



**KAZAGROFINANCE**

KazAgroFinance JSC

**2018**

**ANNUAL  
REPORT**



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# COMPANY BACKGROUND

— THE COMPANY HAS BEEN SUCCESSFULLY  
DELIVERING LEASING PROGRAMS IN THE  
AGRICULTURAL SECTOR FOR MANY YEARS  
AND IS AN UNDISPUTABLE LEADER.

KazAgroFinance JSC  
(KazAgroFinance, Company, KAF)  
provides leasing services to farmers  
nationwide to enable them to  
purchase agricultural machinery and  
equipment for the development of the  
country's agro-industrial sector.

The Company was founded more  
than 19 years ago, and it has steadily  
maintained its leadership in the  
leasing industry. The company has  
strong competitive advantages, such  
as high competence in the industry,  
many years of experience in the  
market, a sophisticated affiliated  
network, strong staff, reliable credit  
ratings and ability to raise funds.  
These advantages make it possible to  
render effective support to domestic  
farmers and ensure the Company's  
stable position in the industry.

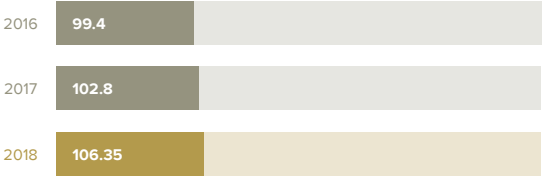
KazAgroFinance JSC is continuously  
working on further development.



# KEY INDICATORS

## FINANCIAL INDICATORS

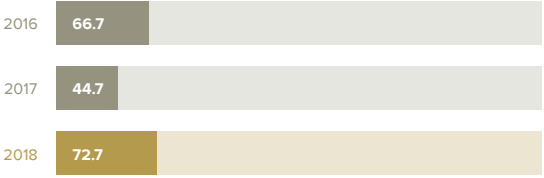
EQUITY, BN KZT



ASSETS, BN KZT



INVESTMENTS IN AGRICULTURAL SECTOR PER YEAR, BN KZT



PROFIT MARGINS



Net profit, bn KZT  
ROA, %  
ROE, %

LOAN PORTFOLIO, BN KZT



## OPERATIONAL INDICATORS

MACHINERY AND EQUIPMENT ON LEASE, IN UNITS



THE NUMBER OF CUSTOMERS IN THE PORTFOLIO AT THE END OF THE YEAR, IN UNITS



## CORPORATE GOVERNANCE

CORPORATE GOVERNANCE RATING, %





# CHAIN OF EVENTS IN THE REPORTING YEAR



MARCH 1

The Company hosted a roundtable named as “Technical Upgrade – the Basis for Growth in the Agro-Industrial Complex” attended by representatives of the Ministry of Agriculture of the Republic of Kazakhstan, KazAgro Holding, and over 120 farmers nationwide, manufacturers and suppliers of equipment.



MARCH 28

The Company launched new special programs “Reliable Farmer” and “Your Own Feed”.



JUNE 17

The Company approved a new Board of Directors of KazAgroFinance JSC (BoD).



SEPTEMBER 19

The Company launched Express-Leasing, a new financing scheme, in order to make it faster for crop farmers to receive lease assets.



IN OCTOBER-NOVEMBER

The Company placed new issue of coupon bonds without collateral (KAFib7) for a total value of 7.9 billion tenge on “Kazakhstan Stock Exchange” JSC.



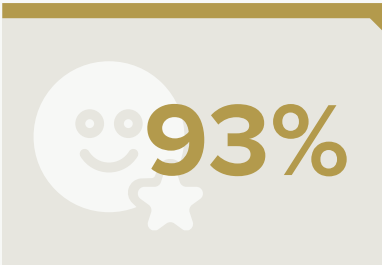
DECEMBER 14

The annual report of KazAgroFinance JSC 2017 was recognized as the best in the financial sector at the VIII contest of annual reports, and also took the 9th place among the reports of more than 100 participants of the competition .



MARCH 15–17

For the 13<sup>th</sup> time in a row the Company took part in the AgriTek/FarmTek Astana 2018, International Specialized Agricultural Exhibition.



APRIL 24

The Company concluded an independent study to probe the availability of the Company’s services and customer satisfaction. The level of customer satisfaction was 93.0%.



JULY 10

Expert RA Kazakhstan, a rating agency, screened Company’s corporate governance system and assigned it a corporate governance rating of 7.



OCTOBER 25-27

The Company took part in the international specialized agricultural exhibition “KazAgro/KazFerma-2018”.



NOVEMBER 23

The Company organized the Issuer’s Day in the premises of “Kazakhstan Stock Exchange” JSC, where the Company’s management met with institutional investors and professional participants in the securities market.



DECEMBER 26

The State Economic Modernization Commission formally decided to exclude the Company from the list of privatizable assets.

# ADDRESS BY CHAIRMAN OF THE BOARD OF DIRECTORS

DEAR READERS, PARTNERS AND COLLEAGUES! I AM GLAD TO WELCOME YOU ON BEHALF OF THE BOARD OF DIRECTORS OF KAZAGROFINANCE JSC!

Technical fit-out is one of the most important aspects of delivering a state policy in the agro-industrial sector. KazAgroFinance JSC is the main operator of the leasing services in the agricultural sector and continues to demonstrate positive results.

As a basic goal, Company's Board of Directors seeks to establish balanced objectives for the Company, meet the expectations of the Sole Shareholder, make strategically important decisions, and to follow up on them.

In order to boost investment prospects, the Company worked vigorously to improve the quality of the portfolio, enhance the risk management system, reduce the corporate expenses and efficiently manage the Company's assets. These efforts have allowed the Company to double the profitability versus 2017.

In 2018, the Company managed to improve customer satisfaction with the leasing services by streamlining business processes, simplifying procedures and application lead time, reducing the amount of required paperwork, expanding and developing the product line, and introducing a customer-oriented approach.

One of the factors for the Company's successful development is relentless work to improve the corporate governance system. In 2018, the Company did some work to improve corporate governance, which made it possible to raise the corporate governance rating to 89.7%. In addition, an independent evaluation ranked KazAgroFinance JSC in the top 15 local largest companies in a transparency rating, which was the result of the Company's efforts to develop transparency and disclosure standards.

Building on the priority areas of its business, in 2019 KazAgroFinance JSC will continue to work on the quality of the loan portfolio, increasing the return on equity and assets, improving the quality of services and the corporate management system.



IN 2018, THE COMPANY DEMONSTRATED STRONG PERFORMANCE IN ALL COMPONENTS OF THE CURRENT DEVELOPMENT STRATEGY FOR 2017-2026. WITH AN EFFICIENT GOVERNANCE SYSTEM AND WELL-COORDINATED TEAMWORK, ALL KEY STRATEGIC INDICATORS HAVE BEEN OVER-FULFILLED



DANIYAR  
ZHUMASHOV

Chairman of the Board of Directors,  
KazAgroFinance JSC



# ADDRESS BY CHAIRMAN OF THE MANAGEMENT BOARD

DEAR READERS!  
LET ME GREET YOU AND PRESENT THE RESULTS  
OF KAZAGROFINANCE JSC IN 2018.

The past year was successful for the Company; we achieved sustainable growth for all key performance indicators.

KazAgroFinance JSC leased out 3,426 units of agricultural machinery for a total value of 63 billion tenge. Significant growth in investment, while maintaining the satisfactory quality of the loan portfolio, made it possible to reach a historical profit volume at year-end 2018 in the amount of 6.7 billion tenge.

In order to keep boosting the quality of services, the Company continued to introduce customer-oriented service standards, streamlined internal paperwork procedures, and updated and expanded a line of service.

One of the most important occasions in 2018 for KazAgroFinance JSC was the decision of the State Economic Modernization Commission to exclude the Company from the list of privatizable assets. This decision evidences that KazAgroFinance JSC is an important component in the delivery of state agricultural policy.

The forthcoming year will be heralded with the summing-up of the Company's business over a 20-year period. I would like to express my deep gratitude to the Shareholder – “KazAgro” National Management Holding, partners and colleagues for constructive cooperation and support. Over the years, the Company's management and staff have done a great job, which helped KazAgroFinance JSC have a positive impact on the economy of Kazakhstan.

In 2019, the Company will continue to focus on making sure agricultural producers nationwide continue to enjoy good leasing services. We are serious about accomplishing all the objectives and plans that the Development Strategy has put forward. The target volume of machinery and equipment leases in 2019 is 62.0 billion tenge. We will continue to take care of financial performance, such as ROA, ROE and NPL, in order to keep them at an acceptable level. The Company is planning to keep increasing the number of existing users, and the level of availability of services and customer satisfaction. It will continue to work on corporate governance.

IMPRESSIVE RESULTS WERE  
ACHIEVED DUE TO A WELL-  
COORDINATED AND EFFICIENT TEAM  
FOCUSED ON THE DEVELOPMENT  
OF THE COMPANY AND THE  
ACHIEVEMENT OF ITS GOALS



KANYSH  
IZBASTIN

Chairman of the Board  
of KazAgroFinance JSC

# DEVELOPMENT STRATEGY

IN 2026, KAZAGROFINANCE JSC SEES ITSELF IN THE LEASING MARKET OF KAZAKHSTAN AS A NATIONAL LEADER WITH HIGH INVESTMENT PROSPECTS AND THE BEST PARTNER FOR FARMING BUSINESSES IN UPGRADING AGRICULTURAL EQUIPMENT AND MACHINERY.

Pursuant to the Company's Development Strategy for 2017–2026, the Company's mission is to assist in the renewal of agricultural machinery and equipment in the Republic of Kazakhstan by providing achievement-oriented leasing services. The Development Strategy identifies three strategic areas of action presented below.

## STRATEGIC AREA

1.

### INCREASING INVESTMENT PROSPECTS

The goal is to increase the long-term shareholder value of the Company by increasing its profit margins while maintaining an acceptable level of risk.

- Objective 1**  
Improve the quality of the loan portfolio.
- Objective 2**  
Increase the return on equity and assets.
- Objective 3**  
To raise effectively loan capital from banks and other institutional investors.

## STRATEGIC AREA

2.

### IMPROVEMENT AND DEVELOPMENT OF LEASING SERVICES

- Objective 1**  
Increase the availability of services for customers.
- Objective 2**  
Improve the quality of leasing services.
- Objective 3**  
Expand and develop the Company's product line.

The goal is to increase the existing customers' loyalty and attract new ones and increase their total number by 1.5 times by 2026.

## STRATEGIC AREA

3.

### CORPORATE DEVELOPMENT

- Objective 1**  
Follow the principles of corporate governance.
- Objective 2**  
Improve the efficiency of the Board of Directors and improve the institute of independent directors.
- Objective 3**  
Develop the institute of planning succession of executives and a productive system for evaluating the Company's Management Board and its employees.
- Objective 4**  
Increase the transparency of the Company's business.

The goal is to improve the Company's corporate governance system and secure a rating of 91.5% by 2026.





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— KAZAGROFINANCE JSC WAS INCORPORATED ON DECEMBER 28, 1999, IN ACCORDANCE WITH THE DECREE OF THE GOVERNMENT OF THE REPUBLIC OF KAZAKHSTAN NO. 1777 “ON CERTAIN ISSUES OF AGRICULTURE” DATED NOVEMBER 24, 1999.

# RATINGS

On April 4, 2019, Fitch Ratings confirmed the long-term Issuer Default Ratings (IDRs) for KazAgroFinance in foreign and national currencies at the BB + level, Stable outlook.

The corporate governance rating according to the Methodology of Corporate Governance Screening for Subsidiaries of KazAgro Holding JSC is 89.7%.

### THE MISSION

is to assist in the upgrade of the agricultural machinery and equipment of the Republic of Kazakhstan through offering quality and competitive leasing services.

### BUSINESS AREAS

- 1. lease-out of agricultural machinery and equipment;
- 2. providing loans to farmers.

### SOLE SHAREHOLDER

“KazAgro” National Managing Holding” JSC (Shareholder, Sole Shareholder).

### REGIONAL NETWORK

14 branch offices across the country.

### COMPETITIVE ADVANTAGES

- over 19 years in leasing;
- client-oriented standards of service;
- recognizable brand with a positive reputation;
- high credit rating;
- successful experience in raising funds using market tools;
- high staff competence;
- wide capabilities of leading specialists and manufacturers of agricultural machinery;
- listed on Kazakhstan Stock Exchange since 2008;
- high business transparency;
- ongoing improvement of the corporate governance system.

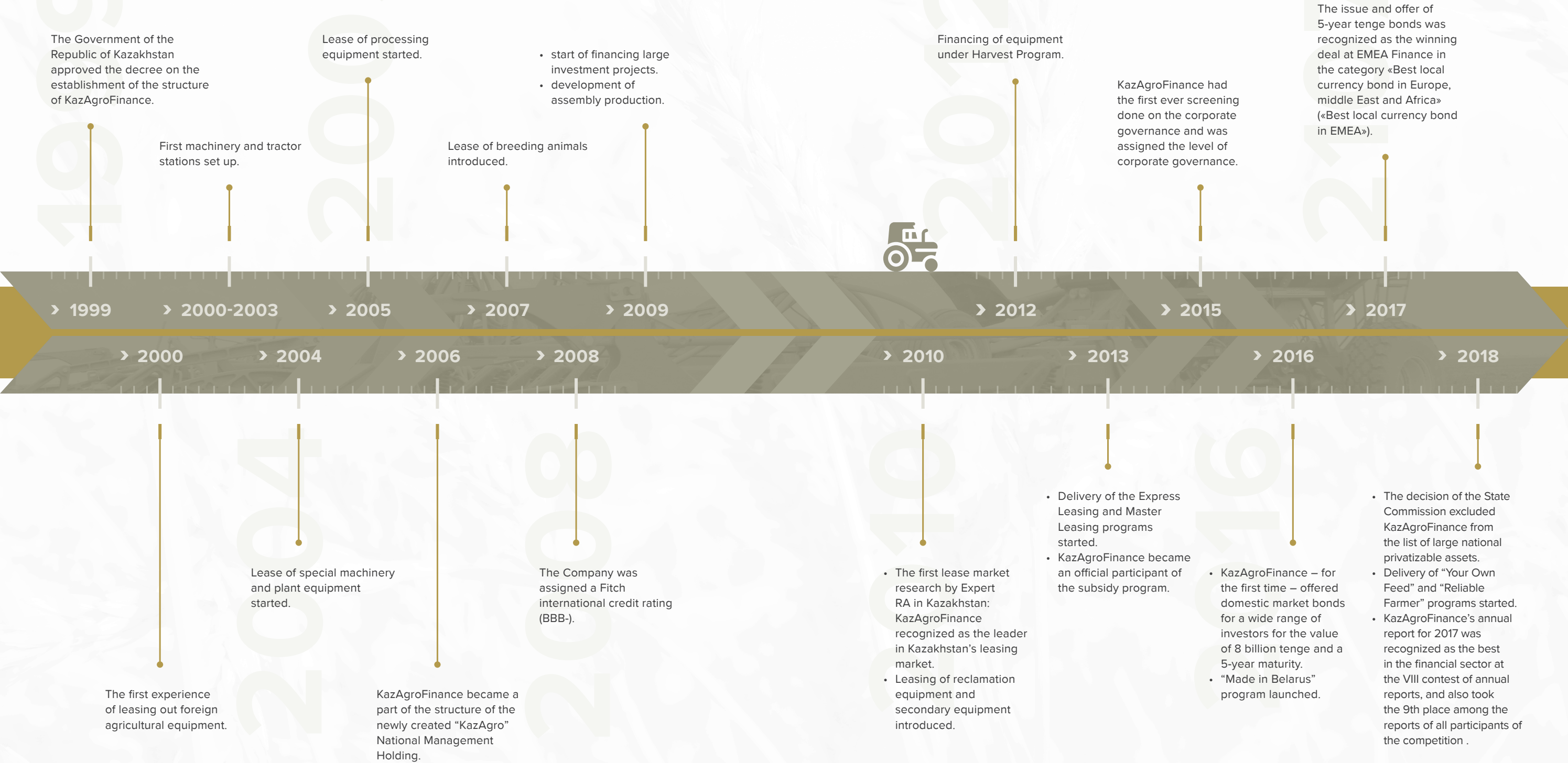
# LICENSES

License – Issued by the Agency of the Republic of Kazakhstan on Regulation and Supervision of the Financial Market and Financial Organizations – to conduct banking borrowing operations in national currency (granted March 31, 2006).

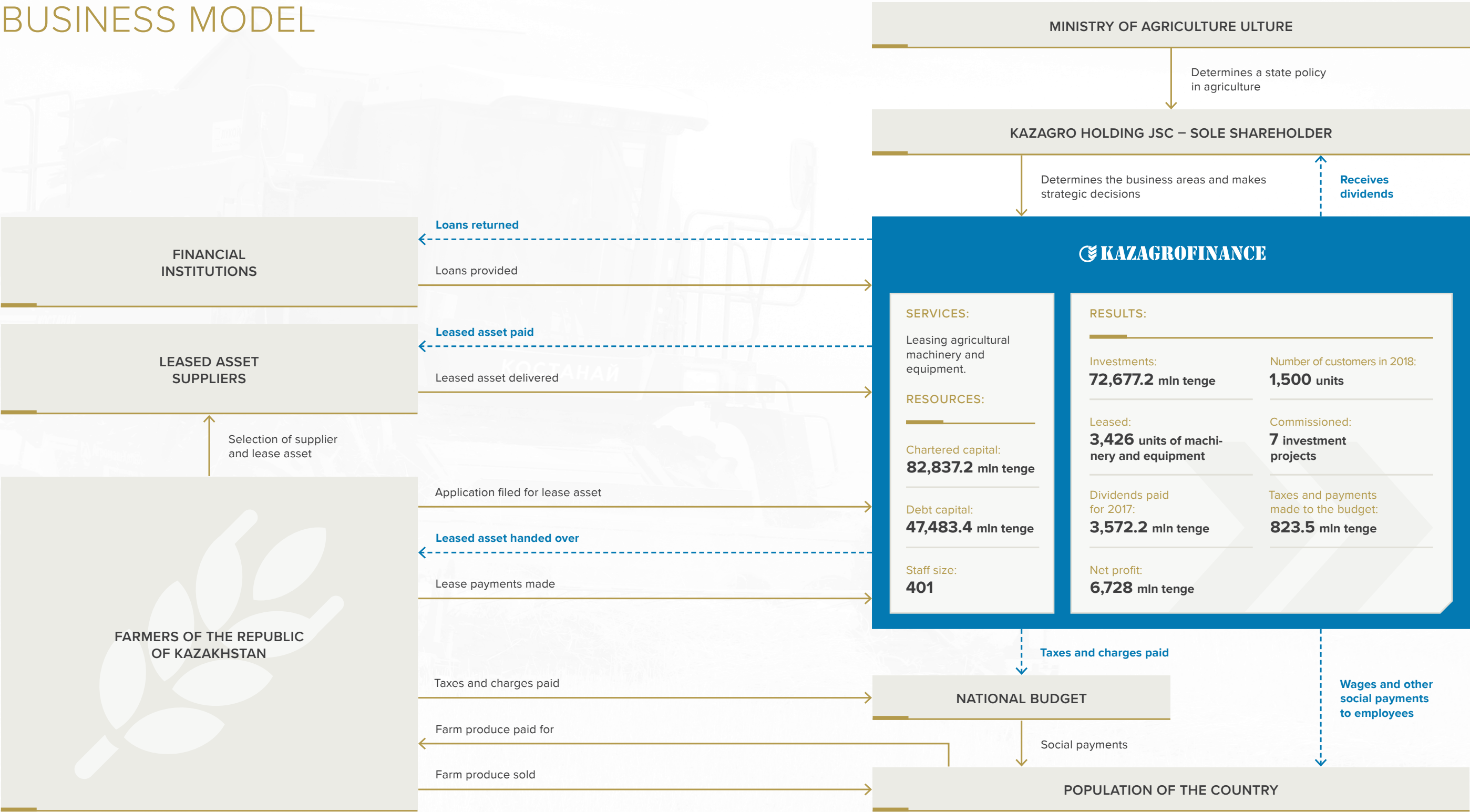
Certified according to ISO 9001-2015 Quality Management Systems.



# COMPANY'S HISTORY



BUSINESS MODEL





BUSINESS AREAS

FINANCING LEASE PROJECTS

1.



-  Agricultural machinery with no installation required
-  Vehicles to transport farm and fish produce, and biologic assets
-  Special machinery (for farming purposes)
-  Railway carriages to transport grain and other types of farm produce

WORKING CAPITAL FINANCING AS PART OF PREVIOUSLY FINANCED PROJECTS



2.

SPECIAL LEASING PROGRAMS



“HARVEST” SPECIAL PROGRAM

-  Harvesters assembled and/or manufactured in Kazakhstan are the lease assets
- 10%** Low advance payment, 10% of the lease asset value
-  You may pay the advance after harvest

“AGROMACHINERY” SPECIAL PROGRAM

-  Agricultural machinery is the lease asset
- %** Preferential interest rate
-  Typical application review procedure



“YOUR OWN FEED” SPECIAL PROGRAM

-  Agricultural fodder production machinery for lease
- 10%** Low advance payment, 10% of the lease asset value
-  Must have livestock (including on lease)




“EXPRESS LEASING” SPECIAL PROGRAM (APPROVED BY THE DECISION OF THE MANAGEMENT BOARD)

-  Quick decision making within 5 business days without having to confirm income
-  Agricultural machinery up to 100 mln tenge for lease
-  Minimum paperwork (no need for business plan and financial statements)




“MADE IN BELARUS” PROGRAM \*

-  Agricultural and special machinery, vehicles and carriages made in Belarus for lease
- 6%** 6% of the current interest rate reimbursed by Belarus
-  Governmental subsidy option available

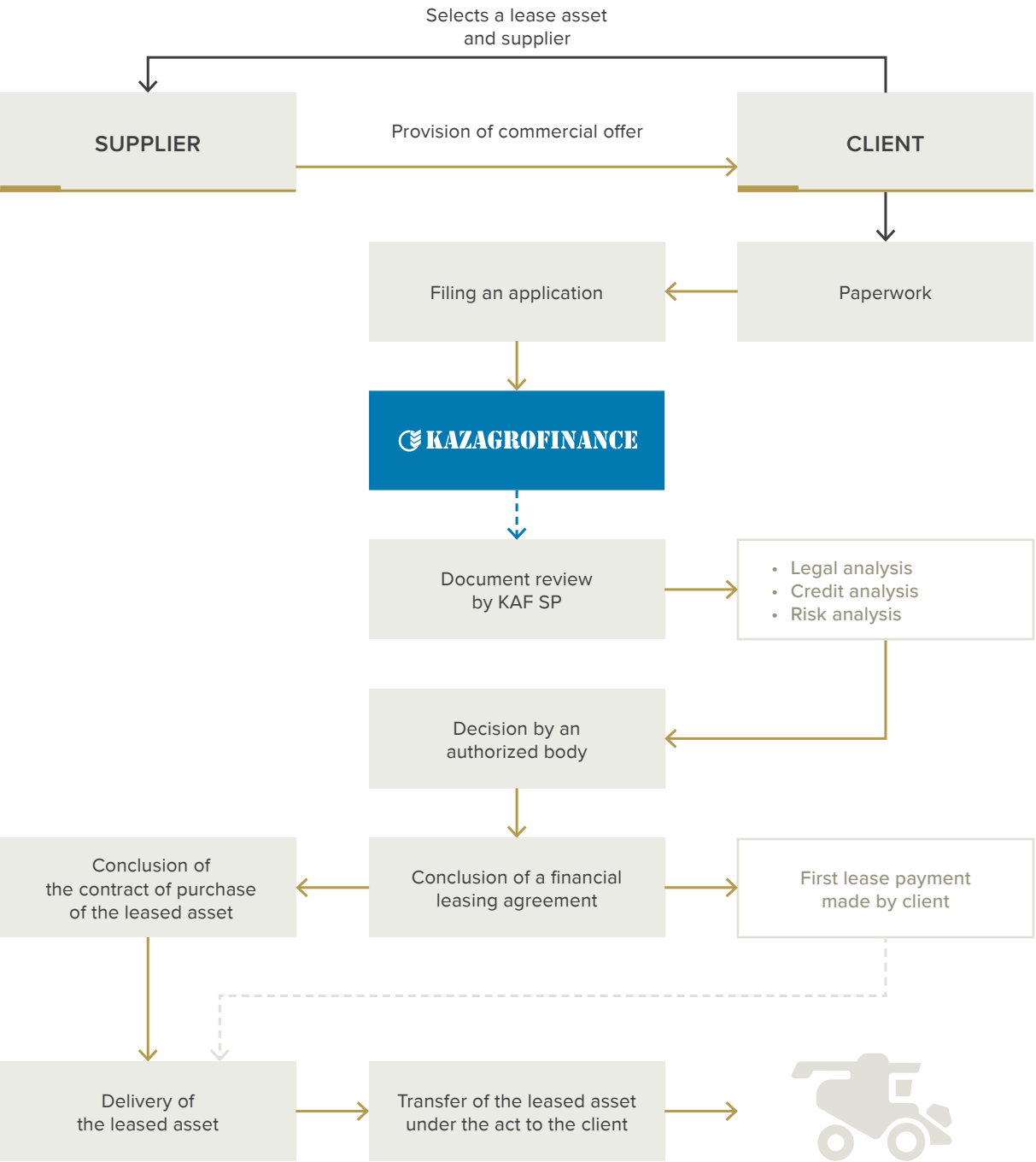
“RELIABLE FARMER” SPECIAL PROGRAM

-  Loyalty program for KAF faithful borrowers
-  Possibility of lease with no advance payment
-  Agricultural machinery up to 100 mln tenge for lease

“MASTER LEASING” SPECIAL PROGRAM (APPROVED BY THE DECISION OF THE MANAGEMENT BOARD)

-  Paperwork collection once a year
-  Lease contracts signed quickly for a product line
-  Client does not have to draw down the entire limit

# LEASING PROCESS



# SUBSIDIZING PART OF THE EXPENSES INCURRED BY THE SUBJECT OF THE AGRO- INDUSTRIAL COMPLEX, WITH INVESTMENT

KazAgroFinance JSC is part of the financing program to reimburse some expenses incurred by a farmer when investing.

