КАЗАҚСТАН ИПОТЕКАЛЫҚ КОМПАНИЯСЫ

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

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№ 11-16/2055

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 сообщает, что в связи с пересмотром методики рейтингового агентства Moody's, были изменены подходы по оценке финансовых компаний и присвоению рейтинговых оценок, при этом рейтинги Компании, согласно новой методике, остаются без изменений:

Outlook: Stable
Issuer Rating: Baa3
ST Issuer Rating: P-3

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

ҚР Алматы қ. «Қазақстан Ипотекалық Компаниясы» Ипотекалық ұйымы» Акционерлік қоғамы * РК г. Алматы АО «Ипотечная организация» «Казахстанская Ипотечная Компания» * «ҚАЗАҚСТАН ИПОТЕКАЛЫҚ КОМПАНИЯСЫ» ИПОТЕКАЛЫҚ ҰЙЫМЫ»

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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

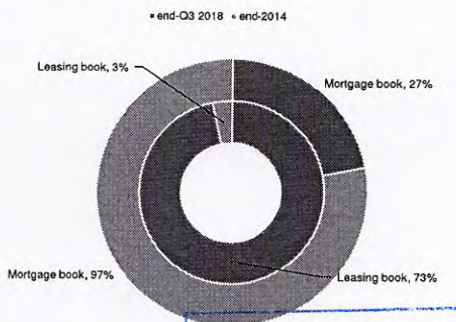
Summary

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 a 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 and 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 business under favourable government programmes, (2) adequate capitalisation and profitability, and credit challenges such as (3) limited business diversification and rapid shift of business focus over the recent past, resulting in relatively unseasoned portfolios, (4) exposure to the volatile real estate sector which has the potential to pressure asset quality, business volumes and revenues and (5) potentially vulnerable liquidity.

Exhibit 1
KMC's business composition



Source: IFRS

Credit strengths

» Benefits from public policy role and parental/government support

» Reasonable asset quality, but will likely experience some pressure as leasing book seasons

» Good capitalisation, which fully absorbs credit risks; reasonable profitability

Credit challenges

» Potential pressure from refinancing needs

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

Rating outlook

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

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 rating or reduced support assumptions for the company.

» 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 in its liquidity.

Key indicators

Exhibit 2

Kazakhstan Mortgage Company JSC (Consolidated Financials) [1]

	H1 2018	2017	2016	2015
Tangible Managed Assets, KZT million	258,339.3	250,484.9	254,532.9	243,539.5
Tangible Common Equity, KZT million	60,461.1	59,998.9	52,071.2	49,003.4
Tangible Common Equity / Tangible Managed Assets	23.4%	24.0%	20.5%	20.1%
Net Income/ Average Managed Assets	2.2%	1.5%	1.2%	1.9%
Problem Loans / Gross Loans (%)	4.3%	2.7%	2.5%	6.6%
Net Charge-Offs / Average Gross Loans (%)	0.0%	0.0%	0.0%	0.0%
FFO / Total Debt (%)	2.7%	3.6%	3.4%	1.9%
Secured Debt / Gross Tangible Assets (%)	9.5%	9.5%	10.3%	10.2%

[1] All figures and ratios are adjusted using Moody's standard adjustments.
Source: Moody's Financial Metrics

Profile

Kazakhstan Mortgage Company JSC (KMC) was created by a National Bank of Kazakhstan (NBK) in 2000 for financing of housing construction and development of mortgage market. Starting 2013, the company is 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, 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 state programme Nurli Zher and the development of the mortgage market, including under 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 (Baa3 stable) and Baiterek Development. As of year-end 2017, KMC was the fifth-largest subsidiary in the group, with its total assets accounting for around 6% of the holding company's consolidated assets.

