

Appendix
to Decree of the Government of the
Republic of Kazakhstan
dated June 1, 2017,
No. 331

Approved by
Decree of the Government of the
Republic of Kazakhstan
dated June 18, 2014,
No. 674

**Development Strategy of
“National Management Holding “Baiterek”
Joint Stock Company for 2014–2023**

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Introduction

“National Management Holding “Baiterek” Joint Stock Company (“Baiterek” NMH” JSC) was established by Decree of the President of Kazakhstan dated May 22, 2013, No. 571 “On Certain Measures to Optimize the Management System of Development Institutions¹, Financial Organizations and to Develop National Economy” and Decree of the Government of the Republic of Kazakhstan dated May 25, 2013, No. 516 “On Measures for Implementation of Decree of the President of the Republic of Kazakhstan dated May 22, 2013, No. 571 “On Certain Measures to Optimize the Management System of Development institutions, Financial Organizations and to Develop National Economy”.

The Government of the Republic of Kazakhstan is the sole shareholder of “Baiterek” NMH” JSC.

The update of Development strategy of “Baiterek” NMH” JSC for 2014–2023 approved by Decree of the Government of the Republic of Kazakhstan dated June 18, 2014, No. 674 (the Strategy) was performed in 2017 in view of certain changes made to the government programs involving “Baiterek” NMH” JSC and a number of social and economic events that occurred in 2015–2016, namely:

1) Slowdown of economic growth: Kazakhstan’s real gross domestic product is growing at 1.0% in 2016 vs. the projected 5.8% according to the effective Development Strategy;

2) The end of the high commodity prices cycle, with prices expected to remain low in the next 10–15 years;

3) Involvement in the implementation of the addresses of the Head of State, state and government programs:

3.1) The Program of the President of the Republic of Kazakhstan dated May 20, 2015, “The Plan of the Nation – 100 Concrete Steps” (the Plan of the Nation);

3.2) The Address of the Head of State dated January 31, 2017, “Third Modernization of Kazakhstan: Global Competitiveness”;

3.3) New state programs: “Nurly Zhol” State Program of Infrastructure Development for 2015–2019 approved by Decree of the President of the Republic of Kazakhstan dated April 6, 2015, No. 1030 (the “Nurly Zhol” Program); “Nurly Zher”

¹Development institutions are specialized development banks set up to support private sector development in developing countries. They are usually majority-owned by national governments and source their capital from national or international development funds or benefit from government guarantees. This ensures their creditworthiness, which enables them to raise large amounts of money on international capital markets and provide financing on very competitive terms. Development institutions are one of the tools of government policy promoting economic growth, innovation processes and infrastructure development, including with the use of public-private partnership mechanisms. The primary purpose of development institutions is to compensate for deficiencies known as “market failures” in order to solve the tasks that cannot be effectively solved using market mechanisms and ensure sustainable economic growth and diversification. Development institutions catalyze private investments in priority sectors and industries and drive the development of infrastructure that provides businesses engaged in the priority sectors with access to funding and information. (Source: OSCE)

Housing Construction Program approved by Decree of the Government of the Republic of Kazakhstan dated December 31, 2016, No. 922 (the “Nurly Zher” Program);

3.4) Ongoing and updated programs: State Program for Innovative and Industrial Development of the Republic of Kazakhstan for 2015–2019 approved by Decree of the President of the Republic of Kazakhstan dated August 1, 2014, No. 874 (SPIID); Unified Business Support and Development Program “Business Road Map 2020” approved by Decree of the Government of the Republic of Kazakhstan dated March 31, 2015, No. 168 (the “BRM 2020” Program);

4) The prohibition to acquire securities of quasi-public entities according to the Concept of Formation and Use of the National Fund of the Republic of Kazakhstan dated December 8, 2016;

5) The goal to reduce government involvement in the economy to the level of OECD countries of 15% by 2020.

In addition to the amendments of ongoing and approval of new state and government programs focused on economic development, the need to update the Strategy in 2017 is driven by the slowdown of general economic growth in the context of the ending of the high commodity prices cycle and the goal to reduce the share of state participation in the economy.

This document has been developed taking into account the key areas of the government policy in the industrial and innovation, social and economic as well as other areas of “Baiterek” NMH” JSC operations and defines its mission, vision, strategic focus areas, goals and objectives for 2014–2023.

1. Analysis of the current state of “Baiterek” NMH” JSC: external environment

1.1. Development of the competitiveness index and key sub-indices

According to the Global Competitiveness Report of the World Economic Forum (WEF), Kazakhstan ranked 53rd out of 138 countries in 2016, losing 11 positions in ranking in the last year. The analysis of the 10-year period shows that the competitiveness of the economy of Kazakhstan vs. other countries did not increase and continues to demonstrate high volatility depending on macroeconomic cycles:

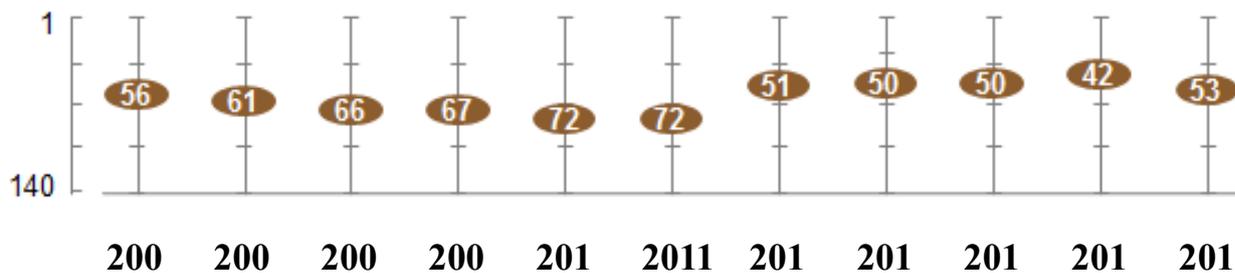


Figure No. 1. Development of the competitiveness rating of Kazakhstan’s economy in 2006–2016
Source: WEF Global Competitiveness Reports

The WEF report explains the downgrade of Kazakhstan’s position in 2016 by deterioration of the state of public finances linked to the loss of oil export revenues.

According to classification of the authors of the report, Kazakhstan, alongside with 16 other countries (People's Democratic Republic of Algeria, Republic of Azerbaijan, Kingdom of Bhutan, Plurinational State of Bolivia, Republic of Botswana, State of Brunei-Darussalam, Gabonese Republic, Republic of Honduras, State of Kuwait, Mongolia, Federal Republic of Nigeria, Republic of the Philippines, Russian Federation, Ukraine, Bolivarian Republic of Venezuela and Socialist Republic of Vietnam) is qualified as the economy in transit from Stage 1 (“Resource driven economy”) to Stage 2 (“Efficiency driven economy”). Stage 3 economies are innovation-driven economies.

The Republic of Kazakhstan ranks third among the countries of the Commonwealth of Independent States (the CIS) after the Republic of Azerbaijan (37) and the Russian Federation (43). For the economy of the Republic of Kazakhstan, we can see that in the past year, the indicators dramatically deteriorated in four areas:

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Change of index in the past year ² |
|--|------|------|------|------|------|------|------|------|------|------|------|---|
| A. Basic parameters | | | | | | | | | | | | |
| Development institutions | 75 | 80 | 81 | 86 | 91 | 94 | 66 | 55 | 57 | 50 | 49 | +1 |
| Infrastructure | 66 | 71 | 76 | 75 | 81 | 82 | 67 | 62 | 62 | 58 | 63 | -5 |
| Macroeconomic environment | 10 | 25 | 74 | 59 | 25 | 18 | 16 | 23 | 27 | 25 | 69 | -44 |
| Health and primary education | 86 | 94 | 81 | 80 | 85 | 85 | 92 | 97 | 96 | 93 | 94 | -1 |
| B. Efficiency components | | | | | | | | | | | | |
| Higher education and professional training | 51 | 57 | 59 | 59 | 65 | 65 | 58 | 54 | 62 | 60 | 57 | +3 |
| Goods and services market efficiency | 44 | 63 | 80 | 84 | 86 | 87 | 71 | 56 | 54 | 49 | 62 | -13 |
| Labor market efficiency | - | 15 | 12 | 18 | 21 | 21 | 19 | 15 | 15 | 18 | 20 | -2 |
| Financial market development | - | - | - | 111 | 117 | 121 | 115 | 103 | 98 | 91 | 104 | -13 |
| Technological readiness | 66 | 77 | 75 | 69 | 82 | 87 | 55 | 57 | 61 | 61 | 56 | +5 |
| Market size | - | 56 | 55 | 55 | 55 | 55 | 55 | 54 | 52 | 46 | 45 | +1 |
| C. Innovations and competitiveness | | | | | | | | | | | | |
| Business competitiveness | 72 | 85 | 86 | 88 | 102 | 109 | 99 | 94 | 91 | 79 | 97 | -18 |
| Innovation | 70 | 75 | 62 | 78 | 102 | 116 | 103 | 84 | 85 | 72 | 59 | +13 |

Figure No. 2. Development of competitiveness drivers of Kazakhstan in 2006–2016.

Source: WEF Global Competitiveness Reports

The most significant decline is observed in the pillar “Macroeconomic environment”:

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Change of index in the past year ³ |
|----------------------------------|------|------|------|------|------|------|------|------|------|------|------|---|
| Budget balance, % of GDP | 9 | 15 | 59 | 29 | 32 | 16 | 12 | 13 | 9 | 10 | 10 | -98 |
| Gross domestic savings, % of GDP | 23 | 47 | 48 | 14 | 31 | 12 | 13 | 36 | 37 | 31 | 45 | -14 |

² “+” means rating upgrade, “-” means rating downgrade.

³ “+” means rating upgrade, “-” means rating downgrade.

| | | | | | | | | | | | | |
|------------------------------|----|-----|-----|-----|-----|-----|-----|----|-----|-----|-----|----|
| Inflation, change in percent | 89 | 104 | 121 | 119 | 110 | 117 | 110 | 93 | 107 | 115 | 113 | 2 |
| Public debt, % of GDP | 6 | 6 | 13 | 11 | 7 | 12 | 14 | 14 | 11 | 12 | 17 | -5 |
| Country's credit rating | - | - | - | - | 73 | 69 | 57 | 53 | 48 | 54 | 62 | -8 |

Figure No. 3. Development of competitiveness index of the economy of the Republic of Kazakhstan in the pillar “Macroeconomic environment” in 2006–2016⁴.

Source: WEF Global Competitiveness Reports

1) Budget balance, % of GDP

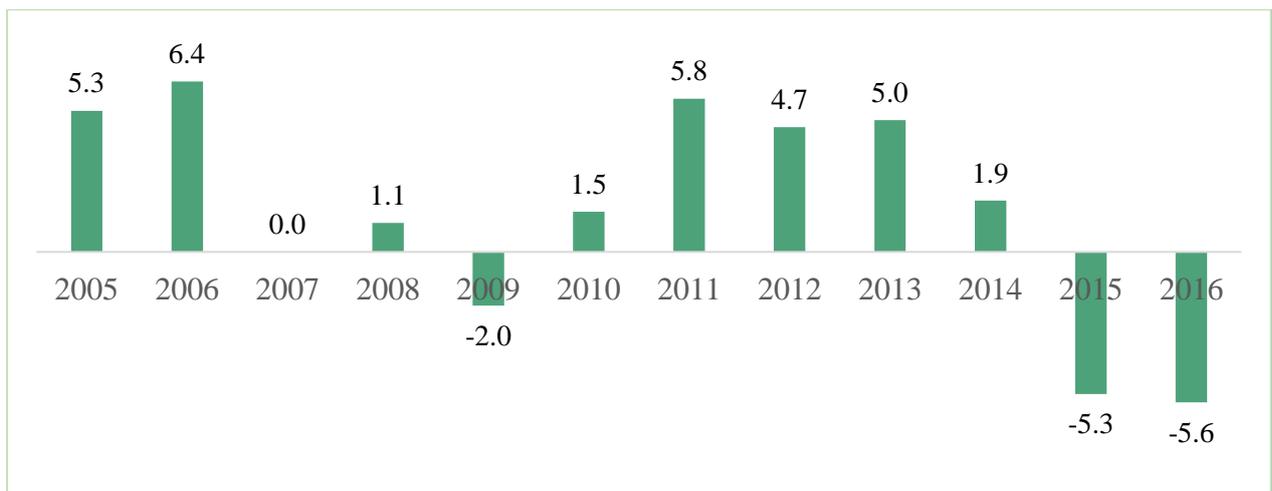


Figure No. 4. The budget balance of the Republic of Kazakhstan for 2005–2016⁵, % of GDP

Source: World Economic Outlook database of the International Monetary Fund (the IMF)

The deterioration of this index was mainly due to the decrease of revenues by 53% to the National Fund in 2015 vs. 2014 as a result of dramatic plunge of commodities prices. Low commodities prices were the reason for lower tax revenues related to corporate income tax from oil sector companies by 54%, extraction tax by 52%, rent tax on exported crude oil and gas condensate paid by oil sector companies by 69% and the share of the Republic of Kazakhstan in production sharing agreements with oil sector organizations by 27%. In addition, there was a decline in revenues to state and local budgets from value-added tax by 21% and tax on international trade and external transactions by 17%. To a smaller degree, the budget deficit was due to higher government spending, including social assistance and welfare, transport, communication systems and debt servicing.

⁴ Competitiveness indices for a certain year are based on actual data for the previous year. Thus, to calculate index “Budget balance, % of GDP” for 2016, actual budget balance data for 2015 were used published in the IMF World Economic Outlook database dated April 2016.

⁵ 2016 forecast estimates were taken from the IMF World Economic Outlook database dated October 2016.

If the trend (growth of the state budget deficit and reduction of the National Fund's assets) continues, a dramatic reduction of government spending may be required, including spending to fund state programs through "Baiterek" NMH" JSC and its subsidiaries. If "Baiterek" NMH" JSC and its subsidiaries are unable to replace the government source of funding of their operations by alternative sources of funding from internal and external capital markets, a reduction of support to manufacturing industry, exporters as well as related to the affordability of housing may occur, which will lead to a slowdown in the economic growth. The volume of investments in fixed capital of non-resource sectors of the economy was on average at 11–12% of GDP from 2011 through 2016, about half of which came from public or quasi-public sources of funding. In case of the reduction in government support, investments into the economy will decrease dramatically, which, in its turn, will result in the reduction of the country's GDP.

2) Gross domestic savings, % of GDP

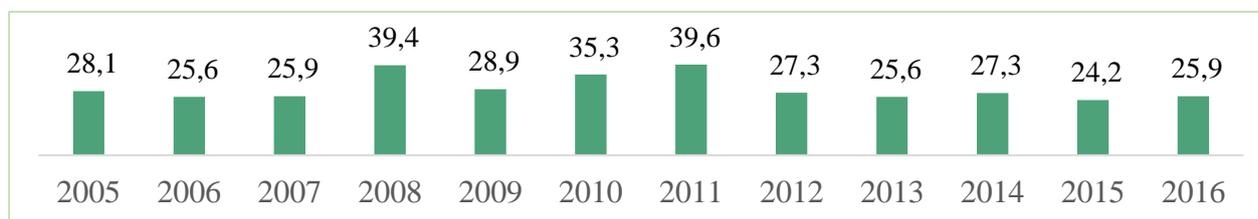


Figure No. 5. Gross savings from 2005 to 2016⁶, % of GDP
Source: IMF World Economic Outlook database

This indicator decreased in 2014–2015 due to the reduction of revenues from the oil sector. Under the scenario of further reduction of internal savings, economic growth will be additionally limited in absence of external or government financial injections.

3) Inflation, changes in %

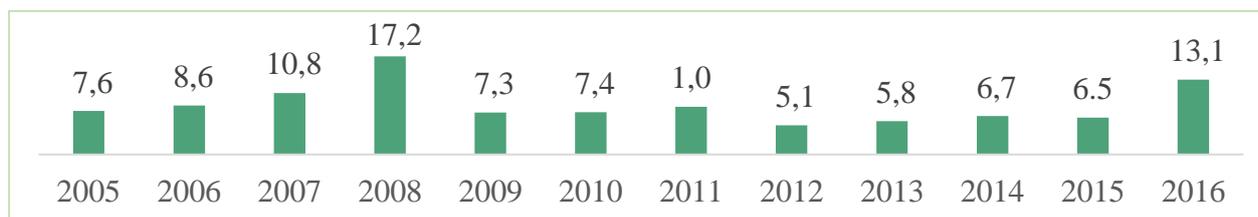


Figure No. 6-a. Development of inflation level in 2005–2016,⁷ %
Source: IMF World Economic Outlook database

⁶ 2016 forecast estimates were taken from the IMF World Economic Outlook database dated October 2016.

⁷ 2016 forecast estimates were taken from the IMF World Economic Outlook database dated October 2016.

Average annual inflation rate did not change significantly from 2014 to 2015 in spite of national currency devaluation, mostly because of active curbing by the government of price growth for goods and services in the consumer basket.

High inflation rate hinders attraction of foreign debt and equity financing in the economy of Kazakhstan slowing down the rate of its development in absence of local government and private financing. The inflation level in 2016 (13.1% as forecast by the IMF) may significantly limit attraction of foreign financing into Kazakhstan's economy.

According to the Ministry of National Economy of the Republic of Kazakhstan (MNE RK), the inflation in the country was slightly different, with a peak in 2015 and no significant deviation from the target value of 6–8% in 2016.

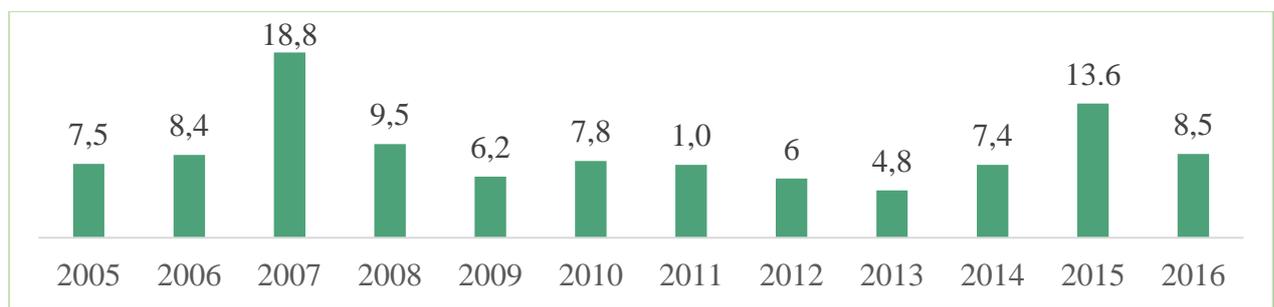


Figure No. 6-b. Development of inflation level in 2005-2016⁸, %

Source: MNE RK

4) Public debt, % of GDP

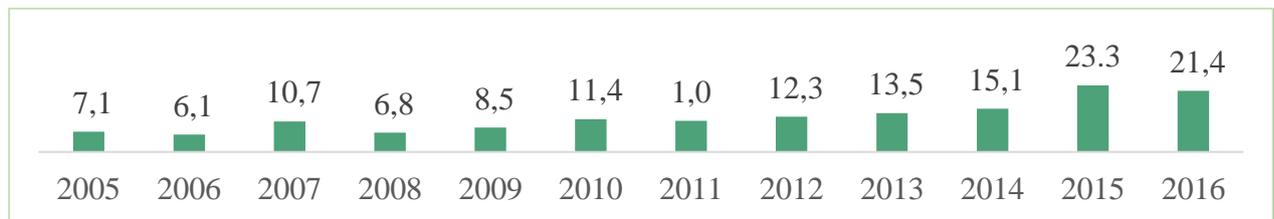


Figure No. 7. Public debt in % of GDP in the Republic of Kazakhstan in 2005–2016⁹

Source: IMF World Economic Outlook database

As for the “Public debt” sub-index, Kazakhstan ranked 17th among 138 countries and second among the CIS countries after Russia demonstrating a relatively healthy level of borrowings. Public debt growth from 2014 to 2015 was, in large part, a result of growing amounts of external borrowings of the Government of the Republic

⁸ Forecast data as stated by NBK.

⁹ 2016 forecast estimates were taken from the IMF World Economic Outlook database dated October 2016.

of Kazakhstan. The increase is partially explained by the devaluation of tenge in 2015 and, accordingly, revaluation of external borrowings denominated in foreign currencies. Further growth of public debt may be associated with gradual increase of financing cost.

5) Country's credit rating

Credit rating index of the country dropped by 8 positions. The source of data for this index is a sovereign credit rating assessed by "Institutional Investor" agency. The credit rating calculation methodology is protected by copyright and is not disclosed by the agency.

The analysis of Kazakhstan's sovereign credit rating provided by international rating agencies in recent years shows a trend of decreasing borrowing power of the country. S&P downgraded the long-term issuer default rating (IDR) of Kazakhstan in foreign currency from "BBB+" in 2014 to "BBB-" "negative" outlook in 2016 (by two notches), Fitch Ratings downgraded the rating from "BBB+" in 2014 to "BBB" outlook "stable" in 2016 (by one notch).

Sovereign rating affects the cost of attraction of financing by the state and, in case of a significant decrease, may have a dramatic impact on the increase of the interest rate on newly attracted borrowings. The debt service coverage to government revenues ratio is currently below 10% (with a threshold level of 15%) and, if government spending for debt servicing continues to increase in the context of limited public revenues, this may have a significant impact on the budget balance and financing of state programs focused on economic development.

In addition to the deterioration of macroeconomic environment, the downgrade of the competitiveness rating of Kazakhstan's economy was, to a large extent, driven by such factors as financial market development and competitiveness of companies.

The country's rating in terms of financial market development also dropped 13 pp in 2016 due to the deterioration of access to financial services, in particular lending, availability of venture capital, stability of the banking system and effectiveness of stock exchange regulation. Besides, based on the results of the survey conducted among the Kazakhstan entrepreneurs to identify business barriers, 13.9% of respondents named access to funding as a barrier ranking second after corruption.

Kazakhstan's rating of companies' competitiveness dropped by 18 pp in 2016. The decrease was caused by the deterioration of qualitative indicators: state of cluster development, production process sophistication, amount of added value creation and control of international distribution.