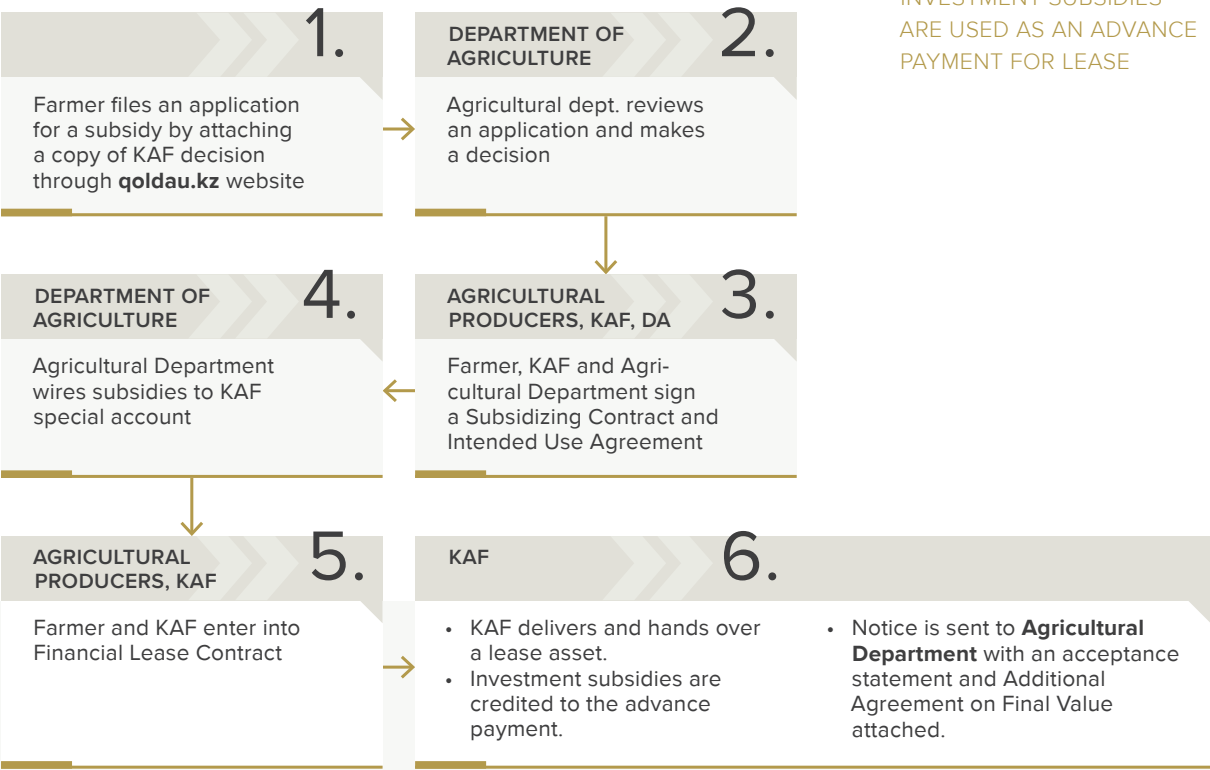
With this type of subsidies, local agricultural producers can provide an advance through investment subsidies when purchasing equipment on lease.

THE SIZE OF INVESTMENT  
SUBSIDIES IS

25%

OF THE MACHINERY VALUE  
INVESTMENT SUBSIDIES  
ARE USED AS AN ADVANCE  
PAYMENT FOR LEASE

## SUBSIDIES OBTAINING PROCEDURE



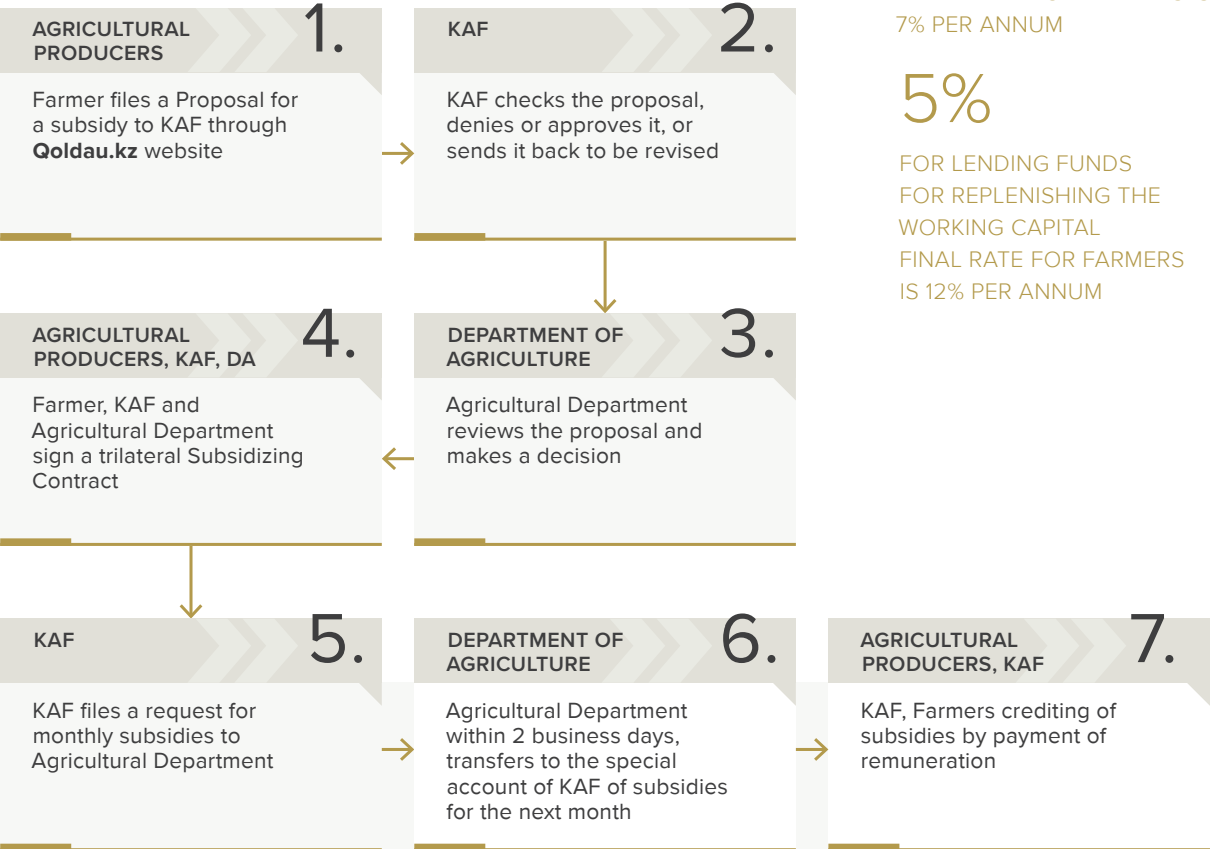


# SUBSIDIZATION OF FEE RATE

KazAgroFinance JSC is part of the financing program to subsidize interest rates on loans, as well as on lease of production equipment and agricultural machinery.

Subsidization of fee rate allows farmers to save thanks to the rate of 10% per annum being subsidized.

### INTEREST RATE SUBSIDIES



# BUSINESS PROCESS OPTIMIZATION

KazAgroFinance JSC continues working on improving business processes. It accomplished the following things in 2018:

- created the flow chart of primary business processes in lending and leasing operations, starting from receipt of applications and review of projects, acquisition of lease assets, all the way to distressed debt handling processes;
- approved the new Lease Assets Acquisition Rules, which will help maintain timely deliveries of high-quality lease assets that meet customer needs. The document fully governs how to acquire lease assets, from the point of planning an acquisition, generating a supplier database to the instance of delivery and handover of lease assets to farmers;
- in order to improve the quality of the loan portfolio, and to reduce non-performing assets, KazAgroFinance updated the Distressed Debt Handling Rules. The document fully describes the processes and tools used by structural units to make sure the Company returns funds generated from debtor's unfair business;
- in order to facilitate the monitoring of lease assets and to enable remote monitoring of lease assets, the Company has designed an app to track and inventory lease assets in the online mode – Lease Assets Monitoring. Apps are available on the Google Play Market and the App Store and are available for download and installation on users' smartphones;
- in order to simplify procedures for monitoring the financial condition of borrowers, as well as to reduce the burden on clients to provide documents, amendments were made to the regulations for Project support. The frequency of inspections of legal entities was reduced to 1 time per year, the criteria for selecting borrowers for annual extended monitoring of projects were revised. In order to take timely measures in case of loss of leased items, additional control procedures have been established within the framework of monitoring of the leased item;
- in order to facilitate an application review process, the Company has enhanced "the Express-Leasing" program. The updated program – based on the scoring analysis – makes it possible to make a decision on the client's application as soon as possible and enables an equipment purchase option without a need for income confirmation, with no collateral and additional fees required. The client is not required to provide financial statements, a business plan, debt statements from banks and tax authorities;
- the Company endorsed a new product line for customers, including the special programs such as "Reliable Farmer" (equipment for lease with no advance payment for bona fide borrowers), "Your Own Feeds" (advance payment reduced for leasing of forage machinery), "Master Leasing" (updated and improved conditions), Express Leasing (simplified procedures) and changes to the standard terms of financial leasing.

# SUPPLIER MANAGEMENT

The choice of the lease asset and the supplier is up to a client in accordance with the Law of the Republic of Kazakhstan “On Financial Leasing”.

After a leasing program has been selected, a client collects all the documents required to apply for funding.

The required paperwork is thoroughly checked by the Company’s expert divisions to see if it complies with the requirements and risk assessment for the project.

In order to mitigate risks, the Company sets forth a number of requirements for the client, lease asset and the supplier:

Client requirements	Lease asset requirements	Supplier requirements
<ul style="list-style-type: none"><li>• Positive business reputation</li><li>• Positive credit history</li><li>• Highly professional management</li><li>• Retrospective and projected solvency</li><li>• Project with a good profit margin and payback period comparable to project financing timeline.</li></ul>	<ul style="list-style-type: none"><li>• Must be new and not previously out-of-operation</li><li>• Must meet the requirements of technical regulations</li><li>• Must be delivered into Kazakhstan</li><li>• Must have a quality certificate</li><li>• Must be supported with technical documents and warranty.</li></ul>	<ul style="list-style-type: none"><li>• Must have certificates/licenses required for production and/or sale of machinery</li><li>• Professional qualification and experience of at least 6 months</li><li>• Warranty and post-warranty maintenance</li><li>• No outstanding obligations to the Company</li><li>• Absent from the register of unfaithful participants of public procurement and the list of non-bona fide suppliers.</li></ul>

The supplier-related requirements are the same for all and are posted on the Company’s website, which makes it easier for suppliers to interact with the Company.

For the convenience of searching for the right suppliers, the Company’s corporate website [www.kaf.kz](http://www.kaf.kz) has an automated database of suppliers of agricultural machinery, equipment and cattle with which the Company has experience of cooperation.

The company requests package of documents from a potential supplier, including charter documents,

registration documents and documents entitling a right to sell certain lease assets and an ability to provide warranty and after-sales service.

The submitted documents are carefully checked by the structural units of the Company for the presence of information of a negative nature, compliance with the requirements of the legislation and the adequacy of the value of the leased asset.

After a positive decision on the project is awarded and a financial

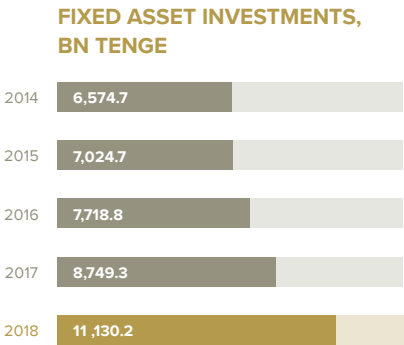
leasing agreement is signed, measures are taken to enter into a lease asset acquisition contract.

Then the supplier delivers a lease asset, and the Company accepts a lease asset, pays a supplier and transfers it to a lessee. Logistics of the lease asset, customs clearance and other delivery issues are handled by the Company’s employees, which simplifies the process for lessees as much as possible.

# OPERATING AND FINANCIAL RESULTS OF ACTIVITY

In 2018 the Company managed to reach sustainable growth for all primary indicators.

# MACROECONOMIC REVIEW

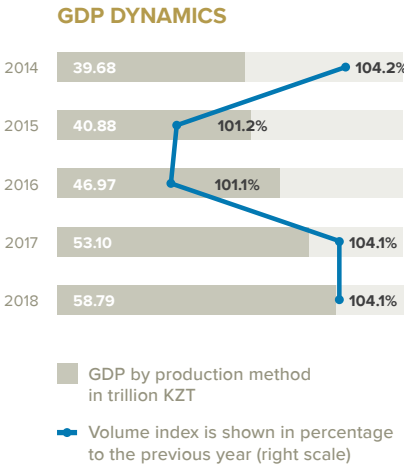


The volume of gross domestic product in January – December 2018 (according to the immediate data of the Statistics Committee of the MNE RK) reached 58.8 trillion tenge and increased by 4.1% in real terms compared to the corresponding period of the previous year.

Inflation in 2018 was 5.3% versus 7.1% a year earlier. In 2018, food prices grew by 5.1%, non-food prices — by 6.4%, and the price for services — by 4.5%.

According to KASE, the dollar exchange rate in 2018 increased by 15.6% and amounted to 384.2 tenge per dollar by the end of the year.

Investments in fixed assets, according to the Statistics Committee of the MNE RK, increased in 2018 by 17.2% (5.5% in 2017) and amounted to 11.1 trillion tenge. Investments in agriculture amounted to 395.6 billion tenge and increased by 14.2% by 2017.



395.6  
BN  
TENGE

INVESTED IN AGRICULTURE  
AND HAVE GROWN TO 14.2%  
BY 2017



# INDUSTRY PROFILE

## AGRIBUSINESS REVIEW

Gross output of production (provision of services) in agriculture, forestry and fisheries in January – December 2018 nationwide amounted to 4.4 trillion tenge, which is 3.4% higher than 2017. The growth has been driven by an increase in crop production by 3.1%, the volume of live weight slaughter of livestock and poultry by 4.3%, cow milk yields by 3.3%, and an increase in the number of eggs by 9.6%. The growth in farm produce in January – December 2018 as compared to 2017 was noted across 13 regions of the country.

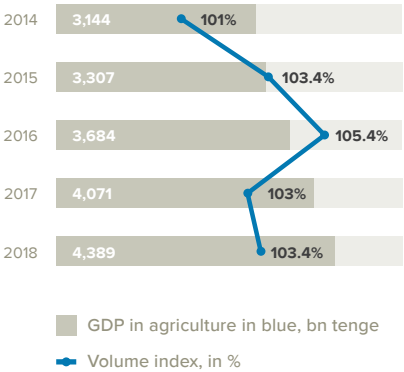
Within the framework of the President’s Address to the people of Kazakhstan dated January 10, 2018 “New Opportunities for Development under the Fourth Industrial Revolution, the objective has been to increase labor productivity in the agrosector and export of processed farm produce by at least 2.5 times over a 5-year period.

These goals are to be achieved, among other things, by a higher level of equipment capability and intensified production in the agro-industrial complex.

9,5  
THOUS.  
UNITS

EQUIPMENT PURCHASED BY  
AGRICULTURAL PRODUCERS  
OF THE REPUBLIC IN 2018

### OUTPUT DYNAMICS IN AGRICULTURE



EQUIPMENT CAPABILITY BOOSTS IN THE FARMING SECTOR WILL BE ENABLED BY INCREASING THE AMOUNT OF PURCHASED EQUIPMENT AND THE DEVELOPMENT OF DOMESTIC AGRICULTURAL MACHINERY ENGINEERING BASED ON A GRADUAL INCREASE IN LOCALIZATION OF PRODUCTION.

In 2018 farmers nationwide purchased 9.5 thousand units of equipment for a value of 136.0 billion tenge (in 2017 – 8.5 thousand units of equipment for a value of 103.2 billion tenge).

### MAIN TYPES OF MACHINERY, THOUSAND UNITS

Machinery type	1 Jan 2016	1 Jan 2017	1 Jan 2018	1 Jan 2019
Tractors	152.0	152.6	148.3	147.3
Seed planters	86.1	85.5	80.8	79.5
Harvester-threshers	42.0	41.5	40.0	38.5
Reaper machines	15.6	5.0	15.0	14.9
Sowing machines	3.5	3.6	3.7	3.9

70%

MAIN TYPES OF  
AGRICULTURAL EQUIPMENT  
HAVE A USEFUL LIFE OF  
MORE THAN 10 YEARS

The main types of farming machinery in Kazakhstan are tractors, grain headers, sowing complexes, sowing machines, seeders and reapers. More than 70% of them have gone beyond a service life of over 10 years. Given 10–12 years of machinery’s average depreciation period, we may conclude that the actual service life of machinery is beyond standard limits by 3–10 years. Renewal rates for the main types of agricultural machinery (except for sowing machines) – while the required renewal rate is 10–12.5% per year – make up about 0.5–3% for different types of equipment.

Thus, an important challenge for the farming industry is still an equipment capability of farmers. Old technologies and an outdated agricultural machinery fleet hinder the growth of labor productivity and production rates. The use of worn-out equipment leads to increased costs of fuel and spare parts, product losses and lower quality, equipment downtime due to malfunctions and other negative implications. Yet the development of technical capabilities and the introduction of global practices require significant financial investments. The issue of resource availability in order

to boost equipment capabilities of agricultural producers is to be addressed by KazAgroFinance JSC.

LEASING MARKET

Leasing is an effective tool for upgrading fixed assets and is actively used in world practice. In Kazakhstan, the leasing market is still at an early stage of development, distinguished by a relatively small number of participants (about 30 active companies), small volumes and number of transactions.

The survey of leasing businesses – which is done by the Statistics Committee of the MNE RK – has found that in 2018 the total value of financial leasing contracts amounted to 175.3 billion tenge and decreased by 21.8% compared with 2017. The most attractive industries were agriculture, forestry and fisheries – 43.5% of the total value of financial leasing contracts; transport and warehousing – 28.6%, mining and quarrying – 7.8%. As far as the sources of financing in 2018, the funds raised account for the largest share – 60.1%. The current lease portfolio amounted to 478 billion tenge. Based on this, the share of KazAgroFinance in the total current portfolio of leasing companies is about 40%.

TOTAL VALUE OF FINANCIAL LEASE CONTRACTS, BN TENGE



The main factors hindering the market development could feature the low awareness of potential clients about the possibilities of this type of financing and the problems of funding for leasing companies. To a large extent, in recent years lease financing in Kazakhstan has been developing through governmental economic support programs.

It is agriculture in which leasing is the most needed thing. This is partly due to the fact that commercial banks are unwilling to lend to the industry, seeing it as a high-risk sector with a lengthy production cycle so inconvenient for a lender. In addition, the need for lease financing is made even stronger by a number of its features so attractive to farmers:

- more flexible conditions and lease financing schemes. Applying for a lease, for example, requires no additional collateral, since a lease asset acts as collateral itself;
- leasing businesses that specialize in agricultural leasing, adjust their conditions to the nature of agribusiness. For example, KazAgroFinance offers a flexible schedule for principal debt repayment that factors in seasonal field and harvesting activities, that is, principal debt is paid once a year after harvest. The lease financing schedules are extended, which is convenient for farmers, as their projects often imply long-term payback;
- tax preferences are another advantage in favor of a lease financing mechanism.

478  
BN  
TENGE

CURRENT LEASING PORTFOLIO OF KAZAKHSTAN

According to the data, as of early 2019 the minimum financing rate offered in the leasing market was 5%, the maximum was 19%, the advance security ranged from 10% to 30%, the minimum lease term was 3 years, and the maximum was 19 years.

Currently, the target program for agricultural machinery and equipment is offered only by four players in the leasing market: KazAgroFinance JSC, DBK Leasing JSC, Leasing Group JSC and TechnoLeasing LLP. Kazakhstan Ijara Company (KIC Leasing) JSC is developing a special program for the leasing of agricultural machinery and equipment. The remaining leasing companies finance this type of product under the “Special Machinery and Equipment” program.

The most acceptable financial leasing terms in early 2019 were offered by a group of companies that operate under state programs or are participants in a state program that provides subsidies to agricultural producers. These are Leasing Group JSC, TechnoLeasing

LLP, KazAgroFinance JSC and DBK Leasing JSC. Today these have offered rates of 7% and more, their terms of financing are on average from 3 to 10 years.

DBK Leasing and KazAgroFinance offer the most acceptable financing conditions in the leasing market: a long leasing term and flexible conditions for customers under various product programs.

The lowest interest rate, 7%, was proposed by DBK Leasing JSC under the Business Road Map 2020, a business support and development program. Since 2018, DBK Leasing has been an operator of the Lease Financing Program for the Machinery and Tractor Fleet in an effort to support domestic manufacturers of agricultural machinery (CeMaz, AgroMashHolding, Vector Harvester Plant).

TechnoLeasing LLP is a full-fledged player in the leasing services market of Kazakhstan and holds strong competitive positions in the main market segments, and is one of the top largest leasing companies in Kazakhstan. To support a governmental effort to manage the development of the agro-industrial complex and rural areas, TechnoLeasing offers farmers subsidies on an interest rate on equipment leases.

Leasing Group JSC offers agricultural equipment produced by KazTechMash LLP, Ural LTD and Petersburg Tractor Plant JSC, as well financing of interest rates under the Business Roadmap 2020 program, and ability to

KAZAGROFINANCE JSC IS THE MAIN PLAYER IN THE MARKET OF AGRICULTURAL MACHINERY LEASING WITH A SHARE OF OVER 90%.

apply for investment subsidies that would enable farmers to get reimbursements for a part of the investments costs incurred by them.

Thus, the leaders of the leasing market are still companies that have preferential conditions for financing and a fairly extensive experience in this field.

Companies that are not participating in state programs offer a shorter financing term from 3 to 7 years with an interest rate from 15% to 18%. For example, NUR LEASING offers an interest rate of 18%, while an advance security is the highest and equals to 30% of the amount of the lease asset.

Within this group of companies, the most acceptable terms are offered by a subsidiary of Halyk Bank of Kazakhstan, Halyk LEASING, with a rate of 15%, an advance of 10%, for a term of 5 years.

The Islamic lease programs – which have become popular in recent years – have been offered by Kazakhstan Ijara Company JSC (KIC Leasing) and Al Saqr Finance JSC (assignee of SK Leasing JSC). The financing terms are not very different from the typical ones; the difference is an individual approach to each client in setting the interest rate and repayment schedule. In addition,

these companies participate in the program that subsidizes a part of the rental payment and profit rates.

Thus, it should be noted that state programs to support the economy continue to have a significant impact on the leasing industry, primarily in agriculture, manufacturing industry, small and medium businesses. Governmental support is often provided through lease financing.

The main competitors of KazAgroFinance JSC are those leasing companies that operate under state economic support programs, as well as those operating under Islamic lease programs.



PEST-ANALYSIS

Below is an analysis of key political, economic, social and technological considerations that may directly or indirectly influence the Company's business.

