КАЗАҚСТАН ИПОТЕКАЛЫҚ КОМПАНИЯСЫ

«Қазақстан Ипотекалық Компаниясы» ИҰ» АҚ
А05Е3В4, Қазақстан Республикасы, Алматы қ., Алмалы ауданы, Қарасай батыр к-сі, 98

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№ 11-16/8123

Председателю Правления АО
«Казахстанская Фондовая Биржа»
г-же Алдамберген А.Ө.

Уважаемая Алина Өтемісқызы!

АО «ИО «Казахстанская Ипотечная Компания» (далее – Компания) пользуясь, случаем желает Вам успехов в работе.

Согласно п.11 Таблицы 6 Листинговых правил, утвержденных АО «Казахстанская фондовая биржа» Компания информирует, что 15.08.2019г. Международное рейтинговое агентство Moody's подтвердило долгосрочный и краткосрочный рейтинги Компании в национальной и иностранной валюте на уровне Baa3, а также рейтинг эмитента по национальной шкале на уровне Aa1.kz. Прогноз по эмитенту остается стабильным.

Заместитель
Председателя Правления **Жусупов М.Г.**

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CREDIT OPINION
15 August 2019

New Issue

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RATINGS

Kazakhstan Mortgage Company JSC

Domicile	Kazakhstan
Long Term Rating	Baa3
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Kazakhstan Mortgage Company JSC

Update to credit analysis

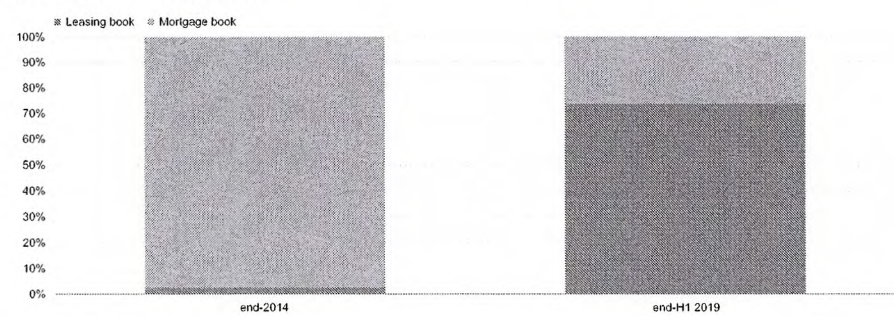
Summary

We assign Baa3 long-term local- and foreign-currency issuer ratings to Kazakhstan Mortgage Company JSC (KMC). The ratings incorporate a four-notch uplift from the issuer's standalone assessment of b1, reflecting our assessment of very high affiliate support and very high dependence on its parent, Baiterek National Management Holding, JSC (Baiterek, Baa3 stable), which is 100% owned by the Government of Kazakhstan (Baa3 stable). KMC has a special legal status, as well as a good track record of receiving government funding and capital.

KMC's ratings benefit from its public policy role as a national development institution with a special mandate to develop residential housing in the country, including mortgage lending and social housing rent. It ensures that KMC has a secure business niche with above-average asset quality, as well as good access to capital, while cheap government funding supports its profitability.

KMC's b1 standalone assessment reflects credit strengths such as (1) its policy role, which allows it to operate under favourable government programmes, and (2) good capitalisation and profitability. KMC faces credit challenges such as its (1) limited business diversification and rapid shift of business focus over the recent past, resulting in relatively unseasoned portfolios; (2) exposure to the volatile real estate sector, which has the potential to strain its asset quality, business volume and revenue; and (3) potentially vulnerable liquidity.

Exhibit 1
KMC's business composition



Source: IFRS

Credit strengths

» Benefits from its public policy role as well as parental and government support

» Good asset quality, which will likely experience some strain as the leasing book seasons

» Good capitalisation, which fully absorbs credit risks

» Profitability supported by cheap government funding and low costs

Credit challenges

» Potential strain from refinancing needs

» Limited business diversification, with a rapid shift of its business focus over the recent past, resulting in relatively unseasoned portfolios

Outlook

The current outlook on KMC's ratings is stable, in line with the outlook on Baiterek's ratings.

Factors that could lead to an upgrade

The upside potential of the issuer's ratings is constrained by those of Baiterek, given that they are at the same level.