The company's mortgage lending activities are represented by 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 the population under beneficial interest rates, and (3) subsidizing mortgage lending by commercial banks (using government funds). The mortgage portfolio accounted for around 20% of total assets as of the end of the third quarter of 2018 (having fallen from over 50% several years earlier). The reasons for decline were (1) the reduction in mortgage activities because of peculiarities of regulation, which makes the product risky for banks (for example, difficult expropriation of collateral, unfavourable order of payments under court decisions); and (2) lack of long-term and cheap funding. These regulatory peculiarities have recently been resolved. In addition, interest rates may finally start declining including due to more active investment of Kazakhstan pension funds.

Another KMC's key activity is social housing rent (55% of total assets as of the end of Q3 2018), which was initiated in 2014 and grew considerably. The company financed construction of social housing, which subsequently leases 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.

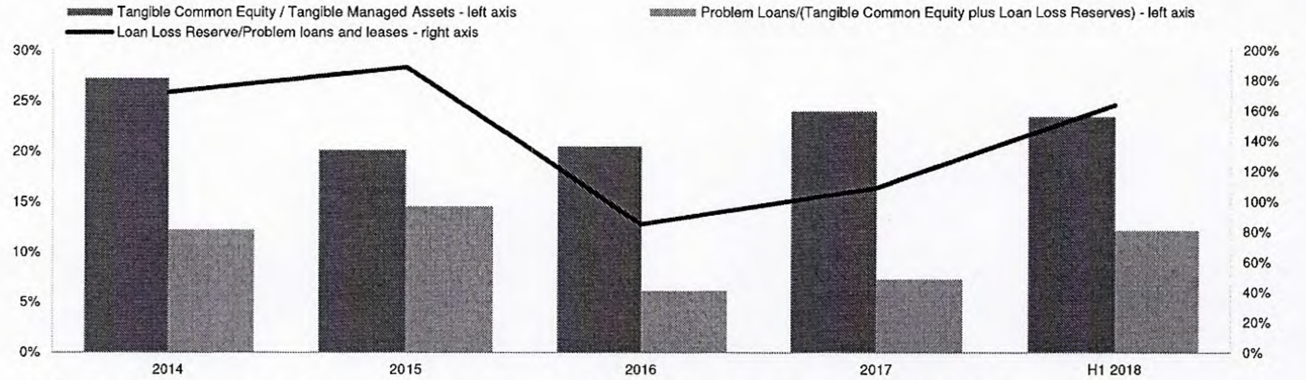
Detailed credit considerations

Good capitalisation, which fully absorbs credit risks

We adjust Capital Adequacy and Leverage score of A2 to A3 to reflect potentially higher leverage as 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 (TCE)/tangible managed assets (TMA) to remain above 20% as of year-end 2019 as it has historically been for the last several years. The Texas ratio (problem loans as proportion to TCE and loan-loss reserve) was at very comfortable 12% as of H1 2018, which means capital was more than adequate to cover credit risks. As Exhibit 3 below demonstrates, problem loans are also comfortably covered by 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 H1 2018 problem loans/leases are those classified as stage 3. For previous periods, problem loans/leases are those that are 30+ days overdue.
Source: IFRS

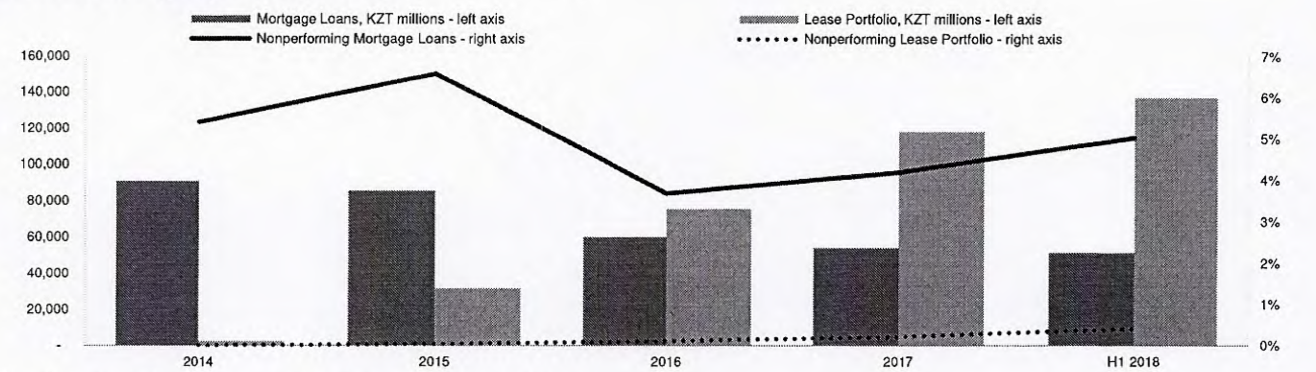
Good asset quality, but will likely experience some pressure as leasing book seasons