	OPPORTUNITIES	THREATS
POLITICAL FACTORS	<ul style="list-style-type: none"><li>• <b>State's targeted policy to develop agriculture.</b> Pursuant to the President's Address, the objective is to increase by 2.5 times productivity and export of processed farm products by 2022. The state agricultural development program was updated in order to maximize the coverage of farmers with state support and the development of rural entrepreneurship. In the next 3 years at least 100 billion tenge will be allocated for these purposes annually.</li><li>• <b>Participation of Kazakhstan in the Eurasian Economic Union.</b> Domestic farmers have the opportunity to enter the joint market of the countries participating in the Eurasian Economic Union.</li></ul>	<ul style="list-style-type: none"><li>• <b>Reliance on public policy.</b> Extensive government regulation creates a dependency mentality among domestic agricultural producers.</li><li>• <b>Potential imposition of certain types of sanctions by the United States and other countries.</b> Close cooperation between Kazakhstan and the Russian Federation threatens Kazakhstan with the effect of certain types of anti-Russian sanctions.</li></ul>
ECONOMIC FACTORS	<ul style="list-style-type: none"><li>• <b>Annual GDP growth.</b> The nationwide gross output of products (services) in agriculture, forestry and fisheries in January – December 2018 amounted to 4 410.1 billion tenge, which is 3.4% higher than 2017.</li><li>• <b>Sufficient availability</b> of agricultural land, a sustainable resource base.</li><li>• <b>Governmental subsidies for the industry.</b> In accordance with the rules for reimbursement of a part of investment expenses incurred by a farming business, the state shall subsidize investments and a part of farmers' interest rate.</li><li>• <b>Favorable investment and business climate.</b> Investments in agriculture, forestry and fisheries in January – December 2018 increased by 14.2% compared with the previous year and amounted to 395.6 billion tenge.</li></ul>	<ul style="list-style-type: none"><li>• <b>Instability</b> of external and internal prices for equipment, fertilizers, feed, vet drugs and energy, which drive a farmer's success.</li><li>• <b>High risks in agriculture.</b> Weather conditions, product quality, decline in world and domestic prices for products, limited sales markets, complex logistics of export routes.</li></ul>

	OPPORTUNITIES	THREATS
SOCIAL AND DEMOGRAPHIC FACTORS	<ul style="list-style-type: none"><li>• <b>Main farm produce consumption trends across the population</b> driven by popularization of a healthy lifestyle, healthy food, organic products and a large share of rural communities.</li><li>• <b>Permanent demand for farm produce</b> amidst increasing population paves the way for the long-term growth trend in the farming sector with a focus on the production and sale of organic agricultural products.</li><li>• <b>High level of education.</b> This factor is important as it provides businesses with highly qualified specialists. Kazakhstan has state agricultural universities that yield specialists ready to work at agricultural business in various fields.</li><li>• <b>The emphasis of the state on the development of rural entrepreneurship.</b> The Presidential Address pushes for a mass training program for rural entrepreneurs that integrates new business skills. In addition, the "Auyl-Yel Besigi" program offers a measure to ensure the availability of small business loans in rural communities.</li></ul>	<ul style="list-style-type: none"><li>• <b>Low income.</b> The average monthly wage of agricultural workers shows a weak growth trend from year to year.</li><li>• <b>Outflow of rural population.</b> According to the Statistics Committee, there has been a negative rural migration balance within the country.</li><li>• <b>Seasonality.</b> Different seasons require a different amount of labor. This means an uneven need for labor. The active season employs 1.4 million people, while the rest of the year employs about 1.2 million people.</li></ul>
TECHNOLOGY FACTORS	<ul style="list-style-type: none"><li>• <b>Introduction of new technologies and innovations encouraged by the state.</b> The state promotes the digitization of agricultural and innovative technologies at farming businesses, the process automation, as well as research.</li><li>• <b>Increasing the level of manufactorability</b> of domestic farming businesses may lead to an increase in demand for agricultural producers.</li></ul>	<ul style="list-style-type: none"><li>• <b>Physical infrastructure and capabilities.</b> More than half of farming machinery and equipment in use is outdated. According to the Ministry of Agriculture of the Republic of Kazakhstan, lifetime of numerous tractors and harvesters in possession by farmers is more than 10 years.</li><li>• <b>Backwardness of domestic agricultural machinery engineering and reliance on foreign technologies.</b> The lack of modern technologies adapted to the climatic and geographical conditions of Kazakhstan.</li></ul>

SWOT-ANALYSIS

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"><li>• Extensive expertise in lease and lending for the farming sector.</li><li>• High competence in delivering lease services and qualified workforce.</li><li>• Broad network of branch offices across the country.</li><li>• Coherent partnerships with domestic and global manufacturers of agricultural machinery and equipment.</li><li>• High level of corporate governance of the Company.</li><li>• An effective integrated risk management system of the Company.</li><li>• Recognizable brand for agricultural producers.</li><li>• Positive client dynamics</li><li>• Diversified portfolio of funding sources and significant experience in raising funds in the domestic and international markets.</li></ul>	<ul style="list-style-type: none"><li>• Concentration of the loan portfolio in one sector of the economy.</li><li>• High interest rate on lease products due to lack of budget funding.</li><li>• Insufficient level of automation of the leasing process.</li></ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"><li>• Higher state support for the farming sector, including for the machinery and tractor fleet.</li><li>• Unaddressed needs in the renewal of agricultural machinery and equipment, respectively, the possibilities for increasing investment.</li><li>• Significant numbers of farmers not covered by the Company services.</li><li>• The brand of KazAgroFinance getting stronger and positioning itself as the best partner for farming businesses in the renewal of agricultural machinery and equipment.</li><li>• Application review processes getting better, including a transition to online response to lease applications.</li></ul>	<ul style="list-style-type: none"><li>• Inadequacy of funds allocated for state subsidies to reimburse investment costs and/or interest rates on loan products in the field of agriculture.</li><li>• Increase in the number of leasing companies, competitors with more favorable leasing terms coming into play.</li></ul>

STRATEGY IMPLEMENTATION

POSITIVE RESULTS WERE ACHIEVED ON KEY PERFORMANCE INDICATORS AT YEAR-END WITH THE TIMELY IMPLEMENTATION OF THE OPERATIONAL PLAN.

KazAgroFinance Development strategy for 2017–2026 has identified three areas for strategic development with specific goals, 10 objectives and 7 KPIs.

In accordance with the KazAgroFinance Strategic Planning and Monitoring Rules to Ensure the Achievement of Goals and to Follow up on the Effective Delivery of the Development Strategy objectives, the Company developed an Operational Action Plan for 2018.

STRATEGIC AREA

INCREASING INVESTMENT PROSPECTS

OBJECTIVE 1. TO INCREASE THE QUALITY OF A LOAN PORTFOLIO

In order to improve the quality of the loan portfolio by updating the internal regulatory documents, the following efforts were taken:

- Amendments have been made to the Project Support Rules. The Company reduced a frequency of due diligence on legal entities to one time a year, and revisited the

1.

Goal: boosting long-term shareholder value of KazAgroFinance JSC by increasing the profit margins of operations while maintaining an acceptable level of risk.

KPI	2017	2018		2019	2026
	(actual)	(target)	(actual)	(target)	(target)
ROA, %	1.25	0.87	2.31	1.65	2.33
ROE, %	3.53	2.56	6.43	4.62	6.24
NPL rate, %	16.3	17.0	15.55	16.3	11.0



criteria for selecting borrowers that would undergo extended monitoring of their projects. Additional control procedures were introduced in order to take prompt measures in response to loss of lease assets;

- KazAgroFinance updated the Distressed Debt Handling Rules. The document fully describes the processes and tools used by structural units to make sure the Company returns funds generated from debtor's unfair business;
- KazAgroFinance approved the Asset Retirement Rules as part of an effort to design new approaches to projecting credit risk.

Every month the company would track borrowers' payment discipline. As of January 1, 2019, the delivery of the Principal Debt Receipt Plan was 154% – with the target of 34.7 billion tenge, the amounts repaid reached 53.7 billion tenge. In addition, borrowers' financial standing was monitored in the manner prescribed by the internal documents of KAF.

The Company has been continuously working with distressed debt. In 12 months of 2018, the Company collected 5,601.2 million tenge in cash, and sold 357 units of on-lease machinery that had been seized and put on the Company's balance sheet.

**OBJECTIVE 2. TO INCREASE THE EFFICIENCY OF USING EQUITY AND ASSETS.**

In 2018, the Company did more than just well on the return on assets and equity due to increased revenues and reduced costs. At year-end

2018, the Company's net income was more than planned and amounted to 6,728.4 million tenge (the target based on the Development Strategy was 2,617.0 million tenge).

The company continuously monitored counterparty banks' financial indicators, the state of liquidity, whether prudential ratios were met, and bank-related negative news showed up. It should be noted that the Company's funds were not placed in the affected second-tier banks.

In addition, in order to produce additional profits, the Company placed temporarily available cash assets in short-term notes of the National Bank of the Republic of Kazakhstan (for 7, 28 days).

**OBJECTIVE 3. EFFECTIVE BORROWING FUNDS FROM BANKS AND OTHER INSTITUTIONAL INVESTORS.**

The company raises market funding in the form of bank loans, trade and export financing with ECA coverage in different countries, as well as by issuance of debt securities. KAF pursues a policy of diversifying funding sources and investor base. The company enjoys a wide investor base and has been – for many years – actively cooperating with both local and foreign financial institutions as well as with international financial organizations.

In 2018, the Company made a successful offering of two bond issues for a wide range of investors. In October 2018, the Company

announced the debut issue of commercial bonds, followed in November 2018 by the issue of market bonds under the bond program. The two issues helped raise more than 20 billion tenge. Investors include local institutional and foreign investors.

On November 23, 2018, in an effort to engage with investors, the Company hosted the Issuer's Day event in the premises of KASE, where the Company's management met with existing investors and partners, and professional participants of the securities market. Participants of the meetings addressed the Company's financial results for the 11 months of 2018. Guests also visited the projects financed by the Company.

**STRATEGIC AREA**

2.

Purpose: to increase existing clients' loyalty and attract new leads and to increase the total number of clients by 1.5 times by 2026.

**IMPROVEMENT AND DEVELOPMENT OF LEASING SERVICES**

In order to fulfill the strategic lease volume indicator, the Company approved the Agricultural Equipment Financing Plan for 2018 for each quarter and branch office of KAF. The Plan for 2018 was delivered at 125.9% (see details in "Operating results").

**OBJECTIVE 1. INCREASE THE AVAILABILITY OF SERVICES FOR CUSTOMERS.**

In order to make sure there are more services available for clients, the Company worked to help enable competitive financing conditions that meet the capabilities of farmers. In the leasing market today, the Company offers the most appropriate financing terms:

- long lease term (the maximum term of financing is 10 years, which is above the average term of 2.2 years for the market);
- flexible conditions for customers under various product programs ("Reliable Farmer" – a client needs no advance payment for lease; "Your Own Feeds" – advance payment has been reduced for leasing forage machinery; "Master Leasing" – a client gets a credit line for a year which enables a client to purchase equipment on

KPI	2017	2018		2019	2026
	(actual)	(target)	(actual)	(target)	(target)
Number of existing service users	6,548	6,747	6,967	7,214	9,221
Amount of machinery and equipment leased	40.2	50.0	63.0	62.0	81.9
Availability of services and customer satisfaction	73.87	73.7	77.9	74.3	88.8

- lease without having to undergo repeated paperwork trouble;
- "Express-leasing" – a client does not need to confirm income to purchase equipment on lease, and enjoys a minimum period for an application to be considered);
  - availability of a grace period (clients are given the opportunity to pay remuneration and principal debt at the end of the year from the date of conclusion of the contract);
  - there is no need for an additional security – one of the main advantages of the Company's lease products;
  - there are no fees for consideration and organization of financing.

In 2018, the Company hosted a roundtable: "Technical Upgrade – the Basis for Growth in the Agro-Industrial Complex" attended by representatives of the Ministry of Agriculture of the Republic of Kazakhstan, Atameken Chamber of Entrepreneurs, KazAgro Holding, the main farmers' unions, over 100 farmers nationwide, and over 30 manufacturers and suppliers of equipment.

The participants discussed challenges relevant for both farmers and suppliers of agricultural equipment. The event was highly appreciated by the Ministry of Agriculture, KazAgro Holding, unions and other visitors.

In the reporting year, the Company took part in specialized agricultural exhibitions and forums: AgriTek Astana-2018, KazFarm-2018, AgritekShymkent-2018, Agroforum-2018, Field Day and others. In order to make sure the Company becomes more recognizable, publications covering the most significant events in the Company’s business were posted in the national and regional media throughout 2018.

OBJECTIVE 2. IMPROVE THE QUALITY OF LEASING SERVICES.

In order to improve the services, the Company adopted a customer-oriented standard for the Company’s employees. “My Client” guideline was designed in order to prescribe a uniform procedure for interacting with a client during consultations and the receipt of applications, as well as during the review of

applications and requests to the Company.

In order to assess availability of services and customer/non-customer satisfaction, each year an independent company conducts a survey (500 respondents, including 418 customers). An independent study found that the overall level of satisfaction with the Company’s services was 93.0%.

Each quarter KAF makes sure if application processing times are at an allowed level.

In order to assure quality of the lease assets, the Lease Assets Monitoring system has been deployed on the Company’s server (mobile app), which was tested and now commissioned. Apps are available on the Google Play Market and the App Store and are available for download and installation on users’ smartphones.

OBJECTIVE 3. EXPAND AND DEVELOP THE COMPANY’S PRODUCT LINE.

In an effort to expand and develop the product line, the Company conducted a survey in the regions to study the need for agricultural machinery and equipment in the context of types. The Company prepared summary tables of the main agricultural indicators, which included farm land availability figures, number and size of farming businesses (owner-operated farms), identity and specialization of regions by type of crops. This information was used to design new product programs, as well as to identify the target indicators for the regions in the Spending Plan for 2018.

STRATEGIC AREA

CORPORATE DEVELOPMENT

In the strategic area of corporate development in 2018, KazAgroFinance delivered measures aimed at improving the corporate governance system. In addition, after the analysis of the delivery of the Corporate

3.

Purpose: to improve KazAgroFinance’s system of corporate governance.

KPI	2017	2018		2019	2026
	(actual)	(target)	(actual)	(target)	(target)
Level of corporate governance	85.9	84.2	89.7	85.0	91.5

Governance Improvement Action Plan for 2016–2020 and the recommendations yielded by independent screening of corporate governance in 2017, in December 2018 the Company designed and approved a new Action Plan to improve the corporate governance system aiming for 2019–2021.

OBJECTIVE 1. FOLLOW THE PRINCIPLES OF CORPORATE GOVERNANCE.

In its aspiration to introduce the principles of corporate governance, in 2015 the Company designed and endorsed – through the decision of the Sole Shareholder – the Corporate Governance Code of KazAgroFinance JSC, which sought to adhere to six fundamental principles: the principle of protecting the rights and interests of the Sole Shareholder, the principle of effective management of the Company by the Board of Directors and the Management Board, the independent operations principle, the principle of transparency and objectivity of disclosures about the Company’s business, legality and ethics principle, and the principle of accountability to stakeholders.

On February 12, 2019 (Minutes No. 1), the Board of Directors reviewed the report on KazAgroFinance’s compliance with the Corporate Governance Code at year-end 2018. According to the adopted report in 2018, out of 6 fundamental principles, 5 principles were fully observed, 1 principle was partially observed.

OBJECTIVE 2. . IMPROVE THE EFFICIENCY OF THE BOARD OF DIRECTORS AND IMPROVE THE

INSTITUTE OF INDEPENDENT DIRECTORS.

The Corporate Governance Improvement Action Plan for 2016–2020 seeks to undertake a comprehensive assessment of how the Board of Directors and its members operate, which would also include an evaluation of required qualifications of directors.

In accordance with the best corporate governance practices, in 2018 the Company ordered an independent screening of corporate governance and an assessment of the effectiveness of the Board of Directors at year-end 2017. Expert RA Kazakhstan Rating Agency LLP was the one who delivered the screening. The screening assigned KAF a Corporate Governance Rating of 7 (“Developed practice of corporate governance”). Rating assessment has been maintained throughout the year since the rating was assigned.

In assessing the work of the Board of Directors, the rating agency analyzed internal documents regulating the Board of Directors, including the Regulations on the Board of Directors and its committees, and analyzed the frequency and form of the BoD meetings. This also included surveying and interviewing members of the Board of Directors, corporate secretary, heads of the Risk Management Department and the Internal Audit Service.

The screening’s final statement indicates that “the Company complies with the requirements of Kazakhstan’s corporate governance legislation and follows certain recommendations of best practices in corporate governance. The company is characterized by low risk of owners’ losses associated with the quality of management”.

OBJECTIVE 3. DEVELOP THE INSTITUTE OF PLANNING SUCCESSION OF EXECUTIVES AND A PRODUCTIVE SYSTEM FOR EVALUATING THE COMPANY’S MANAGEMENT BOARD AND ITS EMPLOYEES.

The company undertook a number of activities in order to develop the institute for planning the succession of senior positions and a productive evaluation system for the Management Board of KazAgroFinance (Management Board) and the Company’s employees.

The Rules of Planning Succession of Executive Positions (members of the Board) are in a development stage.

Based on contracts with the Samruk-Kazyna Corporate University, some work was delivered on strategic management issues (grading of executive and management positions).

The methodology for evaluating the Company’s IAS was approved by the Board of Directors on February 14, 2018. The provisions on the terms of compensation, bonuses and social security of the Chairman, members of the Board, corporate secretary, Compliance Service and KAF employees will be adjusted after the grading system is introduced.

OBJECTIVE 4. INCREASE THE TRANSPARENCY OF THE COMPANY’S BUSINESS.

Information on KazAgroFinance’s corporate activities is posted by the designated structural division as one-stop shop on external web-resources, including the websites of the Kazakhstan Stock Exchange, the Depository of Financial



Reporting, and the official website of KazAgroFinance [www.kaf.kz](http://www.kaf.kz) and the portal of “KazAgro” Holding [www.kazagro.kz/kaf](http://www.kazagro.kz/kaf).

The company followed all the recommendations and updated information on the websites for 2018 according to KAF’s Corporate Governance Improvement Plan for 2016–2020, and, specifically, published and updated the following information:

- posted a report on KAF’s compliance with the Corporate Governance Code on the website;
- updated information on KAF’s corporate governance practice and on the policies and practices of Company’s corporate social responsibility;
- posted a report on KAF’s related party transactions, which includes information on the nature of the relationship between the parties to the transactions;

- on a quarterly basis, an updated list of insiders was placed on the Kazakhstan stock exchange.

In addition, at the AEF held on May 16–17 this year the Company was awarded a diploma for its contribution to the introduction of world transparency standards in Kazakhstan in 2018 and ranked 11th in the transparency rating of the 100 largest companies in Kazakhstan.

# OPERATING RESULTS

THE COMPANY’S MAIN ACHIEVEMENTS IN 2018:

➤ 72.7 BN TENGE

INVESTED IN THE DEVELOPMENT OF THE AGRO-INDUSTRIAL SECTOR

➤ 2,773 FINANCING CONTRACTS

CONCLUDED WITH FARMERS



➤ 3,426 UNITS  
OF MACHINERY AND EQUIPMENT LEASED OUT FOR A VALUE OF

➤ 63.0 BN TENGE

➤ 1,500 CUSTOMERS FINANCED

➤ CORPORATE GOVERNANCE RATING INCREASED  
BY 4%  
COMPARED WITH THE PREVIOUS YEAR

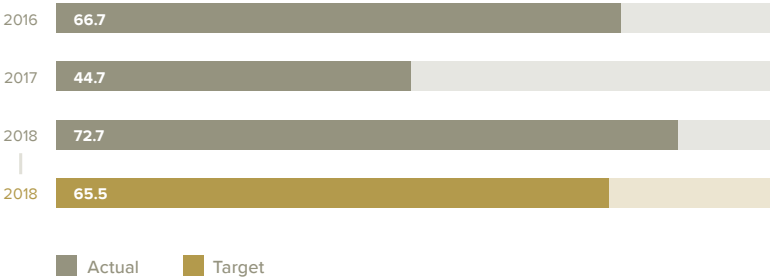
➤ IN 2018, THE COMPANY RECEIVED THE GREATEST NET INCOME IN ITS ENTIRE HISTORY, WHICH WAS  
6,728.4 MLN TENGE

➤ CUSTOMER SATISFACTION WITH THE COMPANY’S SERVICES WAS  
93%

AT THE VIII CONTEST OF ANNUAL REPORTS ORGANIZED BY EXPERT RA KAZAKHSTAN, KAZAGROFINANCE’S ANNUAL REPORT WAS RECOGNIZED AS THE BEST IN THE FINANCIAL SECTOR, AND ALSO RANKED 9<sup>TH</sup> AMONG ALL PARTICIPANTS OF THE CONTEST (OVER 100 COMPANIES).



AMOUNT OF INVESTMENTS IN 2000-2018, BN TENGE



694.6  
BN  
TENGE

THE TOTAL AMOUNT  
OF INVESTMENTS  
IN 2000-2018

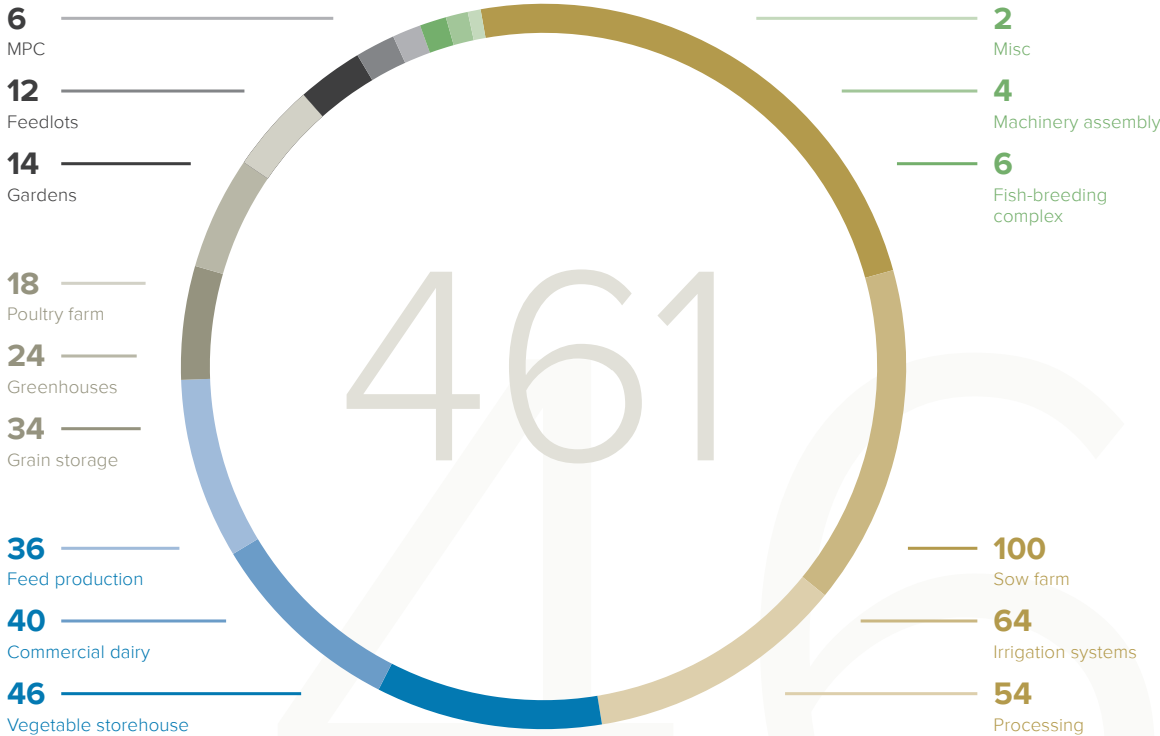
LEASE OF FARMING MACHINERY IN 2000-2018, IN UNITS AND SUMS

Equipment	2016		2017		2018		2000–2018	
	Units	Amount	Units	Amount	Units	Amount	Units	Amount
Sowing machines	56	1,266	31	509	72	1,736	1,256	45,529
Tractors	962	11,963	788	9,432	1,032	15,592	12,715	91,239
Harvesters	490	24,085	283	16,896	495	28,268	10,299	217,301
Seeders	104	2,762	124	1,703	133	2,626	2,179	11,364
Other machinery	1,474	11,724	1,150	7,830	1,550	12,762	15,954	79,414
Equipment	33	3,960	24	3,807	144	1,987	596	58,839
TOTAL	3,119	55,760	2,400	40,176	3,426	62,972	42,999	503,685

IN 2018, THE COMPANY COMMISSIONED SEVEN  
INVESTMENT PROJECTS, INCLUDING:



STRUCTURE OF PROJECTS COMMISSIONED IN 2007–2018



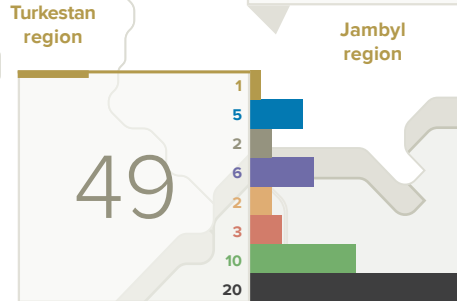
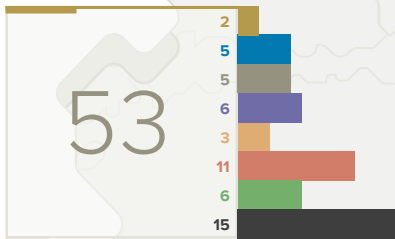
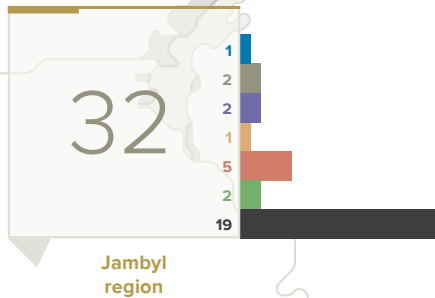
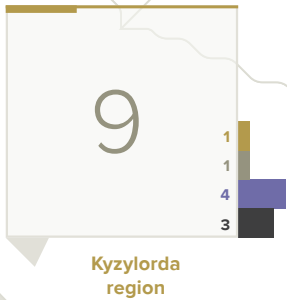
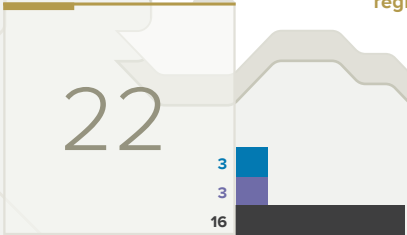
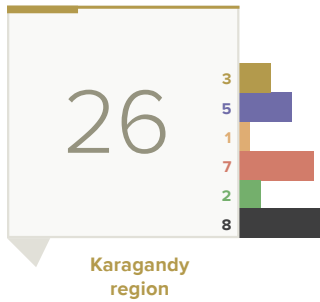
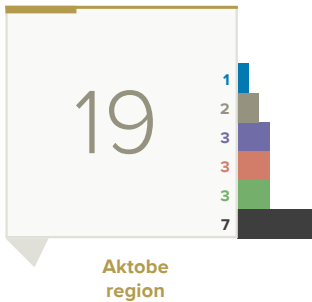
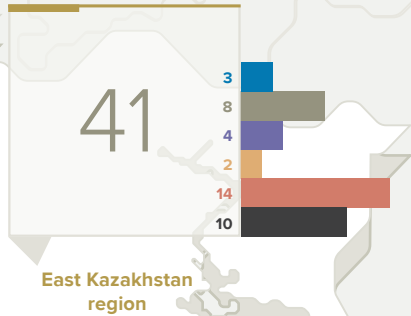
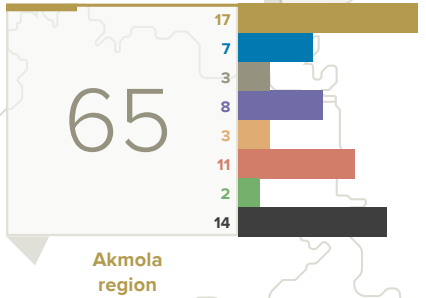
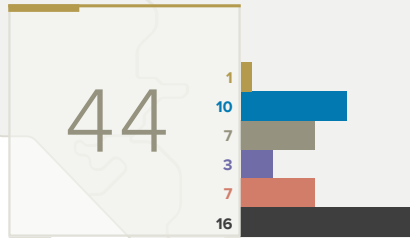
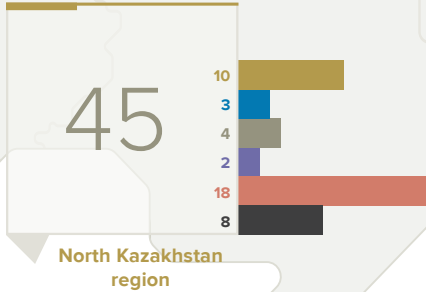
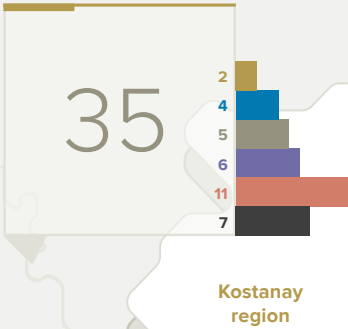
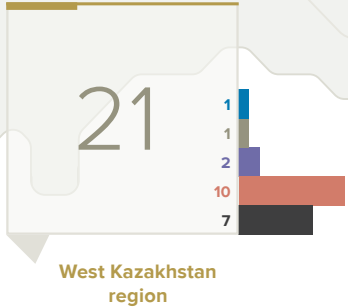


# REGIONAL COVERAGE BY PROJECTS

461  
PROJECTS

COMMISSIONED  
IN TOTAL

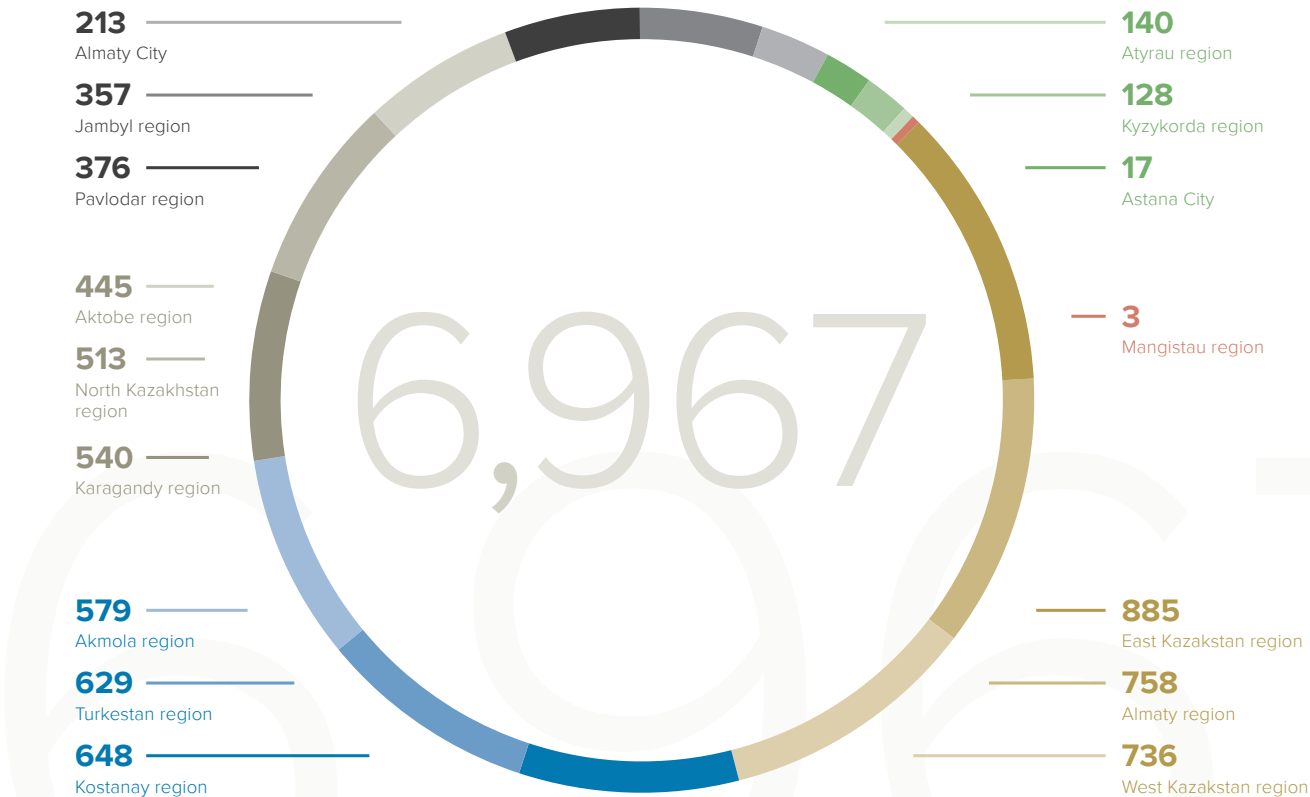
- Grain storage
- Commercial dairy
- Vegetable storehouse
- Refining
- Poultry farm
- Sow farm
- Greenhouses
- Misc



CLIENTS IN TERMS OF SIZE



REGION-WISE STRUCTURE OF CLIENTS IN 2018, IN UNITS



FINANCIAL AND ECONOMIC PERFORMANCE

KEY FINANCIAL INDICATORS

mln tenge	2018	2017
Assets		
Cash and cash equivalents	44,798	41,239
Loans to clients	43,004	45,067
Financial lease receivables	186,617	183,288
Property intended for financial lease	10,740	5,132
Fixed assets	996	1,040
Other assets	12,779	7,047
Total assets	298,934	282,813
Liabilities		
Debt to Shareholder	67,232	75,539
Lenders' funds	41,808	40,430
Debt securities issued	64,596	46,969
Other liabilities	18,948	17,090
Total liabilities	192,584	180,028
Equity	106,350	102,785
ROA	2.31	1.25
ROE	6.43	3.53
Carrying value of one ordinary share (in KZT)	1,277.14	1,234.41

bn tenge	2017	2018	2018, in % to 2017
Revenues, total including:	28.64	27.83	97.2%
Income in the form of interest	27.11	26.15	96.4%
Expenses, total including:	25.13	21.40	85.2%
Interest expenses	14.30	13.61	95.2%
Reserve provision expenses	3.49	2.83	81.1%
CIT	-0.07	-0.30	424.1%
Net income	3.57	6.73	188.5%



THE COMPANY CONTINUES TO OPERATE SUCCESSFULLY IN THE AGRICULTURAL SECTOR, WHICH HAS LED TO A STRONGER MARKET POSITION, WITH ITS FINANCIAL INDICATORS IMPROVING YEAR BY YEAR, ENSURING THE COMPANY’S FINANCIAL STABILITY AND CONSISTENT DEVELOPMENT.

6.73  
BN  
TENGE

NET INCOME OF  
THE COMPANY FOR 2018

36%

SHARE OF OWN CAPITAL IN  
THE STRUCTURE OF THE  
BALANCE SHEET FROM THE  
ASSETS OF THE COMPANY  
AS OF JANUARY 1, 2019

KEY DRIVERS OF FINANCIAL STABILITY:

1. High capitalization rate.

The share of equity in the balance sheet structure is 36% of the Company’s assets, which indicates support by the Sole Shareholder, profitable business and robust ability to absorb various financial risks. In 2018, the Company generated a net profit of 6.73 billion tenge.

2. Acceptable liquidity ratio.

The company maintains an adequate level of liquidity to ensure stable growth of the loan portfolio, and proper fulfillment of liabilities to creditors. 36% share of equity in the balance sheet structure of the Company’s assets as of January 1, 2019.

3. High credit rating.

On April 4, 2019 Fitch Ratings affirmed the long-term rating at BB+ with “Stable” outlook , which is two levels lower than the sovereign rating. High rating was assigned by Fitch due to the willingness of the Government of Kazakhstan to

provide support and – at the same time – due to a low probability in the medium term that such support will be required given a high capital buffer.

4. Effective financial risk management.

The Company has put in place an effective risk management system that enables prompt identification, reliable assessment and minimization of credit, currency, price and liquidity risks.

5. Compliance with prudential ratios.

Throughout the entire history of its business, the Company did not go beyond the prudential standards established by the National Bank of the Republic of Kazakhstan. All ratios are supported by significant reserves.

6. Diversification of liabilities.

The Company seeks to diversify both funding sources and tools. The share of market funding in the

structure of liabilities is growing. The Company aims to further expand the funding base.

7. Profit margins.

The company’s net profit in 2018 equaled to 6.73 billion tenge, which is 88.4% more than in 2017. Accordingly, ROE was 6.43, which is 82% more than in 2017.





# DEVELOPMENT PROSPECTS

The year 2019 was marked by the most important occasion for the Company – in May, the Government issued a Resolution excluding KazAgroFinance from the list of privatizable entities. This once again evidences that the Company is an important component in the delivery of state agricultural policy.

In the nearest future, some adjustments are planned to the Company's Development Strategy for 2017–2026. The Company's mission is to assist in the renewal of agricultural machinery and equipment in the Republic of Kazakhstan by providing achievement-oriented leasing services. The Company's indicators will be amended – the changes will be in lease volumes, and new products are to be introduced with, possibly, new types of lease to come on board.

The Company will continue to be active in the agricultural leasing market and will strive to cover more of its clients. One of the important objectives of the adjusted strategy will be to promote concessional financing of farming businesses provided that public funding is available.

The Company is planning to continue the introduction of customer-oriented standards typical for the private financial market while providing services to domestic farmers. The objective will be delivered through several tools to increase the availability of services.

The first thing to do is to enhance the quality of leasing services, and to expand and develop the Company's product line. Having optimized business processes and simplified financing procedures, as well as with reduced paperwork and application lead time, better financing conditions, the Company will be able to increase customer satisfaction with the quality of leasing services.

Secondly, with the trends of recent years associated with widespread digitalization, the Company can see additional opportunities for itself. In particular, the Company is planning to switch completely to an electronic system for accepting and tracking applications, introduce SMS notification of customers about upcoming payments, enable customers to submit applications online, as well as to train clients how to work in a personal account by setting up working areas for them at the Company's branch offices.

Thirdly, the Company will expand information dissemination channels in order to maximize the regional reach and availability of the Company's services for farmers.

Improved and developed leasing services focusing on consumer demand will increase the loyalty of existing and attract new customers, as well as will help the Company make a valuable contribution to the support offered to local farmers.

Continuous development of KazAgroFinance's corporate governance is one of the important aspects in maintaining sustainable growth, which is especially important for our partners.

The screening done on the Company found that the level of corporate governance reached 89.7%. At the same time, the screening identified growth zones and opportunities for further development. The Company needs to continue its efforts to boost corporate governance by bringing the management system in line with international best practices. Developed corporate governance will produce a significant benefit for

the Company's operations, and will enable it to become a successful business operating in accordance with recognized international standards.

One of the challenges is to bring about an effective risk management and internal control system, which is an important factor in making sure strategic and operational goals are accomplished. The management system must quickly respond to risks, enable control over primary and auxiliary business processes, and the daily business of the Company.

An effective HR policy – once put in place – will allow the Company

to retain and attract highly qualified staff capable of making a significant contribution to the Company's efficiency, as well as to secure the maximum possible return on investment in human resources.

The company is making sure it has everything to maintain the credit rating and credit strength, which will help maintain lenders' confidence and also reduce the cost of borrowed funds.

Comprehensive efforts in support of the objectives will ultimately allow the Company to strengthen its competitive advantages, successfully continue delivering

THE COMPANY WILL CONTINUE ACTIVITY ON THE AIC LEASING MARKET AND WILL SEEK TO INCREASE THE COVERAGE OF FUNDED CLIENTS





# CORPORATE GOVERNANCE

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— ONE OF THE MAIN FACTORS RELATED TO THE COMPANY’S DEVELOPMENT AND INCREASED PERFORMANCE RATES IS A CONTINUOUS IMPROVEMENT OF CORPORATE GOVERNANCE AND DECISION-MAKING SYSTEMS.

PILLARS OF THE COMPANY’S CORPORATE GOVERNANCE

1.

INTEGRITY

KazAgroFinance protects the Shareholder’s rights and acts impactfully in response to the infringements on such rights.

2.

ACCOUNTABILITY

KazAgroFinance makes sure that the Company’s executive body is accountable to the Board of Directors and that the Board of Directors is accountable to the Shareholder.

3.

RESPONSIBILITY

KazAgroFinance makes sure that the Shareholder’s legitimate rights are respected, encourages cooperation between the Company and the Shareholder on enabling the Company’s financial soundness and stability

4.

TRANSPARENCY

KazAgroFinance ensures timely and credible disclosure on all significant matters that may affect the stakeholders’ decision

CORPORATE GOVERNANCE RATING

At the end of 2018, the Sole Shareholder carried out diagnostics of the corporate governance level of subsidiary joint-stock companies.

Corporate governance diagnostics was carried out in three components: **corporate governance structure, corporate governance processes and corporate governance transparency.**

The Sole Shareholder requested a list of internal documents from the Company, and interviewed stakeholders.

The due diligence rated the level of corporate governance as “Medium”. Compared to the previous assessments by the Holding in 2018 for the year 2017, the level increased by 4 percentage points. **The delivery of the strategic plan for this key indicator in the reporting year was 109.0%.**





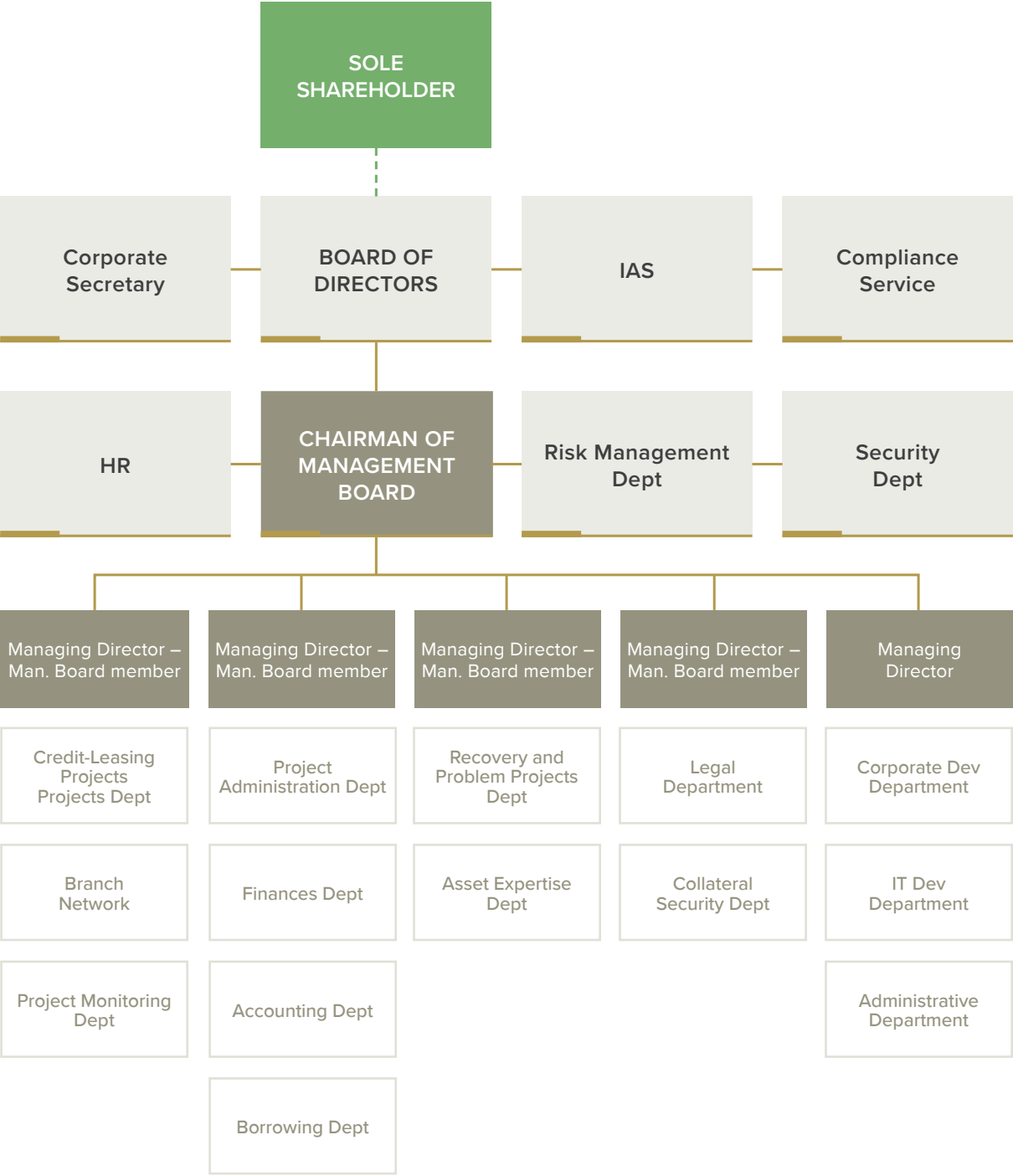
FOLLOWING THE PRINCIPLES OF CORPORATE GOVERNANCE

The Corporate Governance Code of the Company, as approved by Decision No. 49 of the Management Board of KazAgro Holding on July 29, 2015, puts forward six fundamental principles, which include 5 principles observed in full, with 1 principle observed in part.

PRINCIPLE OF PROTECTING THE RIGHTS AND INTERESTS OF THE SOLE SHAREHOLDER1.	
Corporate governance of KazAgroFinance JSC ensures protection and respect for the rights and legitimate interests of the Sole Shareholder and promote the Company's efficient operation, including achieving Company's strategic goals and supporting financial stability.	<b>Observed.</b> Engagement with the Sole Shareholder is maintained in accordance with the Charter of KazAgroFinance JSC, which envisages the Sole Shareholder's duties and competence and how to provide information on business affecting its interests, as well as in accordance with the Corporate Governance Code. KazAgroFinance's Strategic Planning and Monitoring Rules make sure that the rights and interests of the Sole Shareholder are exercised and protected by making it obligatory to send an annual letter of the Sole Shareholder's expectations that lays out the tasks to be delivered by the Board of Directors in the coming year. In order to meet the expectations of the Sole Shareholder, the Company developed an Action Plan to fulfill the expectations of the Sole Shareholder. During 2018, the results of monitoring of whether the expectations were met were communicated to the Board of Directors (on a quarterly basis) and to the Sole Shareholder (once every six months).
PRINCIPLE OF EFFECTIVE MANAGEMENT OF THE COMPANY BY THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD2.	
The business of the Board of Directors is driven by the principles of utmost observance and exercise of the interests of the Sole Shareholder and the Company, rationality, efficiency, activity, due diligence, integrity, accuracy and responsibility.	<b>Observed.</b> In accordance with the Regulation on the Board of Directors of the Company, the business of the Board of Directors is based on the principles of professionalism, rationality and prudence, integrity and objectivity and the principles of protection of the rights of the Sole Shareholder.
The Management Board manages the current operations of the Company in order to fulfill the objectives and pursue the Company's Development Strategy.	<b>Observed.</b> The Management Board manages the current operations and is responsible for the delivery of the Development Strategy, Development Plan and decisions made by the Board of Directors and the Sole Shareholder. Pursuant to the operational action plan for 2018 to deliver the Development Strategy of KazAgroFinance for 2017–2026, there are 62 measures to be undertaken in order to achieve the strategic goals and deliver the objectives of the Development Strategy, which have been fully implemented.

INDEPENDENT OPERATIONS PRINCIPLE3.	
The Company does its business independently.	<b>Partially observed.</b> Pursuant to the Company's Charter, the Management Board exercises effective and actual control over the Company's business and is not susceptible to the interventions by the Sole Shareholder and the state into operations. However, the year saw the influence of the Sole Shareholder on the independent business of KazAgroFinance JSC as related to product financing by raised funds, which was demonstrated through the ban on raising funds independently by KazAgroFinance JSC in the market.
PRINCIPLE OF TRANSPARENCY AND OBJECTIVITY OF DISCLOSURES ABOUT THE COMPANY'S BUSINESS4.	
In order to ensure that the Sole Shareholder makes informed decisions and in order to communicate the Company's business to stakeholders, the Company makes sure that reliable and accurate information about the Company is disclosed in a timely manner to the Sole Shareholder and stakeholders.	<b>Observed.</b> In order to meet the disclosure standards, the Company follows the legislation of the Republic of Kazakhstan on the securities market, joint-stock companies, listing rules, and decree of the National Bank of the Republic of Kazakhstan, and other transparent disclosure regulations.
LEGALITY AND ETHICS PRINCIPLE5.	
The Company acts in strict accordance with the laws of the Republic of Kazakhstan, generally accepted principles of business ethics, the Company's Charter, the Corporate Governance Code and its own contractual obligations.	<b>Observed.</b> The company operates in accordance with the legislation of the Republic of Kazakhstan, the Charter, the Corporate Governance Code and other internal regulations. The company pursues continuous and systematic efforts to monitor changes in legislation and the timely updating of internal regulations and model contracts of the company. The Company also has a process in place for managing compliance risks.
PRINCIPLE OF ACCOUNTABILITY TO STAKEHOLDERS6.	
The Company recognizes and respects the rights of all stakeholders and is committed to working with them in order to develop and ensure financial sustainability. Stakeholders should be able to receive compensation for their rights violated in cases provided for by the legislation of the Republic of Kazakhstan. If a stakeholder participates in the corporate governance process, such stakeholder must have access to relevant, sufficient and reliable information on a timely and regular basis.	<b>Observed.</b> In doing the business, the Company is guided by the Corporate Governance Code, which respects the rights and interests of all stakeholders.

ORGANIZATIONAL STRUCTURE



INTERACTION WITH THE SHAREHOLDER

“KazAgro” National Management Holding JSC is the sole shareholder of KazAgroFinance JSC.

Engagement with the Sole Shareholder is maintained in accordance with the Charter of KazAgroFinance JSC, which envisages the Sole Shareholder’s duties and competence and how to provide information on business affecting its interests, as well as in accordance with the Corporate Governance Code.

KazAgroFinance’s Dividend Policy Provision governs the Sole Shareholder’s rights related to involvement in managing KazAgroFinance, including the rights to receive dividends and participate in the distribution of net income. In June 2018, at year-end

2017 KazAgroFinance paid **KZT 3,572,219,717.72** in dividends to the Sole Shareholder.

KazAgroFinance’s Strategic Planning and Monitoring Rules make sure that the rights and interests of the Sole Shareholder are exercised and protected by making it obligatory to send an annual letter of the Sole Shareholder’s expectations that lays out the tasks to be delivered by the Board of Directors in the coming year. In order to meet the expectations of the Sole Shareholder, the Company developed an Action Plan to fulfill the expectations of the Sole Shareholder. During 2018, the results of the monitoring of whether the expectations were met were communicated to the Board of Directors (on a quarterly basis) and

to the Sole Shareholder (once every six months).