1.2 Development of macroeconomic factors over a three-year period in 2016 and at the time of "Baiterek" NMH" JSC establishment

The macroeconomic situation (within a 3-year horizon) in Kazakhstan has gone through considerable changes (Figure No. 8 below) in recent years, in particular:

The growth rate of real GDP: There was a significant slowdown of economic growth as a result of the ending of the high commodity prices cycle and the expected low level of prices in the horizon of 10–15 years.



Figure No. 8. Development of Kazakhstan's real GDP growth rate, %

Source: MNE RK Statistics Committee

The actual average Brent crude oil spot price as of the end of 2016 was USD 53.3 per barrel vs. the 2016 forecast by the MNE RK within the Forecast of Social and Economic Development (FSED) for 2014–2018 (Minutes dated October 21, 2014, No. 46) — USD 90.0 per barrel.

Currency exchange rate: the National Bank of the Republic of Kazakhstan approved a decision to change its exchange rate regime to floating from August 20, 2015, followed by devaluation of national currency.

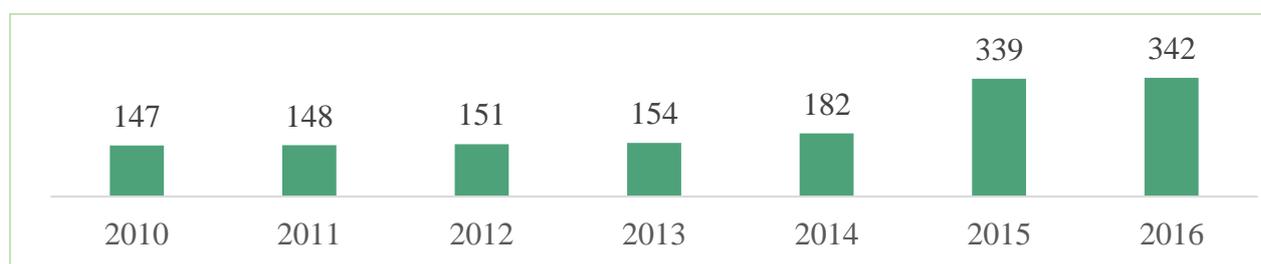


Figure No. 9. Development of exchange rate of national currency – KZT to USD.

Source: Official website of the National Bank of the Republic of Kazakhstan

As a result, the exchange rate of KZT to USD based on the 2016 results was KZT 342.2 (2.2 times higher than the exchange rate as of the end of 2013, which amounted to KZT 153.6).

Availability and cost of credit resources: As a result of the aforementioned factors and in order to increase the attractiveness of national currency, the National Bank of the Republic of Kazakhstan raised its base interest rate as the main tool of monetary policy. As a result, the one-day REPO¹⁰ rate increased from 5.5% in 2014 to 12% at the end of 2016.

¹⁰A REPO transaction is the sale of securities with an agreement to repurchase them within a certain period of time at a pre-determined price.



Figure No. 10. Development of the base interest rate of the National Bank of the Republic of Kazakhstan for REPO transactions, %.

Source: Official website of the National Bank of the Republic of Kazakhstan

The increase of the base interest rate by NBK led to the reduction of liquidity in KZT and volumes of financing of economy by commercial banks (second-tier banks or STBs). As a result, financing of non-resource sectors was primarily through government development institutions and as of October 1, 2016, the ratio of long-term net loan portfolio of “Baiterek” NMH” JSC to STBs in the non-resource sector was 81%.

1.3 Key areas in the national economic policy

“Baiterek” NMH” JSC aligns its activities with the key areas of the national policy in the areas of industrial and innovation development, promotion of export, small and medium enterprises development, fulfillment of tasks in the housing and construction sector and increase of well-being of the population, as well as other objectives outlined by the President and the Government of the Republic of Kazakhstan.

By way of defining major national development areas in his Address to the people of Kazakhstan on January 17, 2014, “Kazakhstan’s Way – 2050: Common Aim, Common Interests, Common Future”, as well as determining the Concept of joining the top 30 developed countries, the Head of the State Nursultan Nazarbayev, specified five strategic directions to help Kazakhstan to join the ranks of the most developed countries in the world:

- 1) development of human capital – the key driver of innovations;
- 2) improvement of institutional environment to ensure favorable conditions for the development of business and entrepreneurship initiatives;
- 3) development of knowledge-based industries with the adoption of a step-by-step approach based on the establishment of industrial foundation required to move towards knowledge-based economy in the long run;
- 4) accelerated establishment of infrastructure to support the development of knowledge-based economy on the basis of a national system of innovations, infrastructure upgrade and increased energy efficiency;
- 5) deepening of the integration within the system of international relations.

The Concept of joining the top 30 most developed countries defines the key elements of knowledge-based economy: innovations, investments and entrepreneurship.

The basis for economic growth should be the long-term growth of labor productivity, development of innovations, diversification of production and export, as well as development of national business sectors through the engagement of external and active utilization of internal resources.

The “Kazakhstan’s Way – 2050” Address and the Concept of joining the top 30 most developed countries of the world served as the basis for development of state and government programs focused on achieving the set goals. There have been significant changes in the state and government programs since the adoption of the Strategy. The “Nurly Zhol” (as amended on May 11, 2016) and the “Nurly Zher” Programs were developed. SPIID was actualized on September 6, 2016, due to macroeconomic changes. The “BRM 2020” Program was updated on March 31, 2015, due to completion of the first stage. The above-mentioned changes in the state and government programs were taken into account in updating the objectives of “Baiterek” NMH” JSC aimed at implementing these programs in the first quarter of 2017.

According to the Address of the President of the Republic of Kazakhstan dated January 31, 2017, “Baiterek” NMH” JSC needs to be reorganized, as it must become an operator for implementation of the state development programs. In addition to the above, the functions of “Baiterek” NMH” JSC need to be optimized to transfer the functions that can be performed by the private sector to the business sector. Besides, “Baiterek” NMH” JSC should engage in borrowings from non-governmental sources for implementation of the programs.

1.3.1 The approval of The Plan of the Nation – 100 Concrete Steps

In May 2015, the President of the Republic of Kazakhstan announced the Plan of the Nation.

In accordance with the Plan of the Nation, “Baiterek” NMH” JSC is engaged in the execution of Step 62 related to the implementation of the “Competitive Leaders – National Champions” initiative (the Initiative) focused on the support of medium business leaders in non-resource sectors of economy.

The Initiative is aimed at identifying successful national companies possessing growth potential that can become leaders of competitiveness on the territory of the Republic of Kazakhstan, as well as at the regional and international levels.

The support measures imply three key focus areas: financial, consulting and institutional support (coordination of work related to interaction with governmental bodies).

Within the scope of financial support, the Initiative participants are provided with access to financial instruments of “Baiterek” NMH” JSC subsidiaries in accordance with their internal documents.

Within the scope of consulting support, the participants receive support to get access to the best practices in the areas of management and operational efficiency improvement with the engagement of consulting companies.

Institutional support is aimed at initiating an efficient dialogue between the companies participating in the Initiative and governmental bodies to eliminate industry-wide barriers.

1.3.2 New state and government programs: “Nurly Zhol” and “Nurly Zher” Programs

“Nurly Zhol” State Program of Infrastructure Development for 2015–2019

One of the priority focus areas of the “Nurly Zhol” Program is improving accessibility of funding for small and medium enterprises (SMEs) and large companies in the manufacturing industry.

“Baiterek” NMH” JSC and its subsidiaries are and can be engaged in the implementation of the following key objectives within the scope of the “Nurly Zhol” Program:

- 1) Per the objective of establishing the effective transport and logistics infrastructure, “Kazakhstan Project Preparation Fund” LLP (KPPF) will contribute to this objective through the development of project design, ongoing and consulting support of public and private partnership projects;
- 2) The objective of increased business competitiveness is supported by the resources of “Damu” entrepreneurship development fund” Joint Stock Company (Damu) with respect to SME support and “Development Bank of Kazakhstan” Joint Stock Company (DBK) with respect to large business support;
- 3) The objective of export promotion is supported by the resources of DBK and “KazakhExport” Export Insurance Company” Joint Stock Company (KazakhExport);
- 4) Domestic machine-building sector is supported by the resources of “DBK-Leasing” Joint Stock Company (DBK-Leasing), a subsidiary of DBK, which offers lease financing of domestic vehicle, helicopter and railroad car manufacturers.

“Nurly Zher” Housing Construction Program

Due to a high need of the population for housing, the “Nurly Zher” Housing Construction Program was developed. The Program mainly focused on the issues related to the development of engineering and social infrastructure, financial incentives for private developers, effective utilization of the housing and construction savings

system and the transition of mortgage-backed housing construction to non-budgetary financing.

One of five strategic focus areas of “Baiterek” NMH” JSC and its subsidiaries is improvement of housing affordability. The “Nurly Zher” Program will be implemented with the utilization of resources of “Housing Construction Savings Bank of Kazakhstan” Joint Stock Company (HCSBK), “Mortgage Organization “Kazakhstan Mortgage Company” Joint Stock Company (“KMC”), “Baiterek Development” Joint Stock Company (“BD”), “Housing Construction Guarantee Fund” Joint Stock Company (HCGF) and Damu for the following objectives:

1) Increased mortgage accessibility – starting from 2017, the subsidies up to 7% p.a. of the mortgage amount that will be channeled via KMC financial agent will be allocated from the central government budget on an annual basis;

2) Stimulating housing construction by private developers – starting from 2017, the subsidies up to 7% p.a. of the interest rate that will be channeled via Damu financial agent will be allocated from the central government budget on an annual basis;

3) Housing construction via housing savings system by means of acquisition of local executive bodies’ securities and placement of conditioned deposits in STBs by BD — in order to ensure turnover of funds allocated to construction of mortgage-based housing, HCSBK will be annually provided with additional KZT 120 bn p.a. during 5 years from 2017 for providing loans to depositors;

4) Provision of public rental housing – construction of rental housing with KMC within previously adopted state and government programs continues in 2017–2018;

5) Implementation of the deposit protection mechanism with the participation of HCGF.

1.3.3 Modified state and governmental programs: SPIID, the “BRM 2020” Program

State Program for Innovative and Industrial Development of the Republic of Kazakhstan for 2015–2019

The key goal of SPIID is focused stimulation of competitive ability of the manufacturing industry aimed at improving labor productivity and growth in export of processed goods.

“Baiterek” NMH” JSC is one of the key operators of SPIID and is involved in the implementation of all key objectives of the program:

1) As part of the task to create an efficient basic industry, DBK, DBK-Leasing and Damu provide financing of projects related to the modernization and expansion of existing production capacities;

2) As part of the task to create new pockets of industrial growth, DBK provides financing of major projects;

3) To ensure conditions for the establishment of high-performing industrial entrepreneurship, “Baiterek” NMH” JSC, DBK, DBK-Leasing, Damu and KazakhExport support the productivity growth in the manufacturing sector;

4) The main organization responsible for the fulfillment of the key objectives to establish the critical mass of industrial and innovative businesses is the “National Agency for Technological Development” Joint Stock Company (NATD).

Unified Business Support and Development Program “Business Road Map 2020”

Damu is a financial operator of the “BRM 2020” Program and supports SMEs via subsidizing loan interest rates and STB loan guarantees in three areas:

1) Support of new business initiatives of entrepreneurs from mono- and small towns, and rural settlements;

2) Industry-specific support of entrepreneurs operating in priority economy sectors;

3) Mitigation of entrepreneurs’ currency risks.

1.3.4 Comprehensive privatization plan for 2016–2020

In accordance with Decree of the Government of the Republic of Kazakhstan dated December 30, 2015, No. 1141 “On Certain Privatization Aspects for 2016–2020”, the Comprehensive privatization plan for 2016–2020 was approved. This Decree is aimed at transferring the shares in three subsidiaries of “Baiterek” NMH” JSC and eight projects of “Investment Fund of Kazakhstan” Joint Stock Company (IFK) into competitive environment, specifically:

1) HCSBK, KazakhExport, NATD¹¹: sale to a strategic or qualified investor with professional capabilities in the relevant area is planned;

2) IFK: full sale of shares is considered for 8 projects¹² until 2018.

¹¹ Including privatization of interests in 7 subsidiaries of NATD: “Technopark “Algorithm” LLP, “Technopark Sary-Arka” LLP, “Technopark of Kazakh National Research Technical University after K.I. Satpayev” LLP, “East Kazakhstan Regional Technopark “Altai” LLP, “Design Bureau of Mining and Metallurgical Equipment” LLP, “Design Bureau of Transport Engineering” LLP, “Design Bureau of Oil & Gas Equipment” LLP.

¹² List of IFK projects to be privatized: “Ural Plant of Metal Construction and Galvanizing” JSC, “Doszhan Temir Zholy” JSC, “White Fish of Kazakhstan” JSC, “MyrzAbeK – ALTYN TAS Group” JSC, “Rannila Kazakhstan” JSC, “Irtys Chemical and Metallurgical Plant” JSC, “Pams Pipe” JSC, “A-KBK” LLP.

2. Analysis of the current state of “Baiterek” NMH” JSC: internal environment

2.1 Current structure of “Baiterek” NMH” JSC and its subsidiaries

“Baiterek” NMH” JSC includes 11 subsidiaries (Appendix to this Strategy), which in the past were under the management of various governmental authorities and/or quasi-public enterprises.

The subsidiaries of “Baiterek” NMH” JSC contribute to Kazakhstan’s economic development by means of various support tools. All the tools (both financial and non-financial) of “Baiterek” NMH” JSC subsidiaries can be roughly split into five groups – large business entrepreneurship support, SME entrepreneurship support, increasing housing affordability, increasing export potential, as well as transfer and implementation of technologies. (see Figure No. 11 below).

| | | Instruments | State Development Bank of Kazakhstan | KazExportGarant | TFR | CAPITAL MANAGEMENT | KPPF | DAMU | NATD | AGRICULTURE | INDUSTRIAL DEVELOPMENT | BAITEREK DEVELOPMENT |
|---|---------------------------------|------------------------------|--------------------------------------|-----------------|-----|--------------------|------|------|------|-------------|------------------------|----------------------|
| Enterprise support | Large businesses | Debt financing | ✓ | | | | | | | | | |
| | | Equity financing | | | ✓ | ✓ | | | | | | |
| | | Bad loans | | | ✓ | | | | | | | |
| | | Guarantees and insurance | ✓ | ✓ | | | | | | | | |
| | | Leasing | ✓ | | | | | | | | | |
| | | Consultative project support | | | | | ✓ | | | | | |
| | SMEs | Financial support | | | | | ✓ | | | | | |
| | | Grants | | | | | | ✓ | | | | |
| | | Consulting | | | | | ✓ | ✓ | | | | |
| | | Venture capital financing | | | | | | | ✓ | | | |
| Competence development | | | | | | ✓ | | | | | | |
| Housing affordability | Developer financing | | | | | | | | ✓ | | ✓ | |
| | Housing loans | | | | | | | ✓ | | | | |
| | Rental housing | | | | | | | | ✓ | | ✓ | |
| | Mortgage loans guarantees | | | | | | | | | ✓ | | |
| Increase in export potential | Guarantees and insurance | | ✓ | | | | | | | | | |
| | Export and pre-export financing | ✓ | | | | | | | | | | |
| Transfer of technology and introduction of innovation | Venture capital financing | | | | | | | ✓ | | | | |
| | Competence development | | | | | | | | ✓ | | | |
| | Grants | | | | | | | | ✓ | | | |

Figure No. 11. Matrix of economy development support tools in the subsidiaries of “Baiterek” NMH” JSC with a breakdown by five areas of activities.

Source: annual reports of the subsidiaries (2015); financial statements of the subsidiaries (2015)

The five mentioned areas are quite different from each other by a number of characteristics, such as:

- 1) Share in the asset portfolio of “Baiterek” NMH” JSC;
- 2) Asset profitability level;
- 3) Number of customers served;
- 4) Investment/support horizon;
- 5) Typical funding structure;
- 6) Loan portfolio quality;

7) Operating expenses related to asset management.

Moreover, the five areas of “Baiterek” NMH” JSC activities are being implemented within the framework of the related state and governmental economic development programs (see Figure No. 12 below).

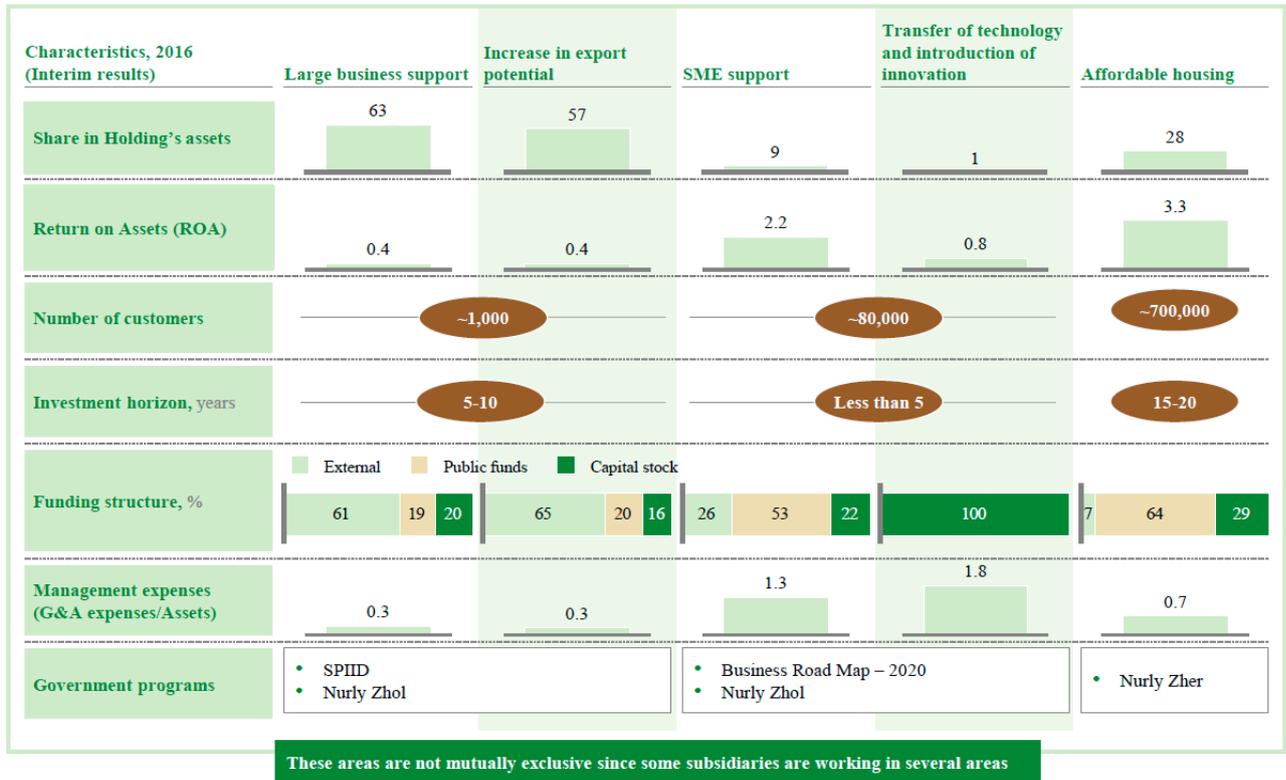


Figure No. 12. Comparison of the five areas of “Baiterek” NMH” JSC activities by a number of characteristics

SOURCE: data from the subsidiaries (2016)

Benchmarking against the international practice shows that, as a result of consolidation of five specific areas of activities, “Baiterek” NMH” JSC is a unique development institution without any comparable counterparts (see Figure No. 13 below). The analysis conducted shows that the governmental support of the five areas of “Baiterek” NMH” JSC activities is typically not consolidated in any single development institution, but is divided among several development institutions specializing in the corresponding areas.

Taking into consideration significant variations in the five areas of activity and the benchmarking results, the activities of “Baiterek” NMH” JSC shall be planned, analyzed and assessed in the context of the five areas.

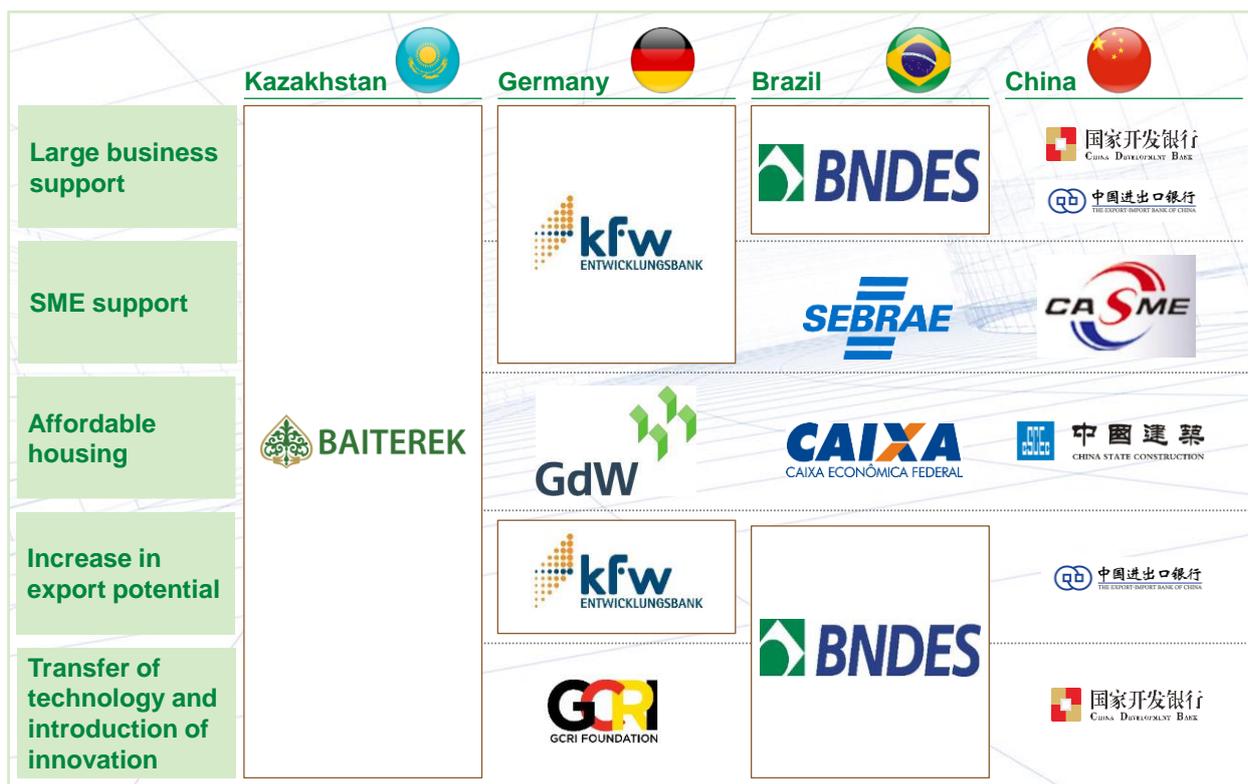


Figure No. 13. The international practice of work in the five areas of activities through the economic development institutions.