We would consider an upward movement of KMC's standalone credit profile if its financial fundamentals strengthen, in particular its liquidity and asset quality. However, an improvement in KMC's standalone credit strength is likely to just compress the currently applicable four-notch rating uplift, given that its Baa3 issuer ratings are at the level of Baiterek.

Factors that could lead to a downgrade

KMC's long-term ratings could be downgraded in case of a lowering of Baiterek's ratings or reduced support assumptions for KMC.

Downward pressure could be exerted on KMC's standalone credit profile and issuer ratings as a result of (1) a material deterioration in the company's asset quality, or (2) strain on its liquidity.

Key indicators

Exhibit 2

Kazakhstan Mortgage Company JSC

	2019' Q1	2018' A	2017' A
Total managed assets	259,228.45	267,402.51	250,554.75
Net Income / Average Managed Assets	3.40%	1.80%	1.46%
Tangible Common Equity (Finance) / Tangible Managed Assets	24.68%	23.08%	23.42%
Problem Loans / Gross Loans (Finance)	NA	4.27%	2.73%
Net Charge-offs / Average Gross Loans and Leases	0.00%	0.07%	(0.11%)
Debt Maturities Coverage	NA	296.61%	102.04%
Secured Debt / Gross Tangible Assets	2.46%	6.21%	6.35%

[1]All figures and ratios are adjusted using Moody's standard adjustments. [2]IFRS. [3]May include rounding differences due to scale of reported amounts.
Moody's Financial Metrics

Profile

KMC was created by the National Bank of Kazakhstan (NBK) in 2000 for the financing of housing construction and development of the mortgage market. From 2013, the company was 100% owned by the government through its immediate parent, Baiterek, when key development institutions were aggregated under the holding company's umbrella. Baiterek is a 100% government-owned institution, which was created to better manage the activities of development institutions and to streamline the government financing of key non-oil industries.

Among Baiterek's subsidiaries, KMC's policy role is focused on supporting the construction of residential housing under the state programme, Nurly Zher, and the development of the mortgage market, including under the NBK programme. Residential housing is one of Baiterek's five key strategic pillars and in which KMC is active together with other key subsidiaries of Baiterek: House Construction Saving Bank of Kazakhstan JSC (Baa3 stable) and Baiterek Development. As of year-end 2018, KMC was the fifth-largest subsidiary in the group, with its total assets accounting for around 6% of the holding company's consolidated assets.

KMC's mortgage lending activities include the following: (1) developing the mortgage market via purchasing of mortgage portfolios from banks using funds it received from issued bonds in the local market as well as by attracting state funds, (2) providing mortgage loans to people under beneficial interest rates, and (3) subsidising mortgage lending by commercial banks (using government funds). The mortgage portfolio accounted for around 20% of total assets as of the end of the first half of 2019, down from over 50% several years earlier. The reasons for this decline were (1) the reduction in mortgage activities because of peculiarities of regulation, which makes the product risky for banks (for example, the difficult expropriation of collateral and unfavourable order of payments under court decisions); and (2) the lack of long-term and cheap funding. Some of these regulatory peculiarities have been resolved recently. In addition, interest rates may finally start declining because of the more active investment of Kazakh pension funds.

Another one of KMC's key activities is social housing rent, which accounted for 55% of total assets as of the end of H1 2019. It was initiated in 2014 and has grown considerably. The company financed the construction of social housing, which was subsequently leased to the public using preferential rates. This activity has been fully financed by the government via government funding and capital. The company expects the stabilisation of this financial lease portfolio because of the lack of new programmes in the next 12 months.