At the year-end 2018, the delivery of the Action Plan to fulfill the expectations of the Sole Shareholder was 95% (38 were fulfilled out of the 40 target measures). The two outstanding measures were about inviting a financial consultant to agree on the change of ownership with the Company’s lenders in the event of its privatization. However, these lost their relevance once the State Economic Modernization Commission decided on December 26, 2018 to exclude KazAgroFinance from the list of privatizable assets.

SHAREHOLDER’S MAIN DECISIONS IN THE REPORTING PERIOD

1. Amendments to KazAgroFinance’s Charter.
2. Approval of KazAgroFinance’s annual report 2017.
3. Election of members to the Board of Directors.
4. Approval of KazAgroFinance’s net income distribution policy for 2017, payment of, or failure to pay, dividends on ordinary shares and approval of the size of dividend for a year per one ordinary share.
5. Selecting an audit company to audit the KazAgroFinance’s financial statements KazAgroFinance’s for 2018.



BOARD OF DIRECTORS

The Board of Directors is the governing body that has overall charge of the Company’s business, except that it does not address issues that are referred by law and/ or the Company’s Charter to the exclusive competence of the Sole Shareholder and the competence of the Management Board.

The Board of Directors fulfills its functions in accordance with the Company’s Charter and focuses on the following:

- defining the Company’s Development Strategy (areas and results);
- setting and monitoring Development Plan’s KPIs;
- setting up and supervising an effective operation of the risk

- management and internal control system;
- approving and monitoring an effective delivery of key strategic projects within the competence of the Board of Directors;
  - election, remuneration, succession planning and oversight of the Management Board’s operation;
  - corporate governance and ethics;
  - complying with the Corporate Governance Code and business ethics related internal regulations.

The Board of Directors has a balanced composition, including the qualifications of its members, their experience, expertise and business skills, and is trusted by the Shareholder.

Members of the Board of Directors have an unchallenged business reputation, knowledge, skills and experience in agriculture, economics and business management, as well as legal expertise.

As of December 31, 2018, the Board of Directors consisted of 5 members, including two independent directors. The powers of the Board of Directors expire on June 26, 2021.

CHANGES IN THE BOD COMPOSITION IN 2018

1. Since the term of office of the entire Board of Directors determined by the Sole Shareholder’s decision No. 37 on June 17, 2015 expired, the following BoD members have had their powers terminated:

- Aigul Muhamadiyeva – BoD Chair;
- Yerbol Yeseneyev – independent director of KazAgroFinance;
- Azat Mashabayev – independent director of KazAgroFinance;
- Yerlan Orynbayev – independent director of KazAgroFinance;
- Kanysh Izbastin – Chairman of the Management Board;
- Alpamys Omarov – Sole Shareholder’s representative.

2. Since the term of office of the Board of Directors expired, the new BoD was elected by Decision No. 41 on June 26, 2018:

- Jumagali Munjasarov – Chairman of the Board of Directors;
- Kanysh Izbastin – Chairman of the Management Board;
- Yerlan Orynbayev – independent director of KazAgroFinance;
- Alibi Uteulov – independent director of KazAgroFinance;
- Nazgul Karnakova – Sole Shareholder’s representative.

3. Due to early termination of powers of J. Munjasarov and A. Uteulov as members of the Board of Directors, the following BoD members were elected by Sole Shareholder’s decision No. 17 on May 8, 2019:

- Daniyar Zhumashov – Chairman of the Board of Directors;
- Ruslan Orazbayev – independent director of KazAgroFinance.

BOD COMPOSITION ON DEC 31, 2018

BoD Member	Position	Decision date and number
Jumagali Munjasarov	Managing Director for Legal Issues at “KazAgro” National Management Holding JSC – BoD Chairman, representative of KazAgroFinance’s Sole Shareholder	Appointed to the BoD by the Sole Shareholder’s decisions No. 24, April 6, 2018, and No. 41, June 26, 2018
Kanysh Izbastin	Chairman of the Management Board – BoD Member	Appointed to the BoD by the Sole Shareholder’s decisions No. 59, Sept 10, 2015, and No. 41, June 26, 2018
Yerlan Orynbayev	Independent Director – member of BoD	Appointed to the BoD by the Sole Shareholder’s decisions No. 37, June 17, 2015, and No. 41, June 26, 2018
Alibi Uteulov	Independent Director – member of BoD	Appointed to the BoD by the Sole Shareholder’s decision No. 41, June 26, 2018
Nazgul Karnakova	Representative of KazAgroFinance’s Sole Shareholder – member of BoD	Appointed to the BoD by the Sole Shareholder’s decision No. 41, June 26, 2018



JUMAGALI MUNJASAROV \*

Shareholder’s Representative – Chairman of the Board of Directors

Born on May 30, 1977. Citizen of the Republic of Kazakhstan.

Elected to the Board of Directors on April 10, 2018, June 26, 2018.

- Shares of KazAgroFinance in ownership – none.
- Multiple employment and membership in the boards of directors of other entities at a current time – none.
- Shares of suppliers and competitors of KazAgroFinance in ownership – none.

EDUCATION

- Baitursynov State University in Kostanay
- Kazakh Academy of Labor and Social Relations
- Russian Academy of National Economy and Public Administration

under the President of the Russian Federation (MBA).

EXPERIENCE OF WORK

- 2009–2011 – Advisor to the Deputy Prime Minister of the Republic of Kazakhstan.
- 2012–2018 – Managing Director of Sovereign Wealth Fund Samruk-Kazyna Joint Stock Company.
- From March 15, 2018, Managing Director for Legal Affairs – Member of the Management Board of “KazAgro” National Management Holding.

Awarded with the medal “Yeren Yenbegi Ushin” (2013).

\* Left the Board of Directors at his own will on April 8, 2019.



KANYSH  
IZBASTIN

Chairman of the Management Board, KazAgroFinance

Born on April 20, 1981.  
Citizen of the Republic of Kazakhstan.

Elected to the Board of Directors on September 10, 2015, June 26, 2018.

- Shares of KazAgroFinance in ownership – none.
- Multiple employment and membership in the boards of directors of other entities at a current time – none.
- Shares of suppliers and competitors of the Company in ownership – none.

EDUCATION

- Moscow State Institute of International Relations of the MFA of Russia
- Central Asian University.

EXPERIENCE OF WORK

- January 2007 to April 2007 – Managing Director of DBK-Leasing JSC.

- April 2007 to April 2008 – Deputy Chairman of the Management Board, DBK-Leasing JSC.
- April 2008 to May 2012 – Chairman of the Management Board, DBK-Leasing JSC.
- May 2012 to November 2012 – Chairman of the Management Board of KazExportGarant Export Credit Insurance Corporation.
- January 2013 to September 2015 – Managing Director of Sovereign Wealth Fund Samruk Kazyna JSC.
- September 3, 2015 to the present – Chairman of the Management Board, KazAgroFinance.



YERLAN  
ORYNBAYEV

Independent Director – Member of the Board of Directors

Born on May 8, 1982.  
Citizen of the Republic of Kazakhstan.

Elected to the Board of Directors on June 17, 2015, June 26, 2018.

- Shares of KazAgroFinance in ownership – none.
- Multiple employment and membership in the boards of directors of other entities at a current time – none.
- Shares of suppliers and competitors of the Company in ownership – none.

EDUCATION

- Karagandy State Technical University.

EXPERIENCE OF WORK

- February 2008 to December 2009 – Deputy Head, Planning and Economic Department, Zhairam Mining and Processing Plant.

- January 2010 to October 2010 – Head, Finance Department, Zhairam Mining and Processing Plant.
- November 2010 to October 2012 – Chief Manager, Department of Budget Planning and Treasury, JSC “Tau-Ken Samruk” National Mining Company.
- November 2012 to April 2015 – Head, Internal Audit Service, JSC “Tau-Ken Samruk” National Mining Company.
- April 23, 2015 to June 2016 – Director of the Corporate Governance and Strategic Planning Department, JSC “Tau-Ken Samruk” National Mining Company.



ALIBI  
UTEULOV \*

Independent Director – Member of the Board of Directors

Born on Feb 21, 1971.  
Citizen of the Republic of Kazakhstan.

Elected to the Board of Directors on June 26, 2018

- Shares of KazAgroFinance in ownership – none.
- Multiple employment and membership in the boards of directors of other entities at a current time – Independent Director – Member of the Board of Directors at ForteLeasing JSC.
- Shares of suppliers and competitors of KazAgroFinance in ownership – none.

EDUCATION

- Al-Farabi Kazakh National University

EXPERIENCE OF WORK

- June 2005 to April 2016 – Deputy Director of the Legal Department, Director of the Legal Department, Deputy Executive Director, Assistant to the Chairman of the Management Board, Kazkommertsbank JSC.
- April 2016 to the present – Managing Director of the Association of Financiers of Kazakhstan.



NAZGUL  
KARNAKOVA

Sole Shareholder's Representative – Member of the Board of Directors

Born on December 27, 1978.  
Citizen of the Republic of Kazakhstan

Elected to the Board of Directors on June 26, 2018.

- Shares of KazAgroFinance in ownership – none.
- Multiple employment and membership in the boards of directors of other entities at a current time – member of the Board of Directors at Agrarian Credit Organisation.
- Shares of suppliers and competitors of KazAgroFinance in ownership – none.

EDUCATION

- M. Kh. Dulaty Taraz State University

EXPERIENCE OF WORK

- April 2012 to July 2014 – Financial Director of IEIT KBTU.
- July 2014 to April 2018 – Director of the Financial and Economic Department of KBTU.
- April 2018 to April 2019 – Director of the Budget Planning Department at “KazAgro” National Management Holding.
- April 2019 to the present – Managing Director – Member of the Management Board of “KazAgro” National Management Holding.

\* Left the Board of Directors at his own will on March 1, 2019.



# APPOINTMENTS AND SELECTION

The numerical composition of the Board of Directors is determined by the Sole Shareholder. Search and selection of candidates can be made by both the Company and the Sole Shareholder independently.

**The order of search, selection and election of candidates includes the following stages:**

- determination of the need for selection of directors;
- search for candidates that meet qualification requirements;
- preliminary assessment of candidates for compliance with the

- qualification requirements;
- consideration and election of candidates by the Sole Shareholder.

When selecting independent directors, the Company is guided by the requirements of the Regulation on the Board of Directors, which determines the procedure for finding and selecting candidates on a competitive basis for the position of an independent director, as well as conducting a preliminary qualification assessment of candidates by the Personnel and Remuneration Committee.



# EVALUATION OF THE BOARD OF DIRECTORS

Evaluation of the activities of the Board of Directors is carried out in accordance with the Regulations on the Board of Directors in order to obtain a comprehensive analysis of the main areas of responsibility of the Board of Directors. The assessment allows to analyze and identify the strengths and weaknesses of the activities of the Board of Directors and committees and make adjustments to the work of the Board of Directors.

The assessment makes it also possible to determine effectiveness of remuneration and the need for

training, raising qualifications of members of the Board of Directors.

The assessment can be carried out on its own, as well as with the assistance of consultants, professional associations and organizations that assign corporate management ratings.

In April-May 2018, the performance evaluation of the Board of Directors was carried out by “Expert RA Kazakhstan” Rating Agency LLP as part of the diagnostics of corporate governance. According to the results of assessment, it was established

that the Board of Directors and its committees operate effectively. The numerical composition of the Board of Directors corresponds to the scale, complexity and specifics of the Company’s activities, the number of directors is sufficient to ensure functioning of the committees of the Board of Directors.

The professionalism of the members of the Board of Directors is assessed at a high level, their qualifications correspond to the established goals and objectives, and impeccable business reputation contributes to the fruitful solution of such tasks.

# TRAINING

In accordance with the Regulation on the Board of Directors, members of the Board of Directors are obliged to pay attention to improving their qualifications within the competence of the Board of Directors and related issues, participating in external and internal training programs, workshops and trainings, fora, etc.

**In 2018, two independent directors passed the following trainings:**



**Y.B. Orynbayev** — Courses in the field of “Basics of accounting and financial reporting analysis”;



**A.K. Uteulov** — preparation for qualifying exams for CIMA (Rus) (Chartered Institute of Management Accountants) – diploma of professional international association in the field of business management category P1 “Operational Performance Management.”

# BOARD OF DIRECTORS COMMITTEES

## BOARD COMMITTEE ON INTERNAL AUDIT

11 MEETINGS WERE  
HELD IN 2018

41 ISSUES WERE  
CONSIDERED

The functions of the Board Committee on Internal Audit (Internal Audit Committee) include preliminary consideration and provision of recommendations to the Board of Directors on financial reporting, external audit, internal audit, compliance with the legislation, reporting and performance assessment, and others.

- Members of Committee:
- **Yerlan Orynbayev, independent director** – chairman of the Internal Audit Committee;
  - **Alibi Uteulov, independent director** – member of the Internal Audit Committee;
  - **Berik Nurmagambetov** – expert.

## BOARD COMMITTEE ON STRATEGIC PLANNING AND RISK

14 MEETINGS WERE  
HELD IN 2018

The functions of the Board Committee on Strategic Planning and Risks (Committee on strategic planning and risks) include preliminary consideration and provision of recommendations to the Board of Directors on issues

of strategic planning, investment and innovation, internal control and risk management, reporting, performance evaluation and others.

85 ISSUES WERE  
CONSIDERED

Members of Committee:

- **Yerlan Orynbayev, independent director** – Chairman of the Committee on Strategic Planning and Risks;
- **Alibi Uteulov, independent director** – member of the Committee for Strategic Planning and Risks;
- **Dastan Tuyakbayev** – expert;
- **Lunara Umralinova** – expert;
- **Saule Abzhanova** – expert;
- **Berik Nurmagambetov** – expert.

## BOARD COMMITTEE ON SOCIAL ISSUES, PERSONNEL AND REMUNERATION

11 MEETINGS WERE  
HELD IN 2018

41 ISSUES WERE  
CONSIDERED

Functions of the Board Committee on Social Issues, Personnel and Remuneration (Committee on Social Issues, Personnel and Remuneration) include preliminary consideration and provision of recommendations to the Board of Directors on qualification requirements, evaluation of candidates, succession planning, performance evaluation, remuneration system and others.

Members of Committee:

- **Alibi Uteulov, independent director** – Chairman of the Committee on Social Affairs, Personnel and Remuneration;
- **Yerlan Orynbayev, independent director** – member of the committee;
- **Anvar Beknazarov** – expert.



# OPERATION OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

The Board of Directors in its work is guided by the Regulation on the Board of Directors, approved by the decision of the Sole Shareholder – the Management Board of “KazAgro” Holding JSC No. 8 dated February 13, 2016.

Activity of the Board of Directors is based on the principles of

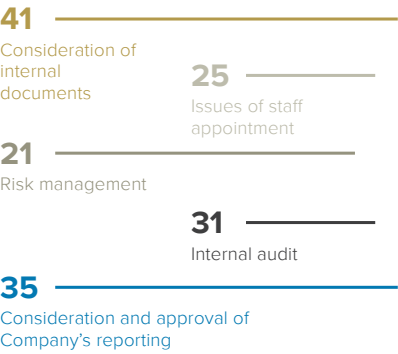
professionalism, reasonableness and prudence, honesty and objectivity, principle of protection of the rights of the Sole Shareholder.

In 2018, 20 meetings of the Board of Directors were held, 14 of which were in presentia and 6 in absentia. 153 questions were considered.

153

QUESTIONS REVIEWED BY THE BOARD OF DIRECTORS IN 2018

## THE SUBJECT OF ISSUES CONSIDERED BY THE BOARD OF DIRECTORS IN 2018, NUMBER OF ISSUES



### The main decisions taken concerned the following issues:

- approval of the Report on the implementation of the Development Strategy and Development Plan for 2017;
- approval of the Action Plan to fulfill the expectations of the Sole Shareholder in 2018;
- evaluating the work of the Board of Directors for 2017, reviewing the results of the work of the Board of Directors in 2017, as well as

- discussing measures to improve the performance of the Board of Directors;
- consideration of the Report on the activities of the Internal Audit Service of KazAgroFinance JSC for 2017;
- approval of the Risk Register and the Risk Map for 2019;
- consideration of the Report on following the Corporate Governance Code and the Report on the implementation of the Plan on improvement of the corporate

- governance system;
- approval of the financial development model of KazAgroFinance JSC for 2018–2027;
- consideration of the Report on the transactions in which there is an interest;
- approval of internal documents on strategic planning, information transparency, credit policy, terms of financing of the Company.

## INFORMATION ON THE PARTICIPATION OF MEMBERS OF THE BOARD OF DIRECTORS IN MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

NAME	Board meeting	Meetings of the Strategic Planning and Risk Committee	Meetings of the Internal Audit Committee	Meetings of the Committee on Social Affairs, Human Resources and Remuneration
A. S. Muhamadiyeva	7/7	Do not attend (not members of the committee)		
A. A. Omarov	10/11			
Zh. A. Munzhasarov	13/13			
N. Sh. Karnakova	9/9			
K.T. Izbastin	15/20			
A. E. Mashabayev	9/11	7/7	7/7	6/7
E. E. Eseneyev	11/11	5/7	5/7	6/7
E. B. Orynbayev	20/20	14/14	11/11	11/11
A. K. Uteulov	9/9	7/7	4/4	4/4

# CONFLICT OF INTEREST MANAGEMENT

The Company seeks to increase the efficiency of decisions made by the Company's bodies by ensuring fair, objective and independent decision-making in the interests of the Company and the Sole Shareholder.

KazAgroFinance JSC is guided by the Rules for the settlement of corporate conflicts and conflicts of interest in the Company, which regulate the processes and procedures for

resolving conflicts in the Company, as well as the actions of bodies, officials and employees of the Company within these issues.

In 2018, the Company recorded no cases of conflicts of interest during decision making.

# REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS

THE REMUNERATION OF INDEPENDENT DIRECTORS IS FIXED ON A QUARTERLY BASIS AND IS PAID FOR EACH PARTICIPATION IN A MEETING OF THE BOARD OF DIRECTORS. ADDITIONAL REMUNERATION IS ALSO PROVIDED FOR INDEPENDENT DIRECTORS FOR PARTICIPATING IN A MEETING OF A COMMITTEE OF THE BOARD OF DIRECTORS.

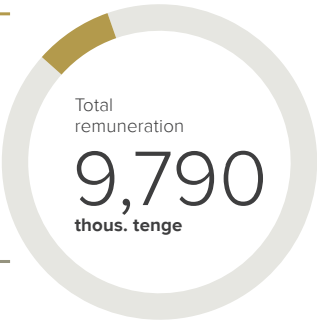
The amount of remuneration is determined by the decision of the Sole Shareholder. Remuneration is paid to independent directors of the Board of Directors of the Company net of taxes in accordance with the tax laws of the Republic of Kazakhstan, regulatory legal acts and other documents.

Remuneration is not paid if an independent director participates in less than half of all in presentia and in absentia meetings of the Company's Board of Directors in the reporting period (quarter).

Remuneration to members of the Board of Directors of KazAgroFinance JSC (independent directors), consisting of 3 people in 2018, includes the following items:

830  
Taxes and social security contributions

8,960  
Accrued remuneration



# MANAGEMENT BOARD

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

## COMPOSITION OF THE MANAGEMENT BOARD ON DECEMBER 31, 2018



KANYSH TEMIRTAEVICH IZBASTIN

Chairman of the Management Board

Born on April 20, 1981.  
Citizenship – the Republic of Kazakhstan.

### Election to the Management Board – September 10, 2015, June 26, 2018.

- Ownership of shares of KazAgroFinance JSC – none.
- Concurrent employment and membership in the boards of directors of other organizations – none.
- Owned shares of suppliers and competitors of the Company – none.

### EDUCATION

- Moscow State Institute of International Relations, Ministry of Foreign Affairs of Russia
- Central Asian University

### EXPERIENCE OF WORK

- From January 2007 to April 2007 – Managing Director of DBK-Leasing JSC.

- From April 2007 to April 2008 – Deputy Chairman of the Board of DBK-Leasing JSC.
- From April 2008 to May 2012 – Chairman of the Board of DBK-Leasing JSC.
- From May 2012 to November 2012 – Chairman of the Board of KazExportGarant Export Credit Insurance Corporation.
- From January 2013 to September 2015 – Managing Director of National Welfare Fund Samruk Kazyna JSC.
- From September 3, 2015 to the present – Chairman of the Management Board of KazAgroFinance JSC.





**AINUR  
GABDYGAPPAROVNA  
SEYTKASIMOVA**

Managing Director,  
Member of the Board

Born on September 16, 1976.  
Citizenship – the Republic of  
Kazakhstan.

- Ownership of shares of KazAgroFinance JSC – none.
- Concurrent employment and membership in the boards of directors of other organizations – none.
- Owned shares of suppliers and competitors of the Company – none.

**EDUCATION**

- Karaganda State University
- Graduate School of Management
- State University Higher School of Economics, Moscow

**EXPERIENCE OF WORK**

- From April 2008 to April 2010 – Managing Director of OJSC VTB Bank.
- From July 2011 to October 2013 – Managing Director of Agrarian Credit Corporation JSC.
- From October 2013 to July 2014 – Deputy Chief Director for

- Business Development of the NWF Samruk Kazyna JSC, member of the supervisory board of Samruk Kazyna Invest LLP.
- From June 2015 to December 2018 – First Deputy Chairman of the Board of KazAgroFinance JSC.
- From December 2018 to the present – Managing Director of KazAgroFinance JSC.

**FUNCTIONS**

Coordination of KazAgroFinance JSC in the field of financial and economic issues, borrowing, accounting and reporting issues, project administration issues.



**BAKHTIYAR  
SULTANBEKOVICH  
OSPANOV**

Managing Director,  
Member of the Board

Born December 27, 1979.  
Citizenship – the Republic of  
Kazakhstan.

- Ownership of shares of KazAgroFinance JSC – none.
- Concurrent employment and membership in the boards of directors of other organizations – none.
- Owned shares of suppliers and competitors of the Company – none.

**EDUCATION**

- L.N. Gumilyov Eurasian National University
- Eurasian Humanities Institute

**EXPERIENCE OF WORK**

- From July 2001 to March 2010, he was a lawyer / senior lawyer / head of the Legal Department of Bank Center Credit JSC.
- From April 2010 to January 2012 – Director of the Legal Support Department of DBK-Leasing JSC.

- From February 2012 to September 2012 – Deputy Chairman of the Board of Credit Systems LLP.
- From November 2012 to December 2013 – Head of the Department for Work with Problem Loans of Bank Center Credit JSC.
- From January 2014 to December 2015 – Executive Director of a private company.
- From January 2016 to December 2018 – Executive Director of KazAgroFinance JSC.
- From December 2018 to the present – Managing Director – member of the Board of KazAgroFinance JSC.

**FUNCTIONS**

Coordination of KazAgroFinance JSC on legal issues and issues of mortgage and leasing security.



**ALMAS  
ZHANATHKHANOVICH  
TAUBAYEV**

Managing Director,  
Member of the Board

Born on August 1, 1982.  
Citizenship – the Republic of  
Kazakhstan.

- Ownership of shares of KazAgroFinance JSC – none.
- Concurrent employment and membership in the boards of directors of other organizations – none.
- Owned shares of suppliers and competitors of the Company – none.

**EDUCATION**

- E.A. Buketov Karaganda State University

**EXPERIENCE OF WORK**

- From August 2007 to June 2009 – risk manager of the central regional directorate of Kazkommertsbank JSC.
- From October 2009 to December 2010 – Chief Manager of the Risk Management Department of the National Managing Holding KazAgro JSC.

- From December 2010 to February 2011 – Head of the Risk Management Service of KazAgroGarant JSC.
- From February 2011 to November 2016 – Deputy Chairman of the Board of JSC Fund for Financial Support of Agriculture.
- From June 2018 to the present – Managing Director – Member of the Board of KazAgroFinance JSC.

**FUNCTIONS**

Coordination of the activities of KazAgroFinance JSC in terms of credit and leasing activities, as well as branches of KazAgroFinance JSC.



**MARAT  
KUZHAMURATOVICH  
SERGALEYEV**

Managing Director,  
Member of the Board

Born on February 22, 1984.  
Citizenship – the Republic of  
Kazakhstan.

- Ownership of shares of KazAgroFinance JSC – none.
- Concurrent employment and membership in the boards of directors of other organizations – none.
- Owned shares of suppliers and competitors of the Company – none.

**EDUCATION**

- L.N. Gumilyov Eurasian National University
- Turan University

**EXPERIENCE OF WORK**

- From October 2005 to December 2009 – Head of the Retail Lending Department, Head of the Central Bank, Credit Expert of Temirbank JSC in Astana.

- From December 2009 to the present, he has been working in KazAgroFinance JSC. During his time he held various positions: Chief Specialist of the Corporate Business Department, Head of the Corporate Business Department, Director of the Lending and Leasing Department, Managing Director of KazAgroFinance JSC.

**FUNCTIONS**

Direct coordination of the activities of KazAgroFinance JSC on the maintenance of credit and problem projects.

# MANAGEMENT BOARD’S OPERATIONS

The Management Board oversees the current activities and is responsible for the implementation of the Development Strategy, Development Plan and decisions made by the Board of Directors and the Sole Shareholder.

In 2018, the Regulation on the Management Board of the Company was approved in a new edition, where the rights and obligations of the Management Board were clearly delineated and expanded.