Source: annual reports of “Baiterek” NMH” JSC, KfW, BNDES, CDB; team analysis

2.2 Analysis of KPI fulfillment and SWOT analysis

Previously, the Strategy determined 28 key performance indicators to fulfill the objective of establishment of “Baiterek” NMH” JSC as an integrated development institution and implementation of the five strategic areas of activities.

According to the report on implementation of the Action Plan in 2014-2016 for Strategy implementation based on the results of 2014 and 2015, the majority of strategic key performance indicators (KPIs) were attained:

| No. | Indicator | Target | Actual |
|--|-----------|--|--|
| Objectives establishing “Baiterek” NMH” JSC as an integrated development institution | | | |
| 1. | ROE, % | 2014 – 0.2 2015 – 2.2 2016 – 2.4 | 2014 – 5.7 2015 – 5.9 2016 – 5.4 |
| 2. | ROA, % | 2014 – 0.1 2015 – 0.7 2016 – 0.6 | 2014 – 2 2015 – 1.7 2016 – 1.3 |

| No. | Indicator | Target | Actual |
|--|---|---|---|
| 3. | Credit rating of “Baiterek” NMH” JSC | Not lower than sovereign | 2014 – equivalent: Fitch BBB+ S&P BBB+ 2015 Fitch BBB+ compliant S&P BBB- non-compliant |
| 4. | Debt/Equity | Not higher than 7 | 2014 – 1.5 2015 – 3 2016 – 3.3 |
| 5. | Loan portfolio quality (level of loan loss provisions) ¹³ , % | 2014 – 10 2015 – 10 2016 – 9 | 2014 – 3 2015 – 1.5 2016 – 2.6 |
| 6. | Labor productivity (gross revenue per employee), KZT mn | 2014 – 65 2015 – 71 2016 – 102 | 2014 – 71.6 2015 – 116.1 |
| Strategic Area 1: Assistance in sustainable economy development in Kazakhstan by providing financial support to priority economy sectors | | | |
| 1.1 Ensuring financing of the economy through lending and investment mechanisms | | | |
| 7. | Ratio of assets to GDP, % | 2014 – 6 2015 – 6 2016 – 6 | 2014 – 6 2015 – 8.4 2016 – 9.0 |
| 8. | Loan portfolio ¹⁴ , KZT bn | 2014 – 1,321 2015 – 1,948 2016 – 2,403 | 2014 – 1,415 2015 – 2,126 2016 – 2,331 |
| 9. | Investment portfolio ¹⁵ (except treasury operations), KZT bn | 2014 – 50 2015 – 138 2016 – 278 | 2014 – 47.9 2015 – 138.7 2016 – 235 |
| 10. | Index of the project development impact (for DBK) | 2014 – 62 2015 – 63 2016 – 64 | 2014 – 62 2015 – 63 2016 – 65 |
| 11. | Share of the loan and investment portfolio in the total assets of “Baiterek” NMH” JSC (except treasury operations), % | 2014 – 56 2015 – 68 2016 – 65 | 2014 – 60 2015 – 65.5 2016 – 62.5 |
| 1.2 Ensuring the structuring and financing of infrastructure projects, including PPP projects | | | |
| 12. | Accumulated volume of funds invested in infrastructure projects ¹⁶ , KZT bn | 2014 – not established 2015 – 4.6 2016 – 15.3 | 2014 – no data 2015 – 13.6 2016 – 16.4 |

¹³ Consolidated value for DBK, HCSBK, KMC and Damu

¹⁴ Consolidated value for DBK, Damu, HCSBK, KMC, DAF (BD)

¹⁵ Consolidated value for KCM, IFK, KMC, NATD

¹⁶ Funds invested by the group companies of “Baiterek” NMH” JSC

| No. | Indicator | Target | Actual |
|--|---|--|--|
| 13. | Cumulative number of infrastructure projects including PPP projects, which received consulting support services | 2014 – 3 2015 – 6 2016 – 15 | 2014 – 1 2015 – 10 2016 – 16 |
| 1.3. Interaction with private financial institutions in order to ensure the required level of financing of the economy | | | |
| 14. | Share of attracted direct private investments in the Republic of Kazakhstan to unit of public funds (in equity) | 2014 – 1.7 2015 – at least 2 2016 – at least 2 | 2014 – 2.7 2015 – 2.1 2016 – 2.1 |
| Strategic Area 2: Support for small and medium enterprises | | | |
| 2.1 Providing support for SMEs | | | |
| 15. | Volume of funds allocated to entrepreneurship development under financial programs, KZT bn | 2014 – 328 2015 – 422 2016 – 451 | 2014 – 439 2015 – 523.7 2016 – 747.9 |
| 16. | Multiplier of STB co-financing for small and medium enterprises (SMEs) for loans issued under the conditional placement program | 2014 – not established 2015 – 5:1 2016 – (-) | 2014 – no data 2015 – 47:1 |
| 17. | Share of attracted funds to finance SMEs from non-budgetary sources, % | 2014 – 20 2015 – 22 2016 – 49 | 2014 – 57 2015 – 61 2016 – 71 |
| 2.2 Development of competences in small and medium enterprises | | | |
| 18. | Share of participants involved in training programs, who set up business, % | 2014 – 10 2015 – 11 2016 – 12 | 2014 – 12 2015 – 12 2016 – 12 |
| Strategic Area 3: Support for new, modern industries and innovation | | | |
| 3.1 Financial support for new industries and innovative projects | | | |
| 19. | Annual output of manufactured products by projects supported within the framework of support mechanisms, KZT bn | 2014 – 8 2015 – 8.6 2016 – 26.2 | 2014 – 34.5 2015 – 25.2 2016 – 57.7 |
| 3.2. Innovation infrastructure development | | | |
| 20. | Share of commercialized projects of the total number of projects, % | 2014 – 15 2015 – 16.2 2016 – 17.5 | 2014 – 25 2015 – 24 2016 – 30 |
| 3.3 Development of competences in innovation-oriented enterprises and promotion of technology transfer | | | |
| 21. | Number of enterprises having transferred technologies | 2014 – 12 2015 – 15 2016 – 12 | 2014 – 17 2015 – 18 2016 – 15 |
| Strategic Area 4: Support for export activity of Kazakh companies | | | |
| 4.1 Development of export insurance and trade financing | | | |
| 22. | Share of coverage of non-resource export, % | 2014 – 1.4 2015 – 1.5 2016 – 1.5 | 2014 – 1.4 2015 – 2.7 2016 – 2.3 |

| No. | Indicator | Target | Actual |
|---|--|--|---|
| 4.2. Non-financial support for export activity of Kazakh companies | | | |
| 23. | Share of export-oriented companies that received consulting services, % | 2014 – 4 2015 – 4.5 2016 – 5 | 2014 – 5 2015 – 4.5 2016 – 7.5 |
| Strategic Area 5: Assistance in resolving socially oriented tasks of the government | | | |
| 5.1 Development of the housing savings system | | | |
| 24. | Share of housing savings system participants to economically active population, % | 2014 – 5.2 2015 – 6.5 2016 – 8.3 | 2014 – 5.3 2015 – 7.1 2016 – 9.8 |
| 25. | Share of “Baiterek” NMH” JSC in the credit market for the construction and purchase of housing | 2014 – 12.8 2015 – 14 2016 – 25 | 2014 – 18.9 2015 – 24.6 2016 – 27 |
| 5.2 Development of the rent-and-buy tool | | | |
| 26. | Volume of commissioned rental housing, sq. m '000 | 2014 – 171 2015 – 201.0 ¹⁷ 2016 – 326 | 2014 – 24.6¹⁸ 2015 – 434.7 ¹⁹ 2016 – 425.5 |
| 5.3 Support for the mortgage housing market | | | |
| 27. | Volume of acquired claims on mortgage loans from partner banks, KZT bn | 2014 – 10 2015 – 8 2016 – (-) | 2014 – 12.5 2015 – 4.7 |
| 5.4 Development of mortgage guarantees | | | |
| 28. | Share of mortgage loans in the portfolio of STBs secured by guarantees of “KMGF” JSC ²⁰ , % | 2014 – 9 2015 – 9 2016 – 4.7 | 2014 – 7.1 2015 – 5.9 2016 – 4.2 |

Figure No. 14. Attainment of the KPIs of “Baiterek” NMH” JSC in 2014–2015²¹.

In 2014, 3 of 28 strategic KPIs were not attained:

- 1) The cumulative number of infrastructure projects including PPP projects that received consulting support services was 1 vs. the target of 3;
- 2) The volume of commissioned rental housing was 24,600 sq. m instead of the planned 210,000 sq. m;

¹⁷ Within the Affordable Housing 2020 program – 153, within the own program – 48,000 sq. m.

¹⁸ Before 2015 within the Affordable Housing 2020 program – 6, within the own program – 24,600 sq. m.

¹⁹ Within the Affordable Housing 2020 program – 425.37, within the own program – 9,300 sq. m.

²⁰ In accordance with resolution of the Management Board of “Baiterek” NMH” JSC dated September 20, 2016, No. 37/16 “Kazakhstan Mortgage Guarantee Fund” Joint Stock Company (“KMGF” JSC) was renamed to “Housing Construction Guarantee Fund” JSC.

²¹ In accordance with clause 24 of Order of the Minister of National Economy of the Republic of Kazakhstan dated February 27, 2015, No. 149, the efficiency of the Strategy will be first assessed for the period of 2014–2016 with a breakdown by years and by 28 KPIs of “Baiterek” NMH” JSC specified in Figure No. 14.

3) The share of mortgage loans in the portfolio of STBs secured by guarantees of HCGF was 7.1% vs. the planned 9.0%.

In 2015, 3 of 28 strategic KPIs were not attained:

1) The multiplier of co-financing of loans issued to small and medium enterprises under the conditional placement program by STBs was 47:1 instead of the target of 5:1, to a large extent due to problems with liquidity of STBs;

2) The volume of acquired claims on mortgage loans from partner banks was KZT 4.7 bn instead of the target of KZT 8.0 bn. Non-attainment of the target can be explained by the increased cost of financing for KMC and stagnation of the mortgage market;

3) The share of mortgage loans in the portfolio of STBs secured by guarantees of HCGF was 5.9% vs. the planned 9.0%. Non-attainment of the target can be explained by suspension of issuing guarantees in 2013 due to insufficient capital of HCGF²².

Thus, non-attainment of several KPIs in 2014 and 2015 could be explained by the external market conditions: lack of liquidity, increase in the cost of available sources of financing and reduction of the governmental support of the economy.

SWOT analysis

| Strengths | Weaknesses |
|---|--|
| <ul style="list-style-type: none"> 1) Significant support to “Baiterek” NMH” JSC and its subsidiaries by the sole shareholder, the Government of the Republic of Kazakhstan; 2) Developed infrastructure, significant experience in economic support, experience of cooperation with the private sector; 3) Efficient management of currency, interest, credit and other risks in the portfolio; 4) Experience in raising funds in the international and local capital markets; | <ul style="list-style-type: none"> 1) High share of financing of large projects in the quasi-public sector; 2) Presence of duplicating functions and support tools with other development institutions; 3) Low degree of realized synergy among the subsidiaries of “Baiterek” NMH” JSC required for the successful implementation of the one-stop-shop principle; 4) Focusing the KPIs of “Baiterek” NMH” JSC and its subsidiaries on the extent of support but not always on the effectiveness of the latter; 5) Lack of clear allocation of the management functions and |

²²In accordance with the Law of Republic of Kazakhstan “On Central Government budget for 2015–2017”, the capital of “KMGF” JSC is authorized to be increased by KZT 10 bn. The above-mentioned measures made it possible for “HCGF” JSC to start issuing guarantees for housing construction in 2016.

| | |
|---|--|
| 5) Wide range of financial and non-financial tools of support in the subsidiaries of “Baiterek” NMH” JSC. | responsibilities between the corporate center of “Baiterek” NMH” JSC and the subsidiaries; 6) Insufficiently active interaction with the public and clients in communicating results of work and new tools. |
| Opportunities | Threats |
| <ol style="list-style-type: none"> 1) High demand of Kazakhstan’s economy for financial and non-financial support for development; 2) The need to further improve the competitiveness of domestic companies; 3) The need to increase investment in the development and modernization of infrastructure; 4) The ability to raise funds from non-public sources of funding; 5) Expansion of cooperation with the private sector, in particular in the form of PPP and co-financing with private financial institutions; 6) Ability to implement additional synergies among subsidiaries; 7) Being in a position of a technological broker by providing technology transfer services. | <ol style="list-style-type: none"> 1) Possible deterioration of the macroeconomic situation in the country due to external factors; this may lead to further weakening of the national currency and increase of country risks; 2) Lack of development of Kazakhstan stock market; 3) In case of the credit rating of “Baiterek” NMH” JSC is downgraded, its access to external sources of financing will be limited; 4) Low investment attractiveness of projects in Kazakhstan; 5) High NPL ratio in STB portfolios. |

3. Mission and vision of “Baiterek” NMH” JSC

The mission of “Baiterek” NMH” JSC is to support the sustainable economic development of the Republic of Kazakhstan in order to implement public policies and achieve goals set by the 2050 Strategy.

Vision of “Baiterek” NMH” JSC – a key institution of the Government of the Republic of Kazakhstan complying with the best-practice standards of corporate

governance and ensuring the fulfillment of objectives aiming at the sustainable development of Kazakhstan's economy through diversification, support for innovations, exports development, and increase in productivity.

The key objectives to be achieved by “Baiterek” NMH” JSC within the framework of its mission to promote sustainable development of the economy of Kazakhstan are:

- 1) Development of non-resource sectors of the economy;
- 2) Development of entrepreneurship (private sector of the economy);
- 3) Support of economy urbanization;
- 4) Support of export of non-resource products;
- 5) Development of innovation.

The first two objectives are pursued through conducting the core activities of “Baiterek” NMH” JSC along the two strategic dimensions:

- 1) Large business entrepreneurship support;
- 2) SME entrepreneurship support.

The third objective of the economy urbanization support is pursued within the framework of the third strategic dimension of “Baiterek” NMH” JSC “Improving housing affordability”.

The last two objectives to support the export of non-resource products and the development of innovation are implemented in the following strategic dimensions:

- 1) Increase of export potential;
- 2) Transfer and implementation of innovations.

Each of the strategic areas in section 5 of the Strategy has certain KPIs of “Baiterek” NMH” JSC with the established targets for 2023.

Detailed sub-objectives with annual intermediate targets and activities will be provided within the Action Plan for Strategy Implementation developed by “Baiterek” NMH” JSC, which will constitute a working document.

4. Strategic development areas of “Baiterek” NMH” JSC

4.1 Strategic area 1. Entrepreneurship support in the segment of large business

The operations of “Baiterek” NMH” JSC in the area of large business entrepreneurship support comprise one of the areas of the business activities of its subsidiaries DBK, KazakhExport, “Kazyna Capital Management” Joint Stock Company (KCM), IFK, and KPPF that provide support using debt and equity financing instruments, leasing and export insurance, and advisory project support. The main issues in this area are:

1) Loan portfolio structure by borrowers: As of December 31, 2015, the credit portfolio of “Baiterek” NMH” JSC was KZT 1.9 trillion. DBK accounts for the major share (~ 75%) of the loan portfolio. According to the analysis of projects (in terms of their value) implemented using the support tools of DBK, 85% of value was accounted to publicly owned companies, including quasi-public sector entities (see Figure No. 15 below). For reference, as of December 31, 2016, the loan portfolio of “Baiterek” NMH” JSC was KZT 1.9 trillion, while the share of DBK in the portfolio of “Baiterek” NMH” JSC saw no significant changes.

However, as stated in the Strategic plan of the Ministry of National Economy of the Republic of Kazakhstan for 2014–2018, the Government of the Republic of Kazakhstan set the goal to reduce the share of state participation in the economy to 15% by 2021. Thus, the current investment practice of DBK does not support the objective to reduce state participation in the economy;

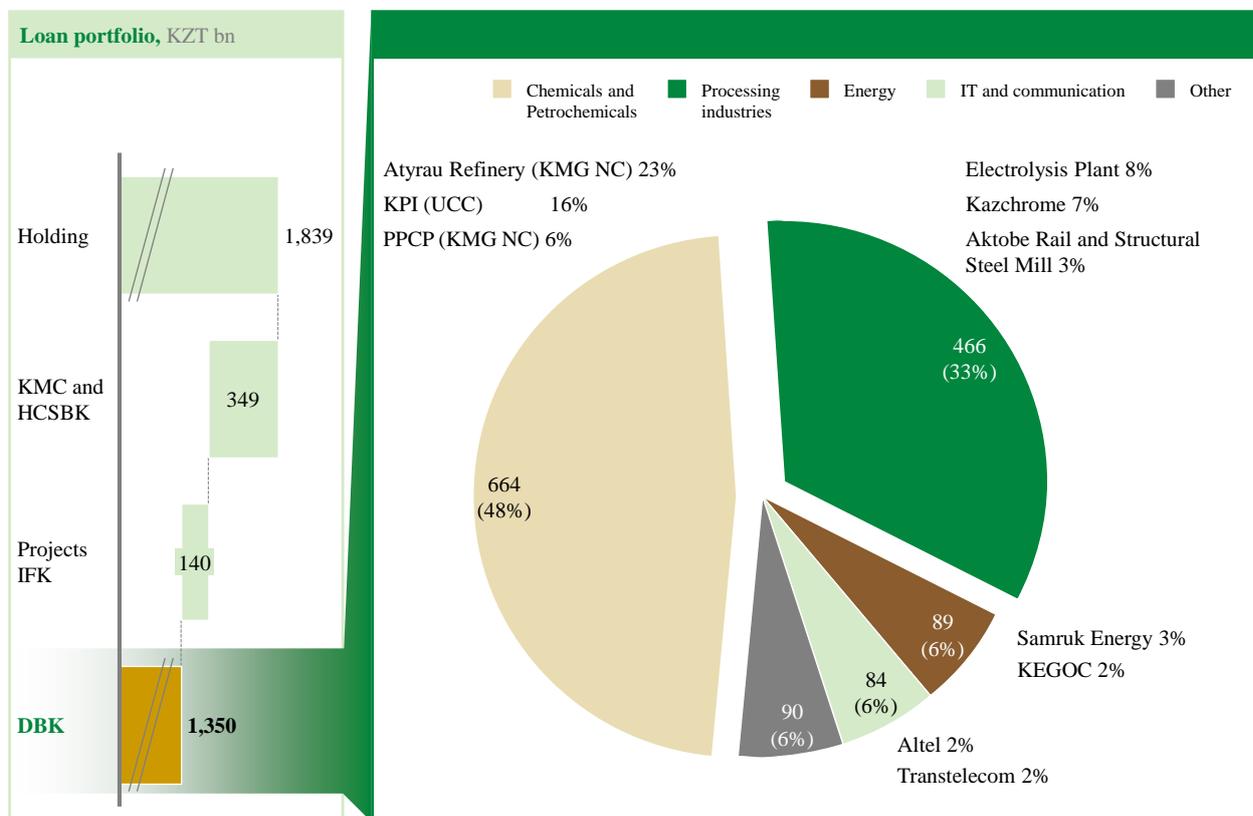


Figure No. 15. Structure of DBK’s loan portfolio by sectors and borrowers indicating the share of key projects.

SOURCE: financial statements of “Baiterek” NMH” JSC (H1 2016); DBK data

2) cost of loans: In May 2016, the subsidiary of “Baiterek” NMH” JSC – DBK procured an external loan from Sumitomo Mitsui Banking Corporation for USD 32.3 mn. The interest rate for the loan at the time of borrowing was 3.66% p.a. (6mLibor+2.75% p.a.). In December 2016, DBK procured a loan from China Development Bank for USD 170 mn. At the time of borrowing, the interest rate for the loan was 3.99% p.a. (6mLibor+2,7% p.a.).

Based on the comparative analysis (see Figure No. 16 below) of the actually borrowed funds (with similar maturities) of public financial institutions with a comparable range of credit rating (from BB+ to BBB-) for 2015–2016, it was identified that the interest rates of DBK are on par with the interest rates of comparable development banks;

| Country | Development Institution | Credit rating | Debt / Equity | Maturity, years | Amount, USD mn | Yield-to-Call, % |
|------------|--|---------------|---------------|-----------------|----------------|------------------|
| Kazakhstan | Банк развития Казахстана | BBB- | 4.8 | 10 | 200 | 5.7 |
| Mexico | BANCOMEXT | BBB- | 14.2 | 10 | 1,400 | 4.2 |
| India | एक्सिम बैंक भारतीय निर्यात-आयात बैंक EXPORT-IMPORT BANK OF INDIA | BBB- | 8.1 | 10 | 2,000 | 3.2 |
| India | एक्सिम बैंक भारतीय निर्यात-आयात बैंक EXPORT-IMPORT BANK OF INDIA | BBB- | 8.1 | 5 | 500 | 2.5 |
| India | एक्सिम बैंक भारतीय निर्यात-आयात बैंक EXPORT-IMPORT BANK OF INDIA | BBB- | 8.1 | 5 | 1,000 | 2.4 |
| Turkey | EXIMBANK | BB+ | 8.0 | 5 | 1,000 | 4.7 |
| Hungary | MFB Magyar Fejlesztési Bank Zártkörűen Működő Részvénytársaság | BB+ | 4.6 | 6 | 320 | 1.1 |
| Kazakhstan | DAMU | BBB- | 2.6 | 5 | 230 | 2.4 |

Figure No. 16. Terms of attracting external borrowings by financial development institutions with a credit rating from BB+ to BBB- in 2015–2016.

