition to IFRS 16, the Group has no items to recognise additional right-of-use assets. The adoption of IFRS 16 did not have a material effect on the consolidated financial statements for the year ended 31 December 2019.

New amendments and interpretations

A number of new amendments and interpretations are effective from 1 January 2019, but they do not have a material effect on the Group's consolidated financial statements.

(f) Change in comparative information

The Group changed presentation of certain captions in the primary forms of the consolidated financial statements. Comparative information is reclassified to conform to changes in presentation in the current period.

The effect of main changes in presentation of the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019 is as follows:

- The presentation of impairment losses was amended to present impairment losses on other non-financial assets separately from other expenses.

The effect of the changes above on the consolidated statement of profit or loss and other comprehensive income is summarised in the table below:

'000 KZT	As previously reported	Effect of reclassifications	As reclassified
Other expenses, net	(1,179,560)	160,976	(1,018,584)
Impairment loss on other non-financial assets	-	(160,976)	(160,976)

3 Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group entities at the exchange rate at the dates of the transactions.

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

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

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

(c) Interest income and expense

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

The effective interest rate of a financial asset or a financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

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

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

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

Presentation

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

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at fair value through other comprehensive income.

Other interest income presented in the consolidated statement of profit or loss and other comprehensive income includes interest income on non-derivative debt financial instruments measured at fair value through profit or loss and net investments in finance leases.

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

(d) Fees and commission

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

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

The contract with a customer, which resulted in a financial instrument recognised in the consolidated financial statements of the Group may be partially within the scope of IFRS 9 and partially within the scope of IFRS 15. In this case, the Group first applies IFRS 9 to separate and measure the part of the contract, which is within the scope of IFRS 9 and then applies IFRS 15 to the remaining part of this contract.

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

(e) Financial assets and financial liabilities

(i) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- interest revenue using the effective interest method;
- expected credit losses (ECL) and reversals; and
- foreign exchange gains and losses.

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice, In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements);
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Non-recourse loans

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgement in assessing whether the non-recourse loans meet the SPPI criterion.

The Group typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

Reclassification

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

(ii) Derecognition

Financial assets

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

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

Financial liabilities

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

(iii) Modification of financial assets and financial liabilities

Financial assets

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

Any fees received as part of the modification are accounted for as follows:

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

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

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

- the change in the currency of a financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with SPPI criterion (e.g. inclusion of conversion feature).

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

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities

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

The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. The Group concludes that the modification is substantial as a result of the following qualitative factors:

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

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

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

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

(iv) Impairment

See also Note 4.

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

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

No impairment loss is recognised on equity investments.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments, other than purchased or originated credit-impaired assets, for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and 'Stage 3' financial instruments (if the financial instruments are credit-impaired).

Measurement of ECL

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

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

See also Note 4.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

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

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

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

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.

- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

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

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision;
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

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

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

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

(f) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship.

(g) Loans to customers

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

- loans to customers measured at amortised cost (see 3(e)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans to customers mandatorily measured at FVTPL due to non-compliance with the SPPI-criterion (see 3(e)(i)); these are measured at fair value with changes recognised immediately in profit or loss.

(h) Debt securities

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

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

(i) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with the NBRK, and highly liquid financial assets with original maturities of less than three months, which are not subject to significant risk of changes in their fair value, and are used by the Group in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

(j) Placements with banks and other financial institutions

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks with a fixed maturity term are subsequently measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at amortised cost based on expected maturities. Amounts due from credit institutions are carried net of an allowance for impairment losses, if any.

(k) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

For other loan commitments the Group recognises loss allowance.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

(l) Non-financial assets

Non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

(m) Property, plant and equipment

Items of property, plant and equipment are stated in the consolidated financial statements at cost less accumulated amortisation and impairment losses.

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

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Land	not depreciated;
Buildings and structures	8-100 years;
Vehicles	5-7 years;
Office and computer equipment	2-10 years;
Other	3-20 years.

(n) Intangible assets

Intangible assets that are acquired by the Group are measured at cost less accumulated amortisation and accumulated impairment losses.

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life of intangible assets ranges from 3 to 5 years.

(o) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for the use by the Group.

Investment property is initially measured at cost less accumulated depreciation and impairment allowance, if any.

(p) Deposits, debt securities issued and subordinated liabilities

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

(q) Government grants

Government grants are assistance by the Government, Government agencies and state-owned entities in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the Group. Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached to them and the grants will be received. If there are conditions that may require repayment, the grant is recognised as a “deferred income” in other liabilities.

The benefit of a government loan at a below-market rate of interest is treated as a government grant. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan and the proceeds received.

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

(r) Credit related commitment

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees.

Provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except commitments to provide a loan at a below-market interest rate.

(s) Taxation

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

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised in respect of temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

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

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

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

(t) Leases

The Group has applied IFRS 16 using the modified retrospective approach, and accordingly, the comparative information has not been restated and is presented, as required under IAS 17 and IFRIC 4. The details of the accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease.

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

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

(i) As a lessee

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

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

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

The lease liability is measured subsequently at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments.

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

(ii) As a lessor

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

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

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

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16.

Policy applicable before 1 January 2019

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

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output.

(ii) As a lessee

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

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

(iv) As a lessor

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

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

(v) Standards issued but not yet effective

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

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

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

4 Financial risk review

This note presents information about the Group's exposure to financial risks. For information on the Group's financial risk management framework, see Note 35.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

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

Significant increase in credit risk

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

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

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

The Group uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in probability of default (PD);
- qualitative indicators; and
- backstop of 30 days past due.

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement.

Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

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

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

The monitoring typically involves use of the following data.

- Information obtained during periodic review of counterparty files – e.g. audited financial statements, management accounts, budgets and projections;
- Payment record – this includes overdue status.
- Data from credit reference agencies, press articles, changes in external credit ratings;
- Requests for and granting of forbearance;
- Quoted bond for the issuer where available;
- Existing and forecast changes in business, financial and economic conditions;
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by type of product and counterparty as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

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

Determining whether credit risk has increased significantly

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument.

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

The Group considers credit risk of a particular exposure is deemed to have increased significantly since initial recognition, if the issuer's credit rating decreased by 2 points and more since initial recognition.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experience.

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

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payments, directed for repayment in the amount of not less than 25% of the gross carrying amount of the financial asset as at the date when the terms have been modified, against the modified contractual terms.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (stage 1) and lifetime ECL measurements (stage 2).

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a counteragent is in default, the Group considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporating of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Group formulates a base scenario of future development of relevant economic variables and also considers a presented selection of other forecast scenarios. This process involves developing two or more additional economic scenarios and considering the appropriate probabilities of occurring of each scenario. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, such international organisations as the OECD, International Monetary Fund.

A base scenario is the most likely to occur and it is aligned with information used by the Group for other purposes, such as strategic planning and budget formation. Other are less likely to occur scenarios where some are upside and other downside scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk and credit losses.

The key driver is GDP forecasts. The economic scenarios include the following key indicators for the Republic of Kazakhstan for 2020-2024.

	2020	2021	2022	2023	2024
GDP growth (upside scenario)	4.00%	4.20%	4.30%	5.30%	6.20%
GDP growth (base scenario)	3.30%	3.50%	3.30%	4.50%	4.60%
GDP growth (downside scenario)	3.13%	3.33%	3.05%	4.30%	4.20%

Taking into account lack of sufficient historical default data, the Group determined that the data provided by rating agencies would serve as a source of information for economic scenarios. Scenarios are updated on a regular basis and used in assessment of credit risks.

Modified financial assets

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

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

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

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Group renegotiates loans to customers in financial difficulties (referred to as ‘forbearance activities’) to maximise collection opportunities and minimise the risk of default. Under the Group’s forbearance policy, loan forbearance is granted on a selective basis if the counterparty is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired.

A counteragent needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Measurement of ECL

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

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

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

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

The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default.

The Group derives the EAD from the current exposure to the borrower and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD is potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower’s extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of a loan or terminate a loan commitment.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

	Carrying amount as at 31 December 2019	External benchmarks used	
		PD	LGD
Placements with banks and other financial institutions	91,562,878	S&P's default study	70%
Loans to banks	110,945,839	S&P's default study	70%
Debt securities	224,536,152	S&P's default study	Moody's recovery studies

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt instruments as at 31 December 2019 and 31 December 2018. Unless specially indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 3(e)(iv).

KZT'000	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
- rated from AA- to AA+	7,902,112	-	-	7,902,112
- rated from A- to A+	20,098,178	-	-	20,098,178
- rated from BBB- to BBB+	101,442,233	-	-	101,442,233
- rated from BB- to BB+	14,728,173	-	-	14,728,173
- rated from B- to B+	100	-	-	100
- not rated	2,942	-	-	2,942
Total cash and cash equivalents	144,173,738	-	-	144,173,738

KZT'000	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents				
- rated from AA- to AA+	26,592,380	-	-	26,592,380
- rated from A- to A+	53,719,881	-	-	53,719,881
- rated from BBB- to BBB+	172,527,640	-	-	172,527,640
- rated from BB- to BB+	35,443,773	-	-	35,443,773
- rated from B- to B+	1,895,416	-	-	1,895,416
- not rated	1,704	-	-	1,704
	290,180,794	-	-	290,180,794
Loss allowance	(12,385)	-	-	(12,385)
Total cash and cash equivalents	290,168,409	-	-	290,168,409

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KZT'000	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Placements with banks and other financial institutions				
- rated from BBB- to BBB+	56,491,019	-	-	56,491,019
- rated from BB- to BB+	35,039,929	-	45,335	35,085,264
- rated from B- to B+	35,300	-	-	35,300
- not rated	-	-	402,576	402,576
	91,566,248	-	447,911	92,014,159
Loss allowance	(3,370)	-	(447,911)	(451,281)
Total placements with banks and other financial institutions	91,562,878	-	-	91,562,878

KZT'000	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Placements with banks and other financial institutions				
- rated from BB- to BB+	48,348,513	-	57,025	48,405,538
- rated from B- to B+	22,044,166	-	-	22,044,166
- not rated	-	-	409,663	409,663
	70,392,679	-	466,688	70,859,367
Loss allowance	(218,956)	-	(466,688)	(685,644)
Total placements with banks and other financial institutions	70,173,723	-	-	70,173,723

KZT'000	31 December 2019				
	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
Loans to banks					
- rated from BB- to BB+	38,435,865	-	-	-	38,435,865
- rated from B- to B+	64,420,201	3,618,243	4,868,912	1,609,498	74,516,854
Not rated	-	-	3,875,728	-	3,875,728
	102,856,066	3,618,243	8,744,640	1,609,498	116,828,447
Loss allowance	(592,629)	(700,219)	(4,589,760)	-	(5,882,608)
Total loans to banks	102,263,437	2,918,024	4,154,880	1,609,498	110,945,839

KZT'000	31 December 2018				
	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
Loans to banks					
- rated from BB- to BB+	27,771,511	-	-	-	27,771,511
- rated from B- to B+	23,350,913	-	9,613,391	-	32,964,304
- not rated	-	-	3,988,787	-	3,988,787
	51,122,424	-	13,602,178	-	64,724,602
Loss allowance	(709,955)	-	(6,663,736)	-	(7,373,691)
Total loans to banks	50,412,469	-	6,938,442	-	57,350,911

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31 December 2019					
KZT'000	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
<i>Loans to customers measured at amortised cost</i>					
- rated from BBB- to BBB+	322,226,325	63,833,960	-	-	386,060,285
- rated from BB- to BB+	498,715,553	7,799,743	-	-	506,515,296
- rated from B- to B+	371,163,353	129,149,492	-	-	500,312,845
- rated from CCC- to CCC+	2,175,525	124,589,960	38,956,295	9,729,767	175,451,547
- rated D	-	-	54,997,730	4,768,089	59,765,819
- not rated	293,359	-	-	-	293,359
	1,194,574,115	325,373,155	93,954,025	14,497,856	1,628,399,151
Loss allowance	(4,933,654)	(25,669,725)	(44,155,856)	(4,328,505)	(79,087,740)
Total loans to customers measured at amortised cost	1,189,640,461	299,703,430	49,798,169	10,169,351	1,549,311,411

31 December 2018					
KZT'000	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
<i>Loans to customers measured at amortised cost</i>					
- rated from BBB- to BBB+	276,201,166	73,914,041	-	-	350,115,207
- rated from BB- to BB+	405,405,786	28,275,605	-	-	433,681,391
- rated from B- to B+	295,727,670	366,564,027	-	-	662,291,697
- rated from CCC- to CCC+	14,604,240	139,304,332	46,160,445	7,978,492	208,047,509
- rated D	-	-	-	4,637,151	4,637,151
- not rated	343,550	-	-	-	343,550
	992,282,412	608,058,005	46,160,445	12,615,643	1,659,116,505
Loss allowance	(5,230,127)	(28,389,683)	(18,359,190)	(6,528,377)	(58,507,377)
Total loans to customers measured at amortised cost	987,052,285	579,668,322	27,801,255	6,087,266	1,600,609,128

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31 December 2019					
KZT'000	Stage 1	Stage 2	Stage 3	FVTPL (embedded derivative)	Total
<i>Finance lease receivables</i>					
<i>With externally rated credit risk</i>					
- rated from BBB- to BBB+	61,324,574	-	-	-	61,324,574
- rated from B- to B+	6,750,757	-	-	3,094,473	9,845,230
<i>With internally rated credit risk</i>					
- rated from BB to BB+	21,507,292	-	136,350	619,194	22,262,836
- rated from B- to B+	64,216,948	9,085,963	-	2,938,264	76,241,175
- rated CCC+	3,830,140	-	819,798	-	4,649,938
- rated from CCC- to CCC	7,640,208	-	2,155,051	-	9,795,259
- rated D	-	-	18,120,744	-	18,120,744
	165,269,919	9,085,963	21,231,943	6,651,931	202,239,756
Loss allowance	(2,702,783)	(74,558)	(9,122,075)	-	(11,899,416)
Total finance lease receivables	162,567,136	9,011,405	12,109,868	6,651,931	190,340,340
31 December 2018					
KZT'000	Stage 1	Stage 2	Stage 3	FVTPL (embedded derivative)	Total
<i>Finance lease receivables</i>					
<i>With externally rated credit risk</i>					
- rated from BBB- to BBB+	25,764,945	-	-	-	25,764,945
- rated from B- to B+	7,230,202	-	-	3,333,754	10,563,956
<i>With internally rated credit risk</i>					
- rated from BB to BB+	12,118,664	233,152	17,417	-	12,369,233
- rated from B- to B+	37,060,364	968,144	-	166,871	38,195,379
- rated CCC+	14,053,914	354,615	-	333,565	14,742,094
- rated from CCC- to CCC	4,382,982	252,791	17,100,752	-	21,736,525
- rated D	-	-	1,853,567	-	1,853,567
	100,611,071	1,808,702	18,971,736	3,834,190	125,225,699
Loss allowance	(2,966,742)	(135,588)	(8,799,909)	-	(11,902,239)
Total finance lease receivables	97,644,329	1,673,114	10,171,827	3,834,190	113,323,460

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31 December 2019					
	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
<i>Debt securities measured at fair value through other comprehensive income</i>					
- rated from AA- to AA+	87,835,700	-	-	-	87,835,700
- rated from A- to A+	17,751,952	-	-	-	17,751,952
- rated from BBB- to BBB+	37,678,389	-	-	-	37,678,389
- rated from BB- to BB+	67,628,701	-	-	-	67,628,701
- rated from B- to B+	-	2,898,797	-	-	2,898,797
	210,894,742	2,898,797	-	-	213,793,539
Loss allowance	(50,775)	(211,159)	-	-	(261,934)
Gross carrying amount	213,132,343	3,257,974	-	-	216,390,316
Total debt securities at FVOCI	210,894,742	2,898,797	-	-	213,793,539

31 December 2018					
KZT'000	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
<i>Debt securities measured at fair value through other comprehensive income</i>					
- rated from AA- to AA+	6,110,342	-	-	-	6,110,342
- rated from BBB- to BBB+	163,732,285	-	-	-	163,732,285
- rated from BB- to BB+	50,093,172	-	-	-	50,093,172
- rated from B- to B+	3,803,190	-	-	-	3,803,190
	223,738,989	-	-	-	223,738,989
Loss allowance	(137,184)	-	-	-	(137,184)
Gross carrying amount	231,862,702	-	-	-	231,862,702
Total debt securities at FVOCI	223,738,989	-	-	-	223,738,989

31 December 2019					
KZT'000	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
<i>Debt securities measured at amortised cost</i>					
- rated from BBB- to BBB+	3,747,747	-	-	-	3,747,747
- rated from BB- to BB+	6,516,175	-	-	-	6,516,175
- rated from B- to B+	-	-	-	1,891,309	1,891,309
	10,263,922	-	-	1,891,309	12,155,231
Loss allowance	(4,212)	-	-	(1,408,406)	(1,412,618)
Total debt securities at amortised cost	10,259,710	-	-	482,903	10,742,613

31 December 2018					
	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
ZT00					
<i>Debt securities measured at amortised cost</i>					
- rated from BB- to BB+	6,074,969	-	-	-	6,074,969
- rated from B- to B+	-	-	-	1,867,440	1,867,440
	6,074,969	-	-	1,867,440	7,942,409
Loss allowance	(3,927)	-	-	(1,408,406)	(1,412,333)
Total debt securities at amortised cost	6,071,042	-	-	459,034	6,530,076

31 December 2019					
	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
KZT'000					
<i>Loan commitments</i>					
- rated from BBB- to BBB+	46,061,800	-	-	-	46,061,800
- rated from BB- to BB+	111,656,667	-	-	-	111,656,667
- rated from B- to B+	129,239,272	-	-	-	129,239,272
- rated from CCC- to CCC+	-	331,491	-	-	331,491
Total loan commitments	286,957,739	331,491	-	-	287,289,230
Loss allowance	2,029,985	-	-	-	2,029,985

31 December 2018					
	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
KZT'000					
<i>Loan commitments</i>					
- rated from BBB- to BBB+	3,719,758	-	-	-	3,719,758
- rated from BB- to BB+	145,970,258	-	-	-	145,970,258
- rated from B- to B+	12,770,413	100,000	-	-	12,870,413
- rated from CCC- to CCC+	1,105,529	2,974,423	6,731,563	7,032,776	17,844,291
Total loan commitments	163,565,958	3,074,423	6,731,563	7,032,776	180,404,720
Loss allowance	914,261	113,863	2,773,139	-	3,801,263

Development Bank of Kazakhstan JSC
Consolidated Statement of Changes in Equity for the year ended 31 December 2019

31 December 2019					
KZT'000	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
<i>Financial guarantee contracts</i>					
- rated from B- to B+	8,570,443	-	-	-	8,570,443
Loss allowance	84,634	-	-	-	84,634

31 December 2018					
KZT'000	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
<i>Financial guarantee contracts</i>					
- rated from BB- to BB+	-	2,205,570	-	-	2,205,570
- rated from B- to B+	14,503,550	-	-	-	14,503,550
Total financial guarantee contracts	14,503,550	2,205,570	-	-	16,709,120
Loss allowance	39,296	-	-	-	39,296

The following table sets out information about overdue status of loans to customers and finance lease receivables by credit quality stages.