39 meetings of the Board were held during 2018, all in person, meetings were held on a regular basis – every ten days of the month.

39

MANAGEMENT BOARD MEETINGS HELD IN 2018

## THE PRESENCE OF MEMBERS OF THE BOARD AT ITS MEETINGS

Name	Number of meetings
K.T. Izbastin	30/39
A.G. Seitkassimova	36/39
M. K. Sergaleyev	29/39
A. B. Dzhuvashev*	7/39
N. K. Sharbiyev**	10/39
R. T. Karagoishin***	29/39
A. Zh. Taubayev	22/39
B. S. Ospanov****	1/39

\* Released in accordance with the decision of the Board of Directors dated March 26, 2018 No. 5.

\*\* Released in accordance with the decision of the Board of Directors dated May 3, 2018 No. 8.

\*\*\* Released in accordance with the decision of the Board of Directors dated December 14, 2018 No. 20.

\*\*\*\* Included in the Board in accordance with the decision of the Board of Directors dated December 14, 2018 No. 20.

## REPORT ON INTERESTED-PARTY TRANSACTIONS FOR 2018

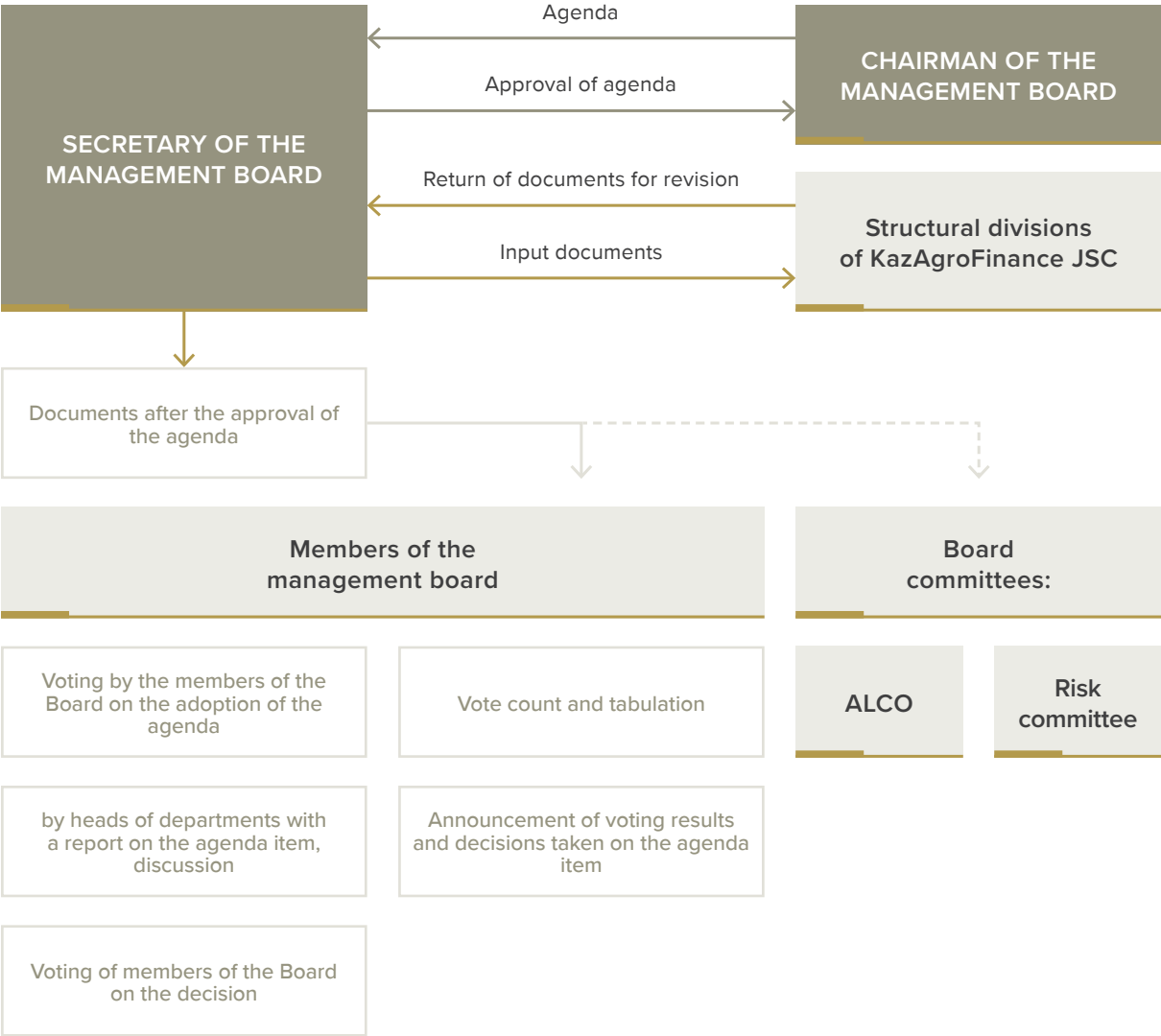
N°	Name of counterparty	Sign of interest	Name of the transaction
1.	Agrarian Credit Corporation JSC	Affiliate	Signed a framework agreement on opening a credit line No. 1564-TsA-AT dated December 27, 2018
2.	NMH KazAgro JSC	Sole shareholder	Concluded a loan agreement No. 86 dated July 24, 2018

- Main Goal of the Management Board of– effective implementation of the Development Strategy and Development Plan of KazAgroFinance JSC.

**Main Principles of the Management Board:**

  - transparency and openness;
- responsibility and accountability;
  - objective distribution of responsibilities;
  - proper approval and approval of transactions;
  - integrated approaches and consistency;
  - continuous development and improvement;
  - flexibility;
- timely identification and response to any significant shortcomings and weak points of control;
  - priority areas of the Board;
  - feasibility;
  - competence of employees;
  - documented procedures;
  - accuracy and completeness of information.

## INTERACTION WITH THE MANAGEMENT BOARD





# REMUNERATION OF BOARD MEMBERS

The policy and amount of remuneration of executives are governed by the Regulations on the conditions of remuneration, bonuses and social security of the Chairman and members of the Management Board, approved by the decision of the Board of Directors of KazAgroFinance JSC No. 7 dated June 30, 2016.

The remuneration of managers is one-time and is paid based on the results of work for the reporting year, subject to the availability of net consolidated profit, after the approval in the prescribed manner of the results of financial and economic activities based on the audited financial statements of KazAgroFinance JSC, depending on the results of achieving strategic and individual KPIs, and also the results of evaluation of their activities.

If there are disciplinary actions in the reporting year, the amount of remuneration based on the results of work for the reporting year is reduced, taking into account the validity period of the disciplinary penalty imposed in the reporting year.

The Board of Directors has the right to decide on non-payment of remuneration with a final performance on strategic efficiency – up to 75% (inclusive); the final performance of individual efficiency – up to 75% (inclusive).

The amount of remuneration in the form of wages and bonuses to members of the Management Board for 2018 amounted to 101,955.4 thousand tenge.

# ANTI-CORRUPTION ENFORCEMENT

KazAgroFinance JSC has been providing leasing services to domestic farmers for the purchase of agricultural machinery and equipment for the development of the country's agro-industrial complex for more than 18 years.

Throughout its activities, the management of the Company and its employees adhere to the fundamental principles of openness and transparency in their activities. The company is committed to ensuring maximum publicity in

its work. First of all, this work is designed to ensure the prevention of unlawful actions, as well as the timely detection and prevention of corruption.

The Company and its branches have established an internal control system in order to prevent the involvement of the Company and its employees in the implementation of operations related to the legalization (laundering) of proceeds from crime or the financing of terrorism. Thus, the Company's structure has introduced a compliance system, which ensures control over compliance with the laws of the Republic of Kazakhstan, internal and external rules and procedures, basic moral and ethical principles of doing business and the corporate governance system.

In order to prevent and minimize the risks of unlawful behavior, feedback has been established with customers and employees. By submitting an application on the corporate website, anyone can report on the facts of inappropriate behavior of the Company's employees, possible corruption offenses and crimes that could harm the interests and reputation of the Company.

# CODE OF BUSINESS CONDUCT

In order to create a Company in which each employee is a professional in his field and a part of a unified corporate culture, KazAgroFinance JSC is guided by the Code of Corporate Ethics (Code).

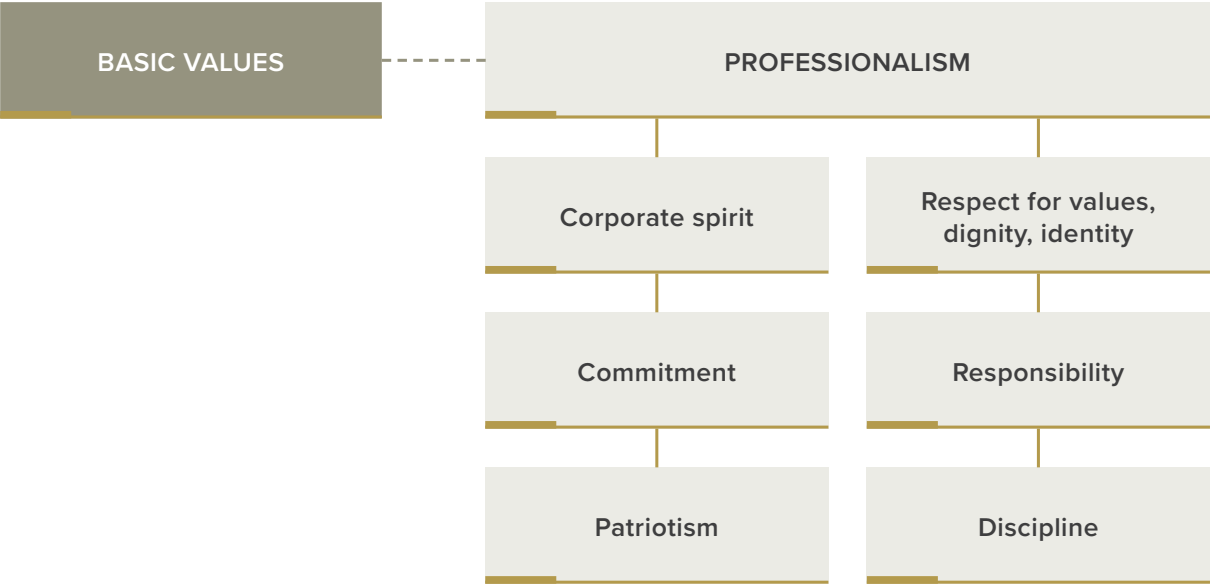
The Code was developed in accordance with the legislation of the Republic of Kazakhstan, taking into account recognized international standards of business conduct, on the basis of the Charter,

the Corporate Governance Code and other internal documents. It reflects the Company's vision and understanding of the principles of business ethics and corporate values.



THE NORMS OF THE CODE OF CORPORATE ETHICS  
APPLY TO ALL EMPLOYEES OF THE COMPANY,  
REGARDLESS OF THEIR POSITION.

MAIN GOALS



In carrying out their duties, the Company's employees are guided by the following corporate ethical principles that apply to all employees of the Company:

- 1. **Lawfulness** — strict compliance with international law, the laws of the Republic of Kazakhstan, the provisions of the Code and other internal documents of the Company.
- 2. **Integrity** — The company follows the principle of strict observance of the moral principles of social society, ethical norms and rules, as well as the customs of business turnover, timely fulfills obligations and values the team and its reputation.
- 3. **Subordination or rationality and justice** — relations between the Company's employees are built on the direct subordination of one employee to another in the process of exercising their official duties with due regard for vertical subordination. All employees of the Company, regardless of position, should be guided by the principles of rationality and fairness in their actions.
- 4. **Objectivity** — the principle establishes for all, without exception, the Company's employees the ability to exercise their functions and fulfillment of official duties without any pressure from outside, infringement of their rights and interests, as well as objective and fair attitude towards themselves on the part of management.

- 5. **Decency** — fair relations, truthfulness and honesty in all professional and business relationships.
- 6. **Respect** — proper attention to the Sole Shareholder, management, partners and colleagues, the rights and legitimate interests of citizens.
- 7. **Cooperation and performance** — teaming up to solve strategic and everyday tasks, working in a close-knit team to achieve goals.
- 8. **Confidentiality** — responsible attitude to the confidential information of the Company and its partners, taking measures to protect it and prevent unauthorized dissemination.

The activity of KazAgroFinance JSC is built on mutual obligations between the Company and employees, management and subordinates, and employees in front of each other. Careful observance of mutual obligations is a necessary condition for constructive work.

The company on an annual basis monitors compliance with the principles of the Code of Corporate Governance and brings information to the Sole Shareholder.

Employees of the Company annually, following the results of monitoring, become familiar with the current principles of corporate governance, as well as with their execution / non-performance.



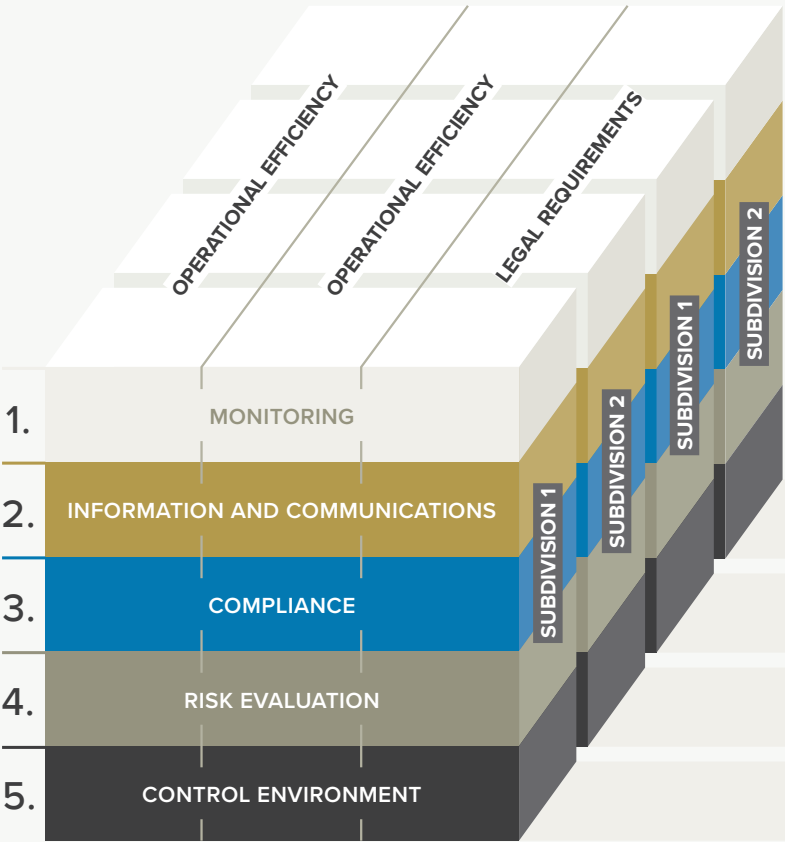
# INTERNAL CONTROL SYSTEM

The Company has implemented and operates an internal control system based on the Policy on the internal control system of KazAgroFinance JSC, approved by the decision of the Board of Directors on December 28, 2016 No. 14.

- performance evaluation
- on-going and periodic evaluation
- management and supervision
- internal audit

- timely recognition and transfer of significant information
- access to information
- information flows

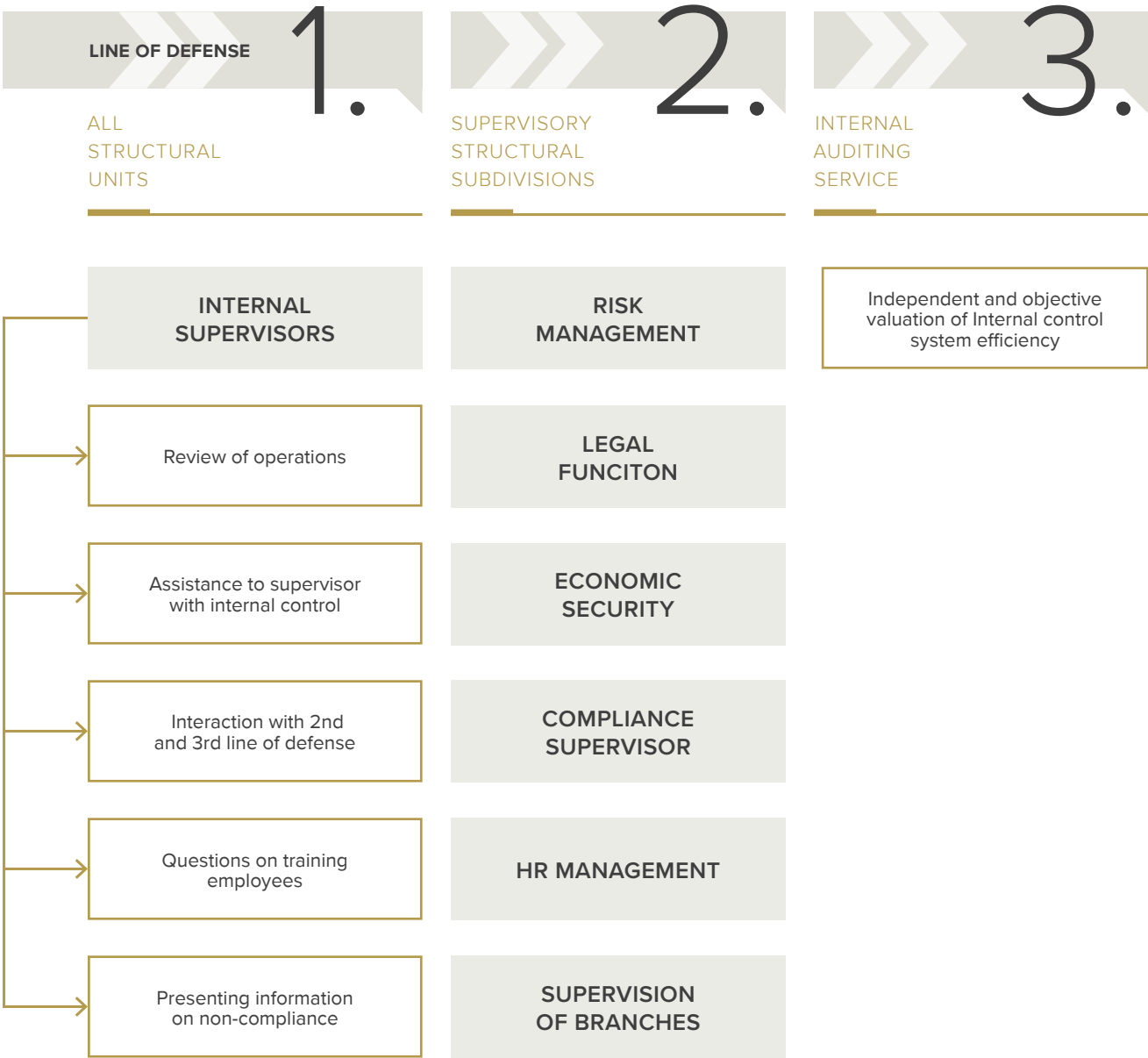
- Policies and procedures
- scope of operations



- detection of significant risks
- formulating the basis of specific control processes

- overall atmosphere
- management style
- delegation of powers and responsibilities
- efficiency of management
- the foundations of control components

## SYSTEM OF INTERNAL CONTROL



# INTERNAL AUDIT SERVICE

The activities of the Internal Audit Service (IAS) are carried out in accordance with the Regulations on the Internal Audit Service and the Internal Audit Organization Rules, based on the application of the Code of Ethics, quality standards and standards of internal auditors established by the International Institute of Internal Auditors.

IAS assists the Board of Directors and the Management Board in fulfilling their obligations to achieve the Company's strategic goals. The purpose of IAS is to provide the Board of Directors with independent and objective guarantees and advice aimed at improving the risk management, internal control and corporate governance systems of the Company.

During 2018, 12 audits were conducted. The audits covered 16 structural divisions of the central office of the Company and 2 branches (an audit of credit and leasing activities, work with distressed debts and others).

According to the results of the inspections conducted, IAS issued appropriate recommendations. IAS monitors the implementation of recommendations and reports on the progress of activities to the Internal Audit Committee and the Board of Directors.

The head of IAS regularly reports to the Internal Audit Committee and the Board of Directors on the results of the conducted internal audit. The Internal Audit Committee discusses the effectiveness of internal audits with the head of IAS.

The Company has a Quality Assurance and Quality Improvement Program for IAS, in accordance with which current and periodic reviews (evaluations) of IAS activities for its compliance with the Regulations on the Internal Audit Service, professional standards, the Code of Professional Ethics, and the efficiency and effectiveness of internal audits were conducted during 2018. audit in terms of meeting the needs of various groups of key persons of the Company.

Internal auditors on an ongoing basis carry out continuous professional development. In particular, IASA specialists have diplomas of the International Institute of Audit and Management IFA (DipFA), a professional accountant of the Republic of Kazakhstan, the head of IAS – an international certificate of internal auditor CIA (part 1/3).

# EQUITY HOLDING STRUCTURE

12

AUDITS CONDUCTED  
IN 2018

At the end of last year, the Company has 82,837,204 placed ordinary shares with a par value of 1,000 tenge.

As of December 31, 2018, the Company has no repurchased shares or shares owned by its subsidiaries.

In the reporting period, the placement of shares, including the primary one, was not made. There were no changes in the composition of shareholders owning shares in the amount of 5 percent or more of the number of outstanding shares.

82,837,204

ORDINARY OUTSTANDING  
SHARES OF THE COMPANY  
AT THE END OF 2018

➤ 82,837,204  
NUMBER OF ANNOUNCED  
ORDINARY SHARES

➤ 1,000  
TENGE  
NOMINAL VALUE OF  
A SINGLE SHARE:

➤ ISSUER'S SHARES WERE  
PAID WITH MONEY

➤ 82,837,204  
THOUSAND  
TENGE  
AMOUNT OF FUNDS RAISED  
FROM ISSUING SHARES  
OF THE ISSUER

➤ 1,000  
TENGE  
SINGLE SHARE  
OFFERING PRICE



# DIVIDENDS

The principles of the dividend policy are determined by the Regulations on the dividend policy (approved by the decision of the Sole Shareholder – the Management Board of KazAgro National Managing Holding JSC No. 35 of June 20, 2012).

**Dividend policy is based on the principles of:**

- strict observance of the rights of the Sole Shareholder stipulated by the legislation of the Republic of Kazakhstan, the Charter of KazAgroFinance JSC, its internal documents and best corporate governance practices;
- the balance of interests of KazAgroFinance JSC and the Sole Shareholder in determining the amount of dividend payments;
- consideration of the interests of the Sole Shareholder and maximization of its assets;
- compliance with the restrictions established by the legislation of the Republic of Kazakhstan and the Charter of KazAgroFinance JSC when deciding on the payment of dividends;
- development of a medium-term and long-term dividend policy in accordance with the basic principles and approaches to the formation of the dividend policy of KazAgroFinance JSC;
- ensuring the motivation of the Board of KazAgroFinance JSC to achieve the planned net income and dividends.

**FOR 2015, 2016 AND 2017, KAZAGROFINANCE JSC PAID THE FOLLOWING DIVIDENDS:**

No.	Item	Unit of measure	2016** (for 2015)	2017 (for 2016)	2018 (for 2017)
1.	Net income (loss)*	ths. tenge	(5,576,683)	3,228,629	3,572,220
2.	Dividends declared during the year	ths.. tenge	-	1,614,314	3,572,220
3.	Dividends paid during the year	ths. tenge	-	1,614,314	3,572,220
4.	Earnings per share ***	Tenge	-	19.49	43.12
5.	Share book value ****	Tenge	1,149.26	1,196.94	1,234.41

\* Net income in the year for which the dividend payment was made.

\*\* Payment of dividends for 2015 was not carried out due to the negative financial statement as a result of the devaluation of the national currency in 2015.

\*\*\* Profit in the year for which the dividend payment was made.

\*\*\*\* Book value in the year for which dividends were paid.