SOURCE: financial statements of “Baiterek” NMH” JSC (2015, 2016); Bloomberg

3) Reactive approach of “Baiterek” NMH” JSC to finding and structuring deals: The current operating model of “Baiterek” NMH” JSC implies a limited extent of direct interaction with entrepreneurs, as direct support is implemented at the subsidiary level. In this case, “Baiterek” NMH” JSC will proactively initiate support

of certain areas in the priority sectors of the economy as part of the comprehensive support of large businesses projects, which will be limited to 3–5 deals per year;

4) Cross-functionality (integrated support): During analysis of the projects and interviews with key executives of “Baiterek” NMH” JSC and subsidiaries it was identified that only 2 projects were implemented under the integrated project support program over three years. Such examples include the projects with “Allure Group of Companies” Joint Stock Company and “Central-Asian Power Energy Company” Joint Stock Company. At the same time, there is a considerable potential for expanding the integrated support program, provided there is coordination and involvement at the level of “Baiterek” NMH” JSC.

At the same time, in accordance with the SPIID, selection of projects for the provision of support will take into account the increase in labor productivity, expanding markets and increasing local content in procurement of goods, works and services for projects;

5) Loan portfolio quality – Share of non-performing loans (repayment schedule delayed by more than 90 days): “Baiterek” NMH” JSC reduced the share of non-performing loans in the loan portfolio by more than 3 times from 2013 to 2016 (from ~22% to 7%). However, the current level of non-performing loans is still 3 times higher than the average level of comparable development institutions (see Figure No. 17 below). “Baiterek” NMH” JSC will consider further measures to reduce the level of non-performing loans, which will improve the quality of the loan portfolio and release funds for further investment.

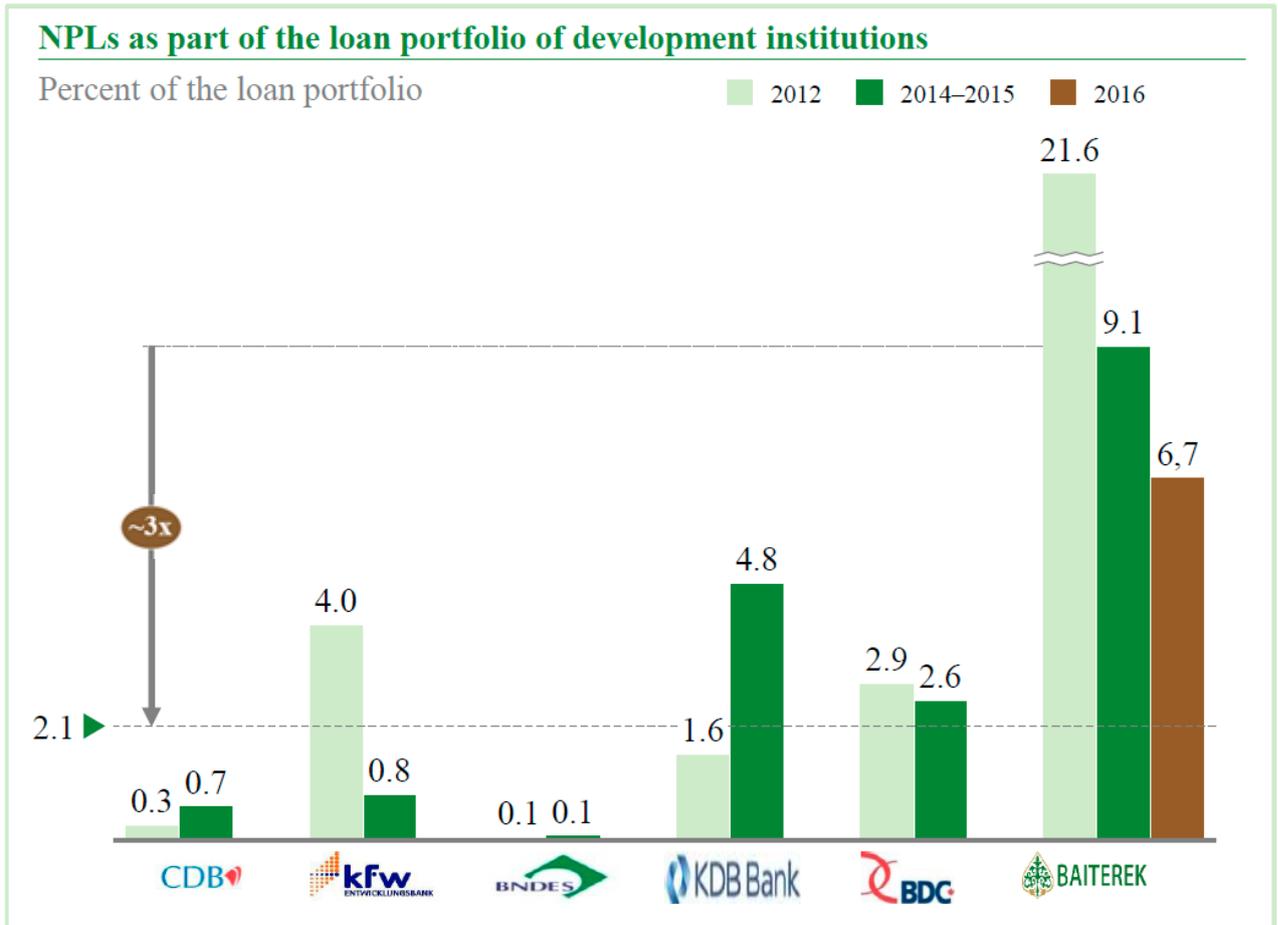


Figure No. 17. Comparative analysis of the share of non-performing loans in the portfolio of development financing institutions.

SOURCE: financial statements and annual reports of development institutions (2012–2015), financial statements of “Baiterek” NMH” JSC (2016)

At the same time, the share of IFK in the total volume of non-performing loans of “Baiterek” NMH” JSC (KZT 181.4 bn) was 93.6 % or KZT 169.8 bn at the end of 2015. Thus, the figure without IFK equals 0.6 %;

6) Problem assets/projects: “Baiterek” NMH” JSC transferred a large share of problem assets/projects from DBK to IFK to work with problem assets/projects in 2013–2015. The original value of the projects moved out to IFK was ~KZT 326 bn²³, while their fair value as of December 31, 2015, amounted to KZT 32 bn (90% below the original value).

“Baiterek” NMH” JSC will develop solutions regarding two key issues:

1) How to improve the risk management approaches (including the borrower's credit risk assessment model, quality of investment project analysis, practice of

²³According to IFK’s reporting data, at the end of 2015, the value of the transferred assets payable by IFK to DBK in accordance with the cession agreements is KZT 320 bn.

transferring foreign exchange risk to the borrower, collateral assessment and management practices, etc.) in transactions to minimize the probability of losses from non-performing loans?

2) How to change the problem assets/projects workout model to minimize losses from non-performing loans after the borrower's default?

4.2 Strategic area 2. Support for SMEs

“Baiterek” NMH” JSC supports SMEs through such subsidiaries as Damu, NATD, KazakhExport, DBK, KCM and KPPF that provide support using financial (grants, venture financing, rate of return subsidizing, partial guarantees on loans, conditional placement of funds in STBs, soft lending, export and pre-export financing, and equity financing) and non-financial (advisory project support) instruments.

Over the past five years, there is a positive dynamics of SME development in Kazakhstan. The share of SMEs in the GDP structure increased from 17.3% in 2011 to 24.9% in 2015. The number of operational enterprises increased by 1.5 times over the six years reaching 1.2 mn enterprises in 2016. The share of population engaged in the SME sector also increased and amounted to 3.1 mn people in October 2016 (see Figure No. 18 below). Thus, the 2016 Doing Business rating showed that Kazakhstan gained 16 positions and took the 35th place out of 190 countries through its improvement on such items as the "creation of enterprises" (+9), "obtaining construction permits" (+56), "getting electricity" (+27), and others. However, there was a decrease in its performance in terms of "getting credit" (-5) and “taxation” (-3).

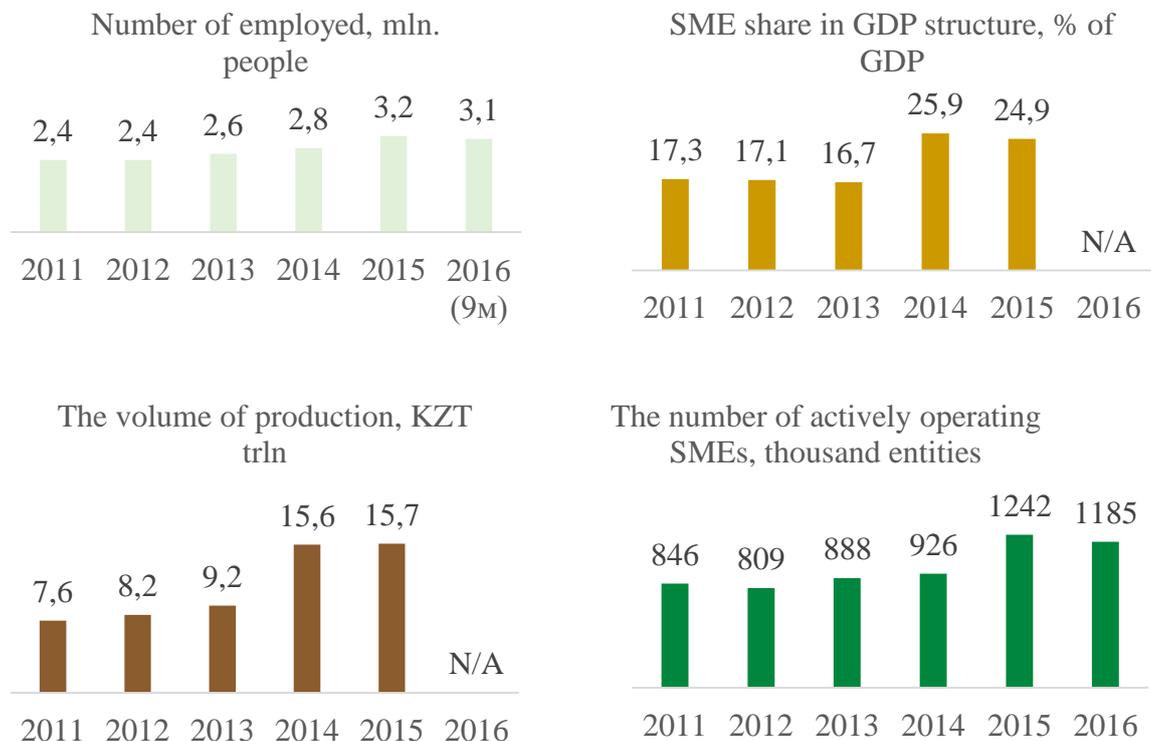


Figure No. 18. Development of key indicators of SMEs.

Source: MNE RK Statistics Committee

Kazakhstan has a considerable potential in the SME sector development. The level of the SME sector development remains significantly lower than in developing countries, such as Argentina, Brazil, South Africa and China. The average share of SMEs in the GDP of developing countries is 42% and the share of employed population is 64% of the country's total population. The share of SMEs in the GDP structure in Kazakhstan is 1.5 times below the average indicator for developing countries, and the share of SME employed population is 35% of the economically active population of the republic, which is 2 times lower than the average.

The main factors restricting financing of SME development in Kazakhstan include limited coverage (by number) of SMEs, focus of support provided by development institutions on the middle business sub-segment, lack of state support, absence of motivational component in financial support instruments used by development institutions, and high lending rates of STBs.

Nevertheless, increase in the number of SMEs and the volume of production of these enterprises led to a significant growth in tax deductions. According to the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan, the amount of annual tax deductions from SMEs increased by 3.5 times from 2012 to 2015 amounting to KZT 1.3 trln in 2015. At the same time, the growth of the state financial support of SMEs lagged behind the growth of tax liabilities in the SME sector. From the launch of the "BRM 2020" Program till January 1, 2016, KZT 111.0 bn were allocated to subsidize the interest rates and SME loan guarantees in the three areas of the program. Within the manufacturing industry support in 2014–2015, as part of the joint plans by the Government of the Republic of Kazakhstan and the National Bank of the Republic of Kazakhstan, additional KZT 200 bn were allocated from the National Fund of the Republic of Kazakhstan (Decrees of the Government of the Republic of Kazakhstan dated April 14, 2014, No. 354, dated December 5, 2014, No. 1276, and dated March 11, 2015, No. 124).

The amount of state support for SMEs in 2015 was KZT 145 bn, which accounts for only 11% of the tax liabilities incurred by SMEs. Figure No. 19 presents the volume of tax deductions to the amount of state support ratio. Based on this information, "Baiterek" NMH JSC is suggested to raise the issue of increasing the level of state support for SMEs.

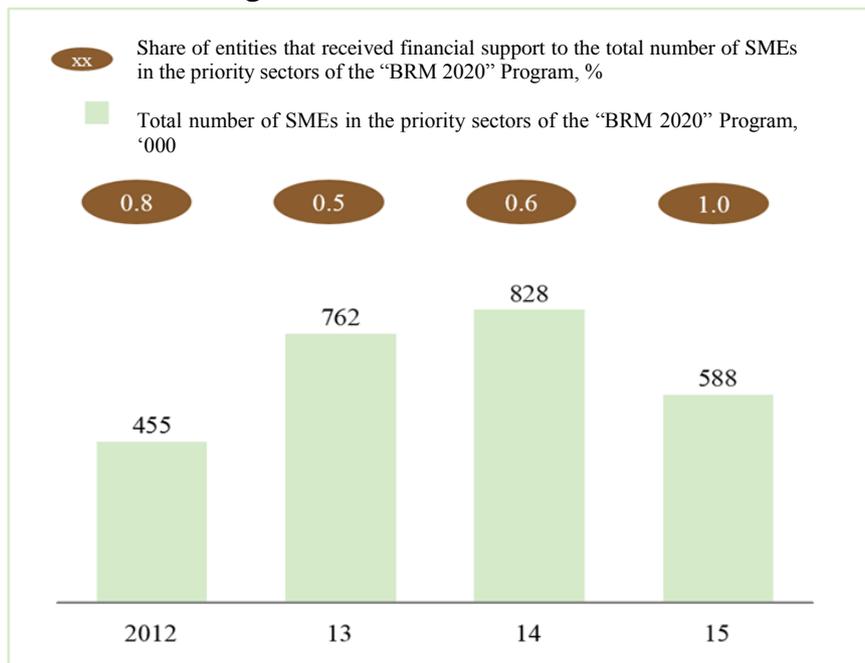
Figure No. 19. Comparison of the SME sector tax liabilities and the amount of state support for

SMEs, KZT bn.

Source: team analysis; Damu annual reports

In 2015, as part of the “BRM 2020” Program and the core activity of Damu, financial support was provided to 6,186 enterprises, which is only 1.0% of the total number of SMEs (both individual entrepreneurs and legal entities) in priority industries of the “BRM 2020” Program. This indicates a limited coverage of entrepreneurs by the state financial support.

Over the past four years, the coverage of entrepreneurs by financial support has not demonstrated any growth in relative terms to the total number of businesses. This dynamics is illustrated in Figure No. 20 below.

**Figure No. 20.** Coverage of SMEs by financial support instruments, percent.

Source: Damu annual reports, MNE RK Statistics Committee

The main financial tools used by the subsidiaries of “Baiterek” NMH” JSC to support micro, small and medium-sized enterprises include conditional allocation of funds in STBs, interest rates subsidies and loan guarantees.

The support provided to SMEs in 2015 amounted to KZT 524 bn of total loan value. The loan value for interest rate subsidies was equal to KZT 260 bn and accounted for the half of the support. In this area, financial support was provided to 1,595 businesses with the average size of support equal to KZT 163 mn.

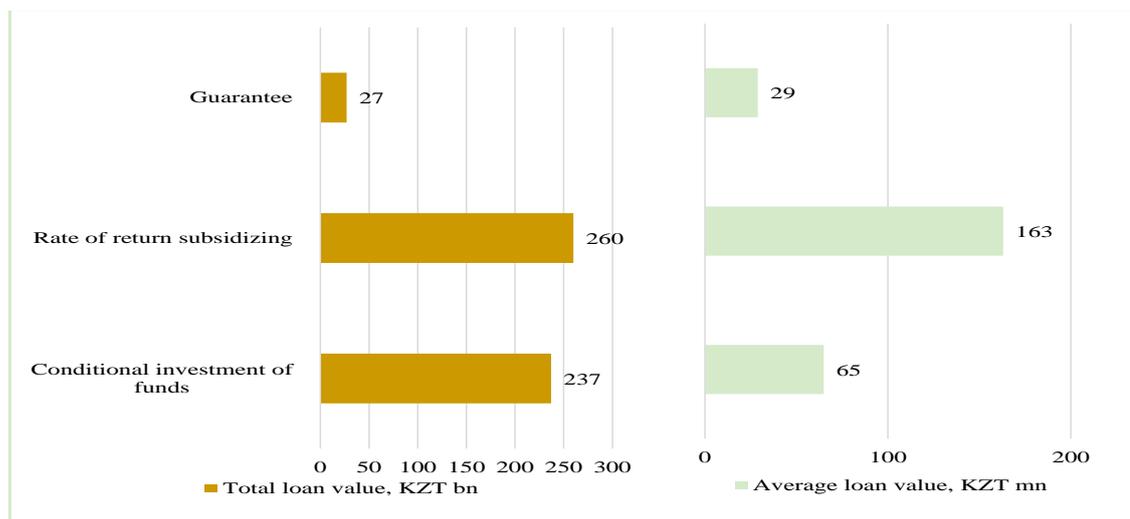


Figure No. 21. Financial support tools and their main indicators, KZT bn

Source: *Damu annual reports*

The average size of support exceeds the average annual earnings of small businesses by 3 times, therefore, it may be assumed that the major part of the financial support is directed to medium-sized businesses, while individual entrepreneurs, farmers and small businesses are not getting the necessary funding. Figure No. 22 below shows the number of operational micro, small and medium-sized enterprises, their volumes of production and number of employees in each sub-segment. This data shows that 81.1% of production and 89.1% of jobs were created by micro and small business enterprises.

Thus, to achieve the maximum impact in terms of jobs creation and increase in volumes of manufactured products, financial support of the subsidiaries of “Baiterek” NMH” JSC should be focused on micro and small segments of business, rather than on a limited range of medium-sized and medium-to-large entities.

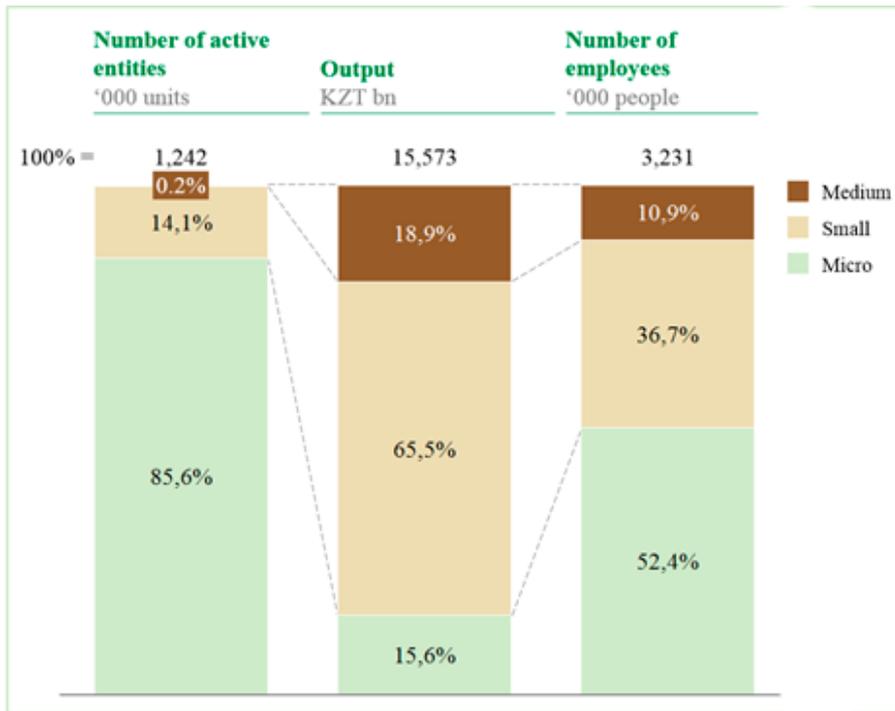


Figure No. 22. Number of operational SMEs, output and jobs by segments in 2015.
Source: MNE RK Statistics Committee

In providing financial support to SMEs by the subsidiaries of “Baiterek” NMH” JSC, mutual obligations mechanisms will be included to improve the socio-economic performance of the supported enterprises for a certain period.

In the current macroeconomic situation with a high rate of refinancing, the rate of SME lending by STBs under special programs (incl. mutual programs of Damu with the Asian Development Bank, EBRD, “Sovereign Wealth Fund “Samruk-Kazyna” Joint Stock Company, and local executive authorities) ranges from 6 to 18 %. The margin level in the industries with the high share of SME is often slightly higher than the rate of lending, i.e. there is a limited number of opportunities to grow and develop business through borrowings.

At the same time, in accordance with SPIID and the “BRM 2020” Program, selection of projects for the provision of support will take into account the increase in labor productivity, modernization and expansion of production capacities and the efficiency of implemented projects.

4.3 Strategic area 3. Enabling financial affordability of housing

“Baiterek” NMH” JSC increases affordability of housing through its subsidiaries HCSBK, KMC, HCGF and BD, which provide support by funding developers, subsidizing mortgage lending, guaranteeing housing construction, construction of

tenant and credit housing, tenant housing management and crediting purchase of housing.

As the growth of Kazakhstan's economy depends on urbanization of the population, increasing the affordability of housing is one of the key areas of economic development. Affordability of housing, along with employment, are the main factors for successful achievement of economic growth of the country.

Affordability of housing consists of a combination of factors influencing supply and demand. The major factors influencing demand are income and savings of the population, population growth, urbanization level, speed and volume of obsolescence of the existing housing stock, as well as the cost and availability of retail lending and leasing.

Demand may also be influenced by qualitative characteristics of the housing – related (social and transport) infrastructure, geographical location, prestige of the area, quality of construction (design, number of floors).