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

Problem leases accounted for less than 0.5% of the lease book as of the end of H1 2018, ensuring overall adequate asset quality of the combined leasing and loan book (aggregate problem loans and leases were 4% of combined loan and leasing book). Asset quality of the leasing book is significantly mitigated by the cheap rates, nature of leases (for example, majority are employees of state sector) and different behaviour pattern compared with mortgages (for example, leases property increases payment discipline). At the same time, the seasoning of the previously rapidly grown leasing book will lead to deterioration in its asset quality – although not expected to the level of the mortgage portfolio, given its less risky nature.

Problem mortgage loans (those classified as Stage 3 under IFRS 9) accounted for a significant 14% of the mortgage portfolio as of the end of H1 2018. This category mainly consisted of 1) nonperforming loans, which are over 90 days overdue (5% of the loan book) and 2) restructured loans. Most of the restructured loans are represented by those originally issued in foreign currency and converted into local currency with the preferential interest rates under the government programmes. We acknowledge the improving performance of this part of the loan book, but the track record of better performance is still to be seen. Further growth in mortgage loans (for example, the company expects to grow its mortgage book by almost 2x in 2019), which is more risky than leases, may lead to some decline in the company's asset quality, although we do not expect a sharp decline in the absence of macro shocks.

Exhibit 4
Resonable asset quality will likely deteriorate



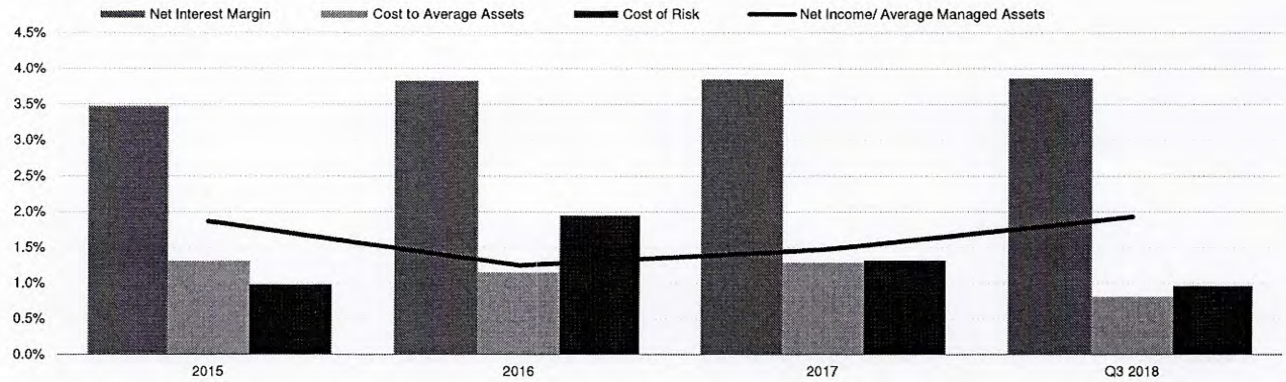
Note: Nonperforming loans and leases are those that are overdue for over 90 days.
Source: IFRS

Reasonable profitability

We adjust Profitability score to Ba3 from Baa3 to reflect our expectation of higher credit charges as the leasing book seasons and mortgage book grows in significance.

Profitability is supported by low costs because of its wholesale business model as the company has a limited distribution network, adequate net interest margin because of cheap government funding and low cost of risk because of lesser risks in mortgage and leasing books, compared with many other types of lending. The granular composition of the mortgage and lease books ensures some stability in revenue streams.