# CORPORATE EVENTS

1. Provision and publication of interim financial statements on the Depository of financial statements (DFS) website

2. Payment of the regular coupon interest on bonds

3. Provision and publication of the annual audited financial statements for 2018 on the DFS and Kazakhstan Stock Exchange JSC on the Internet resource
4. Payment of the regular coupon interest on bonds

5. Provision and publication of information on the total amount of remuneration of members of the executive body for the year on the DFS Internet resource

6. Publication of financial statements review for the first half of 2018 on the of KazAgroFinance JSC website
7. Payment of the regular coupon interest on bonds

8. Submission for consideration of the Sole Shareholder of the issue of the defining an auditing organization to perform an audit of KazAgroFinance JSC for 2018

# RISK MANAGEMENT

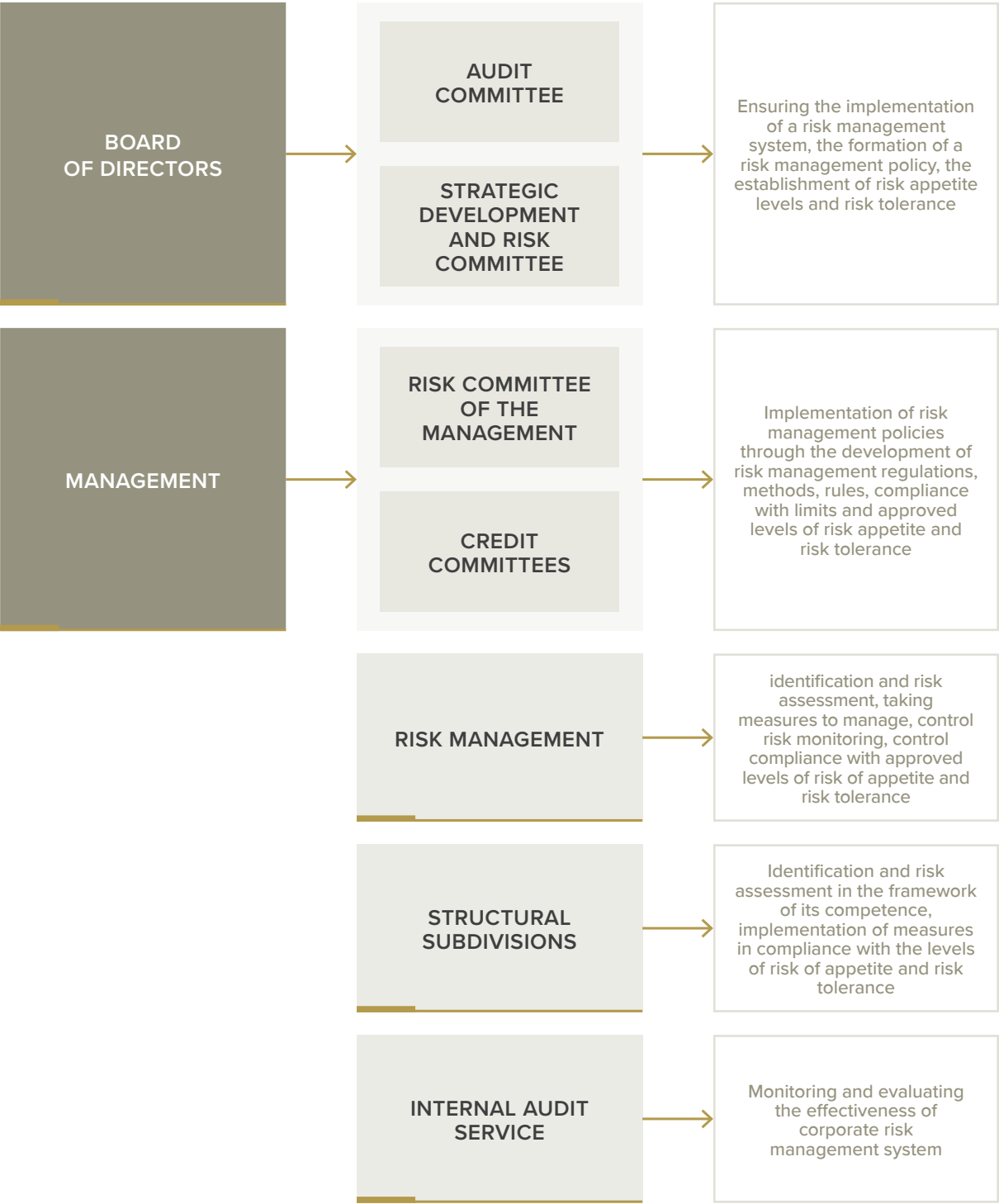
KAZAGROFINANCE JSC HAS A FORMALIZED, DETAILED RISK MANAGEMENT SYSTEM THAT IS DESIGNED TO ENSURE CLEAR IDENTIFICATION, EFFECTIVE MANAGEMENT AND CONTINUOUS MONITORING OF RISKS AND IS AIMED AT ENSURING THE STABILITY OF ACTIVITIES BY LIMITING THE IMPACT OF NEGATIVE FACTORS ON THE ACTIVITIES OF KAZAGROFINANCE.

Risk management in KazAgroFinance JSC is a continuous, continuous process and is carried out at all levels with the involvement of collegial bodies, authorized bodies, structural divisions and employees of the Company.

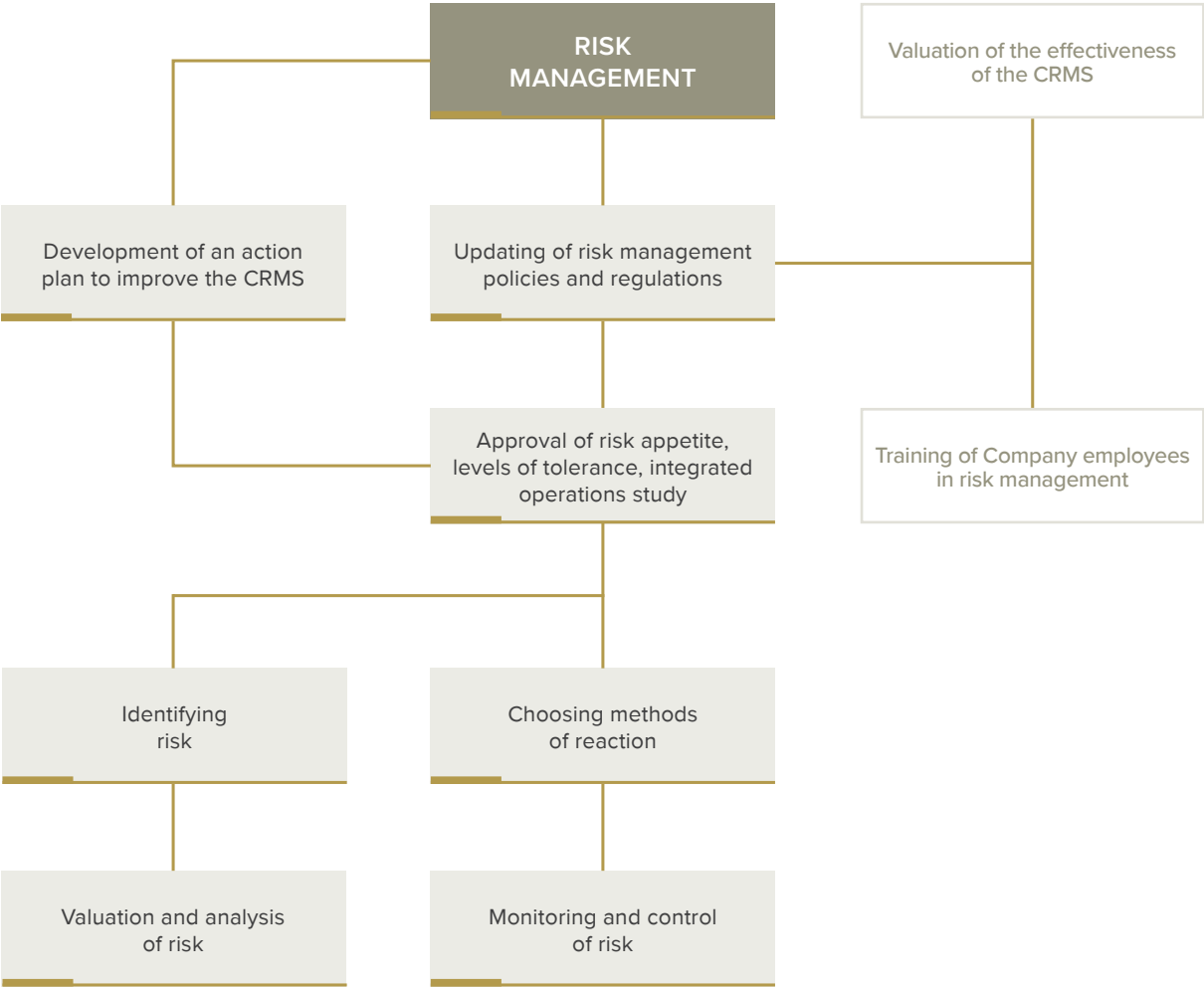
**The main principles of the risk management system are:**

- creation and protection of share capital value;
- systematic, structured and timely;
- awareness;
- work with uncertainty;
- adaptability;
- transparency and complexity;
- response and iteration;
- continuous improvement.

THE MAIN ELEMENTS OF THE ORGANIZATIONAL RISK MANAGEMENT STRUCTURE ARE:



STRUCTURE OF RISK MANAGEMENT ORGANIZATION OF KAZAGROFINANCE JSC



Thus, the risk management system of KazAgroFinance JSC is a set of interrelated components combined into a single process, in which the Board of Directors, the management of the Company and its employees each participate at their own level in identifying potential negative events and opportunities that may affect the business. KazAgroFinance JSC, as well as in managing these events at the level of risk acceptable for key stakeholders.

In KazAgroFinance JSC, risks are constantly identified, assessed and risk management measures developed. The company operates based on a wide range of business-related risks and categorized into strategic risks, credit risks, financial risks, operational risks and legal risks.



SIGNIFICANT RISKS THAT KAZAGROFINANCE JSC WAS EXPOSED TO IN 2018

1.

FINANCIAL RISK – FAILURE TO FULFILL COVENANTS IN THE FRAMEWORK OF BORROWING AGREEMENTS

Considering that in 2018, KazAgroFinance JSC was included in the list of organizations proposed for transfer to the competitive environment in a priority order, as well as the negative outlook on KazAgroFinance JSC, established

by Fitch Ratings, in 2018 there was a probability of non-execution of “change shareholder structure” and “reduction of the long-term foreign currency credit rating from the international rating agency Fitch Ratings below the level “BB-”.

In order to minimize these risks, KazAgroFinance JSC in 2018 took measures for the early repayment of borrowing contracts and the conclusion of borrowing contracts without specified covenants.

2.

CREDIT RISK – INCREASING NPL LEVEL

Implemented through the recognition of financial losses and/or additional accruals of reserves (provisions) to cover possible financial losses on the financial assets of KazAgroFinance JSC arising as a result of a reduction in the solvency of the counterparty.

In order to minimize the credit risks of KazAgroFinance JSC, in 2018, measures were taken to diversify the portfolio, improve the quality of analysis of applications, and monitor the financial condition of borrowers.

3.

OPERATIONAL RISK – IT RISKS

Events that could lead to the realization of IT risk include the incompatibility of IT products in process automation.

Risk factors include:

- availability of licensed software products with closed source codes, which makes it impossible to fix;
- use of different information systems in the business processes of KazAgroFinance JSC.

In order to minimize IT risks, work was carried out on the automation and preconfiguration of information systems.

4.

OPERATIONAL RISK – THE RISK OF IMPLEMENTING IFRS 9

IFRS 9 Financial Instruments published in July 2014 enters into force for annual reporting periods beginning on or after 1 January 2018 (early adoption of the standard is permitted) and replaces the existing IAS 39 “Financial Instruments – recognition and evaluation.

Due to the fact that the requirements of IFRS 9 provide for a complete change in the approach to asset valuation and a change in the approach to calculating the impairment of assets, KazAgroFinance, in order to minimize the risk, a consultant from Deloitte was engaged to provide comprehensive support, provide detailed recommendations and tools for timely and implementation of the requirements of IFRS 9.

KazAgroFinance JSC together with Deloitte consultants developed an approach to calculating the main components of credit risk assessment (PD, LGD, EAD) for

all types of financial instruments, including determining PD for individually assessed assets using credit rating and financial condition assessment methods taking into account forecast information on macro indicators.

In order to reduce the risk of a significant increase in provisions, the Board of Directors developed and approved an Action Plan for the implementation of IFRS 9. Also, under IFRS 9, a methodology for calculating provisions (reserves) and a Methodology for impairment of financial assets were developed.

To move to the new standard, a need arose for automation and introduction of changes to the Company’s accounting systems. KazAgroFinance JSC is implementing a project on automated calculation of reserves in accordance with the developed methodology and the prototype of the calculation module.

In 2018, an Action Plan was developed and approved to improve the corporate risk management system, defining a long-term risk management system development strategy.

In 2019, the development of a risk management system will be ensured by further improving risk management regulations. KazAgroFinance JSC updates the model for assessing credit risks and assigning a credit rating to borrowers. The company will update the limits on currency and interest rate risks, as well as strive to establish additional limits, such as country and industry risks. In the short-term plans, hedging strategy is also developed.

Development of the corporate risk management system of KazAgroFinance JSC will be aimed at building a corporate risk management system that meets modern requirements.



# SUSTAINABLE DEVELOPMENT

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# 3



KAZAGROFINANCE JSC IS AWARE OF THE IMPORTANCE OF ITS INFLUENCE ON THE ECONOMY, ECOLOGY AND SOCIETY AND SEEKS TO ENSURE SUSTAINABLE DEVELOPMENT IN THE LONG TERM, OBSERVING THE BALANCE OF INTERESTS OF STAKEHOLDERS.

Sustainable development in the Company has three components: economic, environmental, and social.

**1. The economic component** directs the Company's activities to ensure the interests of the Sole Shareholder and investors, increase the efficiency of processes, increase investment in the creation and development of more advanced technologies, and increase of labor productivity.

**2. The environmental component** ensures minimization of the impact on biological and physical natural systems, the optimal use of organic resources, use of environmentally friendly, energy- and material-saving technologies, creation of environmentally acceptable products, minimization, processing and disposal of waste.

**3. The social component** is focused on the principles of social responsibility, which among others include: ensuring occupational

safety and preserving health of employees, fair remuneration and respect of the rights of workers, individual development of personnel, implementation of social programs for personnel, creation of new jobs, sponsorship and charity, conducting environmental and educational campaigns.

The company analyzes its activities in three aspects, and also seeks to prevent or reduce the negative impact of its performance on stakeholders.

In accordance with the Corporate Governance Code, the Board of Directors and the Management Board should ensure formation of an appropriate system in the field of sustainable development and its implementation. All employees and officials at all levels contribute to the sustainable development of the Company.

KAZAGROFINANCE JSC ANNUALLY PUBLISHES INFORMATION ON SUSTAINABLE DEVELOPMENT ACTIVITIES IN THE ANNUAL REPORT IN ORDER TO ENSURE CLARITY AND TRANSPARENCY OF ITS ACTIVITIES FOR STAKEHOLDERS.

The company seeks to stimulate and promote implementation of the principles of sustainable development by partners.

# DIALOGUE WITH STAKEHOLDERS

The company identified internal and external stakeholders, and conducted an analysis of their requirements and expectations. KazAgroFinance JSC works on building an effective dialogue with stakeholders and seeks to take their interests into account in decision-making.

Stakeholders	Requirements and Expectations	Interaction Method
Consumers (borrowers), customers	<ul style="list-style-type: none"><li>• Increase of the list of proposed equipment.</li><li>• Simplification of procedures for obtaining services of the Company.</li><li>• Reduction of the interest rate.</li><li>• Reduction of consideration time.</li><li>• Improvement of quality of service by the Company.</li><li>• Obtaining of funding.</li><li>• Consulting assistance in the formation of a package of documents.</li><li>• Timely maintenance and replenishment of the official website of the Company with the necessary information for consumers.</li><li>• Increasing the availability of information about services, offers, promotions.</li><li>• Increasing the number of branches in other cities.</li></ul>	<ul style="list-style-type: none"><li>• Availability of a structural unit for work with clients.</li><li>• Using results of customer satisfaction monitoring at the subsequent conclusion of contracts.</li><li>• Simplification of service delivery procedures.</li><li>• Availability of feedback on the corporate website.</li></ul>
Suppliers	<ul style="list-style-type: none"><li>• Establishment and maintaining long-term partnership relations.</li><li>• Increase in the volume of purchased machinery and equipment.</li><li>• Full and timely receipt of payment for goods and services according to the agreed conditions.</li><li>• Exact description of the brand, model of the leased item requested and its specification.</li></ul>	<ul style="list-style-type: none"><li>• Formation of mutually beneficial partnership through conclusion and fulfillment of contractual obligations.</li><li>• Availability of procurement system.</li><li>• Timely consideration and settlement of complaints and claims of suppliers, production and financial results of the Company.</li><li>• Participation in forums, exhibitions.</li><li>• Implementation of joint projects.</li></ul>
Creditors	<ul style="list-style-type: none"><li>• Investment security, solvency and profitability of the Company with subsequent profit.</li><li>• Timely observance and fulfillment of commitments.</li></ul>	<ul style="list-style-type: none"><li>• Availability of a structural unit engaged in attracting investors.</li><li>• Participation in bilateral, trilateral business negotiations.</li><li>• Signature of agreements, memoranda.</li></ul>

Stakeholders	Requirements and Expectations	Interaction Method
Controlling authorities (National Bank of the Republic of Kazakhstan, State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan, Committee for Financial Monitoring of the Ministry of Finance of the Republic of Kazakhstan, General Prosecutor's Office)	<ul style="list-style-type: none"><li>• Implementation of its activities by the Company in accordance with the legislation, compliance with regulatory requirements.</li><li>• Timely payments to the budget.</li><li>• Fulfillment of prescriptions following the results of regulations.</li></ul>	<ul style="list-style-type: none"><li>• Compliance with the requirements of Kazakhstan legislation.</li><li>• Availability of a separate structural unit that interacts with regulatory authorities.</li><li>• Timely consideration of appeals and execution of regulations.</li></ul>
Competitors (leasing companies)	<ul style="list-style-type: none"><li>• Refusal to establish dumping prices for the services of the Company, to conduct fair competition.</li><li>• Compliance with business ethics, exchange of experience by the Company.</li></ul>	<ul style="list-style-type: none"><li>• Conduct of analysis of the competitive environment.</li><li>• Following the principle of fair competition.</li></ul>
Organizations conducting external audit (Accounts Committee, independent auditor, etc.)	<ul style="list-style-type: none"><li>• Efficient use of funds and other assets of the Company.</li><li>• Compliance with legislation, international, national standards.</li></ul>	<ul style="list-style-type: none"><li>• Availability of a structural unit that interacts with the party.</li><li>• Conclusion of contracts for the provision of consulting and auditing services.</li></ul>
Sole shareholder, governing bodies (Board of Directors, Management Board)	<ul style="list-style-type: none"><li>• Growth of profitability and value of the Company.</li><li>• Investment security.</li><li>• Contribution to the economy.</li><li>• Capacity building for the future development of the Company.</li><li>• Stable growth and development of the Company, achievement of target indicators.</li></ul>	<ul style="list-style-type: none"><li>• Ensuring the rights of the Sole Shareholder under the Charter, the Corporate Governance Code of the Company.</li><li>• Implementation of decisions of the Sole Shareholder.</li><li>• Provision of reliable information on the results of financial and economic activities in accordance with the requirements of the legislation of the Republic of Kazakhstan, the Charter, and internal documents.</li></ul>
Employees	<ul style="list-style-type: none"><li>• Stable and timely payment of wages, bonuses.</li><li>• Satisfactory social package, comfortable and safe working conditions (working hours, vacations), respecting the legal rights of employees.</li><li>• Opportunity for career growth and advanced training.</li></ul>	<ul style="list-style-type: none"><li>• Execution of official powers aimed at achieving the goals and objectives of the Company.</li><li>• Maintenance of an open and transparent, aimed at formation of a qualified and motivated personnel policy.</li><li>• Provision of employees with equal opportunities to realize their capacity in the work process, impartial and fair evaluation of their results, selection and career growth of employees solely on the basis of professional skills, experience and knowledge.</li></ul>

# ECONOMIC IMPACT

The main goal of KazAgroFinance JSC is to support the development of the agrarian sector of the Republic of Kazakhstan by providing agricultural producers with access to funds, as well as agricultural machinery and technological equipment on a leasing basis.

The Company’s activities have direct positive impact on the economy of the Republic of Kazakhstan through the following instruments:

1. leasing of agricultural machinery and equipment;
2. payment of taxes and other payments to the budget;
3. procurement of goods, works and services to ensure activities of the Company;
4. payment of wages to employees of the Company.

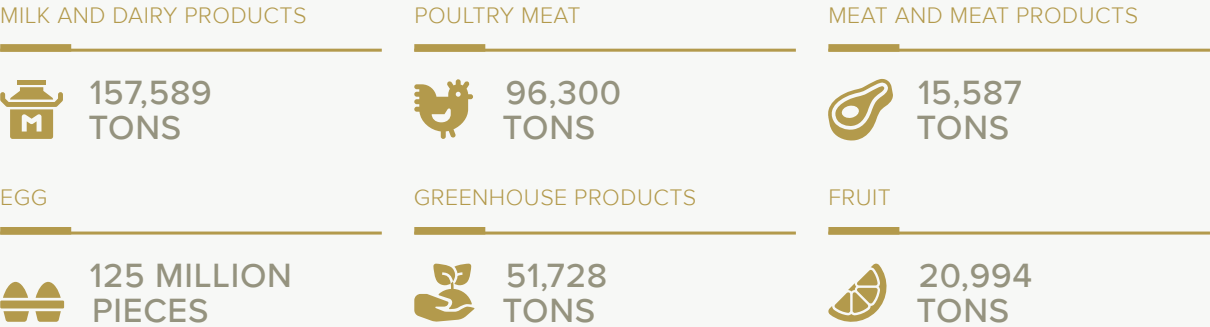
Activities of the Company have indirect positive impact due to the results of the activities of agricultural producers who have received funding from the Company: paying taxes and payments, receiving wages, organizing additional jobs, and producing products.

## ESTABLISHED AND DISTRIBUTED DIRECT ECONOMIC COST, MLN KZT

N°	Article	2018	2017	Change
Established direct economic value				
1.	Revenues	27,587	28,130	-2%
Distributed economic value, including:				
2.	Operating expenses	-1,079	- 1,132	-5%
3.	Salary	-2,481	-2,376	4%
4.	Interest expenses	- 13 607	-14,299	-5%
5.	Taxes except for income	-314	-339	-7%
6.	Corporate income tax	297	66	349%
7.	Other expenses	-3,673	-6,477	-43%
8.	Retained economic value	6,728	3,572	88%



PRODUCTION VOLUMES FOR PROJECTS THAT RECEIVED FUNDING  
IN KAZAGROFINANCE JSC SINCE 2007

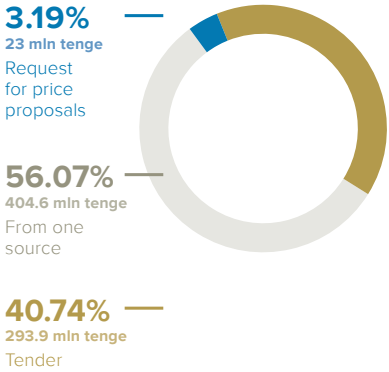


PROCUREMENT PRACTICE

The company is committed to the timely provision of the central office, branches and customers with high-quality goods, works and services. However, KazAgroFinance JSC attaches great importance to an efficient and transparent procurement system.

Procurement procedures in the Company are based on the following principles:

- providing potential suppliers with equal opportunities to participate in the procurement procedure;
- fair competition among potential suppliers;
- publicity and transparency of the procurement process;
- optimal and efficient spending of money used for purchases.



At the same time, the volume of purchased equipment for 2018 for subsequent leasing makes 3,426 units in the amount of 63 billion KZT. It should be noted that the purchase of goods for subsequent transfer to leasing in the implementation of leasing activities in accordance with the legislation of the Republic of Kazakhstan is carried out by a single source method in accordance with the Rules for the procurement of goods, works and services.

721.5 MLN TENGE

ACTUAL VOLUME OF PROCUREMENT OF GOODS, WORKS AND SERVICES (EXCLUDING LEASED ITEMS) IN 2018

385

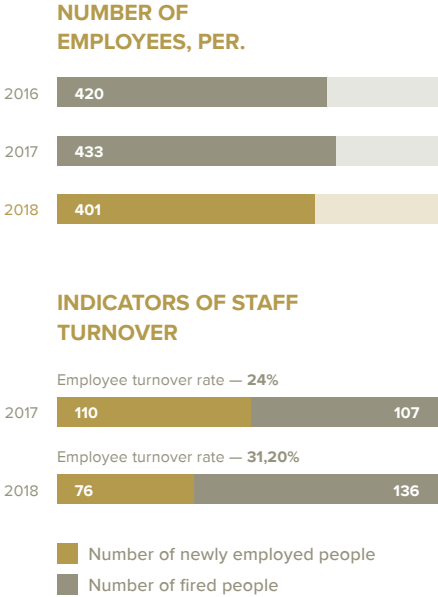
CONTRACTS CONCLUDED

THE SYSTEM OF ORGANIZATION OF EMPLOYEES' LABOR

Qualified, initiative, highly motivated, focused on productive, high-quality work staff is considered as the main asset of KazAgroFinance JSC and an important factor in ensuring competitiveness of the Company.

The main goal of the personnel policy of KazAgroFinance JSC is the creation and improvement of an effective personnel management system based on attracting, developing and motivating highly qualified employees to achieve the strategic goals of the Company.

THE BASIS FOR IMPLEMENTATION OF PERSONNEL POLICY IS THE PRESENCE OF AN EFFECTIVE ORGANIZATIONAL STRUCTURE AND AN OPTIMAL PERSONNEL STRUCTURE.



At the end of 2018, 401 people worked at the Company. 51% (212 people) of the average number of

personnel are women, 49% (198 people) are men. All employees have a university degree. Youth (employees up to 29 years old) make 19% of the number of staff. Reduction in the number of employees is associated with the approval of a new organizational structure within the framework of optimizing staffing and administrative costs.