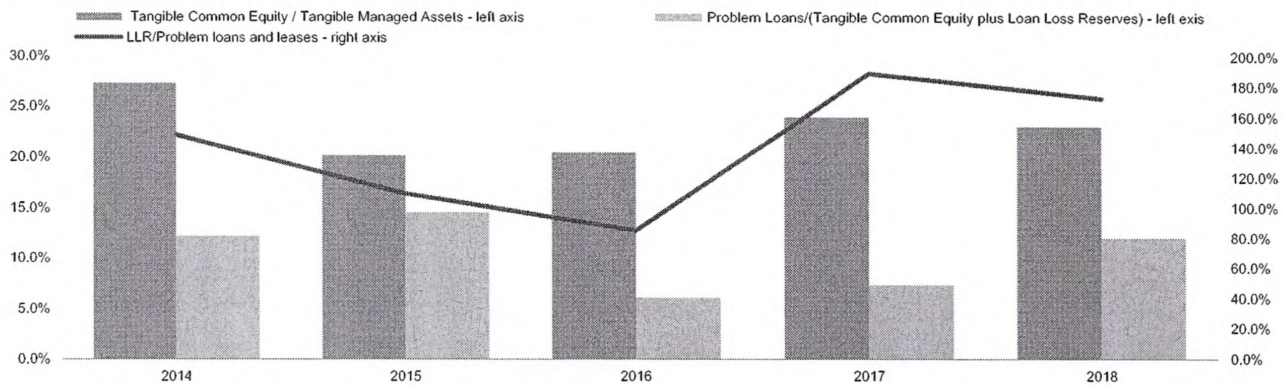
Detailed credit considerations

Good capitalisation that fully absorbs credit risks

We adjust KMC's Capital Adequacy and Leverage score of A2 to A3 to reflect potentially higher leverage because the company has plans for growth.

KMC's capital buffer and income generation capacity are sufficient to absorb the potential losses from its portfolio of loans and leases. We expect KMC's tangible common equity/tangible managed assets to remain above 20% as of year-end 2019, as it has historically been for the last several years. The Texas ratio (problem loans/[tangible common equity + loan-loss reserve]) was very comfortable at 13% as of year-end 2018, which means capital was more than adequate to cover credit risks. As shown in Exhibit 3, problem loans are also comfortably covered by loan-loss reserves. The need for additional capitalisation is significantly shaped by new business volume or need for funding, rather than addressing a need for new provisions for losses. The parent has been providing capital to the company to support its business activity.

Exhibit 3
Capitalisation is adequate to cover credit risks



As of 2017 and 2018, problem loans and leases are those classified as Stage 3 under IFRS 9. For previous periods, problem loans and leases are those that are 30+ days overdue.
Source: IFRS

Good asset quality, which will likely experience some strain as the leasing book seasons

We assign a Baa3 weighted average Asset Risk score, which is two notches below its historical level, to reflect the seasoning of the leasing portfolio and growth in the more risky mortgage book.

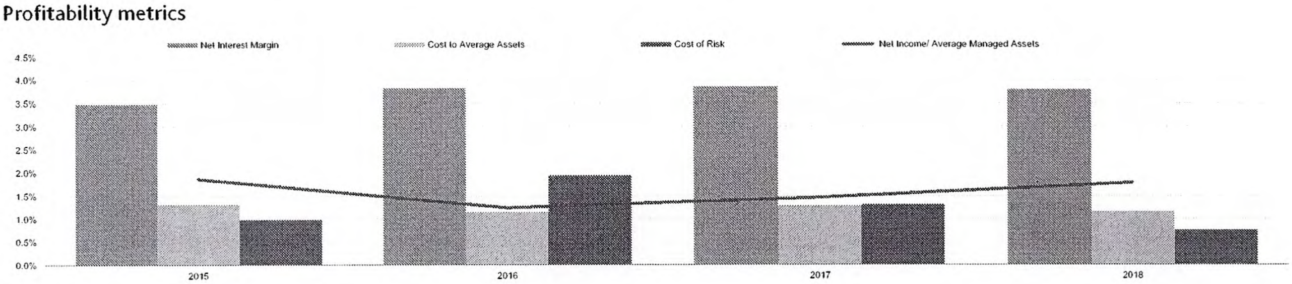
Problem leases accounted for less than 1% of the lease book as of year-end 2018, ensuring the overall adequate asset quality of the combined leasing and loan books (aggregate problem loans and leases were 4% of the combined loan and leasing books). The asset quality of the leasing book is significantly mitigated by the cheap rates, nature of leases (for example, most of them are employees of the state sector) and different behaviour pattern than mortgages (for example, leased property increases payment discipline). At the same time, the seasoning of the previously rapidly growing leasing book will lead to a deterioration in its asset quality, although not to the level of the mortgage portfolio, given its less risky nature.

Problem mortgage loans, that is, those classified as Stage 3 under IFRS 9, accounted for a significant 15% of the mortgage portfolio as of year-end 2018. Further growth in mortgage loans (for example, the company expects to grow its mortgage book by almost 2.0x in the next 12-18 months), which is more risky than leases, may lead to some decline in the company's asset quality. However, we do not expect a sharp decline in the absence of macro shocks.