31 December 2019					
KZT'000	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
<i>Loans to customers measured at amortised cost</i>					
- not overdue	1,194,574,115	325,373,155	61,206,416	9,729,767	1,590,883,453
- overdue less than 90 day	-	-	10,582,431	-	10,582,431
- overdue more than 180 days and less than 1 year	-	-	22,165,178	-	22,165,178
- overdue more than 1 year	-	-	-	4,768,089	4,768,089
	1,194,574,115	325,373,155	93,954,025	14,497,856	1,628,399,151
Loss allowance	(4,933,654)	(25,669,725)	(44,155,856)	(4,328,505)	(79,087,740)
Total loans to customers measured at amortised cost	1,189,640,461	299,703,430	49,798,169	10,169,351	1,549,311,411

Development Bank of Kazakhstan JSC
Consolidated Statement of Changes in Equity for the year ended 31 December 2019

31 December 2018					
KZT'000	Stage 1	Stage 2	Stage 3	Credit-impaired on initial recognition	Total
<i>Loans to customers measured at amortised cost</i>					
- not overdue	992,282,412	608,058,005	45,726,382	7,978,492	1,654,045,291
- overdue more than 90 days and less than 180 days	-	-	434,063	-	434,063
- overdue more than 1 year	-	-	-	4,637,151	4,637,151
	992,282,412	608,058,005	46,160,445	12,615,643	1,659,116,505
Loss allowance	(5,230,127)	(28,389,683)	(18,359,190)	(6,528,377)	(58,507,377)
Total loans to customers measured at amortised cost	987,052,285	579,668,322	27,801,255	6,087,266	1,600,609,128

31 December 2019					
KZT'000	Stage 1	Stage 2	Stage 3	FVTPL (embedded derivative)	Total
<i>Finance lease receivables</i>					
- not overdue	160,973,718	7,646,802	3,963,165	6,651,931	179,235,616
- overdue less than 30 days	4,291,283	-	14,167,493	-	18,458,776
- overdue 30-89 days	4,918	1,439,161	260,981	-	1,705,060
- overdue 90-360 days	-	-	1,073,566	-	1,073,566
- overdue more than 360 days	-	-	1,766,738	-	1,766,738
	165,269,919	9,085,963	21,231,943	6,651,931	202,239,756
Loss allowance	(2,702,783)	(74,558)	(9,122,075)	-	(11,899,416)
Total finance lease receivables	162,567,136	9,011,405	12,109,868	6,651,931	190,340,340

31 December 2018					
KZT'000	Stage 1	Stage 2	Stage 3	FVTPL (embedded derivative)	Total
<i>Finance lease receivables</i>					
- not overdue	100,436,392	1,322,758	13,188,309	3,834,190	118,781,649
- overdue less than 30 days	174,679	3,554	42,966	-	221,199
- overdue 30-89 days	-	482,390	1,909,729	-	2,392,119
- overdue 90-360 days	-	-	2,046,937	-	2,046,937
- overdue more than 360 days	-	-	1,783,795	-	1,783,795
	100,611,071	1,808,702	18,971,736	3,834,190	125,225,699
Loss allowance	(2,966,742)	(135,588)	(8,799,909)	-	(11,902,239)
Total finance lease receivables	97,644,329	1,673,114	10,171,827	3,834,190	113,323,460

5 Net interest income

	For the year ended 31 December 2019 KZT'000	For the year ended 31 December 2018 KZT'000
Interest income calculated using the effective interest method		
Loans to customers	106,262,427	108,489,951
Cash and cash equivalents	15,410,804	18,242,883
Loans to banks	7,243,237	5,417,393
Placements with banks and other financial institutions	6,668,857	5,770,658
Debt securities	6,547,990	9,188,260
Other financial assets	1,965,123	39,091
	144,098,438	147,148,236
Other interest income		
Finance lease receivables	24,422,267	20,228,588
Loans to customers	5,707,697	3,118,161
Debt securities measured at fair value through profit or loss	224,705	600,502
	30,354,669	23,947,251

	For the year ended 31 December 2019 KZT'000	For the year ended 31 December 2018 KZT'000
Interest expense		
Debt securities issued	(74,616,647)	(67,202,494)
Loans and borrowings from banks and other financial institutions	(27,492,779)	(37,002,174)
Loans from the Parent Company	(12,697,610)	(9,120,437)
Subordinated debt	(6,579,121)	(6,472,499)
Loans from the Government of the Republic of Kazakhstan and SWF "Samruk-Kazyna"	(1,364,615)	(1,331,595)
Current accounts and deposits from customers	(896,700)	(738,902)
	(123,647,472)	(121,868,101)

Included within various line items under interest income on finance lease receivables is a total of KZT 7,198,444 thousand of government grant amortisation (2018: KZT 4,857,459 thousand).

6 Net fee and commission income/(expense)

	For the year ended 31 December 2019 KZT'000	For the year ended 31 December 2018 KZT'000
Fee and commission income		
Fee and commissions on loans to customers	3,222,926	301,273
Letters of credit and guarantees	464,176	317,404
Other	12,379	25,015
	3,699,481	643,692
Fee and commission expense		
Fees for early loan repayment	(2,803,844)	(1,335,441)
Services of professional participants of the securities market	(87,241)	(105,129)
Commission expense for guarantees	(37,250)	(32,966)
Maintenance of current accounts	(35,977)	(27,554)
Custodian services	(23,128)	(20,241)
Commission income for confirmation of letters of credit	(7,374)	(225,499)
Other	(15,318)	(16,076)
	(3,010,132)	(1,762,906)

Net fee and commission income include income of KZT 3,427,740 thousand (2018: KZT 612,704 thousand) relating to financial assets not measured at fair value through profit or loss. These figures exclude amounts incorporated in determining the effective interest rate on such financial assets.

Net fee and commission expense for 2019 includes fee and commission expense of KZT 2,803,844 thousand for partial early repayment of the loan from a foreign bank (Note 26). In addition, the Group recognised income of KZT 22,801,622 thousand related to reimbursement of these expenses from a borrower within fee and commissions on loans to customers.

Contract balances

The following table provides information about receivables and liabilities from contracts with customers.

KZT'000	31 December 2019	31 December 2018
Receivables, which are included in 'other assets'	331,398	276,480
Contract liabilities, which are included in 'other liabilities'	23,080	100,650

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

The Group provides services related to provision of financial guarantees and letters of credit. Loan origination fee is charged at the time of transaction. Fees for provision of guarantees are charged on a quarterly basis. Revenues is recognised by the Group over time as the services are provided.

7 Net foreign exchange loss

	For the year ended 31 December 2019 KZT'000	For the year ended 31 December 2018 KZT'000
Translation differences, net	(1,266,461)	(2,391,125)
Dealing operations, net	(220,615)	866,622
	(1,487,076)	(1,524,503)

8 Net gain/(loss) on financial instruments at fair value through profit or loss

	For the year ended 31 December 2019 KZT'000	For the year ended 31 December 2018 KZT'000
Unrealised gain/(loss) on revaluation of financial instruments at fair value through profit or loss		
Derivatives financial instruments	3,952,705	1,247,391
Debt securities	(36,303)	117,476
Loans to customers	(2,884,312)	(1,461,058)
Realised gain/(loss) on financial instruments at fair value through profit or loss		
Debt securities	288,376	35,724
Derivatives financial instruments	(383,834)	(3,308,744)
	936,632	(3,369,211)

In determining the fair value of derivatives financial instruments management determined that the following rates are appropriate: ranging from 10.08 to 15.67% in KZT; 2.32% in USD (2018: ranging from 7.10% to 9.31% in KZT, 4.33% in USD).

9 Other expenses, net

	For the year ended 31 December 2019 KZT'000	For the year ended 31 December 2018 KZT'000
Other income from utilisation of government grants	26,742,526	31,139,435
Income from reversal of provision due to expiry of the contract term of credit line upon derecognition of estimated loan commitment at below-market interest rate	10,966,934	-
Income from partial early repayment of loans issued	6,045,211	2,359,110
Fines and penalties received	266,749	302,349
Restructuring expense	80,198	(109,210)
Rental income from property	43,700	17,984
Loss from early repayment of loans from banks and other financial institutions	(2,712,811)	(3,083,818)
Expense on valuation of liabilities on provision of loans at below market rates	(8,686,364)	(10,968,511)
Losses arising on initial recognition of loans issued	(35,546,442)	(18,841,365)
Expense on repurchase of debt securities	-	(1,269,793)
Other income/(expense)	803,718	(564,765)
	(1,996,581)	(1,018,584)

Other income from utilisation of government grants was recognised as income based on the results of compliance with the terms of the relevant government programs in the amount of KZT 37,709,460 thousand (2018: KZT 31,139,435 thousand (Note 28)).

During 2019, expenses on estimation of provision in relation to loan commitments to provide loans at below market rates that were recognised the year before in the amount of KZT 10,966,934 have been recovered. The respective amount of government grant recognised in 2018 within other income has been reversed within the government grant liabilities and will be utilised against future projects as part of government programmes.

During 2019, due to a partial early repayment of the loans issued, the Group recognised income of KZT 6,045,211 thousand as a result of revision of repayment schedule (2018: KZT 2,359,110 thousand).

During 2019, due to early and partial early repayment of loans from foreign banks, the Group accrued expense of KZT 2,712,811 thousand (2018: KZT 3,083,818 thousand) as a result of revision of repayment schedules.

During 2019 the Group recognised revenue of KZT 35,546,442 thousand (2018: KZT 18,841,365 thousand) upon initial recognition of the value of loans issued at below market rates. This amount includes expense of KZT 31,402,922 thousand arising at initial recognition of loans to banks (2018: KZT 6,778,730 thousand) and expense of KZT 4,143,520 thousand arising at initial recognition of loans to customers (2018: KZT 12,062,635 thousand).

During 2019 expense at initial recognition of loans to banks arose from issuance of loans with a nominal interest rate from 1.0% to 8.0% per annum, the market interest rates of which ranged from 8.5% to 14.5% per annum (2018: with a nominal rate of 1.0%, the market rates on which ranged from 11.3% to 13.5%).

During 2019 expense at initial recognition of loans to customers arose from issuance of loans with a nominal interest rate from 6.0% to 11.0% per annum, the market interest rates of which ranged from 6.3% to 15.7% per annum (2018: with nominal rates ranging from 6.0% to 14.0%, the market rates on which ranged from 11.8% to 17.3%).

During 2019, the Group recognised expense of KZT 8,686,364 thousand (2018: KZT 10,968,511 thousand) upon initial recognition of the fair value of liabilities on provision of loans at below market rates.

10 Impairment losses

	For the year ended 31 December 2019 KZT'000	For the year ended 31 December 2018 KZT'000
Losses on impairment of debt financial assets		
Loans to customers (Note 16)	(19,681,241)	(14,444,626)
Finance lease receivables (Note 17)	(1,093,825)	(4,264,967)
Loans to banks (Note 15)	(352,149)	(1,253,753)
Debt securities	(125,035)	(1,383,740)
Cash and cash equivalents	12,344	(9,636)
Other financial assets (Note 22)	98,405	(284,608)
Placements with banks and other financial institutions (Note 14)	234,250	809,284
	(20,907,251)	(20,832,046)
Reversal of impairment allowance/(impairment loss) in relation to loan commitments issued and financial guarantee contracts		
Loan commitments	1,790,655	(1,075,539)
Financial guarantee contracts	(45,753)	(38,911)
	1,744,902	(1,114,450)
Impairment loss on other non-financial assets		
Advances paid under finance lease agreements (Note 19)	(5,463,509)	-
Assets to be transferred under finance lease agreements	(10,566)	32,705
Other assets	(453,164)	(193,681)
	(5,927,239)	(160,976)

11 General administrative expenses

	For the year ended 31 December 2019 KZT'000	For the year ended 31 December 2018 KZT'000
Personnel costs	(3,609,595)	(2,996,238)
Taxes and other mandatory payments to budget	(419,147)	(985,681)
Consulting expenses	(431,365)	(475,348)
Administrative expense of the Board of Directors	(352,596)	(280,105)
Maintenance and repair of property, plant and equipment and intangible assets	(335,593)	(194,715)
Taxes and contributions of employees' wagebill	(332,349)	(273,528)
Outsourcing expenses	(332,049)	(280,614)
Amortisation and depreciation of property, plant and equipment, intangible assets and investment property	(379,187)	(225,580)
Information services	(209,632)	(172,704)
Business trip expenses	(103,417)	(59,585)
Advertising and marketing	(97,456)	(106,061)
Rating services	(95,199)	(79,967)
Training and advanced training of employees	(87,069)	(79,686)
Audit expenses	(72,200)	(35,251)
Expenses on medical services	(70,021)	(62,162)
Communication services	(30,042)	(40,709)
Lease expenses	(21,639)	(266,964)
Office supplies and printing expenses	(20,528)	(17,975)
Other	(205,353)	(96,721)
	(7,204,437)	(6,729,594)

12 Income tax expense

	For the year ended 31 December 2019 KZT'000	For the year ended 31 December 2018 KZT'000
Current year tax expense		
Current year	(6,011,376)	(15,832,348)
Income tax overprovided/(underprovided) in prior periods	583,802	(946,208)
Income tax withheld at the source of payment	(1,041,939)	(672,186)
	(6,469,513)	(17,450,742)
Deferred tax benefit		
Origination and reversal of temporary differences	2,068,350	7,601,795
Movement in unrecognised deferred tax asset	317,954	(219,212)
	2,386,304	7,382,583
Total income tax expense	(4,083,209)	(10,068,159)

The applicable tax rate for current and deferred tax of the Group is 20% (2018: 20%).

Reconciliation of effective tax rate:

	For the year ended 31 December 2019 KZT'000	%	For the year ended 31 December 2018 KZT'000	%
Profit before income tax	15,041,685	100	13,311,967	100
Income tax at the applicable tax rate	(3,008,337)	(20)	(2,662,393)	(20)
Other non-deductible costs	(1,140,192)	(8)	(954,779)	(7)
Non-taxable income on securities	1,284,636	9	2,279,219	17
Discount on loans and deposits from banks and other financial institutions	-	-	(458,132)	(3)
Non-deductible impairment loss	(2,423,765)	(16)	(4,066,556)	(31)
Net income on derivative financial instruments	-	-	(362,928)	(3)
Non-deductible expenses on revaluation of loans measured at fair value through profit or loss	(576,862)	(4)	(255,655)	(2)
Tax exempt interest on finance lease receivables	1,921,494	13	2,144,743	16
Change in unrecognised deferred tax assets and liabilities	317,954	2	(1,075,828)	(8)
Write-off of previously recognised tax asset	-	-	(3,037,456)	(23)
Income tax overprovided/(underprovided) in prior periods	583,802	4	(946,208)	(7)
Income tax withheld at the source of payment	(1,041,939)	(7)	(672,186)	(5)
	(4,083,209)	(27)	(10,068,159)	(76)

13 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the consolidated statement of cash flow are composed of the following items:

	31 December 2019 KZT'000	31 December 2018 KZT'000
Demand deposits		
National Bank of the Republic of Kazakhstan	2,989,994	2,440,397
Total demand deposits	2,989,994	2,440,397
Current bank accounts balances		
National Bank of the Republic of Kazakhstan	91,470,715	47,271,900
<i>Other banks</i>		
- rated from AA- to AA+	7,902,112	26,592,380
- rated from A- to A+	20,098,178	53,719,881
- rated from BBB- to BBB+	18,669	0
- rated from BB- to BB+	14,728,173	35,443,773
- rated from B- to B+	100	1,895,416
- not rated	2,740	1,458
Total cash on current bank accounts	134,220,687	164,924,808
Reverse repurchase agreements with original maturities of less than three months	6,962,855	122,815,343
Cash on hand	202	246
Gross cash and cash equivalents	144,173,738	290,180,794
Loss allowance	-	(12,385)
Net cash and cash equivalents	144,173,738	290,168,409

As at 31 December 2019, the Group had reverse repurchase agreements concluded at Kazakhstan Stock Exchange. The subject of these agreements were the treasury notes of the Ministry of Finance issued by the Government of the Republic of Kazakhstan. The carrying amount of those agreements and fair value of securities pledged amounted to KZT 6,962,855 thousand and KZT 7,187,725 thousand, respectively (31 December 2018: KZT 122,815,343 thousand and KZT 126,430,837 thousand, respectively).

The above table is based on the credit ratings assigned by Standard & Poor's or other agencies converted into Standard & Poor's scale. None of cash and cash equivalents are past due.

Concentration of cash and cash equivalents

As at 31 December 2019 the Group had one bank (31 December 2018: two banks), whose balances exceeded 10% of equity. The gross value of these balances as of 31 December 2019 and 31 December 2018 was KZT 94,460,709 thousand and KZT 94,686,166 thousand, respectively.

14 Placements with banks and other financial institutions

	31 December 2019 KZT'000	31 December 2018 KZT'000
Placements with banks and other financial institutions		
rated from BBB- to BBB+	56,491,019	-
rated from BB- to BB+	35,085,264	48,405,538
rated from B- to B+	35,300	22,044,166
not rated	402,576	409,663
Gross placements with banks other financial institutions	92,014,159	70,859,367
Loss allowance	(451,281)	(685,644)
Net placements with banks and other financial institutions	91,562,878	70,173,723

The above table is based on the credit ratings assigned by Standard & Poor's or other agencies converted into Standard & Poor's scale.

Concentration of placements with banks

As at 31 December 2019 the Group had placements with one bank (31 December 2018: none), whose balances exceeded 10% of equity. The gross value of these balances as at 31 December 2019 is KZT 56,491,019 thousand.

Movements in the loss allowance on placements with banks and other financial institutions for the twelve months ended 31 December 2019 and 31 December 2018 are as follows:

Analysis of movements in the loss allowance

	2019		
	Stage 1 12-month expected credit losses	Stage 3 Lifetime ECL for assets credit-impaired	Total
KZT'000			
Opening balance	(218,956)	(466,688)	(685,644)
Net recovery of loss allowance	215,473	18,777	234,250
Foreign exchange differences	113	-	113
Balance at the end of the reporting period	(3,370)	(447,911)	(451,281)

	2018		
	Stage 1 12-month expected credit losses	Stage 3 Lifetime ECL for assets credit-impaired	Total
KZT'000			
Opening balance	-	(482,770)	(482,770)
Impact of adopting IFRS 9	(1,015,641)	-	(1,015,641)
Net recovery of loss allowance	793,202	16,082	809,284
Foreign exchange differences	3,483	-	3,483
Balance at the end of the reporting period	(218,956)	(466,688)	(685,644)

As at 31 December 2019 the Group had deposit with one bank that was fully impaired (31 December 2018: with one bank).

15 Loans to banks

	31 December 2019 KZT'000	31 December 2018 KZT'000
Loans to banks		
rated from BB- to BB+	38,435,865	27,771,511
rated from B- to B+	74,516,854	32,964,304
not rated	3,875,728	3,988,787
Gross loans to banks	116,828,447	64,724,602
Loss allowance	(5,882,608)	(7,373,691)
Net loans to banks	110,945,839	57,350,911

As at 31 December 2019 the Group had outstanding balances of loans issued to one bank whose balances exceed 10% of equity (31 December 2018: none). The gross value of these balances as at 31 December 2019 is KZT 44,631,904 thousand.

(a) Analysis of movements in the loss allowance on loans to banks

Movements in the loss allowance for loans to banks for the years ended 31 December 2019 and 31 December 2018 are as follows:

KZT'000	Stage 1 12-month expected credit losses	Stage 3 Lifetime ECL for assets credit-impaired	Stage 3 Lifetime ECL for credit-impaired assets	Total
Opening balance	(709,955)	-	(6,663,736)	(7,373,691)
Transfer to Stage 2	153,049	(153,049)	-	-
New financial assets originated or purchased	(318,724)	-	-	(318,724)
Net recovery/(charge) for the period	283,001	(547,170)	230,744	(33,425)
Write-off	-	-	1,854,214	1,854,214
Unwinding of discount on present value of ECLs	-	-	(10,982)	(10,982)
Balance at the end of the reporting period	(592,629)	(700,219)	(4,589,760)	(5,882,608)

	2018		
KZT'000	Stage 1 12-month expected credit losses	Stage 3 Lifetime ECL for assets credit-impaired	Total
Opening balance	-	(7,576,283)	(7,576,283)
Impact of adopting IFRS 9	(998,167)	(204,774)	(1,202,941)
Transfer to lifetime ECL – credit-impaired	127,278	(127,278)	-
Net recovery/(charge) of loss allowance	160,934	(1,414,687)	(1,253,753)
Write-off	-	2,659,286	2,659,286
Balance at the end of the reporting period	(709,955)	(6,663,736)	(7,373,691)

(b) Analysis of movements in the gross carrying amounts

The note further explains how significant movements in the gross carrying amounts of loans to banks have contributed to changes in loss allowances for expected credit losses.