The supply (construction volume) is effected by the cost per square meter of housing and availability of financing (both equity and debt) for the developer, new construction technologies, human capital (availability of skilled professionals, interruptions in availability of the requisite number of unskilled personnel, training and continuity), macroeconomic trends, attractiveness of alternative projects (commercial, social, infrastructure related), industry structure and characteristics (number of players, distribution of roles, presence of foreign players).

Cost of financing for housing buyers

The cost of mortgage loans for buyers, in general, as well as other credit loans, increased significantly in 2015. The cost increased because of devaluation expectations, due to which STBs kept the available liquidity largely in foreign currency and restricted issuance of new loans in KZT, or disbursed them at high interest rates to compensate for the expected loss from currency revaluation.

In some large STBs, this trend did not change significantly in H1 2016, while in other STBs the cost of mortgage loans started to decrease.

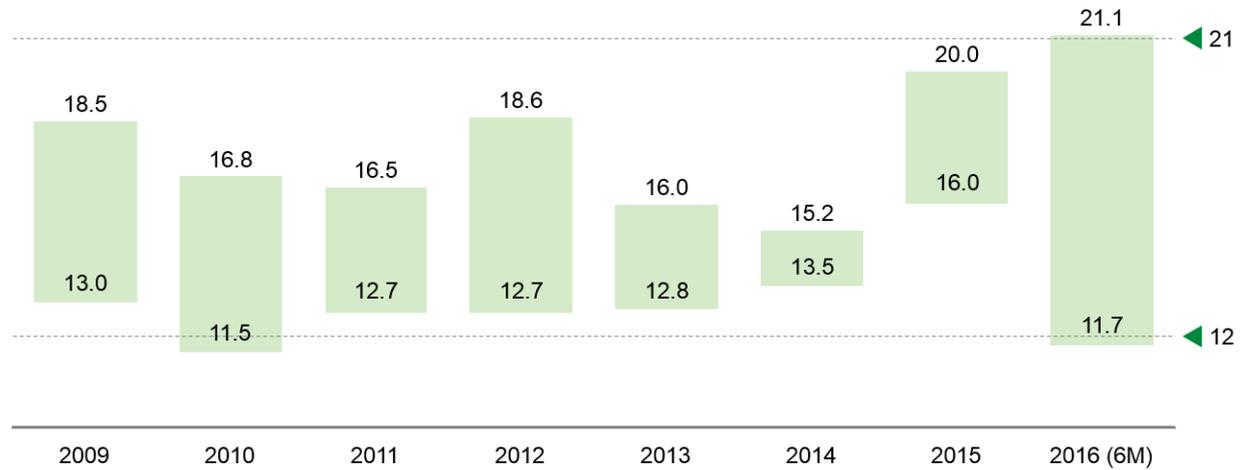


Figure No. 23. Effective rates on mortgages in the country's largest STBs in 2010–2016.

Source: real estate market analysis of "Samruk-Kazyna" Real Estate Fund" Joint Stock Company

Income size of housing buyers

The volumes and cost of mortgage loans may not affect the affordability of housing in situations where the income and savings of the population allow for property purchasing without borrowing from STBs. The increase in nominal average monthly wages of employees in the Republic of Kazakhstan in recent years was 11% (Figure No. 24).

From 2010 to 2015, the cost of a square meter of new housing increased in proportion to the income of the population, but decreased in 2016, (Figure No. 25), which suggests that, in general, housing affordability was not improving till 2015 despite the increase in the construction volume (Figure No. 26). This can possibly be due to inconsistency between supply and demand or insufficient construction volumes in general. Reduction of price per square meter of housing in 2016, while the wages continued to grow, indicates improvement in housing affordability in the last year.



Figure No. 24. Average monthly wages in the Republic of Kazakhstan between 2010 and 2016, KZT thousand.

Source: MNE RK Statistics Committee

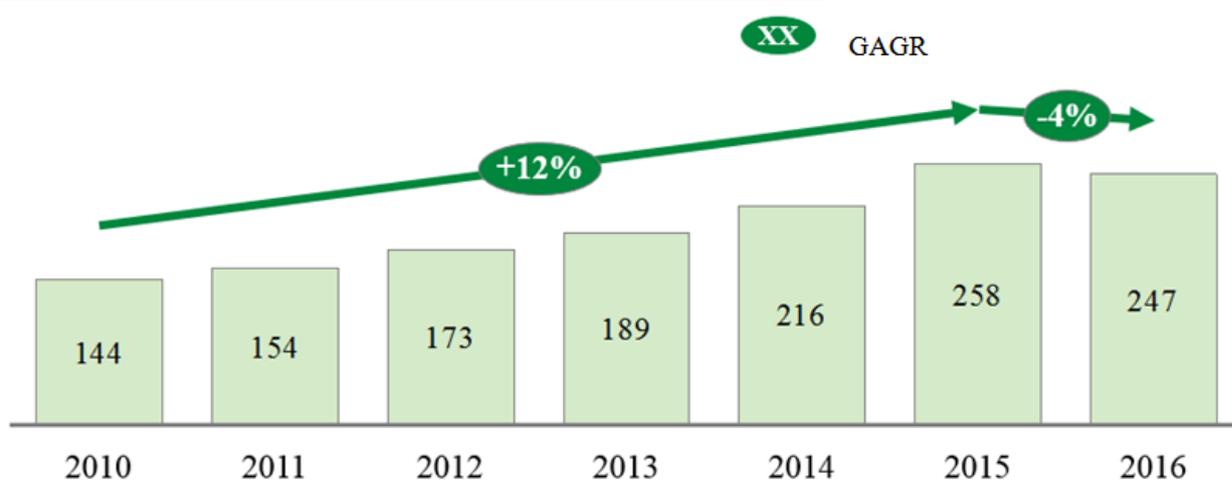


Figure No. 25. Average price per square meter of new housing between 2010 and 2016, KZT thousand.

Source: MNE RK Statistics Committee

Construction volumes

After the global financial crisis of 2008–2009, the volume of housing construction in the Republic of Kazakhstan grew slightly due to the weak economic growth. Starting from 2013, along with the improvement of the economic situation in the country, the construction volumes grew at a greater rate. Between 2013 and 2016, the average annual growth was 15%.

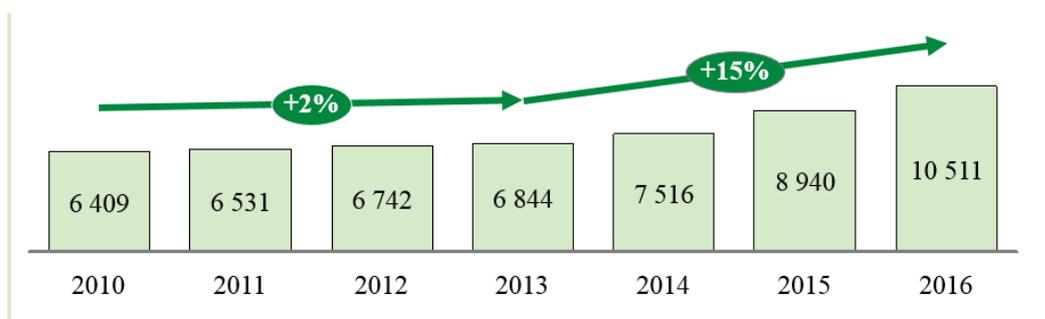


Figure No. 26. Floor area of residential buildings put into operation between 2010 and 2016, thousand square meters.

Source: MNE RK Statistics Committee

Availability of financing for developers

Analysis of investments in housing capital between 2010 and 2016 shows that the structure of the project financing has undergone small changes, increasing the share of funding through own funds from 4.8% to 22.7%. The share of public funding sources dropped from 27.4% to 13.4%. The share of borrowed funds amounted to 15.9% in

2016, having decreased as compared with its historical value of 27.2% in 2010 that can be attributed to limited access to borrowed funds or high cost of such borrowing. The share of own funds of the population in the financing structure increased from 40.6% in 2010 to 48.0% in 2016.

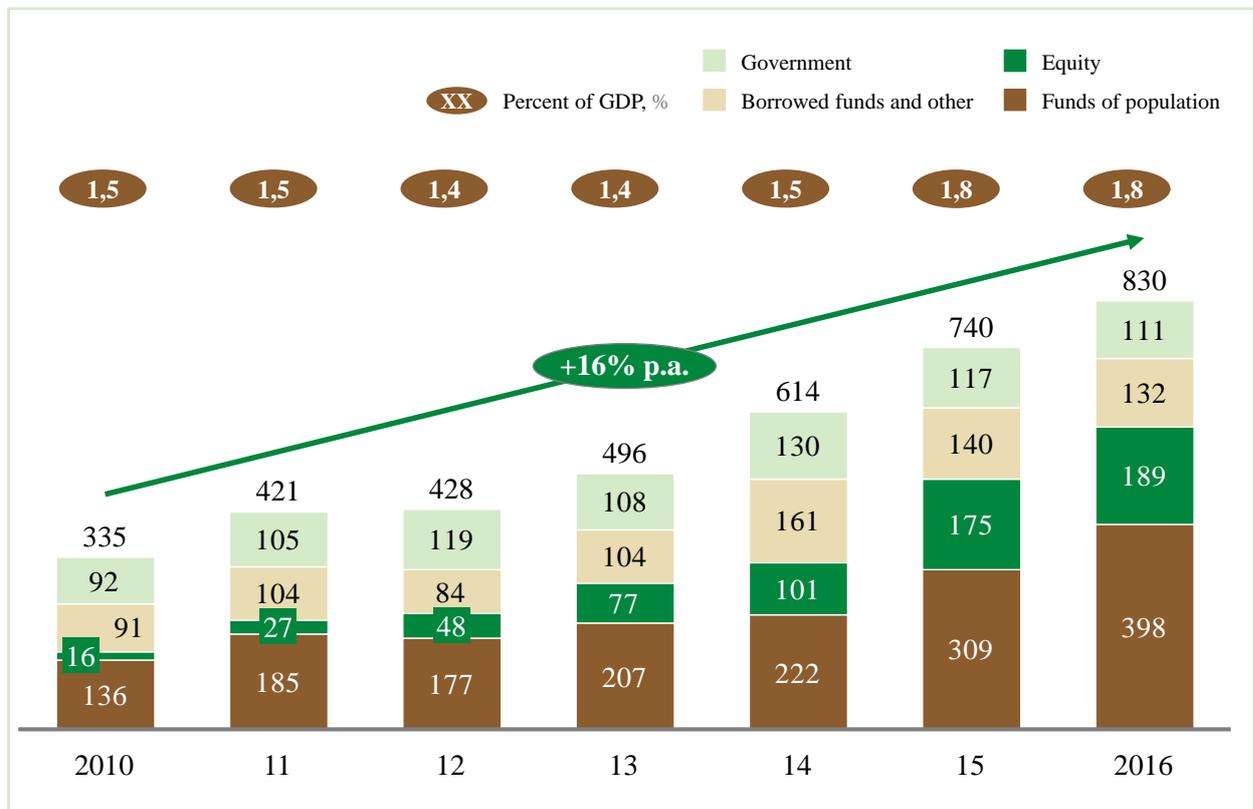


Figure No. 27. Volume of investments in housing capital by sources of financing for 2010–2016, KZT bn.

Source: MNE RK Statistics Committee

4.4 Strategic area 4. Development of export potential

Improvement of exports supporting tools and development of ecosystem for exports of Kazakhstan products are among the top priorities set by the President of the Republic of Kazakhstan Nursultan Nazarbayev. Such countries as the Republic of Singapore, the Kingdom of Thailand, and Malaysia demonstrate advantages of export-oriented strategies leading to vigorous economic growth. Following Kazakhstan joining the World Trade Organization (WTO) in December 2015, Kazakhstan's products now have to face global competition, which sets new challenges for local entrepreneurs.

In the meantime, the Republic of Kazakhstan is systematically implementing a set of measures aimed to support local entrepreneurship and manufacturing.

The major initiative to support industrial development of Kazakhstan is the State Program for Innovative and Industrial Development (SPIID), while KazakhExport is the state operator supporting exports, which focuses on creation of relevant mechanisms for supporting the launch of local manufactured products to foreign markets.

The merger of Kazakhstan’s development institutions under the auspices of “Baiterek” NMH” JSC according to Decree of the President of the Republic of Kazakhstan dated May 22, 2013, No. 571 “On Certain Measures to Optimize the Management System of Development institutions, Financial Organizations and to Develop National Economy” promotes implementation of a comprehensive approach to support of Kazakhstan’s exporters.

Completed initiatives had a positive impact on the amount of state support of non-resource industries such as mechanical engineering, chemicals, construction materials and food processing.

Strategic focus areas, goals and objectives through 2023

In order to implement its mission and vision, KazakhExport targets three key strategic dimensions set in the Development Strategy of KazakhExport for 2014–2023:

- 1) Development of financial insurance support for Kazakhstan's export;
- 2) Non-financial support of export oriented activities of Kazakhstan entities;
- 3) Reinsurance.

| No. | Strategic areas | Objective | Strategic tasks |
|-----|--|---|---|
| 1 | Development of financial insurance support for Kazakhstan's export | Promotion of export of Kazakhstan’s products | Financial insurance support aiming growth in range of products and geographical expansion of Kazakhstan companies |
| | | | Support of trade financing according to SPAIID for 2010–2014 and SPIID for 2015–2019. |
| 2 | Non-financial support of export oriented activities of Kazakhstan entities | Inform local companies about the benefits of financial insurance support of the national export | Expansion of consulting services related to foreign economic activity of the companies |
| 3 | Reinsurance | Ensuring sustainable growth of reinsurance operations | Driving the development of the reinsurance business infrastructure in Kazakhstan and increasing the size of national insurance market |
| | | | Reducing capital outflow and increasing the scale of Kazakhstan’s insurance organizations |

KazakhExport achieved insurance coverage of more than KZT 46 bn as part of reaching key performance indicators set for 2014–2016.

Amount of insurance coverage for 2014–2016 (KZT mn):

| 2014 | 2015 | 2016 |
|-------|--------|--------|
| 7,013 | 19,857 | 19,485 |

4.5 Strategic area 5. Transfer and implementation of innovations

Industrial production amounted to KZT 14,925.2 bn in 2015, which is 2.6 percentage points lower than in 2014.

Reductions mainly resulted from drop downs in mechanical engineering by 29.6%, electrical equipment production by 27.1%, finished metal products (excluding machinery and equipment) by 3.3%, railway equipment by 88.0%, fertilizers by 48.1%, metals and mining related machinery and equipment by 46.8%.

Moreover, the statistics shows that annual fixed assets depreciation rates in manufacturing are more than twice higher than replacement rates.

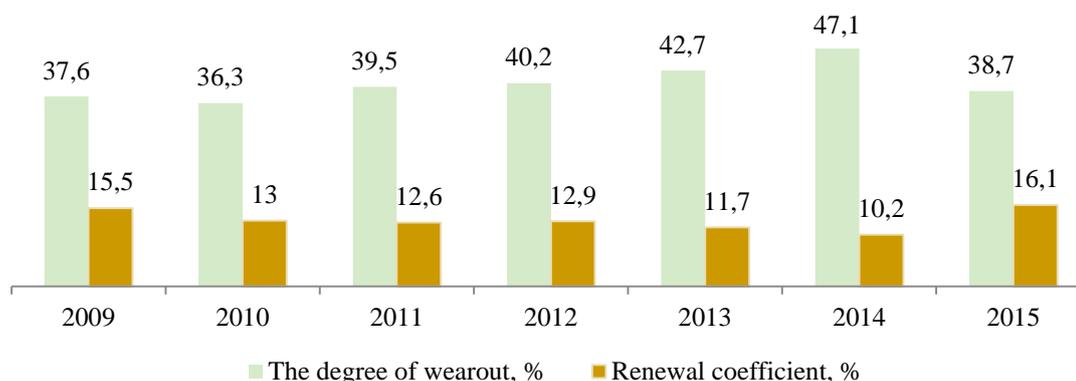


Figure No. 29. Rates of fixed assets depreciation and replacement in the manufacturing for 2009–2015, %.

Source: MNE RK Statistics Committee

Thus, decline in industrial production volumes is driven, among other things, by physical and moral depreciation of fixed assets, technological underdevelopment and high operating costs per unit.

Therefore, the President of the Republic ordered the Government to develop a set of measures for technological improvement of baseline industries by 2025 as part of the Address “Third Modernization of Kazakhstan: Global competitiveness”.

Ideally, state-of-the-art Kazakh designs and technologies will be used for technological renovation of national enterprises. At the same time, the potential for their commercialization in Kazakhstan is curtailed by such factors as the limited number of ready-to-implement designs matching market needs, the need for a large amount of risky investment and the underdevelopment of IP culture.

Therefore, considering international best practices, at the current stage the main

focus of technological development of enterprises and industries should be made on the transfer of advanced foreign technologies.

Considering the above-mentioned, technological development of enterprises and industries should be made through a set of development measures including:

- 1) The system of technology transfer;
- 2) The system for commercialization of technologies;
- 3) Technological expertise.

In the course of the development of the system of technology transfer, present technological objectives of the national business will be defined and the search for advanced technologies and their providers will be done for fulfilling technology needs of enterprises. In particular, for that purpose and also for the creation of a channel of the transfer of Kazakhstan's technologies to the global market, the following actions will be taken:

- 1) Analysis of the national and global technology markets;
- 2) Analysis of global trends, definition of technological gaps and actions to eliminate those gaps;
- 3) Integration into the global technology transfer network;
- 4) Partnership with the leading foreign public and private companies specializing in broker services on the technology transfer market;
- 5) Creation of industry platforms for presentation and promotion of technologies with technology providers;
- 6) Support of transactions in technology transfer, consulting and help in the promotion of technology transfer.

Currently, the development of the system for commercialization of technologies requires the environment for support of national technological businesses at the formation / early stages to bring it to the level attractive for venture investors.

International practice states that the best way to achieve this is technological business incubation.

Therefore, within the framework of the development of the system of technology commercialization during infrastructure development financial mechanisms of incentives for creation of private technology business incubators will be created and implemented in Kazakhstan, including subsidies, accreditation and participation in incubator projects and will be aimed to search, selection, development of commercialization strategy, financial and service support and promotion of commercially viable innovative projects.

Project support and commercialization implies the launch of a financial tool with mandatory prerequisite to participate in financial and non-financial promotion of accredited technology incubators' projects.

This mechanism will support the principle of migration from direct government involvement in innovative projects and startups, that is, from business activities towards the development of an ecosystem they need.

Taking in consideration the underdeveloped state of venture capital market in Kazakhstan, the role of a venture investor and corresponding financial risks in the

implementation of innovation projects should be borne by the state. Therefore, existing conditions, approaches and mechanisms of involvement in innovation projects (project and venture financing) should be revised. Specifically, risky investments will be made in operating, most promising innovation projects at the stage of market scaling.

Moreover, the procedures of innovation grant allocation operated by the NATD according to the Entrepreneurship Code will be improved for the purpose of technologies transfer and commercialization. Among other aspects, this will reduce the time required to review applications, optimize the procedures of investment project assessment, facilitate and automate the allocation of investment grants and monitoring of their utilization.

Successful implementation in the areas of technologies transfer and commercialization will depend on the competence of all parties involved in the process, since the weak competence of innovation ecosystem subjects, low interest of manufacturers in the upgrade and improvement of own production capacities, or inadequate awareness and limited access to information about best practices and technology application methods are among the constraints hindering technology development.

In order to promote the involvement of all concerned subjects, more efforts will be put in place to distribute knowledge about advanced technologies and effective industrial solutions for the following target audience – students, startups, conventional SMEs, engineering and technical staff, industrial unions and research institutes.

These efforts will result in the arrangement of broker events (theme industrial exhibitions) with the display of advanced technologies, technology transfer training sessions, workshops to familiarize with the tools of state support for innovation activities.

Along with that, industrial-specific knowledge will be distributed, including the education on the utilization of state-of-the-art engineering and technology achievements aimed to promote technology entrepreneurship.

4.6 Strategic goals and objectives covering all five areas of development

4.6.1 Increasing the share of funding from non-governmental sources

In recent years, the state (including the state controlled enterprises) comprised app. 50% of all investments in fixed capital in the national economy (see Figure No. 30 below). State investments will remain an important part in the development of the economy in the coming years, while “Baiterek” NMH” JSC will continue to play the key role of an operator in distribution of funds into the development of the national economy.

**Development of long-term assets investments volume in non-resource sectors of Kazakhstan’s economy,
KZT bn**

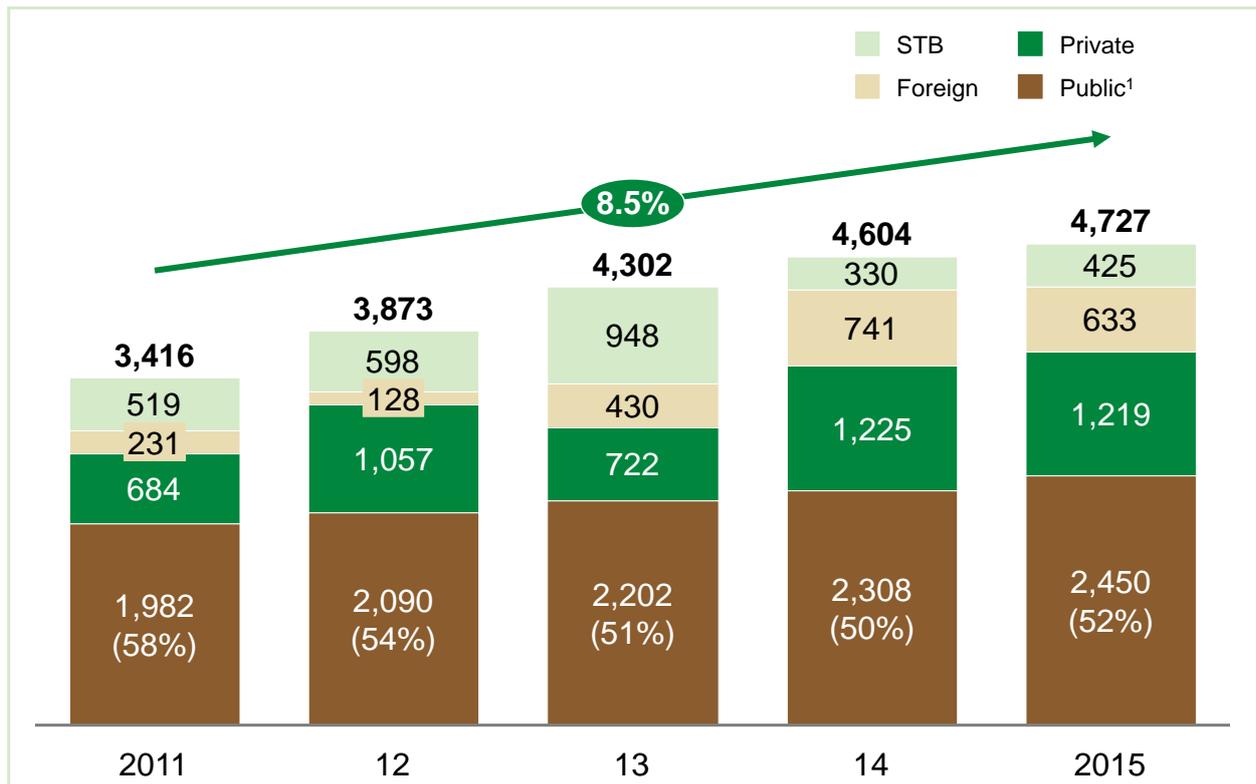


Figure No. 30. Development of long-term assets investments volume in non-resource sectors of Kazakhstan's economy for 2011–2015.