Profitability supported by cheap government funding and low costs

We adjust KMC's Profitability score to Ba3 from Baa3 to reflect our expectation of higher credit charges as the leasing book seasons and mortgage book grows significantly. KMC's profitability is supported by 1) low costs because of its wholesale business model, as the company has a limited distribution network, (2) it has an adequate net interest margin as a result of cheap government funding, and (3) it has a low cost of risk because of lesser risks in mortgage and leasing books than many other types of lending. The granular composition of the mortgage and lease books ensures some stability in revenue.

Exhibit 4
Profitability metrics



Source: IFRS

Potential strain from refinancing needs

We adjust the weighted average Cash Flow and Liquidity score to Ba3 from Baa1 to reflect the potential increase in securitisation because of growth in the company's mortgage book as well as large repayments in 2020. The company will increase its reliance on market funding in the coming years to finance its mortgage portfolio.

The company maintains a modest liquidity buffer (5%-7% of total assets), and its annual funds from operations cover less than 10% of its market debt. As a result, KMC's large repayments make it vulnerable to refinancing risk or will force it to deleverage before repayments. The wholesale debt is short to medium term in nature; for example, as of the end of H1 2019, the company had to repay 30% of its wholesale debt for 2020. In 2017, the parent had to provide a capital injection to support the large repayments of wholesale funding. Otherwise, the company would have had to significantly reduce its business or increase the average cost of borrowings.

KMC plans to grow its mortgage book, which will be financed via issued bonds. While the company claims that new borrowings will have a better maturity distribution, it will still lead to an increase in its maturity mismatch and interest rate risk, because the mortgage portfolio generally has longer terms than available market funding.

Given its special role, KMC has access to cheap government funding and benefits from lower-than-average cost of market funding. Government funds dominate the liabilities structure, for example, loans from the parent and the government account for almost 70% of total liabilities as of the end of H1 2019 and have final maturities up to 2046. The bulk of this funding was used to finance the construction of residential housing for subsequent leasing, while the rest was used for the acquisition of mortgage portfolios. Issued debt securities (29% of total liabilities) were used to finance the purchase of mortgage portfolios from commercial banks. A significant part of market funding was in the hands of government entities.

Operating environment

We assign a Ba3 weighted Operating Environment score to KMC, based on the industry and macro-level risks of its operations under government programmes. The score is determined by KMC's activities in Kazakhstan, which is KMC's predominant market and to which we assign a Ba2 Operating Environment score.

The assigned Ba3 score for Operating Environment is one notch below that suggested by the scorecard, reflecting the dependence of the business on availability of government programmes and strategic priorities of the Kazakh government.

Macro-level indicator

KMC's exposures primarily relate to Kazakhstan. The Ba2 Macro-Level Indicator score for Kazakhstan reflects its moderate degree of economic strength and susceptibility to event risk as well as Low+ institutional strength.

Industry risk

We assign a Ba Industry Risk score for KMC. The company is relatively shielded from competition by high barriers to entry because of its policy mandate and access to cheap government financing, which is used to finance its mortgage and residential housing operations. KMC supports the development of mortgage lending by purchasing mortgages from commercial banks that lack long-term and cheap funding. In addition, it is one the key lessors of residential housing in the country.

Residential and mortgage finance follow the domestic economic cycle, given that the exposures are mostly for long term and the company cannot fully adjust to changing realities. As a result, cash flow declines during economic downturns.

The company offers products that have unique conditions compared with the market and has a long history of operations. Long-term finance in a cyclical economy exposes the company to a higher level of risk.

Qualitative adjustments

Business diversification qualitative adjustment

We apply a one-notch downward qualitative adjustment for Business Diversification to reflect the focus on volatile real estate markets as well as risks associated with the rapid and significant shift in the company's business focus over the recent years.

KMC's policy mandate exposes it to the performance of the housing sector, which is rather cyclical and depends significantly on the dynamics of the real disposable income of population, interest rates, construction activity, real estate prices and others. As a result, the business volume, revenue and asset quality could exhibit some volatility. Social housing lease also depends significantly on the availability of government funding, which is not very predictable. The appetite of the local banking system for mortgage lending is among the key factors that determine the development of KMC's mortgage operations.

Support and structural considerations

Affiliate support

There is a very high probability of support from, and very high dependence on, KMC's parent, Baiterek, resulting in a four-notch uplift from the company's standalone assessment of b1. Our assessment of a very high probability of support reflects (1) KMC's 100% ownership by Baiterek; (2) the company's special legal status and strategic involvement in supporting the implementation of government social housing programmes; (3) a track record of government funding to support KMC's operations; and (4) its relatively small size compared with other large companies in the group, facilitating less cost for support.