Transfer from 12-months ECL stage in the amount of KZT 3,581,633 thousand to lifetime ECL for assets not credit-impaired stage for 2019 increased expected credit losses by KZT 547,170 thousand.

During 2019 issue of new loans resulted in increase of gross carrying amount of loans to banks by KZT 64,613,772 thousand and increase in expected credit loss allowance by KZT 318,724 thousand.

During 2019 the Group issued a loan of KZT 51,000,000 thousand to Eurasian Development Bank (hereinafter -EADB), which bears a nominal interest rate of 8% per annum, for subsequent financing of Astana Gas KMG JSC, to implement the project of provision of gas supply in the city of Nur-Sultan, as well as to implement other programmes for development of gas industry. Fair value of this financial asset on initial recognition amounted to KZT 42,288,117 thousand and was calculated using a discount rate of 11.8% per annum. On initial recognition of this financial asset the Group recognised an allowance for expected credit losses of KZT 44,966 thousand. With regard to this loan the Group applies a credit rating of Astana Gas KMG JSC (B+) to manage the financial risks. In the event of default of Astana Gas KMG JSC, the rights of claim held by EADB against Astana Gas KMG JSC will be transferred to the Group for repayment of liabilities of EADB to the Group.

As at 27 November 2018, First Heartland Jýsan Bank JSC (former Tsesnabank JSC) had a debt of KZT 13,556,783 thousand to the Group. As at 27 November 2018, due to deterioration of the financial position of the borrower, a part of the claim in the amount of KZT 5,143,159 thousand was restructured in accordance with the terms of the Framework Agreement. As part of this restructuring, the Group's claims were substituted with the bonds issued by First Heartland Jýsan Bank JSC that were accounted for as credit-impaired at initial recognition within the debt securities (Note 18). Fair value of these securities on initial recognition amounted to KZT 1,848,668 thousand and was calculated using a discount rate of 18.8% per annum. During 2018, write-off of claims in the amount of KZT 2,659,286 thousand resulted in decrease of the allowance for expected credit losses.

As at 22 January 2019, the debt of First Heartland Jýsan Bank JSC (formerly, "Tsesnabank JSC") to the Group amounted to KZT 8,407,990 thousand. As at that date, the claims were restructured in accordance with the terms and conditions of the Framework Agreement. As part of such restructuring, use of loan proceeds for intended purposes was excluded, and the nominal interest rate on loans was reduced from 2.0% to 0.1%. Carrying amount of the claims before restructuring was KZT 2,338,433 thousand. Fair value of a new financial asset recognised as credit-impaired on initial recognition amounted to KZT 788,007 thousand and was calculated using a discounting rate of 16.8% p.a. As a result, during 2019, the Group recognised impairment loss of KZT 1,550,426 thousand in profit or loss, arising on derecognition of financial assets measured at amortised cost. During 2019, write-off of claims in the amount of KZT 1,854,214 thousand resulted in decrease of the allowance for expected credit losses by KZT 1,854,214 thousand.

16 Loans to customers

	31 December 2019 KZT'000	31 December 2018 KZT'000
Loans to customers measured at amortised cost		
Loans to corporate customers	1,534,219,887	1,573,828,101
Mortgage loans	159,318	209,509
Accrued interest	94,019,946	85,078,895
Gross loans to customers measured at amortised cost	1,628,399,151	1,659,116,505
Loss allowance	(79,087,740)	(58,507,377)
Total net loans to customers measured at amortised cost	1,549,311,411	1,600,609,128
Loans to customers measured at fair value through profit or loss	68,893,053	38,256,025
Total loans to customers	1,618,204,464	1,638,865,153

In determining the fair value of loans to customers measured at fair value through profit/loss, management made assumptions that the following market rates are appropriate for the Group: from 12.60% to 15.92% in KZT and 5.26% in USD. None of the loans to customers measured at fair value through profit/loss are past due.

(a) Analysis of movements in the loss allowance on loans to customers

Movements in the loss allowance for loans to customers for the years ended 31 December 2019 and 31 December 2018 are as follows:

	2019				
				Assets credit-impaired on initial recognition	Total
KZT'000	Stage 1	Stage 2	Stage 3		
Opening balance	(5,230,127)	(28,389,683)	(18,359,190)	(6,528,377)	(58,507,377)
Transfer to Stage 1	(73,362)	73,362	-	-	-
Transfer to Stage 2	400,086	(400,086)	-	-	-
Transfer to Stage 3	-	10,351,113	(10,351,113)	-	-
New financial assets originated or purchased	(2,518,348)	-	-	-	(2,518,348)
Net recovery/(charge) of loss allowance	2,462,829	(7,354,605)	(14,446,013)	2,174,896	(17,162,893)
Unwinding of discount on present value of ECLs	-	-	(1,173,516)	-	(1,173,516)
Effect of changes in foreign exchange rates	25,268	50,174	173,976	24,976	274,394
Balance at the end of the year	(4,933,654)	(25,669,725)	(44,155,856)	(4,328,505)	(79,087,740)

	2018				
				Assets credit-impaired on initial recognition	Total
'000 KZT	Stage 1	Stage 2	Stage 3		
Balance at the beginning of the reporting period	(13,614,603)	(7,345,903)	(23,153,910)	(27,632,555)	(71,746,971)
Effect of adopting IFRS 9	5,643,452	(21,644,642)	824,460	27,632,555	12,455,825
Transfer to Stage 2	730,035	(730,035)	-	-	-
New financial assets originated or purchased	(4,444,060)	(18,352,778)	-	-	(22,796,838)
Net recovery /(charge) of loss allowance	7,326,170	15,979,051	(8,493,723)	(6,459,286)	8,352,212
Transfer from deposits with banks and other financial institutions	-	-	-	-	-
Write-offs	-	-	15,421,604	-	15,421,604
Financial assets that have been derecognised	-	5,195,299	-	-	5,195,299
Unwinding of discount on present value of ECLs	-	-	(1,061,420)	-	(1,061,420)
Effect of changes in foreign exchange rates	(871,121)	(1,490,675)	(1,896,201)	(69,091)	(4,327,088)
Balance at the end of the year	(5,230,127)	(28,389,683)	(18,359,190)	(6,528,377)	(58,507,377)

(b) Analysis of movements in gross carrying amount

Significant changes in the gross carrying amount of loans to customers during the period that contributed to changes in loss allowance are further explained below.

The high volume of loans to customers originated during 2019 increased the gross carrying amount of the loan portfolio by KZT 426,211,338 thousand (during 2018: KZT 473,632,306 thousand), with a corresponding increase in loss allowance measured on a 12-month basis by KZT 2,518,348 thousand (during 2018: KZT 22,796,838 thousand).

Transfer of the loans issued to customers from Stage 1 to Stage 2, with gross carrying amount of KZT 10,604,499 thousand, contributed to increase in the allowance for expected credit losses in the amount of KZT 479,835 thousand.

During 2019, loans issued to customers with the gross carrying amount of KZT 43,682,444 thousand were transferred from Stage 2 to Stage 3. During the year, the Bank increased the allowance for expected credit losses on these loans for the total amount of KZT 18,942,587 thousand.

In addition, during 2019, a partial repayment of loan ahead of schedule by one borrower in the amount of USD 301 million (equivalent at the repayment date to KZT 113,016,406 thousand) resulted in decrease in the allowance for expected credit losses by KZT 2,901,628 thousand. In addition, there were other repayments of loans to customers in accordance with contractual maturities, which insignificantly contributed to decrease in the allowance for expected credit losses on loans allocated to Stage 1 of the credit risk grade.

Analysis of collateral

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers, net of loss allowance, by types of collateral:

31 December 2019 '000 KZT	Carrying amount of loans to customers	Fair value of collateral: for collateral assessed during the reporting period	Fair value of collateral: for collateral assessed before the reporting period
Stage 1			
(12-month expected credit losses)			
Cash and deposits	295,947	295,947	-
Bank guarantees and guarantees received from legal entities (rated from B- to BBB+)	443,996,879	-	-
Bank guarantees and guarantees received from legal entities (not rated)	236,582,027	-	-
Vehicles	659,478	563,793	95,685
Real estate	171,512,135	169,657,861	1,854,274
Equipment	4,102,469	3,413,677	688,792
Equity share	1,370,470	1,370,470	-
Other collateral	104,178,751	6,719,444	97,459,307
Future assets	226,942,305	46,437,845	180,504,460
Total Stage 1			
(12-month expected credit losses)	1,189,640,461	228,459,037	280,602,518

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		Fair value of collateral: □ for collateral assessed during the reporting period	Fair value of collateral: □ for collateral assessed before the reporting period
31 December 2019			
'000 KZT			
Stage 2			
(Lifetime expected credit losses on assets that are not credit-impaired)			
Bank guarantees and guarantees received from legal entities (rated from B- to BBB+)	110,489,013	-	-
Vehicles	346,041	81,036	265,005
Real estate	135,780,688	69,969,835	65,810,853
Equipment	53,087,688	16,323,275	36,764,413
Total Stage 2			
(Lifetime expected credit losses on assets that are not credit-impaired)	299,703,430	86,374,146	102,840,271
Stage 3			
(Lifetime expected credit losses on assets that are credit-impaired)			
Cash and deposits	2,308,753	2,308,753	-
Bank guarantees and guarantees received from legal entities (not rated)	7,127,929	-	-
Real estate	25,628,242	6,329,045	19,299,197
Equipment	13,256,861	13,256,861	-
No collateral or other credit enhancement	1,476,384	-	-
Total Stage 3			
(Lifetime expected credit losses on assets that are credit-impaired)	49,798,169	21,894,659	19,299,197
POCI-assets			
Bank guarantees and guarantees received from legal entities (rated from B- to BBB+)	1,468,027	-	-
Vehicles	572,411	571,559	852
Real estate	7,381,748	6,295,599	1,086,149
Other collateral	747,165	747,165	-
Total POCI-assets	10,169,351	7,614,323	1,087,001
		Fair value of collateral: for collateral assessed during the reporting period	Fair value of collateral: for collateral assessed before the reporting period
31 December 2018			
KZT '000			
Stage 1			
(12-month expected credit losses)			
Cash and deposits	448,835	448,835	-
Government guarantees	2,915,647	2,915,647	-
Bank guarantees and guarantees received from legal entities (rated from B- to BBB+)	375,576,901	-	-
Bank guarantees and guarantees received from legal entities (not rated)	147,193,388	-	-
Vehicles	94,877	94,877	-
Real estate	151,545,226	11,039,713	140,505,513
Equipment	8,006,638	824,771	7,181,867
Equity share	1,753,928	1,753,928	-
Other collateral	102,126,364	4,667,057	97,459,307
Future assets	154,198,717	24,520,730	129,677,987
Securities	43,191,764	43,191,764	-
Total Stage 1			
(12-month expected credit losses)	987,052,285	89,457,322	374,824,674

31 December 2018 KZT '000	Carrying amount of loans to customers	Fair value of collateral: for collateral assessed during the reporting period	Fair value of collateral: for collateral assessed before the reporting period
Stage 2 (Lifetime expected credit losses on assets that are not credit-impaired)			
Cash and deposits	6,514,628	6,514,628	-
Bank guarantees and guarantees received from legal entities (rated from B- to BBB+)	80,613,170	-	-
Bank guarantees and guarantees received from legal entities (not rated)	4,000,001	-	-
Vehicles	415,950	56,372	359,578
Real estate	302,746,602	196,499,210	106,247,392
Equipment	158,900,681	101,889,078	57,011,603
Other collateral	5,095,610	1,905,040	3,190,570
Future assets	21,381,680	-	21,381,680
Total Stage 2 (Lifetime expected credit losses on assets that are not credit-impaired)	579,668,322	306,864,328	188,190,823
Stage 3 (Lifetime expected credit losses on assets that are credit-impaired)			
Cash and deposits	2,318,469	2,318,469	-
Bank guarantees and guarantees received from legal entities (not rated)	8,478,170	-	-
Real estate	7,202,622	4,920,826	2,281,796
Equipment	9,801,994	9,801,994	-
Total Stage 3 (Lifetime expected credit losses on assets that are credit-impaired)	27,801,255	17,041,289	2,281,796
POCI-assets			
Bank guarantees and guarantees received from legal entities (rated from B- to BBB+)	1,159,502	-	-
Vehicles	81,706	852	80,854
Real estate	4,846,058	881,543	3,964,515
Total POCI-assets	6,087,266	882,395	4,045,369

The tables above exclude overcollateralization. For loans secured by multiple types of collateral, collateral that is most relevant for assessment of impairment is disclosed. Certain guarantees and sureties received from individuals, such as shareholders of borrowers, are not considered for impairment assessment purposes.

The recoverability of loans to corporate customers, which are not credit - impaired, is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

(c) Industry analysis of the loan portfolio

Loans were issued to customers located within the Republic of Kazakhstan, which operate in the following economic sectors:

	31 December 2019	31 December 2018
	'000 KZT	'000 KZT
Manufacturing	613,019,059	506,877,348
Carbon and petrochemicals manufacturing	531,518,483	662,586,702
Energy and electricity distribution	271,162,155	254,157,707
Chemical	60,096,905	64,740,607
Transportation and warehousing	59,040,108	58,417,992
Information and telecommunications	61,029,363	51,251,914
Real estate	40,198,872	31,351,860
Food processing	19,944,361	21,281,011
Machinery manufacturing	19,947,210	19,583,296
Agriculture	16,274,239	14,762,422
Construction materials	4,768,089	12,018,120
Mortgage	159,318	209,509
Other	134,042	134,042
	1,697,292,204	1,697,372,530
Loss allowance for expected credit losses	(79,087,740)	(58,507,377)
Total loans to customers	1,618,204,464	1,638,865,153

(d) Significant credit exposures

As at 31 December 2019, the Group had eight borrowers (31 December 2018: ten borrowers, including bonds recorded as part of loans to customers), whose balances exceeded 10% of equity. The net carrying value of these loans as at 31 December 2019 was KZT 1,060,862,682 thousand (31 December 2018: KZT 1,136,794,172 thousand).

(e) Loan maturities

The maturity of the Group's loan portfolio is presented in Note 35(e), which shows the remaining period from the reporting date to the contractual maturity of the loans.

17 Finance lease receivables

The components of net investments in finance lease as at 31 December 2019 and 2018 and are as follows:

KZT '000	31 December 2019	31 December 2018
Less than 1 year	43,037,080	31,309,747
From 1 to 2 years	49,613,311	29,913,549
From 2 to 3 years	36,566,992	28,764,843
From 3 to 4 years	28,412,243	22,053,709
From 4 to 5 years	28,962,943	15,756,707
More than 5 years	129,159,473	88,419,293
Minimum lease payments	315,752,042	216,217,848
Less unearned finance income		
Less than 1 year	(16,760,681)	(12,177,713)
From one year to five years	(66,351,258)	(47,460,891)
More than 5 years	(37,052,278)	(35,187,735)
Less unearned finance income, total	(120,164,217)	(94,826,339)
Loss allowance	(11,899,416)	(11,902,239)
Net investment in finance lease	183,688,409	109,489,270
Embedded derivative financial instrument at fair value through profit or loss	6,651,931	3,834,190
Finance lease receivables	190,340,340	113,323,460

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KZT '000	31 December 2019	31 December 2018
Leases to large corporates	99,399,088	62,771,879
Leases to small- and medium-sized companies	96,248,737	58,619,630
Loss allowance	(11,899,416)	(11,902,239)
Net investment in finance lease	183,688,409	109,489,270
Embedded derivative financial instrument at fair value through profit or loss	6,651,931	3,834,190
Finance lease receivables	190,340,340	113,323,460

Finance lease origination fees, lease servicing fees and other fees, differences between the actual cost of the lease items and cost of the lease items at the time of their transfer under the finance lease agreement are recognised as deferred income and amortised to interest income over the estimated life of the financial instrument in the amount of KZT 1,876,569 thousand (31 December 2018: KZT 1,943,811 thousand), that is considered to be integral part of the finance lease.

During 2018, the Group recognised loss of KZT 286,545 thousand as a result of decrease in the interest rate under finance lease agreements for certain counterparties, whose total net investments in finance lease as at 31 December 2018 amounted to KZT 7,804,185 thousand.

As at 31 December 2019 the Group has 10 lessees or 4 groups of related lessees, whose balances make over 48% of total carrying amount of the lease receivables. As at 31 December 2019 the total carrying amount of receivables from these lessees is KZT 91,678,358 thousand (31 December 2018: KZT 55,601,577 thousand). Up to 82% of the total carrying amount relate to the group of National Company “Kazakhstan Temir Zholy” JSC (“KTZh”) and the company, which is economically dependent on KTZh, for the total amount of KZT 74,865,760 thousand that results in certain risk of credit concentration due to the nature of their business activity and industry specifics.

Movements in the loss allowance under finance lease agreements for the years ended 31 December 2019 and 2018 are as follows:

KZT '000	2019			Total
	Stage 1 12-month expected credit losses	Stage 2 Life-time expected credit losses for assets that are not credit impaired	Stage 3 Life-time expected credit losses for assets that are credit impaired	
Finance lease receivables				
Balance at the beginning of the year	(2,966,742)	(135,588)	(8,799,909)	(11,902,239)
Transfer to Stage 2	35,880	(35,880)	-	-
Transfer to Stage 3	57,649	154,446	(212,095)	-
Net remeasurement of loss allowance	170,445	(57,536)	(1,206,734)	(1,093,825)
Recovery of the previously written-off amount	-	-	(54)	(54)
Transfer to other assets	-	-	471,671	471,671
Transfer of allowance to other assets for foreclosed leased items	-	-	753,015	753,015
Unwinding of discount for the year	(15)	-	(127,969)	(127,984)
Balance at 31 December	(2,702,783)	(74,558)	(9,122,075)	(11,899,416)

KZT '000	2018			Total
	Stage 1 12-month expected credit losses	Stage 2 Life-time expected credit losses for assets that are not credit impaired	Stage 3 Life-time expected credit losses for assets that are credit impaired	
Finance lease receivables				
Balance at the beginning of the period	(2,450,664)	(196,833)	(4,007,217)	(6,654,714)
Impact of adopting IFRS 9 as at 1 January 2018	(814,067)	(61,905)	-	(875,972)
Transfer to Stage 2	34,525	(34,525)	-	-
Transfer to Stage 3	-	248,221	(248,221)	-
Net remeasurement of loss allowance	263,464	(90,546)	(4,437,885)	(4,264,967)
Recovery of the previously written-off amount	-	-	(158,760)	(158,760)
Transfer of allowance to other assets for foreclosed leased items	-	-	51,614	51,614
Unwinding of discount for the year	-	-	560	560
Balance at 31 December 2018	(2,966,742)	(135,588)	(8,799,909)	(11,902,239)

Analysis of movements in gross carrying amount

Increase in financing of lease transactions for 2019 caused increase in gross carrying amount of lease portfolio for the total amount of KZT 91,368,310 thousand and appropriate increase in loss allowance for the portfolio by KZT 2,591,229 thousand.

Decrease in the receivables of gross carrying amount of KZT 17,171,994 thousand resulted in decrease in loss allowance for the portfolio by KZT 2,588,406 thousand.

Embedded derivative financial instrument

The repayment of investment in finance leases of KZT 7,908,031 thousand and KZT 14,980,142 thousand is linked to appreciation of the rate of the US dollar (USD) and Russian rouble (RUB) against KZT, respectively (2018: KZT 9,399,558 thousand and KZT 16,628,249 is linked to appreciation of USD and RUB against KZT). If the rate of USD and RUB increases, the amount receivable is increased by the respective index. If the rate of USD and RUB decreases, the amount receivable is not adjusted below the original amount in KZT. The base for calculation of the embedded derivative includes all future payments under finance lease agreements and contingent liabilities linked to appreciation of USD and RUB against KZT and as at 31 December 2019 amounts to KZT 10,100,626 thousand and KZT 23,639,588 thousand, respectively (31 December 2018: KZT 12,248,171 thousand linked to appreciation of USD against KZT and KZT 25,558,549 thousand linked to appreciation of RUB against KZT).