The social policy of KazAgroFinance JSC is aimed at the development of socio-economic conditions for employees within the exercise of their constitutional rights in accordance with the legislation of the Republic of Kazakhstan.

The minimum period for notifying employees about important changes in the Company is one month.

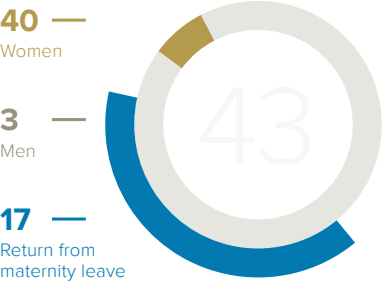
19%

YOUNG STAFF (WORKERS YOUNGER THAN 29 YEARS OLD)

The company provides a high level of social protection for employees, creates conditions for their full-fledged activities and receiving adequate remuneration for work, provides opportunities for professional, personal and career growth and thus increases the interest of employees in the long-term, effective and fruitful relationships with the Company, resulting in high labor efficiency.

The goal of the social policy of KazAgroFinance JSC is to develop the social orientation of the Company and consistently increase in the standard of living of employees, ensure universal access to basic social benefits, as well as a favorable psychological climate in the team.

MATERNITY LEAVE RATES IN 2018



- The management of KazAgroFinance JSC provides the following social and other guarantees for employees:**
- implementation of the labor legislation of the Republic of Kazakhstan;
  - workplace in accordance with the requirements of safety and labor protection;
  - compulsory insurance of civil liability of the employer for causing harm to the life and health of the employee in the performance of job duties;
  - voluntary medical insurance;
  - paid labor leave;
  - payment of material assistance to employees at the birth (adoption) of a child, marriage of an employee and death of spouse of an employee or close relatives;
  - time-rate-plus-bonus payment system;
  - compensation payments when attracting employees on weekends and holidays;
  - payment when employees are on business trips;
  - possibility of vocational training and advanced training.

Successful implementation of social policy contributes to staff motivation and competitiveness of KazAgroFinance JSC, as well as strengthening the image of a responsible employer and a socially oriented organization.

THE PROCESS OF STAFF TRAINING AND DEVELOPMENT, MOTIVATION AND STIMULATION

The high level of professionalism of employees is maintained and developed in the system of continuous training and advanced training through the consistent development of knowledge and skills.

To ensure a high level of personnel potential, employees undergo training and advanced training in the form of mentoring, on-the-job training, take part in various seminars, conferences, roundtables, trainings, and pass special training courses.

The desire of employees to improve their skills is supported and stimulated by the leadership of KazAgroFinance JSC both morally and financially.

The needs of KazAgroFinance JSC for training, staff development depend on internal and external factors: changes in strategic objectives, changes in legislation, the introduction of new programs, setting new tasks and goals for employees, etc.

The number of employees covered by the system of training, advanced training, in 2018 amounted to 320 people.

- The main employee training programs for 2018:**
- “Internal Control: The Basics of Theory and Practice”
  - “Corporate Secretary Certification Program”
  - “Professional Risk Manager (PRM)”
  - “Organization risk management”
  - “Problem debt: ways and methods of solution
  - “The National Component of a Certified Money Laundering Program”
  - “Basics of accounting and analysis of financial statements”
  - “Project Management I-II”
  - “Corporate Governance: Basics and Practical Aspects”
  - “Resolution of labor disputes in the conciliation commission”, “Fundamentals of labor law and the ability to negotiate”
  - “Contract Law”, “Corporate Lawyer”

- “Food safety in accordance with the HACCP system at processing plants. Veterinary sanitary examination. Product certification and sampling
- “Training and qualification exam for the ACCA DiplFR international financial reporting diploma (rus)”
- “Financial Manager: Corporate Finance, Financial Modeling, Evaluation of Investment Projects and Business Value”

The development of an effective system of motivation and incentives for staff ensures the direct and stable interest of each employee in achieving personal productivity.

The main component of the system of motivation and incentives for employees of KazAgroFinance JSC is the mechanism of monetary remuneration for work. The procedure and mechanisms of remuneration and staff motivation are governed by internal acts of the Company. Employee motivation tools also include:

- the possibility of vocational training and advanced training: rotation of personnel, training during working hours and discontinuing from production, participation in seminars, advanced training courses;
- open prospects for further career growth;
- social security of workers;
- creation of safe and comfortable working conditions;
- favorable working conditions in a team. Adaptation system for newly hired employees;
- transmission of corporate culture values: regular meetings with the management of KazAgroFinance JSC, surveys;
- awarding letters of appreciation.

Employees of KazAgroFinance JSC work to create a positive image both within the Company and in relations with other organizations, government and other bodies, contribute to the development of patriotism, education and promotion of corporate and a positive social and psychological atmosphere in the team.

SPORTS AND RECREATIONAL ACTIVITIES

KazAgroFinance JSC holds special corporate leisure activities – team building, which is aimed at team building, creating team working methods and is one of the promising models of corporate management, ensuring the full development of the Company. In 2018, KazAgroFinance JSC held 2 team building with coverage of more than 300 people. In addition, sports events are held.

7.8 MLN TENGE

SENT IN 3 YEARS TO CONDUCT RECREATIVE SPORTS





# INFORMATION POLICY

In order to comply with the information disclosure standards, the Company is guided by the legislation of the Republic of Kazakhstan in the field of the securities market, joint-stock companies, Listing Rules, a decree of the National Bank of the Republic of Kazakhstan, as well as other documents in the field of transparency of information disclosure.

The company informs the Sole Shareholder about corporate events by posting on the Internet

resources of the Kazakhstan Stock Exchange, the Depository of Financial Statements, the corporate Internet resource and the portal of KazAgro Holding on the principle of “one window”, that is, through one structural unit.

The policy of disclosing information about the Company’s activities determines the goals and principles, forms and methods of disclosing information, determines the circle of persons (bodies) responsible for disclosing information, a list of

publicly available information subject to disclosure to interested parties, and a list of information constituting commercial, official and other protected information. the law of the secret.

The Company is also guided by the Instruction on the order of disclosure of information on the activities of KazAgroFinance JSC, which determines the procedure for providing and placing information on Internet resources, the responsibility of the Company’s structural divisions

# SPONSORSHIP AND CHARITY

KazAgroFinance JSC on a permanent basis provides charitable and sponsorship assistance to the least protected segments of the population, and also supports specialized non-profit organizations (boarding schools, pre-school children, secondary schools, vocational and higher education institutions, research organizations, etc. ).

For 3 years, KazAgroFinance JSC has been provided with charitable and sponsorship assistance in the amount of 26 million tenge. In 2018, the Company provided sponsorship in the amount of 5 million tenge, including funds in the amount of 3 million tenge allocated to assist in the treatment of children of the Company’s employees and 2 million tenge was allocated to support the MUIF “Meat Union of Kazakhstan”.

for providing and placing information, the structure of the Company’s annual report.

In 2018, information on 103 corporate events was posted on the Kazakhstan Stock Exchange website, and on the website of the Financial Reporting Depository – about 56. For the specified period of time, KazAgroFinance JSC was not brought to administrative responsibility for violation of the deadlines for providing information designated by the legislation of the Republic of Kazakhstan. On corporate Internet resources of KazAgroFinance JSC in 2018, all tabs are updated on an ongoing basis depending on changes in the norms of the legislation of the Republic of Kazakhstan, internal documents regulating the credit and other activities of KazAgroFinance JSC. There were no violations on the placement of information on corporate Internet resources.

**In January 2018, the Company approved the Plan of advertising and public relations of KazAgroFinance JSC for 2018, according to which the following activities were implemented:**

- 1. organized a roundtable on the topic “Technical equipment – the basis of growth in the agricultural sector”
- 2. initiated and posted more than 50 publications on popular web resources;
- 3. during the year, materials on the activities of the KAF were published in the republican and regional media;
- 4. 20 videos were made and posted;
- 5. 30 infographics were made and placed;
- 6. periodically posted press releases;
- 7. 3 press tours were held;
- 8. participation in exhibitions AgriTek Astana, KazFarm-2018, AgritekShymkent-2018;
- 9. taken part in Agroforum, other thematic events, Field Days, etc.

26 MLN  
TENGE

AMOUNT OF THE  
CHARITABLE AND  
SPONSORSHIP ASSISTANCE  
IN 3 YEARS





## ENVIRONMENTAL PROTECTION

KazAgroFinance JSC actively promotes the introduction of the country's agriculture and the development of "green" technologies that protect the environment and human health, contribute to the conservation of natural resources, increase production efficiency, and hence the competitiveness of products.

At present, some of the funded projects use such "green" technologies as a reverse osmosis system – a unique water

treatment system, a return drainage system, biocomplexes intended for processing manure and litter, irrigation of pastures, as well as alternative energy sources (wind generators and solar batteries).

The acquisition of agricultural machinery is carried out by the Company directly from manufacturers who are closely monitoring the observance of technological requirements and environmental standards in production.

## ABOUT THE REPORT

The annual report on the results of the Company's activities for 2018 is the 16th in a row since the introduction of the practice of issuing reports. In the course of information disclosure in each annual report, we strive to follow the best international practices, international and Kazakhstan standards and norms, and also take into account the opinions and wishes of interested parties. This annual report has been prepared in accordance with GRI Standards (core compliance level). In preparing the document, we followed the recommendations and requirements of the Kazakhstan Stock Exchange.

This annual report tells about the results of our activities, achievements and successes, it highlights issues of corporate governance and sustainable development, in addition, you will find information about the Company's plans and strategic objectives for the near future.

Annual reports of the Company are prepared on an annual basis. **This annual report reflects the results of the Company's operations from January 1, 2018 to December 31, 2018.** The previous annual report was published in July 2018.

In December 2018, the Company celebrated the 19th anniversary of its work in the leasing market in the agro-industrial complex. An important news was the adoption of an official government decree on excluding the Company from the privatization list. During its history, the Company holds a dominant position in the market and is recognized by the majority of domestic farmers, suppliers of agricultural equipment and the public.



# DEFINING THE REPORT CONTENTS

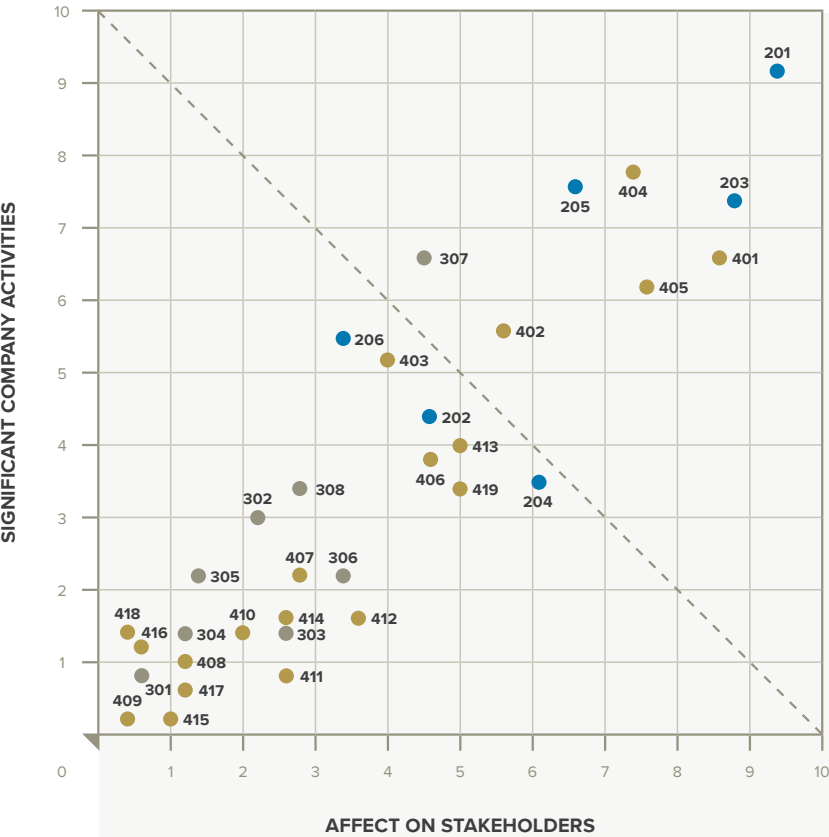
In preparing this annual report, we applied the materiality principle of the GRI Standards, and also took into account the opinions and expectations of interested parties. This helped to ensure high-quality disclosure.

We consider as significant those issues where, firstly, the Company's impact on the environment is great in the broad sense of the term, and secondly, there is a significant impact on stakeholders.

The materiality analysis included an internal assessment of the Company's impact in the economic, environmental and social spheres, as well as an assessment of the importance of topics from the point of view of stakeholders, which was exhibited based on the results of interaction with stakeholders.

In accordance with the expectations of stakeholders and estimates within the Company, topics were ranked by degree of materiality and plotted on the Materiality Matrix. This annual report covers the topics that fall into the upper right corner of the Matrix, since they were recognized as the most significant. All topics have an impact both inside and outside the organization.

MATERIALITY MATRIX



LIST OF SUSTAINABLE DEVELOPMENT TOPICS

Topic	GRI standards
<b>Economics</b>	
economic effectiveness	201
market presence	202
indirect economic effects	203
procurement practices	204
Anticorruption	205
corruption hinderance	206
<b>Environment</b>	
materials	301
Energy	302
water	303
biodiversity	304
Emissions	305
waste and waste products	306
compliance to environmental protection laws	307
environmental valuation of suppliers	308
<b>Society</b>	
employment	401
relations between employees and management	402
health and safety at the workplace	403
training and education	404
diversity and equal opportunities	405
prevention of discrimination	406
freedom of association and collective negotiation	407
child labor	408
forced or compulsory labor	409
safety procedures	410
rights of native and minority persons	411
Observance of human rights	412
local communities	413
valuation of the effects of suppliers on society	414
government policy	415
health and safety of the customer	416
product and services labeling	417
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Essential subjects

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FOR 2018

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Statement of cash flows .....	113

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018, IN THOUSANDS OF TENGE

	Note	31 December 2018	31 December 2017
<b>Assets</b>			
Cash and cash equivalents	5	44.798.305	41.239.167
Amounts due from credit institutions	6	–	149.809
Loans to customers	7	43.004.358	45.066.761
Finance lease receivables	8	186.617.217	183.288.007
Property held for finance lease	9	10.740.178	5.131.712
Current corporate income tax assets	17	175.427	125.579
Property and equipment	10	995.816	1.040.490
Intangible assets	11	554.969	530.043
VAT and other taxes recoverable	12	3.891.038	3.106.338
Advances paid	13	7.190.060	2.558.452
Other assets	20	966.510	576.406
<b>Total assets</b>		<b>298.933.878</b>	<b>282.812.764</b>
<b>Liabilities</b>			
Amounts due to the Shareholder	14	67.232.037	75.539.402
Amounts due to credit institutions	15	41.807.710	40.429.623
Debt securities issued	16	64.596.068	46.969.316
Deferred corporate income tax liabilities	17	1.338.197	1.669.304
Advances received	18	4.263.925	3.555.199
Deferred VAT liabilities		5.070.632	3.979.227
Other liabilities	20	8.275.597	7.885.742
<b>Total liabilities</b>		<b>192.584.166</b>	<b>180.027.813</b>
<b>Equity</b>			
Share capital	21	82.837.204	82.837.204
Additional paid-in capital	21	25.730.293	24.912.791
Reserve funds	21	1.436.184	1.436.184
Provision for notional distribution	21	(9.605.611)	(9.542.733)
Retained earnings		5.951.642	3.141.505
<b>Total equity</b>		<b>106.349.712</b>	<b>102.784.951</b>
<b>Total liabilities and equity</b>		<b>298.933.878</b>	<b>282.812.764</b>
<b>Book value per common share (in tenge)</b>			
	21	1.277,14	1.234,41

Signed and authorised for issue on behalf of the Management Board of the Company:

Izbastin Kanysh Temirtayevich

Shodanova Gulnara Takishevna

15 April 2019



*[Handwritten signature of Izbastin Kanysh Temirtayevich]*  
*[Handwritten signature of Shodanova Gulnara Takishevna]*

Chairman of the Management Board

Chief accountant



STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2018, IN THOUSANDS OF TENGE

	Note	2018	2017*
<b>Interest revenue calculated using effective interest rate</b>			
Cash and cash equivalents		1.486.056	1.953.413
Loans to customers		4.491.387	6.184.998
Investment securities		173.417	–
		6.150.860	8.138.411
<b>Other interest revenue</b>			
Finance lease receivables		19.995.116	18.966.880
		19.995.116	18.966.880
<b>Total interest income</b>		<b>26.145.976</b>	<b>27.105.291</b>
<b>Interest expenses</b>			
Due to the Shareholder		(5.150.325)	(5.990.768)
Debt securities issued		(4.859.740)	(4.551.325)
Due to credit institutions		(3.597.104)	(3.757.399)
<b>Total interest expense</b>		<b>(13.607.169)</b>	<b>(14.299.492)</b>
<b>Net interest income</b>		<b>12.538.807</b>	<b>12.805.799</b>
Credit loss expense	19	(2.818.840)	(3.440.540)
<b>Net interest income after credit loss expense</b>		<b>9.719.967</b>	<b>9.365.259</b>
Net losses from transactions with derivative financial assets		–	(786.945)
Net gains/(losses) from foreign currencies		469.670	(1.274.414)
Other income	23	970.887	1.024.387
Personnel expenses	24	(2.729.776)	(2.620.500)
Other operating expenses	24	(913.138)	(1.034.092)
Net loss from modification of loans to customers	7	(664.681)	(599.402)
Other impairment and provision expenses	19	(189.906)	(376.102)
Depreciation and amortisation	10, 11	(231.506)	(192.108)
<b>Non-interest expenses</b>		<b>(3.288.450)</b>	<b>(5.859.176)</b>
<b>Profit before corporate income tax expense</b>		<b>6.431.517</b>	<b>3.506.083</b>
Corporate income tax benefit	17	296.855	66.137
<b>Profit for the year</b>		<b>6.728.372</b>	<b>3.572.220</b>
<b>Basic and diluted earnings per common share (in tenge)</b>	<b>21</b>	<b>81,22</b>	<b>43,12</b>

\* Certain amounts in this column do not conform to 2017 financial statements, as they reflect the reclassifications made and disclosed in Note 2.

Signed and authorised for issue on behalf of the Management Board of the Company:

Izbastin Kanysh Temirtayevich



*[Handwritten signature of Izbastin Kanysh Temirtayevich]*

Chairman of the Management Board

Shodanova Gulnara Takishevna

15 April 2019

Chief accountant

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018, IN THOUSANDS OF TENGE

	Note	2018	2017
<b>Profit for the year</b>		<b>6.728.372</b>	<b>3.572.220</b>
Other comprehensive income for the year		–	–
<b>Total comprehensive income for the year</b>		<b>6.728.372</b>	<b>3.572.220</b>

Signed and authorised for issue on behalf of the Management Board of the Company:

Izbastin Kanysh Temirtayevich



*[Handwritten signature of Izbastin Kanysh Temirtayevich]*

Chairman of the Management Board

Shodanova Gulnara Takishevna

15 April 2019

Chief accountant

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018, IN THOUSANDS OF TENGE

	Share capital	Additional paid-in capital	Reserve funds	Provision for notional distribution	Retained earnings	Total
<b>As at 31 December 2016</b>	<b>82.837.204</b>	<b>23.282.853</b>	<b>1.436.184</b>	<b>(9.372.015)</b>	<b>1.183.599</b>	<b>99.367.825</b>
Total comprehensive income for the year	–	–	–	–	3.572.220	3.572.220
Gain on initial recognition of loans due to the Shareholder at fair value, net of tax (Note 21)	–	1.629.938	–	–	–	1.629.938
Dividends declared (Note 21)	–	–	–	–	(1.614.314)	(1.614.314)
Provision for notional distribution for the year, net of tax (Note 21)	–	–	–	(170.718)	–	(170.718)
<b>As at 31 December 2017</b>	<b>82.837.204</b>	<b>24.912.791</b>	<b>1.436.184</b>	<b>(9.542.733)</b>	<b>3.141.505</b>	<b>102.784.951</b>
<b>Impact of adopting IFRS 9 (Note 3)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(346.015)</b>	<b>(346.015)</b>
Restated opening balance under IFRS 9	82.837.204	24.912.791	1.436.184	(9.542.733)	2.795.490	102.438.936
Total comprehensive income for the year	–	–	–	–	6.728.372	6.728.372
Gain on initial recognition of loans due to the Shareholder at fair value, net of tax (Note 21)	–	817.502	–	–	–	817.502
Dividends declared (Note 21)	–	–	–	–	(3.572.220)	(3.572.220)
Provision for notional distribution for the year, net of tax (Note 21)	–	–	–	(62.878)	–	(62.878)
<b>As at 31 December 2018</b>	<b>82.837.204</b>	<b>25.730.293</b>	<b>1.436.184</b>	<b>(9.605.611)</b>	<b>5.951.642</b>	<b>106.349.712</b>

Signed and authorised for issue on behalf of the Management Board of the Company:

Izbastin Kanysh Temirtayevich



Chairman of the Management Board

Shodanova Gulnara Takishevna

Chief accountant

15 April 2019

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018, IN THOUSANDS OF TENGE

	Note	2018	2017
<b>Cash flows from operating activities</b>			
Interest received		22.968.078	23.717.641
Interest paid		(9.941.005)	(10.307.315)
Realised gains less losses from transactions with derivative financial assets		–	42.121
Realised losses less gains from dealing in foreign currencies		(123.105)	(107.662)
Personnel expenses paid		(2.689.031)	(2.788.270)
Other operating expenses paid		(882.191)	(995.693)
Other income received		453.882	318.740
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>9.786.628</b>	<b>9.879.562</b>
<i>Net (increase)/decrease in operating assets:</i>			
Amounts due from credit institutions		–	532.728
Loans to customers		2.187.468	7.561.478
Finance lease receivables		(7.826.399)	17.276.929
VAT and other taxes recoverable		(784.700)	(1.232.312)
Advances paid		(4.644.534)	(2.256.264)
Other assets		(126.120)	(794.817)
<i>Net increase/(decrease) in operating liabilities:</i>			
Advances received		792.588	1.052.974
Other liabilities		(905.603)	445.659
<b>Net cash flows (used in) / from operating activities before corporate income tax</b>		<b>(1.520.672)</b>	<b>32.465.937</b>
Corporate income tax paid		(232.401)	(293.319)
<b>Net cash flows (used in) / from operating activities</b>		<b>(1.753.073)</b>	<b>32.172.618</b>

<b>Cash flows from investing activities</b>			
Purchase of property and equipment and intangible assets	10, 11	(211.840)	(537.062)
Proceeds from sale of property and equipment		795	4.526
<b>Net cash used in investing activities</b>		<b>(211.045)</b>	<b>(532.536)</b>

<b>Cash flows from financing activities</b>			
Proceeds from loans due to the Shareholder		11.232.415	6.653.248
Repayment of loans due to the Shareholder		(22.971.379)	(18.511.028)
Proceeds from loans due to credit institutions		19.000.000	11.220.884
Repayment of loans due to credit institutions		(17.617.865)	(10.953.506)
Proceeds from debt securities issued		17.250.959	–
Dividends paid to the Shareholder	21	(3.572.220)	(1.614.314)
<b>Net cash from / (used in) financing activities</b>		<b>3.321.910</b>	<b>(13.204.716)</b>



STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018, IN THOUSANDS OF TENGE (continue)

	Note	2018	2017
Effect of exchange rate changes on cash and cash equivalents		2.202.417	(186.090)
Effect of changes in expected credit losses on cash and cash equivalents	5	(1.071)	–
Net increase in cash and cash equivalents		3.559.138	18.249.276
Cash and cash equivalents, beginning of the year	5	41.239.167	22.989.891
Cash and cash equivalents, ending of the year	5	44.798.305	41.239.167
Non-cash transactions			
Offsetting of current corporate income tax assets against other tax liabilities		–	300.000

Signed and authorised for issue on behalf of the Management Board of the Company:

Izbastin Kanysh Temirtayevich



Chairman of the Management Board

Shodanova Gulnara Takishevna



Chief accountant



15 April 2019

GRI INDEX

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GRI 307 (2016): COMPLIANCE WITH THE REQUIREMENTS			
307-1	The monetary value of significant fines and the total number of non-financial sanctions imposed for non-compliance with environmental laws and regulations	There are no cases of violation of environmental legislation.	–
SOCIAL TOPICS			
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405-1	The composition of the governing bodies and the main categories of staff of the organization, disaggregated by sex, age groups, belonging to minority groups and other signs of diversity	The system of organization of employees' labor	99



# GLOSSARY

AIC	agro-industrial complex
GDP	gross domestic product
F&L	fuels and lubricants
GE	Government entity
DFS	Depository of financial statements
KAF, Company	KazAgroFinance JSC
MPI	Municipal Public Institution
KPI	key performance indicator
CG	corporate governance
IFRS	International Financial Reporting Standards
MoA	Ministry of Agriculture
CXT	agricultural producer
ROA	return on assets
ROE	return on equity
NPL	Nonperforming loan

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