Source: MNE RK Statistics Committee; financial statements of “Baiterek” NMH” JSC, “SWF “Samruk-Kazyna” JSC and “KazAgro” NMH” JSC

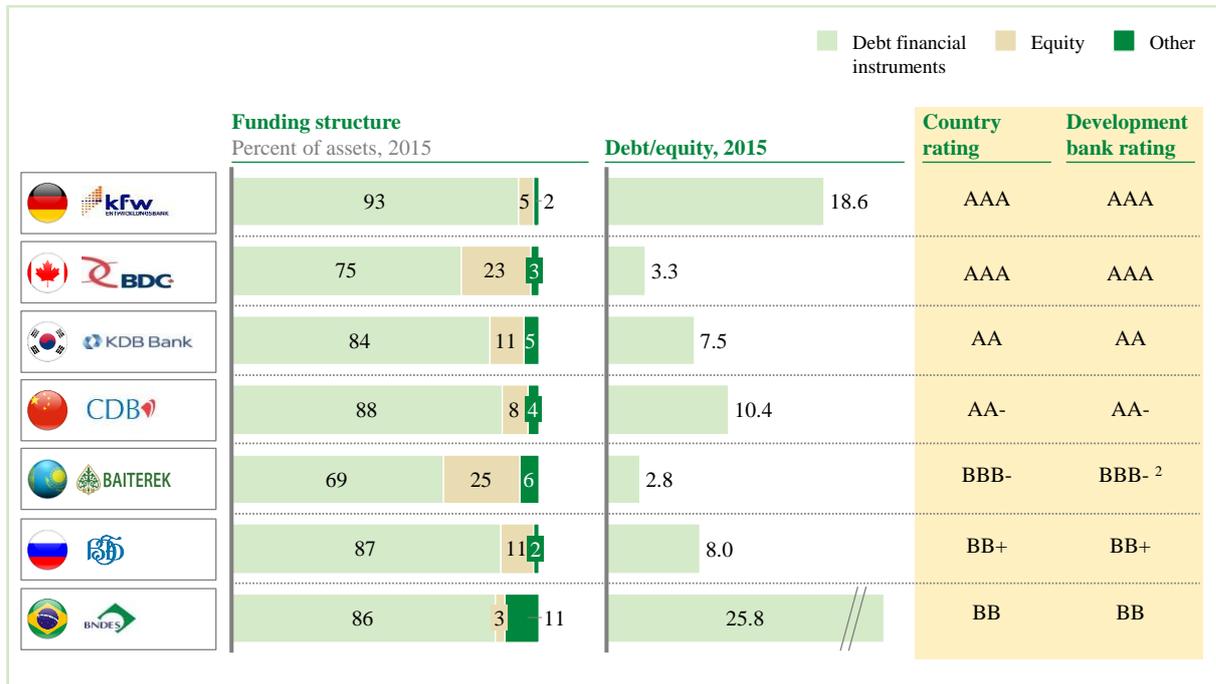
Therefore, “Baiterek” NMH” JSC will require funding in the amount of over KZT 900 bn for implementation of state programs in 2017–2018, with over 35% of funds coming from the central government and local government budgets.

Considering limited access to public sources of financing, “Baiterek” NMH” JSC should consider alternative sources of financing in order to compensate for public borrowings. Raising more funds from non-governmental sources will help to reduce the share of state funding which represented app. 40% of the total funding base as of the end of 2016.

The amount and terms of borrowings by “Baiterek” NMH” JSC should be agreed with the authorized central government bodies supervising government planning and budget performance.

“Baiterek” NMH” JSC should identify the potential for increasing external funding share based on the level of existing debt leverage. The most common metric used to assess the potential to raise debt is the Debt/Equity ratio. As of year-end 2016 this ratio for “Baiterek” NMH” JSC was equal to 3.4. Benchmarking in 2015 (see Figure No. 31 below) shows that the Debt/Equity ratio of “Baiterek” NMH” JSC is one of the lowest across the peer institutions. It should be noted that credit ratings of all the benchmarked development institutions were at the level of sovereign rating, regardless of their Debt/Equity ratio level. Therefore, based on the benchmarking analysis of

existing debt leverage, the current capital structure of “Baiterek” NMH” JSC has a potential to further increase debt leverage.



1 Debt (KZT2,366 bn) / Equity (KZT863 bn). Debt calculation does not include Other liabilities and Deferred taxes in the amount of KZT205 bn and KZT26 bn, respectively.

2 The credit rating of the Holding was decreased (S&P) in February 2016 to BB+, despite the fact that the sovereign credit rating and the rating of DBK/Damu remained at BBB-

Figure No. 31. Benchmarking analysis of funding structure, leverage and credit ratings of development institutions.

Source: annual reports, World Bank; annual reports; Bloomberg

Considering the existing potential to further increase the debt load, “Baiterek” NMH” JSC should look into the following options:

Borrowings denominated in foreign currencies

Analysis of bonds issued by development institutions during 2011–2016 demonstrates that raising capital in international capital markets practically implies denomination in USD or EUR (see Figure No. 32 below).

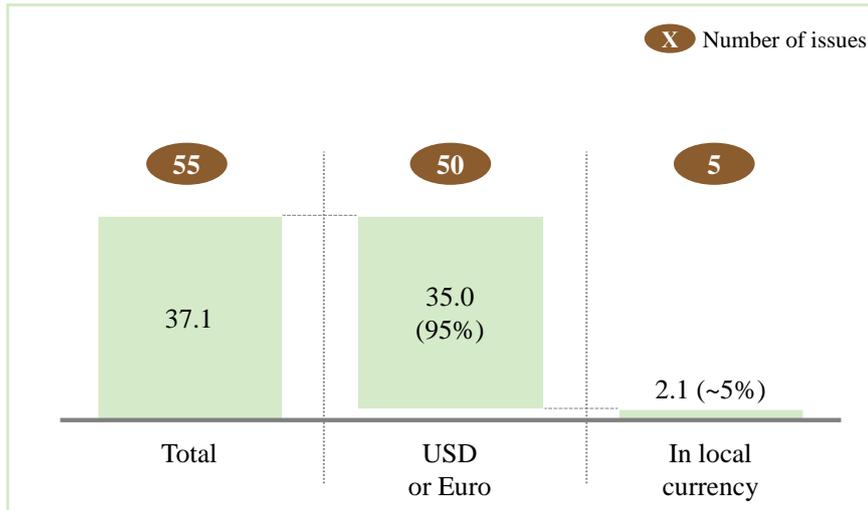
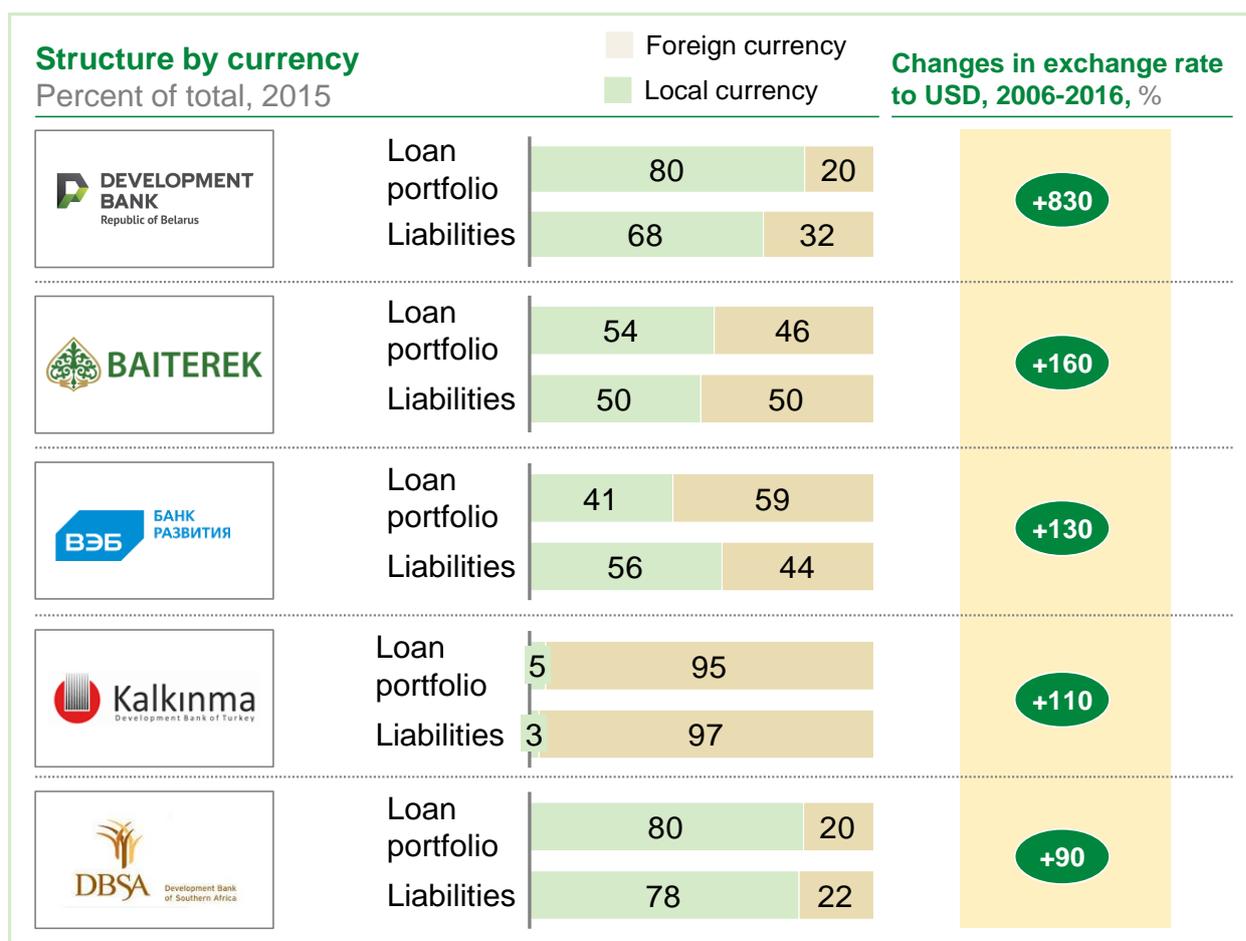


Figure No. 32. Bonds issued by development institutions from 2011 to 2016, USD bn
Source: Bloomberg

At the same time, the international practice of development institutions implies that currency structure of the borrowings is mirrored in the loan portfolio, so that foreign exchange risks are translated onto the end-borrowers (see Figure No. 33 below). Therefore, foreign currency funding needs to be covered by the end-borrower's cash flows in the same currency in order to minimize foreign exchange risks and associated credit risks of the end-borrower.



* Calculation formula: $(2016 \text{ exchange rate} - 2006 \text{ exchange rate}) / 2006 \text{ exchange rate}$.

Figure No. 33. Benchmarking analysis of total loans and debts of development institutions from countries with high volatility in exchange rates.

Source: financial statements and annual reports of development institutions

“Baiterek” NMH” JSC should take into account the share of export-oriented projects in its projects pipeline when raising borrowings in international capital markets.

Raise more funding from “Unified Accumulative Pension Fund” Joint Stock Company (UAPF) on mutually beneficial terms

Considering limitations of raising funding in international capital markets due to currency related risks, “Baiterek” NMH” JSC should look into its potential to raise more funding in local currency. One of the major non-governmental sources of borrowing in local currency is UAPF.

The annual net proceeds (deposits less payments) of the UAPF system amount to KZT ~400–550 bn (see Figure No. 34 below). Proceeds are invested into various instruments, including 40% represented by stock issued by Kazakhstan entities. “Baiterek” NMH” JSC has one of the highest credit ratings among local corporate issuers, which lowers risk premiums and increases the investment attractiveness of securities, assuming the viable interest rate.

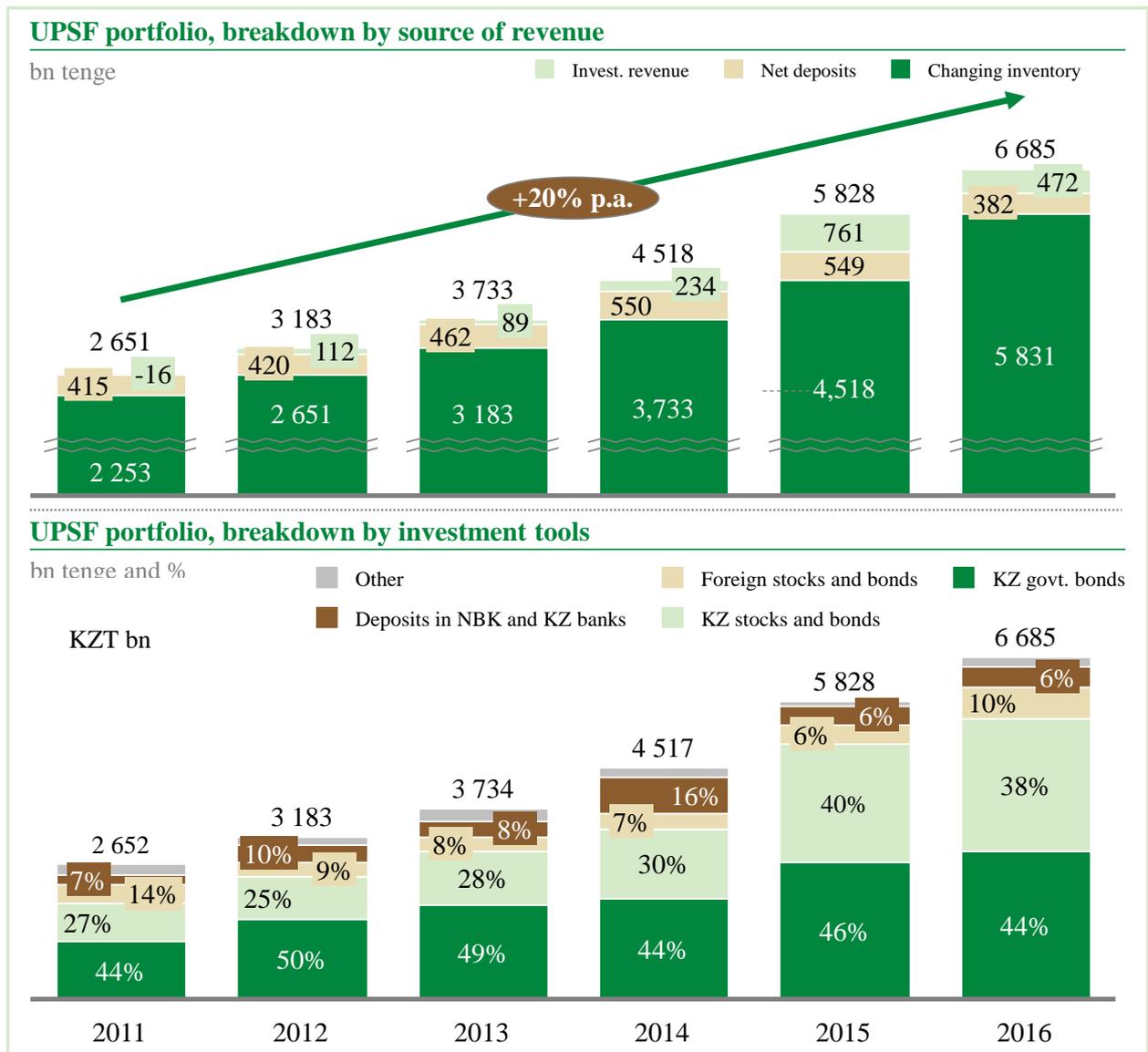


Figure No. 34. UAPF growth development and portfolio structure in 2011–2016.

Source: National Bank of the RK; UAPF

Although in 2016 (taking into account limited KZT liquidity) UAPF was looking to place funds at 15% per annum, the minimal acceptable return rate for UAPF is “nominal inflation rate plus spread²⁴”, however the rate of return on UAPF’s portfolio for the last 4 years was lower than the nominal inflation rate. Implementing a floating coupon rate mechanism at the level of “nominal inflation rate plus spread” should be considered as one of the options for mutually beneficial cooperation between UAPF and “Baiterek” NMH” JSC. This option is mutually beneficial because UAPF will

²⁴ Spread should be formed with regard to operational charges and risk premium specified for UAPF. In international practice, this metric does not exceed 1.5% of assets under management.

ensure minimal required level of return and “Baiterek” NMH” JSC will be able to raise long-term financing and low interest rates compared to the current market levels, considering that the National Bank of the Republic of Kazakhstan and the Government of the Republic of Kazakhstan are heading towards targeting nominal inflation at the level of 6–8% in 2016–2018 and 3–4% in 2019–2020 (see Figure No. 35 below).

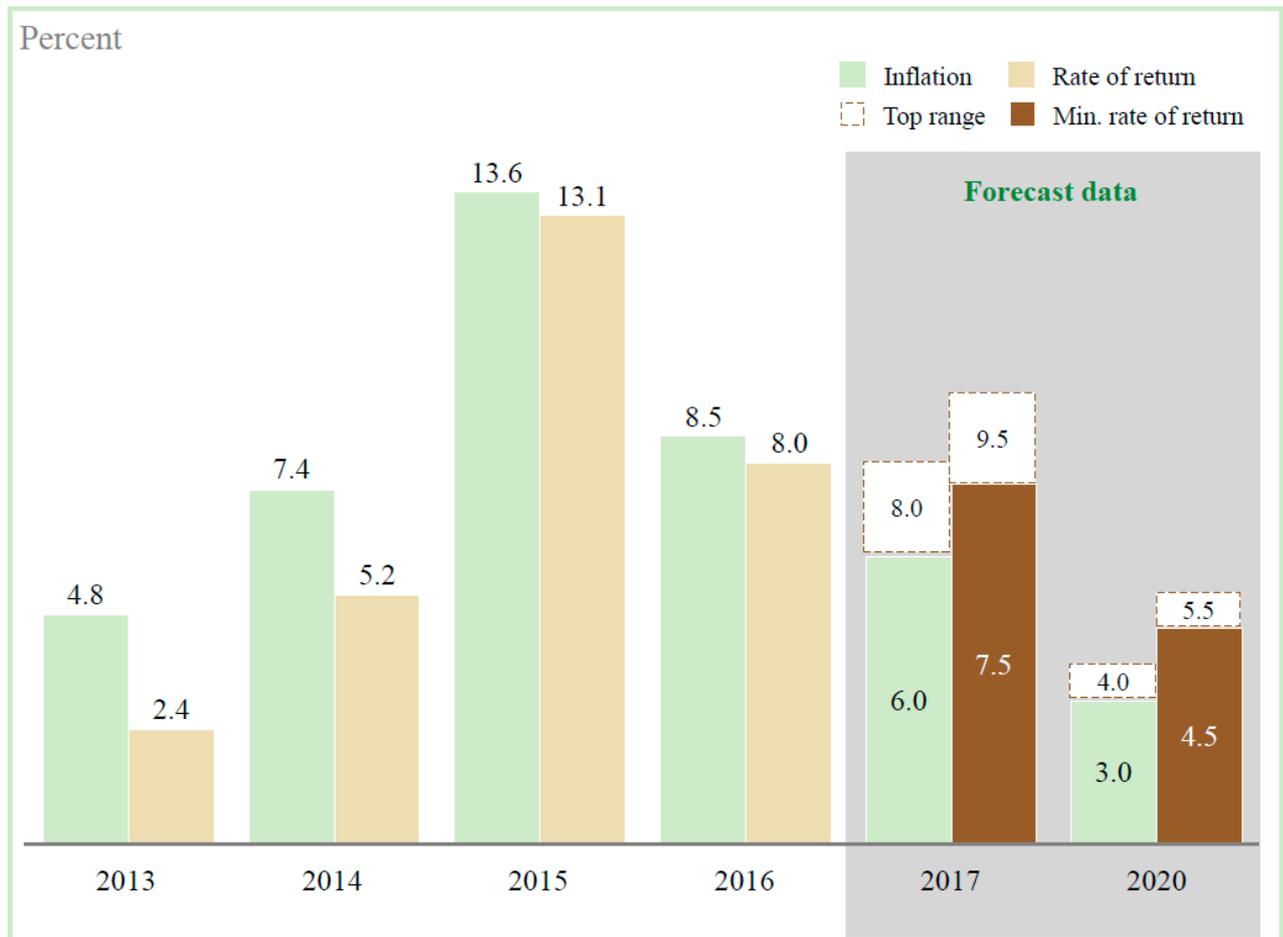


Figure No. 35. Historical and projected rates of inflation and RORs of UAPF

Source: IMF; National Bank of the RK

Consider the potential for raising capital in foreign markets without increasing the (foreign exchange) risks

The third source of external funding can be capital markets outside of Kazakhstan, where providing the sub-borrower with funds in local currency does not imply increased foreign exchange risks (meaning that countries’ currency rates are consequential on macroeconomic changes). According to Figure No. 36, the Russian ruble can be regarded as one of the currencies that possess this characteristic.