These embedded derivatives were recorded at fair value in the financial statements in finance lease receivables. The estimated amount of the embedded derivatives, which is included in finance lease receivables as at 31 December 2019 is KZT 6,651,931 thousand (31 December 2018: KZT 3,834,190 thousand). Fair value was calculated using a model based on the Black-Scholes option pricing model.

The management uses the following assumptions for valuation of the embedded derivatives:

- risk-free rates are estimated using yield curves for respective currencies and range from 1.581% to 1.851% for USD, and from 6.431% to 6.726% for RUB, and from 9.058% to 9.149% for KZT (31 December 2018: from 2.357% to 2.794% for USD, from 8.681% to 11.708% for RUB and from 8.042% to 8.675% for KZT);
- volatility in the model is defined based on the historical half-year observations of fluctuations in actual foreign exchange rates;
- no transaction cost is included in the model.

If the spreads between KZT and USD risk-free rates narrows by 0.5% under all contracts, the fair value of the derivative would decrease by KZT 134,634 thousand. If the spreads between KZT and RUB risk-free rates narrows by 0.5% under all contracts, the fair value of the derivative would increase by KZT 311,139 thousand. Decrease of volatility of USD rates by 50% would not result in decrease of the fair value of embedded derivative. Decrease of volatility of RUB rates by 50% would result in decrease of the fair value of embedded derivative by KZT 16,025 thousand.

Credit quality of finance lease portfolio

The following table sets out information about the credit quality of the finance lease portfolio as at 31 December 2019:

KZT '000	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses on assets that are not credit- impaired	Stage 3 Lifetime expected credit losses on assets that are credit- impaired	At fair value through profit or loss (embedded derivative financial instrument)	Total
Leases to large corporates					
- not overdue	86,943,033	-	-	5,504,617	92,447,650
- overdue less than 30 days	-	-	11,316,289	-	11,316,289
- overdue more than 360 days	-	-	1,079,766	-	1,079,766
Total gross leases to large corporates	86,943,033	-	12,396,055	5,504,617	104,843,705
Loss allowance	(687,158)	-	(6,624,756)	-	(7,311,914)
Total leases to large corporates	86,255,875	-	5,771,299	5,504,617	97,531,791
Leases to small- and medium-sized companies					
- not overdue	74,030,685	7,646,802	3,963,165	1,147,314	86,787,966
- overdue less than 30 days	4,291,283	-	2,851,204	-	7,142,487
- overdue 30-89 days	4,918	1,439,161	260,981	-	1,705,060
- overdue 90-360 days	-	-	1,073,566	-	1,073,566
- overdue more than 360 days	-	-	686,972	-	686,972
Total gross leases to small- and medium-sized companies	78,326,886	9,085,963	8,835,888	1,147,314	97,396,051
Loss allowance	(2,015,625)	(74,558)	(2,497,319)	-	(4,587,502)
Total leases to small- and medium-sized companies	76,311,261	9,011,405	6,338,569	1,147,314	92,808,549
Total finance leases	162,567,136	9,011,405	12,109,868	6,651,931	190,340,340

The following table sets out information about the credit quality of the finance lease portfolio as at 31 December 2018:

KZT '000	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses on assets that are not credit- impaired	Stage 3 Lifetime expected credit losses on assets that are credit- impaired	At fair value through profit or loss (embedded derivative financial instrument)	Total
Leases to large corporates					
- not overdue	49,722,686	-	11,195,625	3,663,172	64,581,483
- overdue 90-360 days	-	-	69,773	-	69,773
- overdue more than 360 days	-	-	1,783,795	-	1,783,795
Total gross leases to large corporates	49,722,686	-	13,049,193	3,663,172	66,435,051
Loss allowance	(1,264,780)	-	(6,901,246)	-	(8,166,026)
Total leases to large corporates	48,457,906	-	6,147,947	3,663,172	58,269,025
Leases to small- and medium-sized companies					
- not overdue	50,713,706	1,322,758	1,992,684	171,018	54,200,166
- overdue less than 30 days	174,679	3,554	42,966	-	221,199
- overdue 30-89 days	-	482,390	1,909,729	-	2,392,119
- overdue 90-360 days	-	-	1,977,164	-	1,977,164
Total gross leases to small- and medium-sized companies	50,888,385	1,808,702	5,922,543	171,018	58,790,648
Loss allowance	(1,701,962)	(135,588)	(1,898,663)	-	(3,736,213)
Total leases to small- and medium-sized companies	49,186,423	1,673,114	4,023,880	171,018	55,054,435
Total finance leases	97,644,329	1,673,114	10,171,827	3,834,190	113,323,460

Analysis of collateral

The following table sets out information about collateral, leased assets and other credit enhancements securing finance lease receivables (net of loss allowance and excluding embedded derivative) as at 31 December 2019, by types of collateral:

31 December 2019 KZT '000	Finance lease receivables, carrying amount	Fair value of collateral: □ for collateral assessed as of the reporting date
Leases for which ECL are measured as 12-month ECL:		
Real estate	3,170,630	3,170,630
Vehicles	115,186,711	115,186,711
Equipment	27,279,858	27,279,858
Guarantees from legal entities (rated from BB- to BB+)	16,306,103	-
No collateral or other credit enhancement	623,834	-
Total leases for which ECL are measured as 12-month ECL	162,567,136	145,637,199

31 December 2019 KZT '000	Finance lease receivables, carrying amount	Fair value of collateral: <input type="checkbox"/> for collateral assessed as of the reporting date
Leases for which ECL are measured as lifetime ECL for assets that are not credit-impaired:		
Real estate	479,480	479,480
Vehicles	8,340,927	8,340,927
No collateral or other credit enhancement	190,998	-
Total leases for which ECL are measured as lifetime ECL for assets that are not credit-impaired	9,011,405	8,820,407
Leases for which ECL are measured as lifetime ECL for assets that are credit-impaired		
Real estate	2,654,403	2,654,403
Vehicles	2,636,013	2,636,013
Equipment	6,819,452	6,819,452
Total leases for which ECL are measured as lifetime ECL for assets that are credit-impaired	12,109,868	12,109,868
Total finance lease receivables	183,688,409	166,567,474

The following table sets out information about collateral, leased assets and other credit enhancements securing finance lease receivables, net of impairment allowance, as at 31 December 2018, by types of collateral:

31 December 2018 KZT '000	Finance lease receivables, carrying amount	Fair value of collateral: for collateral assessed as of the reporting date
Leases for which ECL are measured as 12-month ECL:		
Real estate	2,815,363	2,815,363
Vehicles	71,213,161	71,213,161
Equipment	14,279,518	14,279,518
Guarantees from legal entities (rated from BB- to BB+)	4,555,285	-
No collateral or other credit enhancement	4,781,002	-
Total leases for which ECL are measured as 12-month ECL	97,644,329	88,308,042
Leases for which ECL are measured as lifetime ECL for assets that are not credit-impaired:		
Real estate	328,193	328,193
Vehicles	452,911	452,911
Equipment	624,327	624,327
No collateral or other credit enhancement	267,683	-
Total leases for which ECL are measured as lifetime ECL for assets that are not credit-impaired	1,673,114	1,405,431

31 December 2018 KZT '000	Finance lease receivables, carrying amount	Fair value of collateral: for collateral assessed as of the reporting date
Leases for which ECL are measured as lifetime ECL for assets that are credit-impaired:		
Real estate	2,884,879	2,884,879
Vehicles	975,462	975,462
Equipment	6,311,486	6,311,486
Total leases for which ECL are measured as lifetime ECL for assets that are credit-impaired	10,171,827	10,171,827
Total finance lease receivables	109,489,270	99,885,300

The tables above exclude overcollateralization.

The Group has no finance lease receivables, for which the fair value of collateral was assessed at the loan inception date and it was not updated for further changes, and finance lease receivables for which the fair value of collateral is not determined. Information on the valuation of collateral is based on when this estimate was made, if any.

For finance lease receivables secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Sureties received from individuals, such as shareholders of small- and medium-sized lessees, are not considered for impairment assessment purposes. Therefore, such finance lease receivables and unsecured portions of partially secured exposures are presented as leases without collateral or other credit enhancement.

The recoverability of finance lease receivables, which are neither past due nor impaired, primarily depends on the creditworthiness of lessees rather than the value of collateral, and the Group does not necessarily update the valuation of collateral as at each reporting date.

The following table sets out information about finance lease receivables, for which no loss allowance has been recognised due to collateral provided securing these receivables as at 31 December 2019:

KZT '000	Fair value of collateral							
	Gross carrying amount	Loss allowance	Carrying amount	Cash and deposits	Vehicles	Real estate	Other collateral (equip- ment)	Total
Finance lease receivables	15,123,357	-	15,123,357	-	10,073,745	939,283	4,110,329	15,123,357
Total	15,123,357	-	15,123,357	-	10,073,745	939,283	4,110,329	15,123,357

The following table sets out information about finance lease receivables, for which no loss allowance has been recognised due to collateral provided securing these receivables as at 31 December 2018:

KZT '000	Fair value of collateral							
	Gross carrying amount	Loss allowance	Carrying amount	Cash and deposits	Vehicles	Real estate	Other collateral (equip- ment)	Total
Finance lease receivables	16,983,657	-	16,983,657	-	10,592,829	1,577,443	4,813,385	16,983,657
Total	16,983,657	-	16,983,657	-	10,592,829	1,577,443	4,813,385	16,983,657

Foreclosed leased items

During the year ended 31 December 2019, the Group obtained foreclosed leased items for the amount of KZT 956,836 thousand (2018: KZT 760 thousand).

18 Debt securities

	31 December 2019 KZT '000	31 December 2018 KZT '000
Debt securities measured at fair value through other comprehensive income	213,793,539	223,738,989
Debt securities measured at amortised cost	10,742,613	6,530,076
Debt securities measured at fair value through profit or loss	929,906	8,104,442
	225,466,058	238,373,507

Debt securities measured at fair value through other comprehensive income

	31 December 2019 KZT '000	31 December 2018 KZT '000
Debt securities of government bodies of other countries	138,633,191	16,734,899
Corporate bonds of Kazakhstan issuers	26,465,487	8,663,379
Bonds of the Sovereign Wealth Fund "Samruk-Kazyna" JSC	23,791,295	22,588,367
Bonds of Kazakhstan banks	10,307,197	12,355,169
Corporate bonds of non-resident issuers	7,940,231	-
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	6,656,138	133,236,065
Bonds of Kazakhstan credit institutions other than banks	-	21,450,059
Bonds of the CIS financial institutions	-	7,762,612
Notes of the NBRK	-	948,439
Total debt assets measured at fair value through other comprehensive income	213,793,539	223,738,989

Debt securities measured at amortised cost

	31 December 2019 KZT '000	31 December 2018 KZT '000
Bonds of the Sovereign Wealth Fund "Samruk-Kazyna" JSC	6,516,175	6,074,969
Corporate bonds of Kazakhstan issuers	3,747,747	-
Bonds of Kazakhstan banks (POCI-asset)	1,891,309	1,867,440
	12,155,231	7,942,409
Loss allowance	(1,412,618)	(1,412,333)
Total debt securities measured at amortised cost	10,742,613	6,530,076

On 27 November 2018, following the restructuring of liabilities of First Heartland Jýsan Bank JSC (former Tsesnabank JSC), its outstanding loans in the amount of KZT 5,143,159 thousand were restructured (Note 15). As part of such restructuring, the Group's claims were substituted for bonds of First Heartland Jýsan Bank JSC. These bonds mature in fifteen years and provide for payment of coupon interest of 0.1% per annum and are accounted for by the Group as the assets that are credit-impaired on initial recognition, measured at amortised cost, and included in debt securities. Fair value of these securities on initial recognition amounted to KZT 1,848,668 thousand and was calculated using a discount rate of 18.8 % per annum.

In January 2019, these debt securities measured at amortised cost, issued by First Heartland Jýsan Bank JSC were restructured under the Framework Agreement. As part of the said restructuring, the nominal interest rate on the bonds was reduced to 0.1% and repayment term was extended until 2034.

Debt securities measured at fair value through profit or loss

	31 December 2019 KZT '000	31 December 2018: KZT '000
Corporate bonds (not rated)	929,906	1,907,808
Bonds of Kazakhstan banks (rated BB-)	-	6,196,634
Total debt securities measured at fair value through profit or loss	929,906	8,104,442

19 Advances paid under finance lease agreements

	31 December 2019 KZT '000	31 December 2018 KZT '000
Advances paid to suppliers of equipment under finance lease	107,306,831	65,904,378
Cash placed under irrevocable letters of credits	31,429,544	4,773,197
Other	227	227
	138,736,602	70,677,802
Impairment allowance	(5,463,509)	-
Total advances paid under finance lease agreements	133,273,093	70,677,802

As at 31 December 2019, an impairment allowance of KZT 5,451,754 thousand was recognised for advances paid under finance lease agreement in the amount of KZT 6,487,178 thousand with respect to one supplier (31 December 2018: KZT nil), which took into account the terms of restructuring, the financial condition of the counteragent and availability of finished goods for transfer. The Group was waiting for the results of the agreement to be achieved between the lessee and supplier on new terms of supply, which had to take into account the increase in price and timing of delivery of leased items, and therefore, accounts receivable were not claimed to be paid by the supplier and no impairment allowance was charged in 2018. In 2019, due to the lessee's disagreement with new terms of supply, the Group claimed for the supplier to pay off total of the receivables.

In calculating the allowance for advances paid under finance lease agreements, the following assumptions were made:

- the supplier of rail cars (the counteragent) was internally rated D, based on the analysis of its financial position and considering the delay in delivery of leased items;
- the amount of loss, net of value of finished goods to be shipped, is equal to 84% of the advance paid or KZT 5,451,754 thousand.

Movements in the impairment allowance on advances paid under finance lease agreements for the years ended 31 December 2019 and 2018 are as follows:

KZT '000	31 December 2019	31 December 2018
Balance at the beginning of the year	-	-
Net charge for the year	(5,463,509)	-
Balance at the end of the year	(5,463,509)	-

20 Assets to be transferred under finance lease agreements

As at 31 December 2019, there was no transfer of assets suspended by the Group due to failure of lessees to meet contractual terms of lease agreements (31 December 2018: KZT 323,174 thousand). As at 31 December 2019 and 31 December 2018, an impairment allowance was recognised in the amount of KZT 0.00 thousand and KZT 312,608 thousand, respectively.

KZT '000	31 December 2019	31 December 2018
Equipment	14,822,012	9,087,309
Impairment allowance	-	(312,608)
Total assets to be transferred under finance lease	14,822,012	8,774,701

Movements in the impairment allowance on assets to be transferred under finance lease agreements for the years ended 31 December 2019 and 2018 are as follows:

KZT '000	31 December 2019	31 December 2018
Balance at the beginning of the period	(312,608)	(345,313)
Net charge for the year	(10,566)	32,705
Reclassified to other assets	323,174	-
Balance at the end of the year	-	(312,608)

21 Equity investments

KZT '000	31 December 2019	31 December 2018
DBK Equity Fund C.V.	19,506,343	9,152,911
	19,506,343	9,152,911

In accordance with the terms and conditions of the Agreement on establishment of the limited liability partnership dated 3 November 2017 concluded by BV Management LLP, DBK Capital Structure B.V. and Kazyna Capital Management JSC (the "Agreement"), which jointly established DBK Equity Fund C.V. (the "Fund"), the gross contribution of investments to the Fund amounted to KZT 33,515,000 thousand. The shares of the contributions are as follows:

- The Group (via DBK Capital Structure B.V.) (Limited Partner A)– 97% ownership interest;
- Kazyna Capital Management JSC (Limited Partner B)– 2.99% ownership interest;
- BV Management LLP (General Partner) - 0.01% ownership interest.

The main purpose to have established the Fund is investing in share capital of corporates whose principal activities are development of infrastructure projects in target areas. The Fund's operations are primarily located in Kazakhstan, while the country of incorporation is the Netherlands.

Nature and extent of the Group's involvement

The Group holds a 97% interest in the Fund via DBK Capital Structure B.V., and being a limited liability partner under the Agreement is not involved in the decision-making process related to the Fund's investing activities. The Fund's management company is the General Partner (BV Management LLP) who is responsible for making investing decisions, and governed by the Investment Policy in accordance with the Agreement. The General Partner is free to select assets for capital investment and makes key decisions on the Fund's operating activities and investees' capital, including budgets and key management remuneration.

The Investment Policy is amended by the General Partner subject to approval by the Supervisory Board. The Group has the right to appoint one of the four members of the Supervisory Board. Significant decisions on investment activity are made by the General Partner upon approval by the Investment Committee. The Group has the right to appoint one of the five members of the Investment Committee.

Under the Agreement, the Group has no right to individually make decisions on re-appointment of the General Partner who manages the Fund. Decisions on re-appointment of the General Partner under the Agreement are made upon joint consent by limited partners. Under the terms of the Agreement, there are certain conditions which are attached to the reappointment of the General Partner, including:

- notification of the General Partner 6 month prior to re-appointment;
- searching for a new general partner who is prepared for buy-out of the predecessor General Partner's rights and obligations.
- a new General Partner is appointed by common consent of the limited liability partners.

These conditions make the general partner reappointment process more difficult.

In accordance with the above, under the IFRS 10 *Consolidated Financial Statements*, the Group has no control over the Fund as at 31 December 2019, does not exercise control over the Fund and does not consolidate the Fund.

As the Fund's Investment Policy has been approved in the Agreement, and the Fund is managed by the General Partner in compliance with such Policy without involvement of the limited partners, the Group believes that it does not have a significant impact on the Fund's activity. Thus, the Group accounts for the Fund in compliance with IFRS 9.

Under IFRS 9, there are exceptions to general requirements to the classification of financial instruments related to investments in equity instruments. On initial recognition of an equity investment that is not held for trading, an entity can make an irrevocable decision to present changes in fair value of such investments in OCI. The Group decided to use such exception. As at 31 December 2019 and 2018 equity investments are recognised by the Group at fair value through other comprehensive income.

During 2019, the Group financed the Fund in the amount of KZT 10,134,676 thousand (in 2018: KZT 9,152,911 thousand). During 2019, the Fund invested such funds in investment projects.

As at 31 December 2019, the fair value of equity investments of KZT 19,506,343 thousand was measured by estimating present value of projected cash flows using a market discount rates ranging from 15.60% to 17.94%.

22 Other assets

	31 December 2019	31 December 2018
	KZT '000	KZT '000
Other financial assets measured at amortised cost		
Accounts receivable from IFK JSC	22,346,686	21,610,057
Fee prepaid for an undrawn loan commitment	851,684	855,183
Interest unpaid on finance leases under which leased items were foreclosed	471,671	-
Fee and commission income accrued	331,398	276,480
Accounts receivable under legal claims	222,588	21,341
Trade and other receivables	116,341	81,245
Other	5,502	9,389
Total other financial assets measured at amortised cost, gross	24,345,870	22,853,695
Loss allowance	(691,324)	(324,394)
Total other financial assets measured at amortised cost, net	23,654,546	22,529,301
Other assets at fair value through profit or loss	61,886	45,867
Total financial assets	23,716,432	22,575,168
Assets foreclosed under leases	2,260,183	1,464,457
Prepayments	537,809	600,370
Non-current assets held for sale	403,416	-
Taxes and duties, other than income tax	237,607	168,744
Assets received as additional collateral	212,817	222,618
Trade and other receivables	57,961	64,575
Raw materials and supplies	21,937	29,910
Deferred expenses	10,019	8,880
Other	8,250	482
Total other non-financial assets, gross	3,749,999	2,560,036
Impairment allowance	(1,409,665)	(671,036)
Total non-financial assets	2,340,334	1,889,000
Total other assets	26,056,766	24,464,168

As at 31 December 2019, net carrying amount of past due receivables amounted to KZT 4,133 thousand (31 December 2018: KZT 2,089 thousand).