Exhibit 5
Profitability metrics



Source: IFRS

Potential pressure from refinancing needs

We adjust a weighted average Cash Flow and Liquidity score to Ba3 from Baa3 to reflect potential increase in securitisation as the company would grow its mortgage book as well as large repayments in 2020. Going forward the company will increase reliance on market funding, which is used to finance its mortgage portfolio.

The company maintains modest liquidity buffer (5%-7% of total assets), and its annual funds from operations cover less then 15% of 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 Q3 2018, the company had to repay over 50% of its wholesale debt for 2018-20. In 2017, the parent had to provide capital injection to support large repayments of wholesale funding. Otherwise, the company would have had to significantly reduce its business or increase 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 has generally longer terms then available 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 72% of total liabilities as of the end of Q3 2018 and have final maturities in 2027, 2045-46. The bulk of this funding was used to finance construction of residential housing for subsequent leasing while the rest for acquisition of mortgage portfolios. Issued debt securities (25% of total liabilities) were used to finance the purchase of mortgage portfolios from commercial banks. Over 35% of market funding was in the hand of government entities/bodies.

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 (Baa3 stable), which is the predominant market and to which we assign a Ba2 Operating Environment score (see scorecard below).

The assigned Ba3 score for Operating Environment is one notch below those suggested by the scorecard to reflect dependence of the business on availability of government programmes and strategic priorities of Kazakhstan government.

Macro-level indicator

KMC's exposures primarily relate to Kazakhstan. The Ba2 Kazakhstan Macro-Level Indicator score 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 due its policy mandate and access to cheap government financing which is used to finance its mortgage and residential housing operations. KMC supports development of mortgage lending by purchasing mortgages from commercial banks which lack long-term and cheap funding. In addition, it is one the key lessor 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 in economic downturns.

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

Qualitative adjustments

Business diversification qualitative adjustment

We apply a one-notch downward qualitative adjustment for the 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 past.

KMC's policy mandate exposes it to performance of the housing sector, which is rather cyclical and depends significantly on dynamics of 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 availability of government funding, which is not very predictable. Appetite of the local banking system to mortgage lending is among the key factors which determines development in 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

(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 terms 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), channeled through Baiterek to KMC. In 2017, the company received KZT5.2 billion of capital injection to assist large repayment of wholesale funding.

The very high correlation between the default of KMC and that of the 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 Kazakhstan's economy and local banking system.

National scale ratings

KMC's Aa1.kz long-term Kazakhstan 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 on 9 August 2018.

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Rating methodology and scorecard factors

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

Exhibit 6
Kazakhstan Mortgage Company

Financial Profile	Historical			Assigned		
	Factor Weights	Historic Ratio	Initial Score	Assigned Score	Key driver #1	Key driver #2
Profitability						
Net Income / Average Managed Assets (%)	10%	1.46%	Baa3	**Ba3**	Expected trend	
Capital Adequacy and Leverage						
Tangible Common Equity / Tangible Managed Assets (%)	25%	24.63%	A2	**A3**	Expected trend	
Asset Quality						
Problem Loans / Gross Loans (%)	10%	4.08%	B1	**B2**	Expected trend	
Net Charge-Offs / Average Gross Loans (%)	10%	0.00x	Aaa	**Aa3**	Expected trend	
Weighted Average Asset Risk Score			Baa1	**Baa3**		
Cash Flow and Liquidity						
Debt Maturities Coverage (%)	10%	145.46%	Baa3	**Ba2**	Expected trend	
FFO / Total Debt (%)	15%	3.65%	Caa1	**Caa1**	Expected trend	
Secured Debt / Gross Tangible Assets (%)	20%	9.72%	A1	**Baa3**	Expected trend	
Weighted Average Cash Flow and Liquidity Score			**Baa3**	**Ba3**		
Financial Profile Score	**0.4**		**Baa2**	**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	0.6			**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 Financial Metrics

Ratings

Exhibit 7

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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