Exchange rate to USD, 2014–2016

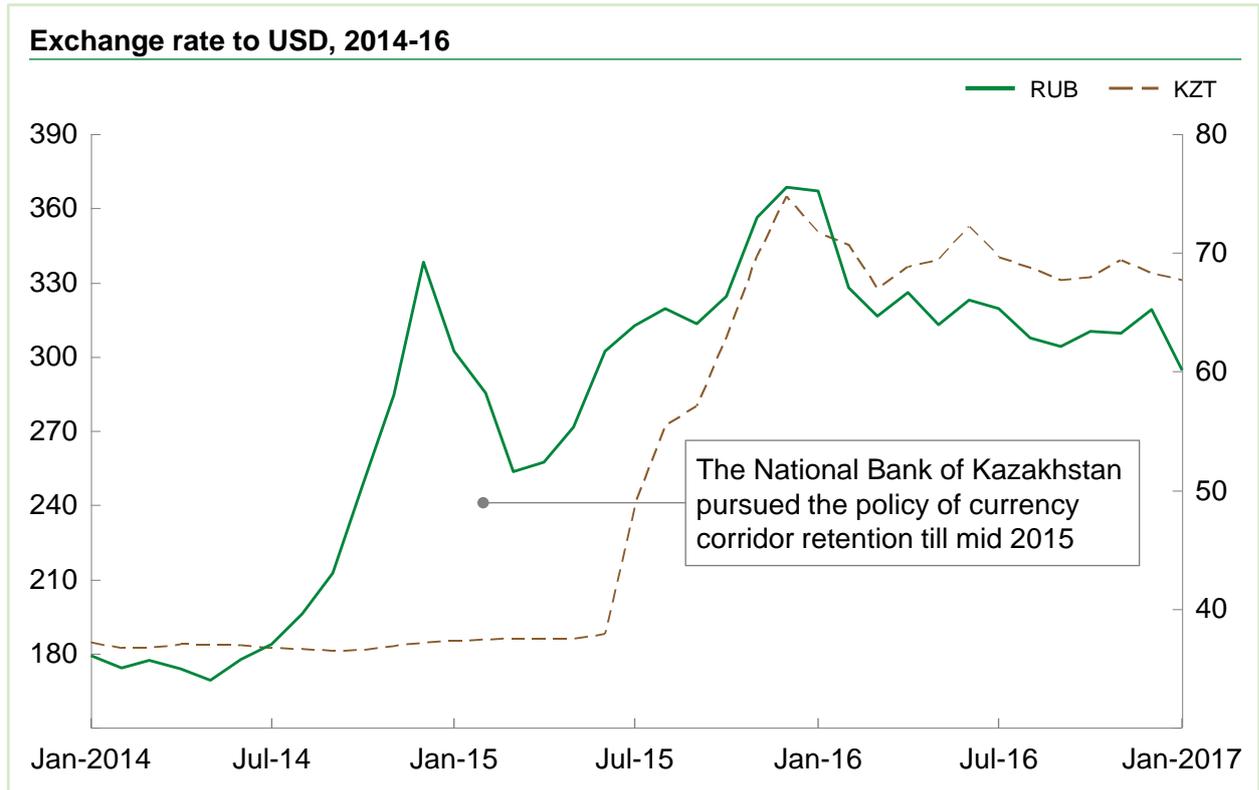


Figure No. 36. KZT – RUB currency pair development 2014 onwards
Source: National Bank of the RK; Central Bank of the RF

Major factors of the currency fluctuation consistency in both countries are the similarity of their economy structures (Russia and Kazakhstan have a similar structure of economy significantly depending on the commodity prices) and presence of the Eurasian Economic Union (unrestricted capital movement and trade between the countries). Accessing the Russian capital market will ensure a significant expansion of fund-raising potential.

The share of non-public sources should reach the level of 80% to 20% by the end of 2023 as a result of implementing measures to reduce the share of public funds in the overall capital structure (in 2016, the share of public funds in the total structure of borrowings of “Baiterek” NMH” JSC amounted to 40%).

4.6.2 Revision of the subsidiaries’ functions portfolio (criteria)

For effective functioning in the five areas (entrepreneurship support in the large business segment, entrepreneurship support in the small and medium-sized enterprises segment, housing affordability improvement) “Baiterek” NMH” JSC will work to optimize the subsidiaries’ functions portfolio and determine their further development up to 2023. At the same time, “Baiterek” NMH” JSC will consider the following guiding principles in the development of the target functions portfolio:

Streamline functional duplications

Duplication of functions within “Baiterek” NMH” JSC, as well as those of other organizations, leads to uncertainty regarding responsibility for performance between the involved organizations. In cases where the functions are duplicated, “Baiterek” NMH” JSC will need either to centralize the function as exclusive competence of one of the subsidiaries of “Baiterek” NMH” JSC, or eliminate it in the medium or long term within centralization of functions in other government entities.

Compliance with the role of a development institution

“Baiterek” NMH” JSC is a financial operator of state and government programs, and the functions of the subsidiaries of “Baiterek” NMH” JSC should comply with its role and mission.

Compliance with the Yellow Pages principle

One of the priorities of the Government of the Republic of Kazakhstan is to decrease the share of state involvement in the economy, therefore subsidiaries of “Baiterek” NMH” JSC should not perform functions, which are implemented by the private sector in a sufficient scale and to a sufficient extent.

4.6.3. Decentralization of management functions from the corporate center to the boards of directors and the management boards of the subsidiaries

There are four models for the corporate center role in the global practice:

Holding structure: Portfolio management of different types of businesses with minimal involvement by the corporate center, largely focused on the monitoring of financial metrics;

Strategic architect: Governance structure for businesses with similar activities. The corporate center sets standards and provides a link between to subsidiaries, but with limited or no operational control;

Strategic controller: Governance structure for businesses with similar operating models. Corporate center involvement aims standardizing business processes between subsidiaries with subsequent control;

Operator: Governance structure of identical business models. The corporate center is actively involved in management of the businesses.

Given the uniqueness of the current structure of “Baiterek” NMH” JSC in the five strategic areas, identifying a single model of the corporate center operation does not appear to be an optimal solution, since the corporate center has a different level of involvement in each of the five areas.

The existing structure of “Baiterek” NMH” JSC involves value creation by the corporate center only in a limited set of management functions, including:

Treasury/funding: This function has already been centralized and aims two objectives – improved utilization of available liquidity and optimization of the cost of borrowing.

To improve efficiency of current liquidity utilization, “Baiterek” NMH” JSC should, if necessary, reallocate the temporarily available resources between the subsidiaries.

To optimize the cost of borrowing, “Baiterek” NMH” JSC should be able to attract cheap funding using existing credit rating, including funding for subsidiaries, which do not have a credit rating, but have the capacity to increase the leverage.

Risk management at the portfolio level: “Baiterek” NMH” JSC has already centralized this function and creates value in the management of the consolidated risks on the portfolio level, in particular with respect to the currency, credit and interest rate risks. Consolidated risk management at the level of “Baiterek” NMH” JSC will help to avoid concentration of risks on the accumulated portfolio level when funding/investing the same counterparties (or sectors) in different subsidiaries. Moreover, a consolidated view will help to determine monetary and interest rate imbalance between the assets and liabilities of “Baiterek” NMH” JSC and its subsidiaries more accurately and allow for timely management of relevant risks.

Interaction with public authorities: “Baiterek” NMH” JSC is already partially implementing this function and may create even greater value by performing the role of a single interaction point with public authorities, in addition to interacting with the sole shareholder represented by the Government of the Republic of Kazakhstan. Centralization will enable coordinated work on all inquiries related to the subsidiaries of “Baiterek” NMH” JSC.

Other management functions are largely exercised by the subsidiaries through an enhanced system of corporate governance, and:

- Boards of directors of the subsidiaries are responsible for strategic issues such as:

1) Defining strategic development areas and setting KPI targets based on strategic objectives set by the Corporate Center (as a shareholder/participant of the subsidiary);

2) Appointment of the management board and the assessment of its performance;

3) Approval of the budget, investment plans and significant transactions;

– Management boards of the subsidiaries are responsible for day-to-day activities, such as:

1) Core operations (including issues highlighted in section 2 of this document);

2) Risk management at transaction level;

3) Accounting;

4) Procurement;

5) HR management, etc.

Methodology of corporate governance system strengthening through board of directors performance improvement

One of the main ways to improve economic and operating performance of “Baiterek” NMH” JSC is improvement of the corporate governance system through active involvement of subsidiaries’ boards of directors as strategic bodies, through which “Baiterek” NMH” JSC controls subsidiaries, acting as the sole shareholder.

Important drivers of subsidiaries’ performance are the following:

Board of directors composition

International best practice examples demonstrate the necessity to ensure the optimal number of directors in the boards of directors – sufficient to ensure all the necessary competencies, but not excessive to ensure high flexibility and efficiency of work. On average, the boards of directors of the subsidiaries of “Baiterek” NMH” JSC consist of 6 members (see Figure No. 37 below).

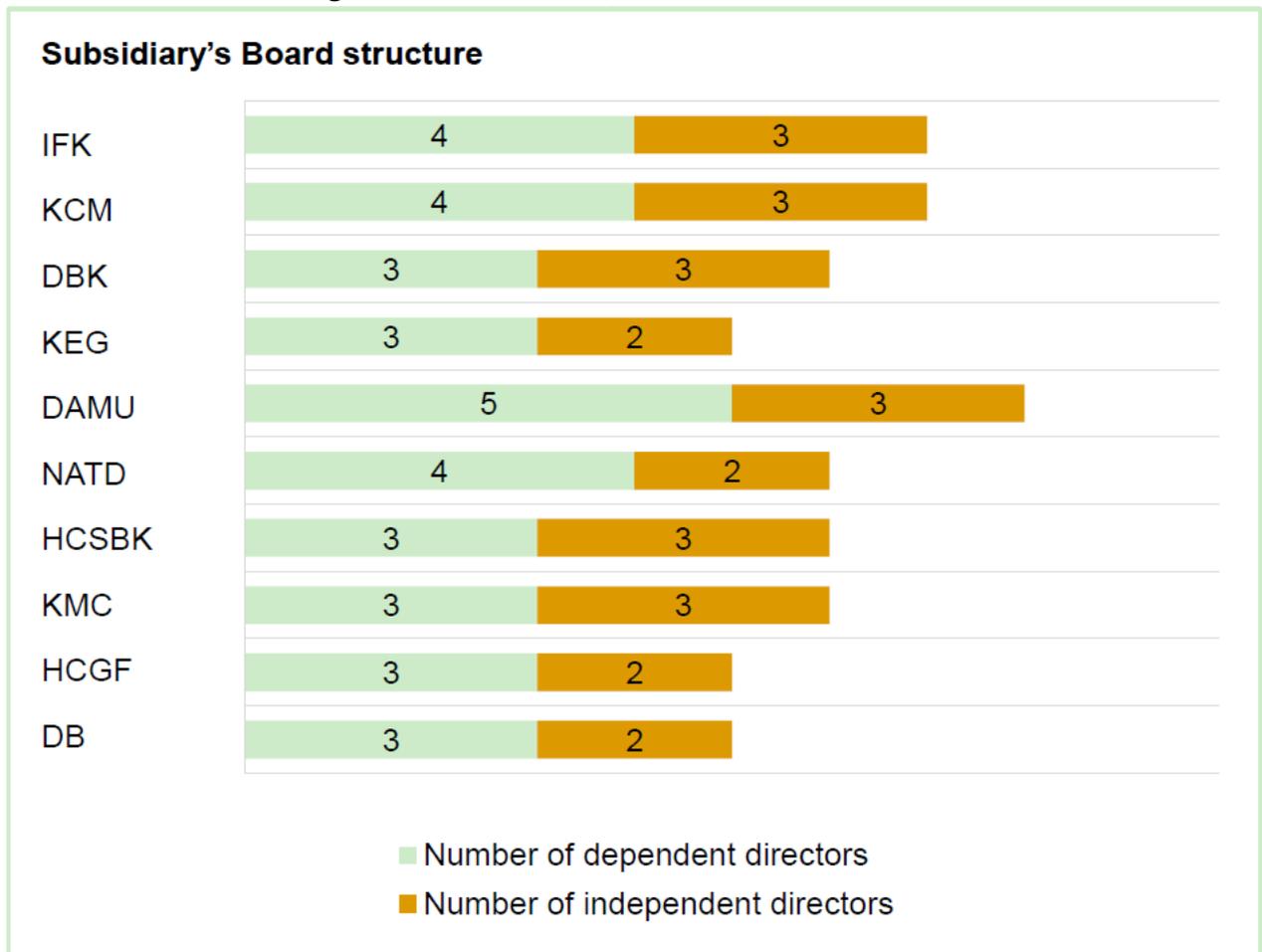


Figure No. 37. Structure of the boards of directors of subsidiaries of “Baiterek” NMH” JSC at the end of 2016

Independent directors account for at least 30% of the total number of members of the boards of directors in the international practice of development institutions. The same requirement is established by the Law of the Republic of Kazakhstan “On Joint Stock Companies” (<50%). Nevertheless, according to the Corporate Governance Diagnostics Methodology (resolution of the management board of “Baiterek” NMH” JSC dated December 24, 2014, No. 41/14) developed on the basis of best international

practices, prevailing (>50%) number of independent directors promotes more independent and unbiased decisions. Therefore, “Baiterek” NMH” JSC will consider the possibility of increasing the share of independent directors in the boards of directors of its subsidiaries in accordance with the best practice.

Besides, independence of directors is the most critical factor of efficient work of the board of directors to ensure transparency of activities. Currently, boards of directors of “Baiterek” NMH” JSC subsidiaries include many members who have recent or past experience of position with government agencies, affiliated with the sole shareholder, which may influence independent opinion of those members. Taking into consideration that, historically, the government has had a high share and involvement in the economy, many potential local candidates to the boards of directors will have connections with the governmental authorities, therefore the practice of bringing (foreign) independent directors shall be further expanded.

Completeness of the set of competences of members of the boards of directors

Efficient work of the boards of directors requires availability of all the necessary key competences for the respective subsidiaries. Members of the boards of directors shall have expertise in the following critical areas/matters:

- 1) Corporate governance including interaction of the board of directors with the shareholder and management of subsidiaries;
- 2) Industry expertise;
- 3) Political and economic vision;
- 4) Operations of the company;
- 5) strategic options of development and corresponding risks;
- 6) Companies’ strengths and weaknesses.

As of the end of 2016, the boards of directors in some subsidiaries do not have a full set of necessary competences.

| Skills required | | Current Directors | | | | | | | | Required competency | |
|---------------------|---------------------------|-------------------|---|---|---|---|---|---|---|---------------------|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | NEW | |
| Management skills | Strategy | | | | | | | | | | ■ |
| | Risk assessment and audit | | | | ✓ | | | | | | ■ |
| | Government relationship | ✓ | ✓ | | | | | ✓ | | | |
| | Financial sector | ✓ | | | ✓ | | ✓ | ✓ | ✓ | | |
| Industry and sector | Entrepreneurship | ✓ | | ✓ | | ✓ | | ✓ | | | |
| | Start-ups | | | | | | | | | | ■ |

Figure No. 38. Sample competence matrix based on a sample competence review of acting members in the board of directors of one of the subsidiaries of “Baiterek” NMH” JSC

“Baiterek” NMH” JSC will analyze necessary competencies for all subsidiaries, analyze the composition of the existing Boards of Directors in terms of ensuring of necessary competencies, reveal missing competencies and ensure availability thereof in the newly composed boards of directors of subsidiaries (see Figure No. 38 as an example).

Format and regularity of meetings of the boards of directors

“Baiterek” NMH” JSC will determine the optimal number of the board of directors meetings in the subsidiary. The average number of regular board of directors meetings in European organizations is 9–10 per annum, while the Typical Corporate Governance Code for Joint Stock Companies with State Participation approved by Order of the Deputy Prime Minister – the Minister of National Economy of the Republic of Kazakhstan dated May 17, 2007, No. 86 (as amended by Amendment dated November 1, 2016, No. 465 to the Order of the Minister of National Economy of the Republic of Kazakhstan) defines 6-12 meetings over a year.

According to the Corporate Governance Code of “Baiterek” NMH” JSC, meetings of the boards of directors in subsidiaries must be held at least 6 times a year.

Therefore, “Baiterek” NMH” JSC will continue working on the improvement of effectiveness of the subsidiaries’ boards of directors meetings and implementation of

best global practices for the control of meeting agenda, as well as to define the optimal scope of materials submitted for consideration by the board of directors.

Objective assessment of performance of the boards of directors

The procedure for assessment of performance of the board of directors shall be improved as well in accordance with the practices of development institutions of other countries. The current form of assessment of individual performance of directors is very formalized and does not contribute to the objective assessment of the director's skills and quality of work. It is recommended to supplement the forms of assessment with the questions as to competencies, the level of involvement in discussions, as well as individual activities of the directors. The stage of filling-in and collection of assessment forms shall be refined as well – the directors shall fill in the forms anonymously. More transparent assessment requires engagement of an external independent expert to collect and analyze assessment sheets. An external independent expert shall prepare individual reports on the performance of each director and distribute them confidentially. Directors shall discuss these reports immediately with the chairmen of the boards of directors on a case-by-case basis. Besides, an external independent expert shall prepare a general report on assessment of performance of the board of directors, to be discussed at a non-public meeting of the board of directors of the subsidiary. Changes in the stages of assessment of the boards of directors in accordance with the global practices can improve their performance significantly.

To comply with the above principles of work of the boards of directors of “Baiterek” NMH” JSC subsidiaries, it is proposed to use the practice of introducing a senior independent director, whose functions include management of independent directors, provision of support and consultations to the chairman of the managing board and the chairman of the board of directors of the subsidiary.

Considering the above-specified changes in the corporate governance system, the role and responsibility of the boards of directors and management boards in the subsidiaries will increase. Thus, it is required to develop and implement a system of property interest insurance for “Baiterek” NMH” JSC subsidiaries (insurance protection policy) in line with the up-to-date international standards of arranging comprehensive insurance protection of financial institutions, including the established practice of the leading foreign lending agencies, investment funds and management companies insurance against criminal assaults, computer crimes, risks of digital data loss, cyber risks and civil responsibility risks in the case of damage caused due to defects in the rendered services (errors and omissions out of negligence). Develop recommendations and requirements for imputed insurance of a part of property interests for the subsidiaries of “Baiterek” NMH” JSC by their counterparties.

EBRD, the World Bank, the Asian Development Bank, Crown Agents (UK) represent examples of development institutions, which successfully implemented comprehensive insurance against criminal assaults, computer risks and responsibility in the case of damage caused by improper quality of services (errors and omissions).

4.6.4 Building new competences and work organization methods

Analytical center

Currently, “Baiterek” NMH” JSC is guided by the priorities set by the government under the approved economy support and development programs, decisions and orders of the Government of the Republic of Kazakhstan and other public authorities. Matured experience and accumulated institutional memory of “Baiterek” NMH” JSC and its subsidiaries can be used for prioritization.

Due to the accumulated experience, “Baiterek” NMH” JSC and its subsidiaries have deep understanding of the customers’ needs, specifically, on the basis of the institutional memory, in the five strategic key areas – business support in the large business segment, business support in the SME segment, improvement of housing affordability, increasing export potential, as well as transfer of technology and implementation of innovations. Direct contact of the subsidiaries of “Baiterek” NMH” JSC with the customers as service recipients enables obtaining relevant information of the existing problems and challenges, current and future needs, as well as of the necessary tools and scope of support from development institutions. “Baiterek” NMH” JSC can leverage access to this information and process it centrally at the analytical center. Within the framework of attraction of non-public funding sources, “Baiterek” NMH” JSC may independently determine the ways to address the tasks of social and economic development of the country (creation of new jobs, labor productivity improvement, increase of volumes of non-resource export, improvement of housing affordability).

The dynamic process of making decisions on relevant issues requires system knowledge based on learning and synthesis of the best practices. Apart from providing analytical support of the activities of “Baiterek” NMH” JSC and its subsidiaries, the analytical center can also provide information and consultancy support.

The main objectives of the analytical center may include the following:

- 1) Definition of priorities in the support of economy development, based on the state and government development programs, as well as expanded analysis of macroeconomic and industry data;
- 2) Verification of conformity of subsidiaries’ projects to the priorities of “Baiterek” NMH” JSC and substantiation thereof at the macroeconomic level;
- 3) Capturing synergies through comprehensive support of customers, based on the unified customer data base (CRM);
- 4) Performance analysis of “Baiterek” NMH” JSC and its subsidiaries, including benchmarking with comparable development institutions.

Accordingly, examples of the analytical center’s work results may include:

- 1) Proposals for the Government of the Republic of Kazakhstan as to the state programs of economic development;

- 2) Communication with the potential investors in the perspective areas of support;
- 3) Options of the comprehensive customer support structuring with cross-selling of the tools of various subsidiaries;
- 4) Confirmation of compliance of certain subsidiaries' projects with the priorities of "Baiterek" NMH" JSC and assessment of their expedience in the context of the economy of the Republic of Kazakhstan;
- 5) Recommendations on KPIs of "Baiterek" NMH" JSC and its subsidiaries and the corresponding optimal target levels.

One-stop-shop comprehensive customer support

As one of the steps on the way to the customer-oriented approach development, "Baiterek" NMH" JSC plans to implement the one-stop-shop principle to improve customer care within the structure of "Baiterek" NMH" JSC and provide comprehensive solutions.

The one-stop-shop principle implies formation of comprehensive support at the level of "Baiterek" NMH" JSC on the basis of the analytical center. In this case, immediate implementation and provision of tools of comprehensive support will be executed at the subsidiary level with limited involvement of "Baiterek" NMH" JSC as part of process administration without engaging additional human resources.

Implementation of comprehensive entrepreneurship support

The following case may serve as an example of comprehensive support:

- 1) Design of project documentation and project structuring – KPPF;
- 2) Debt and project financing, leasing – DBK;
- 3) Equity financing – KCM;
- 4) Insurance of export contracts – KazakhExport.

In order to implement the one-stop-shop principle, "Baiterek" NMH" JSC requires an effective CRM system enabling tracing of all the customer requests received by the subsidiaries at the level of "Baiterek" NMH" JSC and responding to customer inquiries. This system is planned to be implemented by the end of 2017.