Accounts receivable from IFK JSC were secured as at 31 December 2019 by a term deposit of KZT 10,225,000 thousand (as at 31 December 2018: KZT 8,813,200 thousand), which carries an annual interest rate of 9%. In addition, these accounts receivable are secured by debt securities issued by the Group, the carrying amount of which is KZT 8,015,729 thousand as at 31 December 2019 (31 December 2018: KZT 7,991,018 thousand).

Analysis of movements in impairment allowance

Movements in the impairment allowance for other financial assets for the years ended 31 December 2019 and 2018 are as follows:

	2019 KZT '000	2018 KZT '000
Balance at the beginning of the year	(324,394)	(74,690)
Transition to IFRS 9	-	41,536
Net recovery / (charge) of impairment allowance	98,405	(284,608)
Transfer from finance lease receivables (Note 17)	(471,671)	-
Effect of changes in foreign exchange rates	76	(6,632)
Write-off	6,260	-
Balance at the end of the year	(691,324)	(324,394)

Movements in the impairment allowance for other non-financial assets the years ended 31 December 2019 and 2018 are as follows:

	2019 KZT '000	2018 KZT '000
Balance at the beginning of the year	(671,036)	(337,771)
Net charge of impairment allowance	(453,164)	(193,681)
Reclassified from assets to be transferred under finance leases (Note 20)	(323,174)	-
Write-off /(recovery)	37,709	(139,584)
Balance at the end of the year	(1,409,665)	(671,036)

23 Derivative financial instruments

(a) The Group's approach to derivative transactions

As at 31 December 2019 and 2018, the Group had the following derivative financial instruments. For information on the Group's embedded derivatives see Note 17.

Type of instrument	Notional amount	Maturity	Payments made by the Group	Payments received by the Group	31 December 2019 KZT '000	31 December 2018 KZT '000
Fixed at 8.7% p.a. and KZT 9,382,500 thousand at maturity						
Cross-currency interest rate swap	USD 50,000,000	07/08/2020	USD 50,000,000 at maturity		10,012,213	8,759,049
KZT 3,219,509 thousand at maturity						
Options	KZT 3,219,509 thousand	15/06/2020	-	KZT 3,219,509 thousand at maturity	148,478	175,065
KZT 16,000,000,000 at maturity						
Options	KZT 16,000,000,000	14/01/2020	Fixed at 8.7% p.a.	KZT 16,000,000,000 at maturity	-	165,667
					10,160,691	9,099,781

The Group may enter into swap agreements and other types of over-the-counter transactions with broker's dealers or other financial institutions. A swap involves the exchange by the Group with another party of their respective commitments to pay or receive cash flows, e.g. an exchange of floating rate payments for fixed-rate payments.

Swap agreements and similar transactions can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structures, swap agreements may increase or decrease the Group's exposure to long or short-term interest rates, foreign currency values, corporate borrowing rates, or other factors such as security prices or inflation rates. The value of the swap positions would increase or decrease depending on the changes in value of the underlying rates or currency values. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the Group's investments.

The Group's ability to realise a profit from such transactions will depend on the ability of the financial institution with which it enters into the transaction to meet their obligations to the Group. If a counterparty's creditworthiness declines, the value of the agreement would be likely to decline, potentially resulting in losses. In case of default on obligations by the other party to such transaction, the Group will have contractual remedies pursuant to the agreements related to the transaction, which may be limited by applicable law in case of the counterparty's insolvency.

(b) Significant foreign currency transactions

During the period ended 31 December 2019, management revised assumptions applied to currency swap valuation due to changes in the base market terms. To determine a fair value of the derivative financial instruments at 31 December 2019, management made an assumption that the following rates are appropriate for the Group: 10.08% in KZT and 2.32% in USD (2018: from 7.10% to 9.31% in KZT, and 4.33% in USD).

None of derivative financial instruments are past due.

In case of default on obligations by the other party to such transaction, the Group will have contractual remedies pursuant to the agreements related to the transaction, which may be limited by applicable law in case of the counterparty's insolvency.

24 Current accounts and deposits from customers

	31 December 2019	31 December 2018
	KZT '000	KZT '000
Term deposits from customers	10,225,000	8,813,200
Deposits used as collateral for loans issued to customers	2,604,700	9,281,932
Current accounts and demand deposits	2,590,467	1,230,565
Deposits pledged as collateral	1,816,140	-
	17,236,307	19,325,697

As at 31 December 2019, current accounts and deposits from customers serve as collateral for loans issued to customers in the amount of KZT 2,604,700 thousand (as at 31 December 2018: KZT 9,281,932 thousand) and for other financial assets in the amount of KZT 10,225,000 thousand (as at 31 December 2018: KZT 8,813,200 thousand).

25 Loans from the Government of the Republic of Kazakhstan and the SWF "Samruk-Kazyna"

	31 December 2019	31 December 2018
	KZT '000	KZT '000
Loans received from the SWF "Samruk-Kazyna"	26,986,268	26,052,243
Loans received from the Government of the Republic of Kazakhstan	-	8,936,029
	26,986,268	34,988,272

As at 31 December 2019 and 2018, the loans from the Government of the Republic of Kazakhstan and SWF “Samruk-Kazyna” comprised long-term loans granted from the state budget to support certain industries, including textile, gas processing and chemicals. The funds were used to provide loans to these entities at below market rates.

26 Loans and due from banks and other financial institutions

	31 December 2019 KZT '000	31 December 2018 KZT '000
Loans with fixed interest rate		
Loans from OECD banks	11,088,390	15,693,929
Loans from non-OECD banks	176,983,933	199,072,526
Total loans with fixed interest rate	188,072,323	214,766,455
Loans with floating interest rate		
Loans from non-OECD banks	364,305,254	520,981,157
Total loans with floating interest rate	364,305,254	520,981,157
Unamortised portion of borrowing costs	(12,082,208)	(16,974,452)
	540,295,369	718,773,160

During the year ended 31 December 2019, the Group partially repaid two loans from foreign banks in the total amount of USD 443,119 thousand. At the same time, the Group raised two loans from foreign banks in the total amount of USD 200,000 thousand.

During 2019, the Group recognised expenses from early repayment of loans from banks and other financial institutions in the amount of KZT 2,712,811 thousand (during 2018: KZT 3,083,818 thousand) and fee and commission expense of KZT 2,803,844 thousand repaid by the borrowers under the terms of the loan agreements (Note 9).

As at 31 December 2019, included in loans and due from banks and other financial institutes is accrued interest expense of KZT 4,136,302 thousand (31 December 2018: KZT 9,290,776 thousand).

27 Loans from the Parent Company

	31 December 2019 KZT '000	31 December 2018 KZT '000
Loans from the Parent Company	175,228,967	121,561,866
	175,228,967	121,561,866

As at 31 December 2019 the loans from the Parent Company comprised eighteen long-term loans extended by NMH Baiterek JSC (as at 31 December 2018: eleven long-term loans). Terms of subsequent loans under these agreements are defined by the terms and conditions of the Government programme.

	Loan amount	Nominal interest rate	Effective rate	Borrowing date	Maturity date	Carrying amount 31 December 2019	Carrying amount 31 December 2018
1	75,000,000	0.15	9.75	28.10.2016	27.10.2036	33,075,350	30,243,524
2	10,000,000	0.15	10.30	28.10.2016	27.10.2026	6,745,296	6,744,801
3	12,861,805	0.08	9.75	28.10.2016	27.10.2036	5,642,183	5,150,444
4	17,500,000	0.15	9.42	14.04.2017	29.03.2027	12,813,083	11,735,554
5	18,600,000	0.08	8.78	25.04.2017	13.04.2037	8,453,556	7,785,574
6	80,000,000	0.15	8.78	25.04.2017	20.04.2037	36,505,602	33,672,942
7	10,000,000	0.15	8.91	25.12.2017	10.12.2037	4,179,934	3,852,132
8	10,000,000	0.15	8.48	30.05.2018	06.04.2027	7,202,254	6,653,557
9	13,000,000	0.15	8.48	03.08.2018	25.07.2033	6,789,991	6,277,747
10	12,000,000	0.15	8.50	29.08.2018	08.08.2038	5,062,404	4,682,243
11	12,537,182	0.08	8.46	19.12.2018	07.11.2038	5,157,296	4,763,348
12	10,000,000	0.15	8.72	29.04.2019	12.04.2037	4,177,842	-
13	14,000,000	0.15	8.80	28.06.2019	14.04.2027	9,601,356	-
14	23,546,000	0.15	10.80	01.07.2019	03.06.2029	13,339,413	-
15	11,258,978	0.08	10.89	29.07.2019	21.07.2039	3,447,347	-
16	11,000,000	0.15	10.37	24.09.2019	18.08.2038	3,682,337	-
17	18,741,022	0.08	10.57	09.12.2019	29.11.2039	5,712,331	-
18	6,000,000	0.15	10.59	20.12.2019	27.11.2027	3,641,392	-
Total:						175,228,967	121,561,866

A loan of KZT 10,000,000 thousand was received in April 2019 at the interest rate of 0.15% per annum and is repayable on 12 April 2037. The loan has been issued for subsequent lending to individuals who purchase passenger cars manufactured in Kazakhstan and for providing lease financing to legal entities and individual entrepreneurs that lease motor vehicles and special-purpose automotive equipment, except for the agricultural equipment produced in Kazakhstan. The loan was initially recognised at fair value estimated by discounting its contractual cash flows using a market interest rate of 8.72%. Discount of KZT 6,044,540 thousand between the fair value and consideration received was recognised as a government grant.

A loan of KZT 14,000,000 thousand was received in June 2019 at an interest rate of 0.15% per annum and is repayable on 14 April 2027. The loan has been issued for subsequent lending funds to DBK-Leasing JSC at an interest rate of 0.20% per annum for a term of 8 years to provide the long-term lease financing as a part of the State Program of Business Development and Support “Business Roadmap 2020”. The loan was initially recognised at fair value estimated by discounting its contractual cash flows using a market interest rate of 8.80%. Discount of KZT 4,793,160 thousand between the fair value and consideration received was recognised as a government grant.

A loan of KZT 23,546,000 thousand was received in July 2019 at an interest rate of 0.15% per annum and is repayable on 03 June 2029. The loan was provided for financing the Sary-Arka Main Pipeline project. The loan was initially recognised at fair value estimated by discounting its contractual cash flows using a market interest rate of 10.80%. Discount of KZT 10,875,148 thousand between the fair value and consideration received was recognised as a government grant.

A loan of KZT 11,258,978 thousand was received in July 2019 at an interest rate of 0.08% per annum and is repayable on 21 July 2039. The loan with an interest rate of 0.10 % per annum was provided to further finance DBK-Leasing JSC for the latter to provide financing to Passazhirskiye Perevozki JSC (*Passenger Transportation JSC*) for renewal of its fleet of passenger cars. The loan was initially recognised at fair value estimated by discounting its contractual cash flows using a market interest rate of 10.89%. Discount of KZT 7,956,783 thousand between the fair value and consideration received was recognised as a government grant.

A loan of KZT 11,000,000 thousand was received in September 2019 at an interest rate of 0.15% per annum and is repayable on 18 August 2038. The loan was provided for financing investment projects under to State Program of the Industrial and Innovative Development of the Republic of Kazakhstan for 2015-2019. The loan was initially recognised at fair value estimated by discounting its contractual cash flows using a market interest rate of 10.37%. Discount of KZT 7,411,051 thousand between the fair value and consideration received was recognised as a government grant.

A loan of KZT 18,741,022 thousand was received in December 2019 at an interest rate of 0.08% per annum and is repayable on 29 November 2039. The loan with an interest rate of 0.10 % per annum was provided to further finance DBK-Leasing JSC for the latter to provide financing to Passazhirskiye Perevozki JSC (*Passenger Transportation JSC*) for renewal of its fleet of passenger cars. The loan was initially recognised at fair value estimated by discounting its contractual cash flows using a market interest rate of 10.57%. Discount of KZT 13,063,182 thousand between the fair value and consideration received was recognised as a government grant.

A loan of KZT 6,000,000 thousand was received in December 2019 at an interest rate of 0.15% per annum and is repayable on 27 November 2027. The loan has been issued for subsequent lending funds to DBK-Leasing JSC at an interest rate of 0.20% per annum for a term of 8 years to provide the long-term lease financing as a part of the State Program of Business Development and Support “Business Roadmap 2020”. The loan was initially recognised at fair value estimated by discounting its contractual cash flows using a market interest rate of 10.59%. Discount of KZT 2,369,638 thousand between the fair value and consideration received was recognised as a government grant.

28 Government grants

The Group recorded as government grants the benefits obtained by means of low-interest rate loans from the Parent Company, Baiterek Development JSC and SWF “Samruk-Kazyna”.

	2019	2018
	KZT '000	KZT '000
Balance at the beginning of the year	175,264,813	185,447,772
A Government grant on loans received from the Government through the Parent Company	52,513,502	25,813,935
A Government grant received from the National Bank of the RK by means of issuing bonds (Note 29)	17,096,041	-
Recovery of the allocated amount of the Government grant (Note 9)	10,966,934	-
Use of the Government grant upon issuance of low interest rate loans to commercial banks (Note 9)	(26,628,762)	(5,163,514)
Use of the Government grant upon issuance of loans to other borrowers (Note 9)	(6,137,822)	(20,347,963)
Use of the Government grant for finance lease agreements entered (Note 5)	(7,198,444)	(4,857,459)
Amortisation for the year (Note 9)	(4,942,876)	(5,627,958)
Balance at the end of the year	210,933,386	175,264,813

The Group bears responsibility for allocation of benefits to the end borrowers through setting low interest rate on loans. Subsequent to initial recognition the Group allocated to profit or loss an amount corresponding to the debt relief provided to the borrowers.

During the year ended 31 December 2019 the Government grants transferred to profit or loss amounted to KZT 37,709,460 thousand (31 December 2018: KZT 31,139,435 thousand) and were included in other expenses (Note 9). Moreover, during the year ended 31 December 2019, the Government grant of KZT 10,966,934 thousand was recovered due to the reversal of recognised expenses for estimated liabilities to extend loans at the rate below market interest rate, upon expiry of the availability of the credit facility (Note 9).

As at 31 December 2019 and 2018, the Government grants are broken by the following programs:

	2019 KZT '000	2018 KZT '000
Financing of the investment projects under the State Program of Industrial-Innovative Development of the Republic of Kazakhstan for 2015-2019	90,543,621	80,610,602
Nurly Zhol - financing export and pre-export lending, domestic car and passenger car manufacturers	25,653,104	27,343,279
Long-term lease financing as a part of the Uniform Program of Business Development and Support "Business Roadmap 2020"	20,995,311	18,288,369
Nurly Zhol –lease financing for replacement of passenger cars fleet of Passenger Carriages JSC	42,201,517	22,918,515
Nurly Zhol - financing export and pre-export lending	8,907,917	9,461,491
Lease financing for lease sale of buses, tractors and combine harvesters	6,178,784	6,724,153
Financing of domestic car manufacturers through conditional financing of second-tier banks for further financing of individuals - buyers of motor vehicles manufactured in Kazakhstan as well as lease financing of legal entities and individual entrepreneurs, which take for lease motor vehicles and automotive equipment of special purpose, except for agricultural vehicles produced in Kazakhstan	11,828,266	4,622,608
Incentivising export of domestic locomotives by leasing financing of export deliveries by Locomotive Kurastyru Zauyty JSC	1,793,213	1,990,038
Financing of private entrepreneurship projects in the processing industry	1,256,900	1,446,830
Nurly Zhol – lease financing of medium and large businesses (including non-residents), which export domestic goods and import products manufactured in the Republic of Kazakhstan in the processing industry	1,092,400	1,159,684
Financing certain industries, including textile, gas processing and chemicals	440,200	642,253
Financing, including replacement of sources of financing of the end borrowers which implement investment projects in manufacturing industries	42,153	56,991
Balance at the end of the year	210,933,386	175,264,813

29 Debt securities issued

	31 December 2019 KZT'000	31 December 2018 '000 KZT
Debt securities with fixed interest rate		
Eurobonds denominate in USD	559,124,678	561,477,564
Eurobonds denominated in KZT	200,000,000	200,000,000
Bonds denominated in KZT	312,492,000	194,008,000
	1,071,616,678	955,485,564
Unamortised discount, net	(30,330,953)	(17,421,769)
	1,041,285,725	938,063,795
Accrued interest	10,258,543	8,002,290
	1,051,544,268	946,066,085

Development Bank of Kazakhstan JSC
Consolidated Statement of Changes in Equity for the year ended 31 December 2019

As at 31 December 2019 and 31 December 2018 debt securities issued comprised the following:

Type of instrument	Coupon rate	Effective rate	Date of issue	Maturity date Repayment	Carrying amount 31 December 2019	Carrying amount 31 December 2018
Eurobonds						
XS0220743776	6.50%	6.84%	03.06.2005	03.06.2020	38,390,693	38,433,072
Eurobonds						
XS0248160102	6.00%	6.27%	23.03.2006	23.03.2026	37,359,032	37,451,281
Eurobonds						
XS0860582435, US25159XAB91	4.125%	4.98%	10.12.2012	10.12.2022	473,453,909	471,994,361
Bonds						
KZ2C00003002	8.13%	8.13%	29.12.2014	29.12.2024	20,000,651	20,001,142
Bonds						
KZ2C00003580	14.00%	14.01%	25.05.2016	25.05.2026	65,875,707	65,880,907
Bonds						
KZ2C00003713	15.00%	15.01%	28.07.2016	28.07.2031	15,944,506	15,945,967
Bonds						
KZ2C00003648	14.00%	14.01%	01.08.2016	01.08.2026	18,502,142	18,503,260
Bonds						
KZ2C00003903	10.50%	10.53%	31.05.2017	31.05.2022	20,162,478	20,159,793
Bonds						
KZ2C00003911	10.50%	10.52%	06.06.2017	06.06.2024	30,189,495	30,188,877
Bonds						
KZ2C00004000	11.25%	11.27%	22.08.2017	22.08.2032	9,179,384	9,179,859
Bonds						
KZ2C00004018	11.25%	11.26%	23.08.2017	23.08.2030	9,180,939	9,181,457
Bonds						
KZ2C00004026	11.00%	11.01%	24.08.2017	24.08.2028	9,169,300	9,169,696
Eurobonds						
XS1734574137	9.50%	9.78%	14.12.2017	14.12.2020	100,148,371	99,903,922
Eurobonds						
XS1814831563	8.95%	9.54%	04.05.2018	04.05.2023	100,329,440	100,072,491
Bonds						
KZ2C00005908	10.00%	10.26%	18.06.2019	18.06.2026	27,563,313	-
Bonds						
KZ2C00005916	10.27%	10.53%	16.07.2019	16.07.2024	42,912,301	-
Bonds						
KZ2C00006286	0.15%	10.64%	07.10.2019	07.10.2039	2,962,155	-
Bonds						
KZ2C00004190	11.00%	11.31%	03.12.2019	03.12.2029	30,220,452	-
Total					1,051,544,268	946,066,085

The Group issued debt securities of par value of KZT 20,000,000 thousand in October 2019 at the interest rate of 0.15% per annum and maturity on 7 October 2039. Debt securities were issued for subsequent lending of the loans at low interest rate as part of the State Programme on financing the buyers of motor vehicles manufactured in Kazakhstan. On initial recognition, the debt securities issued were recognised at fair value calculated by discounting contractual cash flows in securities using the market interest rate of 10.64%. The discount of KZT 17,096,041 thousand between the fair value and consideration received was recognised as a government grant (Note 28).