The Kazakh government and Baiterek would provide financial support to KMC, if it were necessary, to avoid the significant damage that could otherwise result in terms of (1) reputation and spillover effect to other government-related issuers, in the form of reduced access to market funding; and (2) impairment or disruption in the implementation of important government programmes where the housing programme is one of the strategic priorities. In some cases, the government will be the key source of extraordinary support (if needed), channelled through Baiterek to KMC. In 2017, the company received KZT5.2 billion of capital injection to assist in the repayment of wholesale funding.

The very high correlation between the default of KMC and that of its parent reflects the company's (1) dependence on Baiterek's and the government's decisions regarding its credit policy, funding and capitalisation; and (2) high sensitivity to downturns in the Kazakh economy and local banking system.

National scale ratings

KMC's Aa1.kz long-term national scale rating is derived from the company's global scale issuer rating.

Source of facts and figures in this report

Unless noted otherwise, we have sourced data relating to systemwide trends and market shares from the central bank. Company-specific figures originate from company's reports and Moody's Banking Financial Metrics. All figures are based on our own chart of accounts and may be adjusted for analytical purposes. Please refer to the document Financial Statement Adjustments in the Analysis of Financial Institutions, published in August 2018.

Rating methodology and scorecard factors

The rating methodology used in these ratings was the Finance Companies rating methodology, published in December 2018.

Methodology and scorecard

Exhibit 5

Kazakhstan Mortgage Company JSC

Kazakhstan Mortgage Company JSC						
Financial Profile	Factor Weights	Historic Ratio	Initial Score	Assigned Score	Key driver #1	Key driver #2
Profitability						
Net Income / Average Managed Assets (%)	10%	1.50%	Baa3	Ba3	Expected trend	
Capital Adequacy and Leverage						
Tangible Common Equity / Tangible Managed Assets (%)	25%	24.68%	A2	A3	Expected trend	
Asset Quality						
Problem Loans / Gross Loans (%)	10%	4.27%	B1	B2	Expected trend	
Net Charge-Offs / Average Gross Loans (%)	10%	0.07%	Aaa	Aa3	Expected trend	
Weighted Average Asset Risk Score			**Baa1**	**Baa3**		
Cash Flow and Liquidity						
Debt Maturities Coverage (%)	10%	296.61%	A1	Ba2	Expected trend	
FFO / Total Debt (%)	15%	7.52%	B2	Caa1	Expected trend	
Secured Debt / Gross Tangible Assets (%)	20%	6.21%	Aa3	Baa3	Expected trend	
Weighted Average Cash Flow and Liquidity Score			**Baa1**	**Ba3**		
Financial Profile Score	**40%**		**Baa1**	**Ba1**		
Operating Environment						
Home Country	Factor Weights	Qualitative Scale	Score			
Macro Level Indicator	55%		Ba2			
Economic Strength	25%	Moderate				
Institutional Strength	50%	Low +				
Susceptibility to Event Risk	25%	Moderate				
Industry Risk	45%		Ba			
Home Country Operating Environment Score			Ba2			
	Factor Weights			Score	Comment	
Operating Environment Score	**60%**			**Ba3**		
ADJUSTED FINANCIAL PROFILE				Score		
Adjusted Financial Profile Score				**Ba2**		
Financial Profile Weight	40%					
Operating Environment Weight	60%					
Business Profile and Financial Policy				Adjustment	Comment	
Business Diversification, Concentration and Franchise Positioning				-1	Exposure to volatile real estate and construction sector	
Opacity and Complexity				0		
Corporate Behavior / Risk Management				0		
Liquidity Management				0		
Total Business Profile and Financial Policy Adjustments				**Ba3**		
					Comment	
Sovereign or parent constraint				**Baa3**		
Standalone Assessment Range				ba2 - b1		
Assigned Standalone Assessment				b1		

Source: Moody's Investors Service

The principal methodology used in these ratings was the Finance Companies rating methodology, published in December 2018.

Ratings

Exhibit 6

Category	Moody's Rating
KAZAKHSTAN MORTGAGE COMPANY JSC	
Outlook	Stable
Issuer Rating	Baa3
ST Issuer Rating	P-3

Source: Moody's Investors Service

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