Horizontal, agile organization in the project management office format

Agile organizational structure means a modern business method, which is applied in many advanced companies. The term "agile" derives from information technologies for creation of the "agile development" software. This approach set is based on the principles of teamwork, speed, absence of formality in communication with the customer and flexibility in change of the initial action plan. The key performance criterion is a functional product received within the set time. The key principles of this structure design are:

Horizontal, agile organizational structure: A horizontal, agile organizational structure implies less hierarchy levels than in a vertical structure. This approach increases organization agility, reduces costs, increases efficiency and saves time spent

on decision-making. A cross-functional team having all the necessary skills, tools and power for execution of a particular task becomes the main operational unit. Functional leaders of the organization can be responsible for performance of several teams simultaneously.

Short-term assignments aimed at problem-solving: The workflow is split into short cycles lasting for not more than 2–3 weeks. Upon completion of each cycle, interim results are summarized and the teams are motivated for further work at the same pace. The workflow is based on continuous feedback. This work method prevents situations, when a solution prepared by the team becomes irrelevant due to the long period of elaboration.

Developing uniform HR policy

In order to recruit the required human resources possessing the necessary skills and motivation for “Baiterek” NMH” JSC group of companies, it will develop and implement a uniform HR policy. The objective of HR policy is to attract and retain professionals in “Baiterek” NMH” JSC group of companies, which are capable of making a valuable contribution to the development and effectiveness improvement of “Baiterek” NMH” JSC, as well as of ensuring maximal return of investments in human resources.

Thus, uniform HR policy will be developing in the following directions:

1) Effective labor resource planning will be achieved through open and competitive selection of personnel to ensure transparency, the establishment of integrated talent pool composed of the best workers with the aim of further professional development and staff promotion within “Baiterek” NMH” JSC group of companies, review, rationalization and optimization of the organizational structure in “Baiterek” NMH” JSC group of companies;

2) Ensuring fair and competitive remuneration of work performance based on implemented grade system and regular monitoring of labor compensation in the market and peer industries, motivation research, response to changes in the laws of the Republic of Kazakhstan, etc.;

3) Improvement of labor productivity via fair and systematized assessment of performance by applying KPIs, personnel assessment and incentive measures;

4) Productive human capital management will be ensured by the system of ongoing training and personnel development, introduction and implementation of state-of-the-art technologies in workflow and information management system including automation of knowledge management process;

5) Effective communication and employee interaction will be ensured through setting up of internal corporate sources for regular distribution of information to employees and communication channels including the internal portal (Intranet), regular analysis of opinions and proposals of employees, organizing the activities of working groups, developing the institute of employee representatives and social partnership bodies locally.

Increase in transparency of activities of “Baiterek” NMH” JSC and its subsidiaries

Taking into consideration high economic and social importance of development institutions represented by “Baiterek” NMH” JSC and its subsidiaries, “Baiterek” NMH” JSC will aim at active informing of the target audience of its activities. It will enable involvement of citizens and the business community in programs implemented by “Baiterek” NMH” JSC, as well as intentional strengthening of its business reputation.

As part of execution of this task, “Baiterek” NMH” JSC implements a set of special measures in public relations and advertising based on the uniform communication strategy.

Taking into consideration high attention and interest towards the activities of “Baiterek” NMH” JSC as of an entity of the quasi-public sector, “Baiterek” NMH” JSC will ensure high transparency of the decisions taken, as regards implementation of state and government programs, as well as certain internal procedures attracting the most attention of external audience (procurement, employment, provision of financial and non-financial support tools). It is planned to use the capabilities of advanced information technologies and traditional media to execute this task.

By analogy with comparable development institutions, as well as in accordance with the effective laws of the Republic of Kazakhstan on joint stock companies, “Baiterek” NMH” JSC will aim at disclosure of relevant information on the financial position, dividend policy and credit record, as well as the development prospects of subsidiaries, which will contribute to improvement of the status of “Baiterek” NMH” JSC and its subsidiaries. Increasing the transparency of operations is also required to increase the level of public trust.

Consistent improvement of customer satisfaction with the quality of services rendered by “Baiterek” NMH” JSC and its subsidiaries will become an important factor of increasing of the target audience trust in the activities of “Baiterek” NMH” JSC. For this purpose, “Baiterek” NMH” JSC will carry out assessment of the customer centricity level and intentionally improve this parameter.

As insufficient transparency may affect attraction of external funding and its cost, increased trust in the activities of “Baiterek” NMH” JSC will produce positive effect on its performance.

A new level of transparency of “Baiterek” NMH” JSC and its subsidiaries for internal and external stakeholders will encompass several areas:

- 1) Proactive communication of approaches of making investments and strategic decisions;
- 2) Comprehensive information sharing with customers on subsidiaries’ tools and principles of operation;
- 3) Communication of achieved social and economic impact, including disclosure of information on the impact produced by the activities of “Baiterek” NMH” JSC on the country’s GDP and creation of jobs;

4) Examples of actions aimed to achieve a broader dialogue between “Baiterek” NMH” JSC and external stakeholders:

- Regular meetings with the community (round tables, briefings, making information available to the public) to discuss the progress of program implementation, opinion exchange among “Baiterek” NMH” JSC, the Parliament of the Republic of Kazakhstan and the community;
- Information sharing with customers on new tools and operation principles;
- Receiving feedback.

5. KPIs of “Baiterek” NMH” JSC till 2023 and indicator calculation methodology

Since approval of the Strategy in 2014, with the view to analyze its performance, “Baiterek” NMH” JSC continuously carried out monitoring and analysis of achievement of the set objectives for 28 KPIs bundled by six areas:

- 1) Establishment of “Baiterek” NMH” JSC as an integrated development institution;
- 2) Assistance in sustainable economy development in the Republic of Kazakhstan by providing financial support to high-priority economy sectors;
- 3) Support of small and medium entrepreneurship;
- 4) Support of new, modern sectors of the economy and innovation development;
- 5) Support of export activities of Kazakh companies;
- 6) Assistance in resolving socially oriented tasks of the government.

A set of 28 KPIs was not optimal for the following reasons:

1) Number of KPIs: The term “KPI” shall mean a “key performance indicator”, implying only a limited number of metrics, which are of key importance for achievement of particular results. A large number of strategic KPIs prevents the company from full focus on the core activities and vitally important parameters. It is mostly due to the fact that a separate KPI becomes no longer relevant for strategy implementation in its entirety.

Besides, in the instances, when many KPIs are not achieved, a large total number of KPIs leads to dilution of responsibility to a certain extent, as the entities in charge of achievement of certain KPIs of a business unit (responsible persons, departments, subsidiaries) are only responsible for a small part of the “failure”. In case of “Baiterek” NMH” JSC and its 28 KPIs, failure to achieve one of them entails non-achievement of only 3.6% of the overall target.

Frequently, not more than 5–10 KPIs are set for large and integrated organizations to specify the most important priorities, implementation of which is critical for performance of the organization. Other indicators can be used for internal operational and managerial control, not for overall performance assessment.

Therefore, a set of KPIs of “Baiterek” NMH” JSC shall only include a limited number of selected strategic metrics, and failure to achieve any of them shall produce critical impact on the activities of “Baiterek” NMH” JSC;

2) KPI cascading: Strategic KPIs of “Baiterek” NMH” JSC included indicators, which pertained exclusively to the activities of a particular subsidiary. For example:

- 1) Index of the project development impact – DBK;
- 2) Cumulative number of infrastructure projects including PPP projects receiving consulting support services – KPPF;
- 3) Share of attracted direct private investments in the Republic of Kazakhstan to unit of public funds (in equity) – KCM;

- 4) Share of participants involved in training programs, who set up business, % – Damu;
- 5) Number of enterprises practicing technology transfer – NATD;
- 6) Share of coverage of non-resource export, % – KazakhExport;
- 7) Share of export-oriented companies that received consulting services, % – KazakhExport;
- 8) Shares of housing savings system participants in economically active population, % – HCSBK;
- 9) Volume of commissioned rental housing, m² '000 – KMC;
- 10) Volume of acquired claims on mortgage loans from STB partners, KZT bn – KMC;
- 11) Share of mortgage loans in the portfolio of STBs secured by guarantees of “KMGF” JSC, % - HCGF.

As the impact of “Baiterek” NMH” JSC on achievement of such KPIs is limited to monitoring and administration of the activities of the responsible subsidiary, such metrics shall be recorded at the level of individual subsidiaries. KPIs depending on the activities of all or many subsidiaries shall be set at the level of “Baiterek” NMH” JSC. In this regard, “Baiterek” NMH” JSC may cascade such KPIs to the subsidiary level with regard to the specifics of each subsidiary and ensure implementation at the subsidiary through the corporate governance system to achieve overall results at the portfolio level;

3) KPI focus on efficiency and quality:

The strategic KPIs of “Baiterek” NMH” JSC included indicators, which were aimed solely at measuring the quantity, share, volumes of a particular support tool, not the outcome of the respective support or activities. In the absence of a link to performance indicators and quality, estimation of the volume neither provides insight into performance of “Baiterek” NMH” JSC, nor reflects the contribution in full. For example:

- 1) Accumulated volume of funds invested in infrastructure projects, KZT bn;
- 2) Cumulative number of infrastructure projects including PPP projects receiving consulting support services;
- 3) Volume of funds allocated to entrepreneurship development under financial programs, KZT bn;
- 4) Share of attracted funds to finance SMEs from non-budgetary sources, %;
- 5) Share of participants involved in training programs, who set up business, %;
- 6) Annual output of manufactured products by projects supported within the framework of support mechanisms, KZT bn;
- 7) Number of enterprises having transferred technologies;
- 8) Share of coverage of non-resource export, %;
- 9) Share of export-oriented companies that received consulting services, %;
- 10) Shares of housing savings system participants in economically active population, %;

11) Share of “Baiterek” NMH” JSC on the housing construction loan and mortgage market;

12) Volume of commissioned rental housing, m² ’000;

13) Volume of acquired claims on mortgage loans from STB partners, KZT bn;

14) Share of mortgage loans in the portfolio of STBs secured by guarantees of “KMGF” JSC, %.

KPIs with a balanced focus on both the scope of the provided support and the efficiency and quality of such support shall be set at the level of “Baiterek” NMH” JSC and its subsidiaries.

4) Degree of impact on KPI achievement

Strategic KPIs of “Baiterek” NMH” JSC included indicators, which also had other parties from “Baiterek” NMH” JSC and its subsidiaries responsible for achievement of the set target. Indicators of certain state and government programs, responsibility for which lacks clear distribution and limits, may serve as examples of such KPIs – e.g., a program specified several responsible entities, or several entities are directly or indirectly involved in the process of target achievement:

1) Share of attracted direct private investments in Kazakhstan to unit of public funds (in equity);

2) Annual output of manufactured products by projects supported within the framework of support mechanisms, KZT bn;

3) Number of enterprises having transferred technologies.

Other examples are KPIs, achievement of which cannot be affected by “Baiterek” NMH” JSC directly or exclusively – when implementation or one of implementation parameters is partially or fully independent from “Baiterek” NMH” JSC:

1) Credit rating of “Baiterek” NMH” JSC;

2) Ratio of assets to GDP, %;

3) Multiplier of STB co-financing for SMEs for loans issued under the conditional placement program;

4) Shares of housing savings system participants in economically active population, %;

5) Share of “Baiterek” NMH” JSC on the housing construction loan and mortgage market;

6) Share of mortgage loans in the portfolio of STBs secured by guarantees of “KMGF” JSC.

KPIs, achievement of which depends fully or to the maximum extent on “Baiterek” NMH” JSC itself and its subsidiaries shall be set at the level of “Baiterek” NMH” JSC.

5) KPI measurability:

The strategic KPIs of “Baiterek” NMH” JSC included indicators, which are difficult to monitor, administer and audit due to full or partial lack of information in external data sources (i.e. only internal indicators of “Baiterek” NMH” JSC and its

subsidiaries can be referenced, and there is no possibility to verify them using other sources) and/or due to sophisticated calculation methodology. For example:

- 1) Index of the project development impact (for DBK)
- 2) Accumulated volume of funds invested in infrastructure projects, KZT bn;
- 3) Cumulative number of infrastructure projects including PPP projects receiving consulting support services;
- 4) Share of attracted direct private investments in Kazakhstan to unit of public funds (in equity);
- 5) Multiplier of STB co-financing for SMEs for loans issued under the conditional placement program;
- 6) Share of participants involved in training programs, who set up business, %;
- 7) Annual output of manufactured products by projects supported within the framework of support mechanisms, KZT bn;
- 8) Share of commercialized projects of the total number of projects, %;
- 9) Number of enterprises having transferred technologies;
- 10) Share of export-oriented companies that received consulting services, %.

KPIs suitable for internal administration and monitoring, as well as for audit using external data sources, shall be set at the level of “Baiterek” NMH” JSC and its subsidiaries.

6) Target KPIs:

The strategic KPIs of “Baiterek” NMH” JSC included indicators, for which insufficiently ambitious targets were set (including the targets “Baiterek” NMH” JSC had previously achieved). For example:

- 1) ROE, %;
- 2) ROA, %;
- 3) Loan portfolio quality (level of provisions to the loan portfolio), %.

Thus, in 2013, actual ROE and ROA values already exceeded the targets set for the following years. It shall be noted that the practice of review by “Baiterek” NMH” JSC and its subsidiaries of KPI targets twice a year is not the best practice, as it can be rather aimed at constant explanation of the inability to achieve the targets and their review, than at motivation to achieve the targets.

At the level of “Baiterek” NMH” JSC and its subsidiaries, KPI targets shall be set on the base of historic performance of “Baiterek” NMH” JSC, as well as the results of subsidiary benchmarking vs. the best practice at the comparable development institutions.

As part of Strategy updating in 2017, the following set of KPIs and targets is adopted at the level of “Baiterek” NMH” JSC:

| No . | Key performance indicator | Unit of measure | Rationale | Calculation methodology | Target value for 2023 | Data source |
|---|--|-----------------|---|---|-----------------------|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Consolidated KPIs of “Baiterek” NMH” JSC to stimulate sustainable economic development of the Republic of Kazakhstan | | | | | | |
| 1 | Share of the loan and investment portfolio in the total assets of “Baiterek” NMH” JSC | % | It is essential that the assets of “Baiterek” NMH” JSC are used to develop the economy instead of placing them in the treasury portfolio | Loan portfolio (net) + investment portfolio in “Baiterek” NMH” JSC group of companies / total assets at the end of reporting period (consolidated) | 77 | Development plan/Development plan implementation report for the reporting year, data provided by subsidiaries involved in loan and investments operations |
| 2. | Share of non-government sources of borrowing in the total borrowing structure for the reporting year | % | It is important to ensure growth of the balance of the development institution mostly from non-government borrowing sources (both internal and external capital markets) | Face value of non-public borrowing for the reporting year / Face value of total borrowing for the reporting year | 80 | Management accounting |
| 3. | ROA (consolidated) not below the minimum positive value | % | It is important for “Baiterek” NMH” JSC to create value, ensuring payback of the funds. In this regard, the parameter will stimulate “Baiterek” NMH” JSC to manage the risks (NPL share, currency risks) and operating expenses | Net profit (annual profit (consolidated)) / Average value between assets at the end of the previous period (consolidated) and at the end of the current period (consolidated) | 1 | Audited consolidated financial statements of “Baiterek” NMH” JSC |

| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|--|---|--------|---|--|--------|--|
| 4. | Private sector share in the loan portfolio | % | It is important to ensure that the assets of “Baiterek” NMH” JSC are never invested in the quasi-public sector or invested subject to a share of private investments in the respective company or project of at least 50% | Amount of loans issued to private sector / Loan portfolio (net) for “Baiterek” NMH” JSC group of companies | 80 | Audited consolidated financial statements of “Baiterek” NMH” JSC, data from subsidiaries involved in loan operations |
| Objective 1. Development of non-resource sectors of the economy | | | | | | |
| Objective 2. Development of entrepreneurship (private sector of the economy) | | | | | | |
| Strategic area 1. Entrepreneurship support in the large business segment | | | | | | |
| Strategic area 2. Entrepreneurship support in the SME segment | | | | | | |
| 5. | Number of new projects, projects of modernization and expansion of current production with consideration for production growth and expansion of sales markets | units | As part of the “Nurly Zhol” Program, SPIID and own programs | Number of projects supported through loan provision, equity financing, subsidizing of STB rates, loan guarantees, conditional investment of funds through lending in STB, issuance of grants, turnaround, provision of services related to design documentation development and structured finance (for 2014–2023) | 55,600 | Data of DBK, Damu, KazakhExport, KCM, NATD, IFK, KPPF |
| 6. | Volume of products produced by supported business entities | KZT bn | As part of the “Nurly Zhol” Program, SPIID and own programs | Overall production volume of enterprises supported through loan provision, equity financing, subsidizing of STB rates, loan guarantees, conditional investment of funds through lending in STB, issuance of grants, turnaround, provision of services related to design documentation development (for 2014-2023) | 42,700 | Data of DBK, Damu, KazakhExport, KCM, NATD, IFK |

| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|----|--------------------------------|-------|---|---|-----|-------------|
| 7. | Foreign attraction investments | ratio | As part of achieving the objectives of attracting foreign investments in the real sector of the economy of Kazakhstan | <p>The total volume of investments of direct investment funds (DIFs) with foreign participation* to the share of the investments of “Baiterek” NMH” JSC in these DIFs**</p> <p>* Liabilities for investment within the DIF with foreign participation with the mandate to the Republic of Kazakhstan and the amounts recorded within the co-investment and other investment agreements. (Wherein:</p> <ul style="list-style-type: none"> - During the investment period of DIF, liabilities are measured based on the mandate to the Republic of Kazakhstan, including the amount fixed within the co-investment and other investment agreements; - After the completion of the investment period of DIF, liabilities are measured at the actual investment in the Republic of Kazakhstan within the co-investment and other investment agreements) <p>** The amount of liabilities of “Baiterek” NMH” JSC in the DIF with foreign participation with a mandate to the Republic of Kazakhstan (Wherein:</p> <ul style="list-style-type: none"> - During the investment period of | 2:1 | Data of KCM |

| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|--|--|------------|--|--|------------------|--|
| | | | | DIF, total liabilities of “Baiterek” NMH” JSC in these DIFs are taken into account; - After the completion of the investment period of DIF, liabilities are measured at actual monetary value of “Baiterek” NMH” JSC, directed at projects by these DIFs) | | |
| Objective 3. Support economy urbanization | | | | | | |
| Strategic area 3. Improvement of housing affordability | | | | | | |
| 8. | Volume of housing receiving support tools | ‘000 sq. m | As part of the “Nurly Zhol” Program to ensure sufficient economically affordable housing, sq. m | Volume of commissioned housing via subsidized loans of developers, mortgage-based and rental housing (for 2015–2018) | 2,851 until 2019 | Data of MNE RK, LGs, STBs, KMC, BD, Damu |
| 9. | Share of housing savings system participants in economically active population of the Republic of Kazakhstan | % | Ensuring provision of affordable housing to a greater amount of economically active population of the Republic of Kazakhstan | Number of current housing savings system agreements / number of economically active population | 17 | Data of HCSBK |
| 10. | Guaranteeing the contributions of shared commercial housing construction participants | % | As part of the “Nurly Zhol” Program; as a new mechanism to attract the funds of population into residential construction to support construction of commercial housing by private developers and protect the rights of investors | The volume of guaranteed contributions of shared commercial housing construction participants / Total volume of contributions of commercial housing investors in the Republic of Kazakhstan | 50 | Data of HCGF |
| Objective 4. Support export of non-resource products | | | | | | |
| Strategic area 4. Develop of export potential | | | | | | |

| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|--|--|--------|--|--|-------|--|
| 11. | Volume of export revenues of enterprises receiving support under export and pre-export financing | KZT bn | As part of the “Nurly Zhol” Program, SPIID | Total volume of export revenues of enterprises receiving support under export and pre-export financing (for 2014–2023) | 1,054 | Data of DBK, DBK-Leasing, KazakhExport |
| Objective 5. Development of innovations | | | | | | |
| Strategic area 5. Transfer and implementation of innovations | | | | | | |
| 12. | Number of commercialized technologies, introduced technologies in production process and projects aimed at solving technological tasks of the industries | units | As part of SPIID | Number of supported projects by three types of grants – for technological development of enterprises, for technological development of industries; for commercialization of technologies (for 2014–2023) | 81 | Data of NATD |

Note: Expansion of abbreviations used in the Strategy

BD – “Baiterek Development” Joint Stock Company

STBs – second tier banks

DBK – “Development Bank of Kazakhstan” Joint Stock Company

DBK-Leasing – “DBK–Leasing” Joint Stock Company

WEF – World Economic Forum

Damu – “Damu” Entrepreneurship Development Fund” Joint Stock Company

Subsidiaries – subsidiaries of “National Management Holding “Baiterek” Joint Stock Company

UAPF – “Unified Accumulative Pension Fund” Joint Stock Company

HCSBK – “Housing Construction Savings Bank of Kazakhstan” Joint Stock Company

IFK – “Investment Fund of Kazakhstan” Joint Stock Company

KMC – “Mortgage Organization “Kazakhstan Mortgage Company” Joint Stock Company

KCM – “Kazyna Capital Management” Joint Stock Company

KPPF – “Kazakhstan Project Preparation Fund” Limited Liability Partnership

KazakhExport – “KazakhExport” Export Insurance Company” Joint Stock Company

LGs – local governments

MNE RK – Ministry of National Economy of the Republic of Kazakhstan

SMEs – small and medium enterprises

NATD – “National Agency for Technological Development” Joint Stock Company

FSED – Forecast of Social and Economic Development

HCGF – “Housing Construction Guarantee Fund” Joint Stock Company

Appendix to the Development
Strategy of “National Management
Holding “Baiterek” Joint Stock
Company for 2014–2023

List of subsidiaries of “Baiterek” NMH” JSC

1. “Development Bank of Kazakhstan” JSC
 2. “Damu” Entrepreneurship Development Fund” JSC
 3. “Housing Construction Savings Bank of Kazakhstan” JSC
 4. “Kazyna Capital Management” JSC
 5. “Baiterek Development” JSC
 6. “Mortgage Organization “Kazakhstan Mortgage Company” JSC
 7. “Investment Fund of Kazakhstan” JSC
 8. “National Agency for Technological Development” JSC
 9. “KazakhExport” Export Insurance Company” JSC
 10. “Housing Construction Guarantee Fund” JSC
 11. “Kazakhstan Projects Preparation Fund” LLP
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