Reconciliation of movements of liabilities to cash flows arising from financing activities

	2019 KZT'000	2018 KZT'000
Balance at 1 January	946,066,085	798,957,535
Changes from financing cash flows		
Receipts from debt securities issued	101,387,959	100,000,000
Repurchase/redemption of debt securities issued	-	(31,246,530)
Total changes from financing cash flows	101,387,959	68,753,470
Changes from operating cash flows		
Government grants received in the form of discount on debt securities issued at below market rate	17,096,041	-
Total changes from operating cash flows	17,096,041	-
Other changes		
Interest expense	74,616,647	67,202,494
Expense on repurchase of debt securities	-	1,269,793
Discount on initial recognition	(17,096,041)	-
Interest paid	(68,248,163)	(62,769,723)
Effect of changes in exchange rates	(2,278,260)	72,652,516
Balance at 31 December	1,051,544,268	946,066,085

30 Subordinated debt

	2019 KZT'000	2018 KZT'000
Subordinated debt with fixed interest rate		
Nominal in KZT	364,859,334	364,859,334
Unamortised discount, net	(260,418,959)	(266,611,594)
	104,440,375	98,247,740
Accrued interest	94,274	94,274
	104,534,649	98,342,014

In case of bankruptcy, the repayment of the subordinated debt will be made after repayment in full of all other Group's liabilities.

31 Other liabilities

	31 December 2019 KZT'000	31 December 2018 KZT'000
Financial liabilities		
Funds placed by customers as security for letters of credit	1,323,744	12,153,573
Other accrued expenses and accounts payable	1,228,570	1,071,724
Provision for payments to be made	672,112	589,461
Payables to employees	59,852	113,713
Fee and commission expense accrued	10,064	16,187
Total financial liabilities	3,294,342	13,944,658
Non-financial liabilities		
Advances received under finance lease	19,146,798	8,959,870
Prepayments	2,412,112	1,729,594
Short-term payables under grant funds	1,268,421	2,209,570
Payables to suppliers of equipment to be transferred under finance lease agreements	1,058,295	1,617,096
Tax liabilities other than on income tax	580,205	90,995
Liabilities under contracts with customers	23,080	100,650
Other liabilities	133,275	206,399
Total non-financial liabilities	24,622,186	14,914,174
	27,916,528	28,858,832

32 Provisions

	31 December 2019	31 December 2018
	KZT'000	KZT'000
Commitments to provide a loan at below market interest rate	5,448,924	10,968,511
Loss allowance for commitments to provide loans and financial guarantee contracts	2,114,619	3,840,559
	7,563,543	14,809,070

Commitments to provide a loan at below market interest rate is measured at the higher of the loss allowance recognised under IFRS 9 and initially recognised amount.

33 Deferred tax liabilities

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

(a) Recognised deferred tax assets and liabilities

Movement in temporary differences during the year ended 31 December 2019 is presented as follows:

KZT'000	Balance at 1 January 2015	Recognised in profit or loss	Balance at 31 December 2019
Property, plant and equipment and intangible assets	(89,454)	(102,325)	(191,779)
Loans to banks	13,413,494	5,126,628	18,540,122
Loans to customers	19,972,602	6,144,734	26,117,336
Other assets	3,405,592	(385,579)	3,020,013
Loans from the Parent Company	(61,568,821)	(6,897,690)	(68,466,511)
Loans and due from banks and other financial institutions	(1,143,554)	162,754	(980,800)
Government grants	23,900,891	2,723,502	26,624,393
Loans from the Government of the Republic of Kazakhstan and the SWF "Samruk-Kazyna"	(1,042,130)	253,503	(788,627)
Debt securities issued	(11,013)	(3,385,029)	(3,396,042)
Derivative financial instruments	(1,653,403)	(250,633)	(1,904,036)
Other liabilities	37,412	100,322	137,734
Provisions	2,193,668	(1,103,883)	1,089,785
Net deferred tax liabilities	(2,584,716)	2,386,304	(198,412)

Movement in temporary differences during the year ended 31 December 2018 can be presented as follows:

KZT'000	Balance at 1 January 2018	Recognised in profit or loss	Recognised directly in equity	Balance at 31 December 2018
Property, plant and equipment and intangible assets	11,954	(101,408)	-	(89,454)
Loans to banks	13,835,372	(421,878)	-	13,413,494
Loans to customers	17,144,939	2,827,663	-	19,972,602
Other assets	14,970	(7,549)	3,398,171	3,405,592
Loans from the Parent Company	(59,241,209)	(2,327,612)	-	(61,568,821)
Loans and due from banks and other financial institutions	(1,829,766)	686,212	-	(1,143,554)
Government grants	28,639,625	(4,738,734)	-	23,900,891
Loans from the Government of the Republic of Kazakhstan and the SWF "Samruk-Kazyna"	(1,286,716)	244,586	-	(1,042,130)
Debt securities issued	(13,621)	2,608	-	(11,013)
Derivative financial instruments	(10,734,943)	9,081,540	-	(1,653,403)
Other liabilities	93,925	(56,513)	-	37,412
Provisions	-	2,193,668	-	2,193,668
Net deferred tax liabilities	(13,365,470)	7,382,583	3,398,171	(2,584,716)

(b) Unrecognised deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2019 and 31 December 2018. Such deferred tax assets have not been recognised in these financial statements. Future tax benefits will only be realised if profits will be available against which unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Group's ability to claim deductions in future periods.

Deferred tax assets and liabilities have not been recognised in respect of the following items:

	2019 KZT'000	2018 KZT'000
Finance lease receivables	1,891,324	2,044,555
Embedded derivative	-	174,411
Off-balance interest income on finance lease receivables	64,664	70,796
Other deferred tax assets	28,930	13,110
	1,984,918	2,302,872

Temporary differences of KZT 1,279,974 thousand (in 2018: KZT 2,922,949 thousand) have not been recognised in the financial statements due to uncertainty concerning their realisation.

36 Share capital

(a) Issued capital

As at 31 December 2019 the authorised and issued share capital comprised 2,107,820 ordinary shares (31 December 2018: 2,106,895 ordinary shares).

During the year ended 31 December 2019, the Group issued 925 ordinary shares with a nominal value of KZT 40,000,000 each (31 December 2018: 250 ordinary shares with a nominal value of KZT 40,000,000 each). All ordinary shares were issued at their nominal value.

Nominal values and number of ordinary shares at 31 December were the following:

	Number of ordinary shares	Nominal value per share KZT	Paid-up capital KZT'000
2019			
Ordinary shares	1,819,519	50,000	90,975,950
Ordinary shares	250,000	668,000	167,000,000
Ordinary shares	30,000	1,000,000	30,000,000
Ordinary shares	5,000	5,000,000	25,000,000
Ordinary shares	1,000	40,000,000	40,000,000
Ordinary shares	625	40,000,000	25,000,000
Ordinary shares	500	40,000,000	20,000,000
Ordinary shares	375	40,000,000	15,000,000
Ordinary shares	300	40,000,000	12,000,000
Ordinary shares	250	40,000,000	10,000,000
Ordinary shares	250	40,000,000	10,000,000
Ordinary shares	1	691,560,619	691,561
At 31 December 2019	2,107,820	-	445,667,511

	Number of ordinary shares	Nominal value per share KZT	Paid-up capital KZT'000
2018			
Ordinary shares	1,819,519	50,000	90,975,950
Ordinary shares	250,000	668,000	167,000,000
Ordinary shares	30,000	1,000,000	30,000,000
Ordinary shares	5,000	5,000,000	25,000,000
Ordinary shares	1,000	40,000,000	40,000,000
Ordinary shares	625	40,000,000	25,000,000
Ordinary shares	500	40,000,000	20,000,000
Ordinary shares	250	40,000,000	10,000,000
Ordinary shares	1	691,560,619	691,561
At 31 December 2018	2,106,895	-	408,667,511

(b) Net assets per ordinary share

According to the Rules of Listing of the Kazakh Stock Exchange (the Rules), the Group disclosed net assets per ordinary share calculated in accordance with these Rules:

	2019 KZT'000	2018 KZT'000
Net assets per ordinary share	202.87	178.23

As at 31 December 2019 net assets per ordinary share was determined by dividing amount of consolidated equity decreased by the carrying amount of intangible assets, which the Group will not be able to sell to third parties, of KZT 427,609,875 thousand (31 December 2018: KZT 375,520,284 thousand) by the total number of outstanding shares of 2,107,820 (31 December 2018: 2,106,895 shares).

(d) Dividends

In accordance with Kazakhstan legislation the Group's distributable reserves are limited to the balance of retained earnings as recorded in the Group's financial statements. During the year ended 31 December 2019, the of dividends of KZT 973,143 thousand were declared and paid (2018: KZT 1,428,367 thousand). Dividends per ordinary share are KZT 461.88 (2018: KZT 678.03).

35 Risk management

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

(a) Risk management policies and procedures

The Group's risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits.

Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within established risk parameters. The Head of the Risk Management Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Management Board and indirectly to the Board of Directors.

Credit, market and liquidity risks are managed and controlled through a system of Credit and Investment Committees and Assets and Liabilities management committee (ALCO).

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Apart from the standard credit and market risk analysis, organisation departments which are responsible for this monitor financial and non-financial risks by holding regular meetings with operational units in order to obtain judgments in their areas of expertise.

In compliance with the Group's internal documentation the Risk Department and internal audit function frequently prepare reports, which cover the Group's significant risks management. The reports include observations as to assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement.

(b) Market risk

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

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

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis.

The management of interest rates risk, component of market risk, by monitoring interest rate gap is supplemented by monitoring the sensitivity of the net interest margin to various standard and non-standard interest rate scenarios.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

31 December 2019 KZT'000	Non-interest bearing	Less than 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Overdue	Carrying amount
ASSETS								
Cash and cash equivalents	97,155,814	47,017,924	-	-	-	-	-	144,173,738
Placements with banks and other financial institutions	3,415,266	76,349,964	4,353,011	7,297,442	147,195	-	-	91,562,878
Loans to banks	-	-	-	-	2,240,003	108,705,836	-	110,945,839
Loans to customers	-	233,332,871	249,570,177	53,959,249	253,426,610	825,740,997	2,174,560	1,618,204,464
Finance lease receivables	-	4,960,497	13,682,125	12,303,677	67,638,688	90,810,635	944,718	190,340,340
Debt securities	-	-	-	25,063,209	23,670,745	176,732,104	-	225,466,058
Equity investments	19,506,343	-	-	-	-	-	-	19,506,343
Other financial assets	1,444,936	-	-	-	7,122,142	15,145,403	3,951	23,716,432
	121,522,359	361,661,256	267,605,313	98,623,577	354,245,383	1,217,134,975	3,123,229	2,423,916,092
LIABILITIES								
Current accounts and deposits from customers	7,011,307	-	-	-	-	10,225,000	-	17,236,307
Loans from the Government of the Republic of Kazakhstan and SWF "Samruk-Kazyna"	-	-	-	-	24,606,101	2,380,167	-	26,986,268
Loans from the Parent Company	-	-	-	-	-	175,228,967	-	175,228,967
Loans and due from banks and other financial institutions	-	238,796,485	121,876,140	958,095	33,844,957	144,819,692	-	540,295,369
Debt securities issued	-	-	38,390,693	100,148,371	687,048,274	225,956,930	-	1,051,544,268
Subordinated debt	-	-	-	-	-	104,534,649	-	104,534,649
Other financial liabilities	3,294,342	-	-	-	-	-	-	3,294,342
	10,305,649	238,796,485	160,266,833	101,106,466	745,499,332	663,145,405	-	1,919,120,170
	111,216,710	122,864,771	107,338,480	(2,482,889)	(391,253,949)	553,989,570	3,123,229	504,795,922

A summary of the interest gap position for major financial instruments is as follows:

31 December 2018 KZT'000	Non-interest bearing	Less than 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Overdue	Carrying amount
ASSETS								
Cash and cash equivalents	60,864,593	229,303,816	-	-	-	-	-	290,168,409
Placements with banks and other financial institutions	365,949	61,025,942	6,295,872	2,485,960	-	-	-	70,173,723
Loans to banks	-	3,188,799	-	-	-	54,162,112	-	57,350,911
Loans to customers	-	431,119,884	161,600,091	52,959,640	68,853,752	923,927,540	404,246	1,638,865,153
Finance lease receivables	-	4,000,712	12,720,470	7,515,713	38,877,793	49,434,297	774,475	113,323,460
Debt securities	-	9,262,248	5,250,000	1,594,806	70,357,541	151,908,912	-	238,373,507
Equity investments	9,152,911	-	-	-	-	-	-	9,152,911
Other financial assets	1,201,557	-	-	-	7,424,426	13,947,234	1,951	22,575,168
	71,585,010	737,901,401	185,866,433	64,556,119	185,513,512	1,193,380,095	1,180,672	2,439,983,242
LIABILITIES								
Current accounts and deposits from customers	10,512,497	-	-	-	-	8,813,200	-	19,325,697
Loans from the Government of the Republic of Kazakhstan and SWF "Samruk-Kazyna"	-	-	-	4,600,929	27,837,700	2,549,643	-	34,988,272
Loans from the Parent Company	-	-	-	-	-	121,561,866	-	121,561,866
Loans and due from banks and other financial institutions	-	513,396,698	530,154	2,320,946	20,220,909	182,304,453	-	718,773,160
Debt securities issued	-	-	-	-	730,563,639	215,502,446	-	946,066,085
Subordinated debt	-	-	-	-	-	98,342,014	-	98,342,014
Other financial liabilities	13,944,658	-	-	-	-	-	-	13,944,658
	24,457,155	513,396,698	530,154	6,921,875	778,622,248	629,073,622	-	1,953,001,752
	47,127,855	224,504,703	185,336,279	57,634,244	(593,108,736)	564,306,473	1,180,672	486,981,490

Average interest rate

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2019 and 2018.

	31 December 2019			31 December 2018		
	Average effective interest rate,			Average effective interest rate,		
	KZT	USD	Other currencies	KZT	USD	Other currencies
Interest bearing assets						
Cash and cash equivalents	7.36%	0.77%	2.00%	7.79%	0.88%	2.25%
Placements with banks and other financial institutions	7.69%	-	4.00%	6.55%	1.18%	-
Loans to banks	10.24%	-	-	8.66%	-	-
Reverse repurchase agreements	9.71%	-	-	8.16%	-	-
Loans to customers	9.58%	5.90%	5.90%	9.51%	5.94%	6.05%
Finance lease receivables	6.92%	-	-	8.22%	-	-
Debt securities at FVOCI	6.56%	2.87%	-	7.48%	3.57%	-
Debt securities at FVTPL	12.54%	-	-	8.09%	-	-
Debt securities at amortised cost	8.44%	3.97%	-	7.41%	-	-
Interest bearing liabilities						
Current accounts and deposits from customers	9.46%	-	-	9.46%	-	-
Loans from the Government of the Republic of Kazakhstan and SWF “Samruk-Kazyna”	5.14%	-	-	3.90%	-	-
Loans from the Parent Company	9.39%	-	-	9.16%	-	-
Loans and due from banks and other financial institutions	7.00%	4.08%	7.94%	7.00%	3.92%	7.47%
Debt securities issued	11.08%	5.27%	-	11.18%	5.27%	-
Subordinated debt	6.72%	-	-	6.72%	-	-

Interest rate risk arises, when available or forecast assets with definite maturity are higher or lower upon value compared to available or forecast liabilities with similar maturity.

Cash flow interest rate sensitivity analysis

An analysis of sensitivity of profit or loss and equity to changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) symmetrical rise or fall in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2019 and 31 December 2018 is as follows:

KZT'000	31 December 2019		31 December 2018	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel rise	1,391,780	1,391,780	2,613,483	2,613,483
100 bp parallel fall	(1,391,780)	(1,391,780)	(2,613,483)	(2,613,483)

Fair value interest rate sensitivity analysis

An analysis of the sensitivity of net profit or loss and equity as a result of changes in the fair value of debt securities at FVOCI due to changes in the interest rates, based on positions existing as at 31 December 2019 and 31 December at 2018 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, is as follows:

KZT'000	31 December 2019		31 December 2018	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel rise	-	(11,828,065)	-	(9,503,999)
100 bp parallel fall	-	12,833,654	-	10,164,137

(ii) Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecast assets in a foreign currency are either greater or less than the liabilities in that currency.

The following table shows the currency structure of assets and liabilities at 31 December 2019:

	KZT KZT'000	USD KZT'000	EUR KZT'000	Other currencies KZT'000	Total KZT'000
Assets					
Cash and cash equivalents	108,913,385	32,782,304	2,084,004	394,045	144,173,738
Placements with banks and other financial institutions	89,054,409	-	2,451,334	57,135	91,562,878
Loans to banks	110,945,839	-	-	-	110,945,839
Loans to customers	806,353,148	800,381,034	11,470,282	-	1,618,204,464
Finance lease receivables**	190,340,340	-	-	-	190,340,340
Debt securities	41,271,003	184,195,055	-	-	225,466,058
Equity investments	19,506,343	-	-	-	19,506,343
Advances paid under finance lease agreements	133,273,093	-	-	-	133,273,093
Assets to be transferred under finance lease agreements	14,822,012	-	-	-	14,822,012
Investment property	227,181	-	-	-	227,181
Property, plant and equipment and intangible assets	5,951,423	-	-	-	5,951,423
Other assets	18,014,762	8,036,711	257	5,036	26,056,766
Current tax asset	124,719	-	-	-	124,719
Derivative financial instruments*	676,316	-	-	-	676,316
Total assets	1,539,473,973	1,025,395,104	16,005,877	456,216	2,581,331,170
Liabilities					
Current accounts and deposits from customers	11,143,517	4,291,790	1,801,000	-	17,236,307
Loans from the Government of the Republic of Kazakhstan and SWF “Samruk-Kazyna”	26,986,268	-	-	-	26,986,268
Loans from the Parent Company	175,228,967	-	-	-	175,228,967
Loans and due from banks and other financial institutions	15,195,999	498,434,761	10,715,626	15,948,983	540,295,369
Government grants	210,933,386	-	-	-	210,933,386
Debt securities issued	502,340,634	549,203,634	-	-	1,051,544,268
Subordinated debt	104,534,649	-	-	-	104,534,649
Provisions	5,940,728	1,622,815	-	-	7,563,543
Other liabilities	24,062,778	3,824,629	19,053	10,068	27,916,528
Deferred tax liability	198,412	-	-	-	198,412
Derivative financial instruments*	-	262,625	-	-	262,625
Total liabilities	1,076,565,338	1,057,640,254	12,535,679	15,959,051	2,162,700,322
Net on balance sheet positions as at 31 December 2019	462,908,635	(32,245,150)	3,470,198	(15,502,835)	418,630,848
Notional amount of derivative liabilities as at 31 December 2019*	(9,382,500)	19,129,500	-	-	9,747,000
Net on and off balance sheet positions as at 31 December 2019	453,526,135	(13,115,650)	3,470,198	(15,502,835)	428,377,848

The following table shows the currency structure of assets and liabilities at 31 December 2018:

	KZT KZT'000	USD KZT'000	EUR KZT'000	Other currencies KZT'000	Total KZT'000
Assets					
Cash and cash equivalents	208,864,630	72,194,001	8,746,012	363,766	290,168,409
Placements with banks and other financial institutions	68,165,740	2,006,084	-	1,899	70,173,723
Loans to banks	57,350,911	-	-	-	57,350,911
Loans to customers	664,321,521	958,431,813	14,618,337	1,493,482	1,638,865,153
Finance lease receivables**	113,323,460	-	-	-	113,323,460
Debt securities	71,723,520	166,649,987	-	-	238,373,507
Equity investments	9,152,911	-	-	-	9,152,911
Advances paid under finance lease agreements	70,677,802	-	-	-	70,677,802
Assets to be transferred under finance lease agreements	8,774,701	-	-	-	8,774,701
Investment property	319,438	-	-	-	319,438
Property, plant and equipment and intangible assets	5,363,879	-	-	-	5,363,879
Other assets	16,111,643	8,350,513	2,012	-	24,464,168
Current tax asset	501,029	-	-	-	501,029
Derivative financial instruments*	532,705	-	-	-	532,705
Total assets	1,295,183,890	1,207,632,398	23,366,361	1,859,147	2,528,041,796
Liabilities					
Current accounts and deposits from customers	10,225,143	9,055,345	45,209	-	19,325,697
Loans from the Government of the Republic of Kazakhstan and SWF “Samruk-Kazyna”	34,988,272	-	-	-	34,988,272
Loans from the Parent Company	121,561,866	-	-	-	121,561,866
Loans and due from banks and other financial institutions	14,382,228	674,537,765	13,593,161	16,260,006	718,773,160
Government grants	175,264,813	-	-	-	175,264,813
Debt securities issued	398,187,370	547,878,715	-	-	946,066,085
Subordinated debt	98,342,014	-	-	-	98,342,014
Provisions	14,093,727	715,343	-	-	14,809,070
Other liabilities	17,817,070	2,278,858	8,761,458	1,446	28,858,832
Deferred tax liabilities	2,584,716	-	-	-	2,584,716
Derivative financial instruments*	-	1,260,424	-	-	1,260,424
Total liabilities	887,447,219	1,235,726,450	22,399,828	16,261,452	2,161,834,949
Net on balance sheet positions as at 31 December 2018	407,736,671	(28,094,052)	966,533	(14,402,305)	366,206,847
Notional amount of derivative liabilities as at 31 December 2018*	(9,382,500)	19,210,000	-	-	9,827,500
Net on and off balance sheet positions as at 31 December 2018	398,354,171	(8,884,052)	966,533	(14,402,305)	376,034,347

*The notional amounts and fair value adjustments of the derivative financial instruments are presented separately as off balance and on balance components, respectively, for better presentation of net positions in foreign currencies that is used as a basis for sensitivity analysis.

** Finance lease receivables for the year ended 31 December 2019 comprise the amount of embedded derivative of KZT 6,651,931 thousand (31 December 2018: KZT 3,834,190 thousand).

An analysis of sensitivity of profit or loss for the year and equity to changes in the foreign currency exchange rates based on positions, and embedded derivatives, existing as at 31 December 2019 and 2018 and a simplified scenario of change in US Dollar, Euro and other currencies to Kazakhstan Tenge exchange rates is as follows:

	2019		2018	
	Profit or loss	Equity	Profit or loss	Equity
20% appreciation of USD against KZT	(2,098,504)	(2,098,504)	(1,421,448)	(1,421,448)
5% depreciation of USD against KZT	524,626	524,626	355,362	355,362
20% appreciation of EUR against KZT	555,232	555,232	154,645	154,645
5% depreciation of EUR against KZT	(138,808)	(138,808)	(38,661)	(38,661)
20% appreciation of other currencies against KZT	(2,480,454)	(2,480,454)	(2,304,369)	(2,304,369)
5% appreciation of other currencies against KZT	620,113	620,113	576,092	576,092

This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

(c) **Credit risk**

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has developed policies and procedures for the management of credit exposures (both for on balance position and off balance position exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. Loans to customers, finance lease receivables, placements with banks and other financial institutions, amounts receivable under reverse repurchase agreements, debt securities at FVOCI and accounts receivable are subject to credit risk. The Group's exposure is monitored on an ongoing basis.

The credit policy establishes:

- procedures for reviewing and approving loan credit applications;
- methodology for the credit assessment of borrowers (corporate and retail);
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis, focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Department and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Legal, Accounting and Tax Departments, depending on the specific risks and pending final approval of the Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. Revaluation procedures are based on analysis of the financial statements of the borrower as at the latest reporting date, or other information provided by the borrower itself or otherwise obtained by the Group.

Apart from individual customer analysis, the credit portfolio is assessed by the departments responsible for risk management with regard to credit concentration and market risks.

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

The maximum exposure to credit risk at the reporting date was:

	2019	2018
	KZT'000	KZT'000
ASSETS		
Cash and cash equivalents	144,173,536	290,168,163
Placements with banks and other financial institutions	91,562,878	70,173,723
Loans to banks	110,945,839	57,350,911
Loans to customers	1,618,204,464	1,638,865,153
Finance lease receivables	190,340,340	113,323,460
Debt securities	225,466,058	238,373,507
Advances paid under finance lease agreements	133,273,093	70,677,802
Other financial assets	23,716,432	22,575,168
Derivative financial instruments	10,160,691	9,099,781
Total maximum exposure	2,547,843,331	2,510,607,668

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 37.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's consolidated statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the table below, unless they are offset in the statement of financial position.

The Group's derivative transactions that are not transacted on the exchange are entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed, and only a single net amount is due or payable in settlement transactions.

The Group's sale and repurchase, reverse sale and repurchase transactions, and securities borrowings and lendings are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

The above ISDA and similar master netting arrangements do not meet the criteria for offsetting in the consolidated statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties. In addition the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2019:

KZT'000

Types of financial assets/liabilities	Gross amounts of recognised financial assets /liabilities	Gross amounts of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial asset/liability presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
				Financial instruments (including non-cash collateral)	Cash collateral (received)/pledged	
Financial assets						
Reverse repurchase agreements with original maturities of less than three months	6,962,855	-	6,962,855	(6,962,855)	-	-
Loans to customers	12,106,347	-	12,106,347	-	(2,604,700)	9,501,647
Other financial assets	22,267,545	-	22,267,545	(8,015,719)	(10,225,000)	4,026,826
Total financial assets	41,336,747	-	41,336,747	(14,978,574)	(12,829,700)	13,528,473
Financial liabilities						
Current accounts and deposits from customers	(12,829,700)	-	(12,829,700)	12,829,700	-	-
Debt securities issued	(8,015,719)	-	(8,015,719)	8,015,719	-	-
Total financial liabilities	(20,845,419)	-	(20,845,419)	20,845,419	-	-

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2018:

KZT'000

Types of financial assets/liabilities	Gross amounts of recognised financial assets /liabilities	Gross amounts of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
				Financial instruments (including non-cash collateral)	Cash collateral (received)/pledged	
Financial assets						
Reverse repurchase agreements with original maturities of less than three months	122,815,343	-	122,815,343	(122,815,343)	-	-
Loans to customers	34,947,333	-	34,947,333	-	(9,281,932)	25,665,401
Other financial assets	20,371,660	-	20,371,660	(7,991,018)	(8,813,200)	3,567,442
Total financial assets	178,134,336	-	178,134,336	(130,806,361)	(18,095,132)	29,232,843
Financial liabilities						
Current accounts and deposits from customers	(18,095,132)	-	(18,095,132)	18,095,132	-	-
Debt securities issued	(7,991,018)	-	(7,991,018)	7,991,018	-	-
Total financial liabilities	(26,086,150)	-	(26,086,150)	26,086,150	-	-

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position on the following basis:

- derivative assets and liabilities – fair value;
- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing – amortised cost. The amounts in the above tables that are offset in the consolidated statement of financial position are measured on the same basis.

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched, since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The liquidity management policy requires:

- projecting cash flows by major currencies and taking into account the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The daily liquidity position is monitored and is performed by the Treasury Department. Under normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the ALCO and implemented by the Treasury Department.

The following table shows liabilities on a consolidated basis by remaining contractual maturity dates as at 31 December 2019. Unrecognised commitments are discussed in Note 38.

	Demand and less than 1 month KZT'000	From 1 to 3 months KZT'000	From 3 to 6 months KZT'000	From 6 to 12 months KZT'000	More than 1 year KZT'000	Total KZT'000	Carrying amount KZT'000
Non-derivative financial liabilities							
Current accounts and deposits from customers	2,815,467	-	225,000	745,687	18,832,653	22,618,807	17,236,307
Loans from the Government of the Republic of Kazakhstan and SWF “Samruk-Kazyna”	-	-	374,350	40,683	30,758,871	31,173,904	26,986,268
Loans from the Parent Company	9,750	1,192,458	874,867	2,073,600	365,840,820	369,991,495	175,228,967
Loans and due from banks and other financial institutions	16,123,012	1,485,655	15,543,193	38,946,638	590,439,030	662,537,528	540,295,369
Debt securities issued	3,230,350	3,823,142	69,728,770	137,279,845	1,206,003,257	1,420,065,364	1,051,544,268
Subordinated debt	-	118,243	75,000	193,243	370,692,285	371,078,771	104,534,649
Other financial liabilities	2,083,842	6,351	64,333	877,615	262,201	3,294,342	3,294,342
Derivative financial instruments							
Addition	-	-	-	(19,129,500)	-	(19,129,500)	(10,160,691)
Disposal	-	-	-	9,382,500	-	9,382,500	-
Total liabilities	24,262,421	6,625,849	86,885,513	170,410,311	2,582,829,117	2,871,013,211	1,908,959,479
Credit related commitments	304,247,168	2,440,696	45,097,269	71,001,493	6,308,718	429,095,344	-

The Group assumes that will be able to obtain sufficient funding from a variety of sources, mainly being drawings on unutilised credit facilities opened by foreign banks and loans from the Parent Company in case of claims under any commitments. Moreover, the Group on a constant basis makes assessments of liquidity risk to avoid any payment shortfalls.

The following table shows liabilities on a consolidated basis by remaining contractual maturity dates as at 31 December 2018. Unrecognised commitments are discussed in Note 38.

	Demand and less than 1 month KZT'000	From 1 to 3 months KZT'000	From 3 to 6 months KZT'000	From 6 to 12 months KZT'000	More than 1 year KZT'000	Total KZT'000	Carrying amount KZT'000
Non-derivative financial liabilities							
Current accounts and deposits from customers	1,230,838	-	2,675,469	396,000	20,541,263	24,843,570	19,325,697
Loans from the Government of the Republic of Kazakhstan and SWF “Samruk-Kazyna”	2,300	8,660	4,924,683	4,650,976	35,538,544	45,125,163	34,988,272
Loans from the Parent Company	9,371	21,125	153,630	856,469	274,390,967	275,431,562	121,561,866
Loans and due from banks and other financial institutions	39,548,761	1,595,466	19,429,763	59,476,076	756,738,836	876,788,902	718,773,160
Debt securities issued	1,125,000	3,827,847	23,927,776	33,430,623	1,235,712,427	1,298,023,673	946,066,085
Subordinated debt	-	118,243	75,000	193,243	371,078,771	371,465,257	98,342,014
Other financial liabilities	1,093,191	3,300,030	3,529,498	5,976,528	45,411	13,944,658	13,944,658
Derivative financial instruments							
Addition	-	-	-	-	(19,210,000)	(19,210,000)	(9,099,781)
Disposal	-	-	-	-	9,382,500	9,382,500	-
Total liabilities	43,009,461	8,871,371	54,715,819	104,979,915	2,684,218,719	2,895,795,285	1,943,901,971
Credit related commitments	274,436,737	17,938,959	7,671,387	20,690,491	19,560,639	340,298,213	-

(e) Maturity

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2019.

	On demand KZT'000	Less than 1 month KZT'000	From 1 to 3 months KZT'000	From 3 months to 1 year KZT'000	From 1 to 5 years KZT'000	More than 5 years KZT'000	No maturity KZT'000	Overdue KZT'000	Total KZT'000
Assets									
Cash and cash equivalents	137,210,883	6,962,855	-	-	-	-	-	-	144,173,738
Placements with banks and other financial institutions	-	79,058,725	706,505	11,650,453	147,195	-	-	-	91,562,878
Loans to banks	-	-	-	-	2,240,003	108,705,836	-	-	110,945,839
Loans to customers	-	-	11,091,395	83,269,443	259,144,279	1,262,524,787	-	2,174,560	1,618,204,464
Finance lease receivables	-	1,393,988	3,937,677	18,120,139	72,628,477	93,315,341	-	944,718	190,340,340
Debt securities	-	-	-	25,063,209	23,670,745	176,732,104	-	-	225,466,058
Equity investments	-	-	-	-	-	-	19,506,343	-	19,506,343
Investment property	-	-	-	-	-	-	227,181	-	227,181
Property, plant and equipment and intangible assets	-	-	-	-	-	-	5,951,423	-	5,951,423
Advances paid under finance lease agreements	-	732,365	3,388,197	82,552,621	46,599,910	-	-	-	133,273,093
Assets to be transferred under finance lease agreements	-	8,524,332	1,098,475	1,476,174	3,723,031	-	-	-	14,822,012
Other assets	467,704	272,664	298,658	1,361,340	7,223,974	15,158,252	1,270,041	4,133	26,056,766
Current tax asset	-	-	124,719	-	-	-	-	-	124,719
Derivative financial instruments	-	-	-	10,160,691	-	-	-	-	10,160,691
Total assets	137,678,587	96,944,929	20,645,626	233,654,070	415,377,614	1,656,436,320	26,954,988	3,123,411	2,590,815,545

	On demand	Less than 1	From 1 to 3	From 3	From 1 to 5	More than 5	No maturity	Overdue	Total
	KZT'000	month	months	months	years	years	KZT'000	KZT'000	KZT'000
	KZT'000	KZT'000	KZT'000	to 1 year	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
Liabilities									
Current accounts and deposits from customers	2,590,467	-	-	295,687	1,816,400	12,533,753	-	-	17,236,307
Loans from the Government of the Republic of Kazakhstan and SWF "Samruk-Kazyna"	-	-	-	-	24,606,101	2,380,167	-	-	26,986,268
Loans from the Parent Company	-	-	-	-	-	175,228,967	-	-	175,228,967
Loans and due from banks and other financial institutions	-	83,585	148,397	1,420,357	39,576,475	499,066,555	-	-	540,295,369
Government grants	-	803,940	846,251	7,169,126	30,476,648	171,637,421	-	-	210,933,386
Debt securities issued	-	-	-	138,539,064	687,048,274	225,956,930	-	-	1,051,544,268
Subordinated debt	-	-	-	-	-	104,534,649	-	-	104,534,649
Other liabilities	2,417,903	4,883,774	2,740,328	14,675,899	2,662,678	535,170	776	-	27,916,528
Provisions	-	8,533	2,445,563	3,920,335	1,189,112	-	-	-	7,563,543
Deferred tax liability	-	-	-	-	-	198,412	-	-	198,412
Total liabilities	5,008,370	5,779,832	6,180,539	166,020,468	787,375,688	1,192,072,024	776	-	2,162,437,697
Net position as at 31 December 2019	132,670,217	91,165,097	14,465,087	67,633,602	(371,998,074)	464,364,296	26,954,212	3,123,411	428,377,848

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2018.

	On demand KZT'000	Less than 1 month KZT'000	From 1 to 3 months KZT'000	From 3 months to 1 year KZT'000	From 1 to 5 years KZT'000	More than 5 years KZT'000	No maturity KZT'000	Overdue KZT'000	Total KZT'000
Assets									
Cash and cash equivalents	167,353,066	122,815,343	-	-	-	-	-	-	290,168,409
Placements with banks and other financial institutions	-	59,213,180	2,178,711	8,781,832	-	-	-	-	70,173,723
Loans to banks	-	1,782,862	1,405,937	-	-	54,162,112	-	-	57,350,911
Loans to customers	-	3,194,123	3,563,569	124,380,949	256,785,420	1,250,536,846	-	404,246	1,638,865,153
Finance lease receivables	-	842,152	3,158,560	11,776,274	43,706,422	53,065,577	-	774,475	113,323,460
Debt securities	-	6,283,515	1,045,323	8,778,216	70,357,541	151,908,912	-	-	238,373,507
Equity investments	-	-	-	-	-	-	9,152,911	-	9,152,911
Investment property	-	-	-	-	-	-	319,438	-	319,438
Property, plant and equipment and intangible assets	-	-	-	-	-	-	5,363,879	-	5,363,879
Advances paid under finance lease agreements	-	5,877,031	2,418,042	42,876,437	19,506,292	-	-	-	70,677,802
Assets to be transferred under finance lease agreements	-	11,832	32	8,762,837	-	-	-	-	8,774,701
Other assets	127,763	223,270	88,220	661,679	8,406,440	14,087,459	867,248	2,089	24,464,168
Current tax asset	-	-	-	-	501,029	-	-	-	501,029
Derivative financial instruments	-	-	-	165,667	8,934,114	-	-	-	9,099,781
Total assets	167,480,829	200,243,308	13,858,394	206,183,891	408,197,258	1,523,760,906	15,703,476	1,180,810	2,536,608,872

	On demand	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
Liabilities									
Current accounts and deposits from customers	1,230,554	11	-	2,477,469	289,835	15,327,828	-	-	19,325,697
Loans from the Government of the Republic of Kazakhstan and SWF "Samruk-Kazyna"	-	-	-	4,600,929	27,837,700	2,549,643	-	-	34,988,272
Loans from the Parent Company	-	-	-	-	-	121,561,866	-	-	121,561,866
Loans and due from banks and other financial institutions	-	77,121	261,641	2,851,100	199,518,378	516,064,920	-	-	718,773,160
Government grants	-	541,569	1,043,327	4,496,621	21,085,973	148,097,323	-	-	175,264,813
Debt securities issued	-	-	-	-	730,563,639	215,502,446	-	-	946,066,085
Subordinated debt	-	-	-	-	-	98,342,014	-	-	98,342,014
Other liabilities	1,773,652	2,734,853	6,228,194	17,536,550	525,645	59,938	-	-	28,858,832
Provisions	-	125,337	74,852	13,962,788	646,093	-	-	-	14,809,070
Deferred income tax liabilities	-	-	-	-	-	2,584,716	-	-	2,584,716
Total liabilities	3,004,206	3,478,891	7,608,014	45,925,457	980,467,263	1,120,090,694	-	-	2,160,574,525
Net position as at 31 December 2018	164,476,623	196,764,417	6,250,380	160,258,434	(572,270,005)	403,670,212	15,703,476	1,180,810	376,034,347

36 Capital management

The Group defines capital as its total equity measured in accordance with IFRS.

In accordance with legislation, as at 31 December 2019 and 2018 the Group was not subject to capital requirements set by the National Bank of the Republic of Kazakhstan.

The Group is subject to minimum capital and maximum debt-to-equity ratio requirements established by covenants under certain liabilities incurred by the Group. The Group has complied with all externally imposed capital requirements as at 31 December 2019 and 31 December 2018.

37 Credit related commitments

At any time, the Group has outstanding credit related commitments to extend credit. These credit related commitments take the form of approved loans and overdraft facilities and are cancellable on certain conditions. The Group plans to fund these commitments with the issue of debt securities, loans from the Parent Company and a number of foreign counterparties.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced.

The amounts reflected in the table for letters of credit represent the maximum accounting loss that would be recognised at the consolidated statement of financial position date if counterparties failed completely to perform as contracted.

	2019 KZT'000	2018 KZT'000
Contracted amount		
Loan, credit line and finance lease commitments	420,524,901	323,589,093
Letters of credit, guarantees and other commitments related to settlement operations	8,570,443	16,709,120

The Group uses the same credit control and management policies in undertaking unrecognised commitments as it does for recognised operations.

As at 31 December 2019, included in loan, credit line and finance lease commitments related to settlement operations is the amount of KZT 270,704,270 thousand, related to ten borrowers (2018: KZT 175,561,975 thousand, related to ten borrowers), which, if aggregated with current amount of loans in the amount of KZT 932,697,752 thousand (2018: KZT 604,867,029 thousand), carrying value will comprise a significant credit exposure.

The total outstanding credit related contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded.

38 Contingencies

(a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group's property or relating to Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigations

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial conditions or the results of future operations.

(c) Taxation contingencies

The taxation system in Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges.

A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

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

39 Related party transactions

(a) Control relationship

As at 31 December 2019 and 31 December 2018 the Group's controlling party is National Management Holding "Baiterek" JSC. The party with ultimate control over the Group is the Government of the Republic of Kazakhstan.

Publicly available financial statements will be produced by the Group's Parent Company, however, no publicly available financial statements are produced by the Group's ultimate controlling party.

(b) Transactions with the members of the Board of Directors and the Management Board, Managing directors

Total remuneration included in payroll and related taxes (Note 11):

	2019	2018
	KZT'000	KZT'000
Members of the Board of Directors and the Management Board, Managing directors	824,927	672,952

The above amounts include cash benefits in respect of the members of the Board of Directors and the Management Board, Managing Directors.

(c) Transactions with other related parties

Other related parties comprise the State, national companies and organisations, including the National Bank of the Republic of Kazakhstan, the Ministry of Finance of the Republic of Kazakhstan, SWF "Samruk-Kazyna" and its subsidiaries.

The outstanding balances and the related average contractual interest rates as at 31 December 2019 and 2018 and related profit or loss amounts of transactions for the years ended 31 December 2019 and 2018 with other related parties are as follows.

31 December 2019

	Parent Company		Other subsidiaries of the Parent Company		Other companies and state organisations		Total
	KZT'000	Average interest rate	KZT'000	Average interest rate	KZT'000	Average interest rate	KZT'000
Statement of financial position							
ASSETS							
Cash and cash equivalents	-	-	-	-	94,460,709	-	94,460,709
Placements with banks and other financial institutions	-	-	56,491,019	7.75	-	-	56,491,019
Loans to customers	-	-	134,042	-	410,512,690	7.56	410,646,732
Finance lease receivables	-	-	233,182	-	92,560,886	5.91	92,794,068
Debt securities	-	-	-	-	47,067,921	1.51	47,067,921
Equity investments	-	-	19,506,343	-	-	-	19,506,343
Advances paid under finance lease agreements	-	-	-	-	58,671,872	-	58,671,872
Current tax asset	-	-	-	-	124,719	-	124,719
Other assets	42,579	-	22,269,348	-	496,874	-	22,808,801
Derivative financial instruments	-	-	10,012,213	-	-	-	10,012,213
LIABILITIES							
Current accounts and deposits from customers	-	-	10,281,250	9.00	2,590,317	-	12,871,567
Loans from the Government of the Republic of Kazakhstan and SWF "Samruk-Kazyna"	-	-	-	-	26,986,286	0.27	26,986,286
Loans from the Parent Company	175,228,967	0.14	-	-	-	-	175,228,967
Loans and due from banks and other financial institutions	-	-	15,195,999	1.00	-	-	15,195,999
Government grants	-	-	-	-	210,933,386	-	210,933,386
Debt securities issued	-	-	22,298,611	6.88	254,693,351	10.89	276,991,962
Subordinated debt	98,018,474	0.15	-	-	6,516,175	0.01	104,534,649
Provisions	-	-	-	-	4,489,511	-	4,489,511
Deferred tax liabilities	-	-	-	-	198,412	-	198,412
Other liabilities	-	-	157	-	5,716,947	-	5,717,104

2019	Parent Company	Other subsidiaries of the Parent Company	Other companies and state organisations	Total
	KZT'000	KZT'000	KZT'000	KZT'000
Profit				
Interest income calculated using the effective interest method	-	5,960,549	39,979,066	45,939,615
Other interest income	-	-	6,908,234	6,908,234
Interest expenses	(18,824,039)	(3,426,704)	(24,987,751)	(47,238,494)
Fee and commission income	-	-	2,836,194	2,836,194
Fee and commission expenses	(37,250)	-	(24,097)	(61,347)
Net foreign exchange loss	-	49,713	(3,815,307)	(3,765,594)
Net realised gain on debt securities at FVOCI	-	(78,614)	389,294	310,680
Net gain from financial instruments at FVPL	-	372,129	119,075	491,204
Losses on impairment of debt financial assets	-	194,685	(34,091)	160,594
Impairment loss of loan commitments and financial guarantee contracts	-	-	(2,683,659)	(2,683,659)
Impairment loss on other non-financial assets	-	-	(5,451,754)	(5,451,754)
Other income	-	19,270	27,262,228	27,281,498
General administrative expenses	-	(2,573)	(800,998)	(803,571)
Income tax expense	-	-	(4,083,209)	(4,083,209)

During the year ended 31 December 2019 the amount of KZT 37,709,460 thousand was transferred to profit or loss to compensate the Group's losses incurred as a result of issuance of loans at lower than market rates in accordance with the conditions of the Government Programs (Note 28).

31 December 2018	Parent Company		Other subsidiaries of the Parent Company		Other companies and state organisations		Total
	KZT'000	Average interest rate	KZT'000	Average interest rate	KZT'000	Average interest rate	KZT'000
Statement of financial position							
ASSETS							
Cash and cash equivalents	-	-	-	-	49,712,297	-	49,712,297
Loans to customers	-	-	134,042	-	586,790,294	7.17	586,924,336
Finance lease receivables	-	-	273,000	5.85	34,045,563	6.92	34,318,563
Debt securities	-	-	21,450,059	9.01	168,754,523	3.01	190,204,582
Equity investments	-	-	9,152,911	-	-	-	9,152,911
Advances paid under finance lease agreements	-	-	-	-	26,369,254	-	26,369,254
Current tax asset	-	-	-	-	501,029	-	501,029
Other assets	41,374	-	21,373,918	-	188,413	-	21,603,705
Derivative financial instruments	-	-	8,924,716	-	-	-	8,924,716
LIABILITIES							
Current accounts and deposits from customers	-	-	8,869,450	9.00	9,771,786	-	18,641,236
Loans from the Government of the Republic of Kazakhstan and SWF “Samruk-Kazyna”	-	-	-	-	34,988,272	0.26	34,988,272
Loans from the Parent Company	121,561,866	0.14	-	-	-	-	121,561,866
Loans and due from banks and other financial institutions	-	-	14,382,228	1.00	-	-	14,382,228
Government grants	-	-	-	-	175,264,813	-	175,264,813
Debt securities issued	-	-	20,453,526	5.51	166,204,675	12.48	186,658,201
Subordinated debt	92,267,045	0.15	-	-	6,074,969	0.01	98,342,014
Provisions	-	-	-	-	2,762,908	-	2,762,908
Deferred tax liabilities	-	-	-	-	2,584,716	-	2,584,716
Other liabilities	-	-	140	-	5,592,716	-	5,592,856

2018	Parent Company	Other subsidiaries of the Parent Company	Other companies and state organisations	Total
	KZT'000	KZT'000	KZT'000	KZT'000
Profit				
Interest income	-	1,511,531	56,240,063	57,751,594
Interest expenses	(14,888,036)	(2,861,249)	(19,950,448)	(37,699,733)
Fee and commission income	-	-	65,937	65,937
Fee and commission expenses	(32,966)	-	(28,526)	(61,492)
Net foreign exchange gain	-	(156,091)	66,341,759	66,185,668
Net realised gain on debt securities at FVOCI	-	-	(218,508)	(218,508)
Net loss on financial instruments at FVPL	-	1,368,903	(2,643,482)	(1,274,579)
Other income	-	13,173	29,660,156	29,673,329
Impairment losses	-	(269,723)	(4,433,700)	(4,703,423)
General administrative expenses	-	(66,154)	(1,336,709)	(1,402,863)
Income tax expense	-	-	(10,068,159)	(10,068,159)

During the year ended 31 December 2018 the amount of KZT 31,139,435 thousand was transferred to profit or loss to compensate the Group's losses incurred as a result of issuance of loans at lower than market rates in accordance with the conditions of the Government Programs (Note 28).

40 Segment analysis

The Group's operations are highly integrated and constitute a single business segment for the purposes of IFRS 8 *Segment Reporting*. The Group's assets are concentrated in the Republic of Kazakhstan, and revenues are derived from operations in, and connected with, the Republic of Kazakhstan. The Chief Operating Decision Maker, in the case of the Group, the Chairman, only received and reviews the information on the Group as a whole.

41 Fair value of financial instruments

(a) Determining fair values

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

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

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

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models to determine the fair value of common and simpler financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives such as interest rate swaps.

The following assumptions are used by management to estimate the fair values of financial instruments:

- Discount rates of 3.12% to 20.36% p.a. for foreign currency loans and of 10.06% to 30.09% p.a. for KZT loans are used for discounting future cash flows on loans to customers;
- Discount rates of 3.67% p.a. for USD and 11.69% to 14.39% p.a. for KZT are used for discounting future cash flows on debt securities measured at amortised cost;
- Discount rate of 9.45% to 12.80% p.a. is used for discounting future cash flows on loans to banks;
- Discount rates of 2.47% to 3.95% p.a. for USD and 10.49% to 10.77% p.a. for KZT are used for discounting future cash flows on debt securities issued;
- Discount rates of 10.50% to 11.69% p.a. are used for discounting future cash flows on subordinated debt;
- Discount rates of 10.49% to 10.60% p.a. are used for discounting future cash flows on loans from the Parent Company;
- Discount rates of 2.44% to 5.58% p.a. for foreign currency loans and 10.69% p.a. for KZT loans are used for discounting future cash flows on loans from banks and other financial institutions;
- Discount rates of 10.56% to 10.77% p.a. are used for discounting future cash flows on loans from SWF "Samruk-Kazyna";
- Discount rate of 10.64% p.a. is used to discount future cash flows on customers' deposits.

(b) Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Control framework implemented by the Group includes preparation of fair value measurements by the responsible front-office specialists and subsequent review by the Head of corresponding department. Specific controls implemented by the Group include:

- verification of observable pricing
- a review and approval process for new models and changes to models involving Head of the corresponding front-office;
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous reporting period.

(i) Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value at 31 December 2019, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

	Note	Level 1 KZT'000	Level 2 KZT'000	Level 3 KZT'000	Total KZT'000
Assets					
Debt securities	18	180,447,309	33,346,230	929,906	214,723,445
Loans to customers	16	-	-	68,893,053	68,893,053
Equity investments	21	-	-	19,506,343	19,506,343
Other assets	22	3,913	57,973	-	61,886
Derivative financial instruments	23	-	10,160,691	-	10,160,691
Embedded derivatives	17	-	-	6,651,931	6,651,931
		180,451,222	43,564,894	95,981,233	319,997,349

The table below analyses financial instruments measured at fair value as at 31 December 2018, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

	Note	Level 1 KZT'000	Level 2 KZT'000	Level 3 KZT'000	Total KZT'000
Assets					
Debt securities	18	166,649,987	64,330,958	862,486	231,843,431
Loans to customers	16	-	-	38,256,025	38,256,025
Equity investments	21	-	-	9,152,911	9,152,911
Other assets	22	-	45,867	-	45,867
Derivative financial instruments	23	-	9,099,781	-	9,099,781
Embedded derivatives	17	-	-	3,834,190	3,834,190
		166,649,987	73,476,606	52,105,612	292,232,205

The table below sets out information about significant unobservable inputs used at year end in the measuring financial instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2019:

Type of instrument	Fair value KZT'000	Valuation technique	Significant unobservable inputs	Range of estimates (weighted average) for unobservable input	Fair value measurement sensitivity to unobservable inputs
Equity investments	19,506,343	Discounted cash flow	Discount rate	15.60-17.94%	Increase in discount rate would result in lower fair value
Loans to customers at FVPL	68,893,053	Discounted cash flow	Discount rate	USD 5.26%, KZT: 12.60%-15.92%	Increase in discount rate would result in lower fair value
Embedded derivative	6,651,931	Option model	Volatility of FX rate	USD 2.07%, RUB: 4.89%	Increase in volatility would result in higher fair value
Debt securities measured at fair value through profit or loss	929,906	Discounted cash flow	Discount rate	10.52%	Increase in discount rate would result in lower fair value

The table below sets out information about significant unobservable inputs used at year end in the measuring financial instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2018:

Type of instrument	Fair value KZT'000	Valuation technique	Significant unobservable inputs	Range of estimates (weighted average) for unobservable input	Fair value measurement sensitivity to unobservable inputs
Equity investments	9,152,911	Discounted cash flow	Discount rate	15.00-15.39%	Increase in discount rate would result in lower fair value
Loans to customers measured at fair value through profit or loss	38,256,025	Discounted cash flow	Discount rate	USD 6.35%, KZT: 12.22%-13.73%	Increase in discount rate would result in lower fair value
Embedded derivative	3,834,190	Option model	Volatility of FX rate	USD 7.02%, RUB: 7.21%	Increase in volatility would result in higher fair value
Debt securities measured at fair value through profit or loss	862,486	Discounted cash flow	Discount rate	8.78%- 10.78%	Increase in discount rate would result in lower fair value

The financial assets at FVOCI with fair values determined using valuation techniques that use observable inputs were classified into Level 2. Observable inputs included transaction prices in markets that are active for similar, but not identical, instruments and transaction prices in markets that are not active for identical instruments. Although all the instruments are listed on KASE, management believes that the market for these identical instruments is not active.

The Group applies discounted cash flow methodology in respect of valuation of impaired available-for-sale financial assets and available-for-sale financial assets for which fair values cannot be determined based on observable market inputs.

For impaired debt securities cash flow projections were based on publicly available information on expected post-restructuring payoff schedule for each respective type of security. Assumptions on discount rates were made based on issuers' credit risk premiums implied by market quotes of the issues on which the trades were not suspended.

Certain assets measured at FVOCI that do not have observable market prices and cannot be valued based on observable market inputs were also valued applying discounted cash flow methodology. Cash flow projections for these securities were derived from expected payment schedules. Assumptions regarding discount rates were made based on quoted prices in active markets of similar instruments of an issuer with adjacent credit rating adjusted to the difference in credit ratings.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy for the period ended 31 December 2019:

KZT'000	Loans to customers measured at FVPTL	Debt securities measured at FVTPL	Equity investments	Embedded derivative
Balance at 1 January	38,256,025	862,486	9,152,911	3,834,190
Total gains or losses:				
- net gain recognised in profit or loss	2,823,385	81,491	-	3,223,329
Other comprehensive income	-	-	218,756	-
Repayments	(1,979,804)	(14,071)	-	(497,200)
Acquisition	29,793,447	-	10,134,676	-
Acquisition as a part of receivable under finance lease agreement	-	-	-	91,612
Balance at 31 December	68,893,053	929,906	19,506,343	6,651,931

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy for the period ended 31 December 2018:

KZT'000	Derivative financial instruments	Loans to customers measured at fair value through profit or loss	Debt securities measured at fair value through profit or loss	Equity investments	Embedded derivative
Balance at 1 January	48,566,034	-	-	-	4,603,837
Impact of adopting IFRS 9	-	11,921,003	860,603	-	-
Total gains or losses:					
- net gain recognised in profit or loss	(2,692,538)	(977,471)	9,882	-	(1,005,302)
Other comprehensive income				-	-
Repayments	(45,873,496)	(1,512,576)	(7,999)	-	(84,243)
Acquisition	-	28,825,069	-	9,152,911	319,898
Balance at 31 December	-	38,256,025	862,486	9,152,911	3,834,190

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects as at 31 December 2019:

KZT'000	Effect on profit or loss		Effect on other comprehensive income	
	Favourable	Unfavourable	Favourable	Unfavourable
Debt securities	63,765	(58,332)	-	-
Equity investments	-	-	1,950,634	(1,950,634)
Loans to customers	2,246,277	(2,128,439)	-	-
Finance lease receivables				
- Embedded derivative	527,727	(461,798)	-	-
Total	2,837,769	(2,648,569)	1,950,634	(1,950,634)

For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects as at 31 December 2018:

KZT'000	Effect on profit or loss		Effect on other comprehensive income	
	Favourable	Unfavourable	Favourable	Unfavourable
Debt securities	40,641	(38,483)	-	-
Equity investments	-	-	915,291	(915,291)
Loans to customers	1,477,776	(1,394,291)	-	-
Finance lease receivables				
- Embedded derivative	699,254	(593,085)	-	-
Total	2,217,671	(2,025,859)	915,291	(915,291)

The favourable and unfavourable effects of using reasonably possible alternative assumptions are calculated by recalibrating the model values.

- for embedded derivatives: using unobservable inputs based on averages of the upper and lower quartiles respectively of the Group's ranges of possible estimates. Key inputs and assumptions used in the models as at 31 December 2019 and 31 December 2018:
 - Changing the volatility of USD/RUB exchange rates by 50%;
 - Changing in spread between risk-free rates in KZT and USD/RUB by 0.5;
 - Changing the estimated discount rate by 100 basis points.
- for loans to customers measured at FVTPL: decrease and increase of the discount rate;
- for derivatives: increase of the estimated transaction terms by 3 months and decrease of the estimated transaction terms by 3 months;
- for equity investments: changes of expected cash flows by 10%;
- for debt securities: changes of the discount rate by 100 bp.

(ii) Financial instruments not measured at fair value

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2019.

KZT'000	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
ASSETS					
Cash and cash equivalents	-	144,173,738	-	144,173,738	144,173,738
Placements with banks and other financial institutions	-	91,562,878	-	91,562,878	91,562,878
Loans to banks	-	97,586,422	6,772,758	104,359,180	110,945,839
Loans to customers	-	443,892,491	43,202,677	1,487,095,168	1,549,311,411
Finance lease receivables (except for embedded derivative)	-	168,238,249	-	168,238,249	183,688,409
Debt securities	-	5,323,806	805,254	6,129,060	10,742,613
Other financial assets	-	24,822,803	37,402	24,860,205	23,654,546
LIABILITIES					
Current accounts and deposits from customers	-	16,682,203	-	16,682,203	17,236,307
Loans from the Government of the Republic of Kazakhstan and SWF "Samruk-Kazyna"	-	23,999,733	-	23,999,733	26,986,268
Loans from the Parent Company	-	162,136,947	-	162,136,947	175,228,967
Loans and due from banks and other financial institutions	-	516,249,123	17,701,280	533,950,403	540,295,369
Debt securities issued	807,369,516	289,529,549	-	1,096,899,065	1,051,544,268
Subordinated debt	-	59,706,723	-	59,706,723	104,534,649
Other financial liabilities	-	3,294,342	-	3,294,342	3,294,342

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2018.

KZT'000	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
ASSETS					
Cash and cash equivalents	-	290,168,409	-	290,168,409	290,168,409
Placements with banks and other financial institutions	-	70,173,723	-	70,173,723	70,173,723
Loans to banks	-	33,708,443	6,194,595	39,903,038	57,350,911
Loans to customers	-	1,491,534,247	25,560,082	1,517,094,329	1,600,609,128
Finance lease receivables (except for embedded derivative)	-	101,788,879	-	101,788,879	109,489,270
Debt securities	-	1,102,085	459,034	1,561,119	6,530,076
Other financial assets	-	22,525,249	4,052	22,529,301	22,529,301
LIABILITIES					
Current accounts and deposits from customers	-	20,894,487	-	20,894,487	19,325,697
Loans from the Government of the Republic of Kazakhstan and SWF "Samruk-Kazyna"	-	32,497,881	-	32,497,881	34,988,272
Loans from the Parent Company	-	113,119,401	-	113,119,401	121,561,866
Loans and due from banks and other financial institutions	-	667,030,650	27,099,740	694,130,390	718,773,160
Debt securities issued	552,189,066	452,088,878	-	1,004,277,944	946,066,085
Subordinated debt	-	57,749,876	-	57,749,876	98,342,014
Other financial liabilities	-	13,944,658	-	13,944,658	13,944,658

The following tables show the valuation techniques used in measuring Level 3 fair values as at 31 December 2019:

Financial instruments not measured at fair value

Type of instrument	Valuation technique	Significant unobservable inputs
Loans to customers	Discounted cash flows	Expected cash flows
Finance lease receivables (except for embedded derivative)	Discounted cash flows	Expected cash flows
Other financial assets	Discounted cash flows	Expected cash flows
Loans and due from banks and other financial institutions	Discounted cash flows	Liquidity premium

The following tables show the valuation techniques used in measuring Level 3 fair values as at 31 December 2018:

Financial instruments not measured at fair value

Type of instrument	Valuation technique	Significant unobservable inputs
Loans to customers	Discounted cash flows	Expected cash flows
Finance lease receivables (except for embedded derivative)	Discounted cash flows	Expected cash flows
Other financial assets	Discounted cash flows	Expected cash flows
Loans and due from banks and other financial institutions	Discounted cash flows	Liquidity premium

42 Subsequent events

In January 2020, an outbreak of coronavirus disease was reported in the China. The Group's exposure to circumstances associated with coronavirus is subject to the nature of the projects implemented by the Group's borrowers as well as to availability of counterparties who operate internationally.

To assess the impact of the outbreak on the Group's financial position, namely, on the amount of the allowances for expected credit losses on loans to customers, the Group initiated a stress testing procedure. As at the date of issue of these financial statements, the Group is in the process of assessing the impact of the outbreak on the Group's financial performance.

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