Joint Stock Company Kaspi.kz

This document comprises a registration document (the "**Registration Document**") relating to JSC "Kaspi.kz" (the "**Company**" and, together with its consolidated subsidiaries, the "**Group**") and has been prepared in accordance with the Prospectus Regulation Rules (the "**Prospectus Regulation Rules**") of the UK Financial Conduct Authority (the "**FCA**") made under section 73A of the Financial Services and Markets Act 2000 (as amended) (the "**FSMA**"). This Registration Document has been approved by the FCA, as competent authority under the Prospectus Regulation. The FCA only approves this Registration Document as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the issuer that is the subject of this Registration Document.

The Company accepts responsibility for the information contained in this Registration Document and to the best of the Company's knowledge, the information contained in this Registration Document is in accordance with the facts and this Registration Document contains no omissions likely to affect the import of such information.

This Registration Document may be combined with a securities note and summary to form a prospectus in accordance with the Prospectus Regulation Rules. A prospectus is required before an issuer can offer transferable securities to the public or request the admission of transferable securities to trading on a regulated market. However, this Registration Document, where not combined with the securities note and summary to form a prospectus, does not constitute an offer or invitation to sell or issue, or a solicitation of an offer or invitation to purchase or subscribe for, any securities in the Company in any jurisdiction, nor shall this Registration Document alone (or any part of it), or the fact of its distribution, form the basis of, or be relied upon in connection with, or act as any inducement to enter into, any contract or commitment whatsoever with respect to any offer or otherwise. This Registration Document should be read and construed with any amendment or supplement hereto, and for a particular issue of securities in conjunction with any applicable prospectus for the purposes of the Prospectus Regulation.

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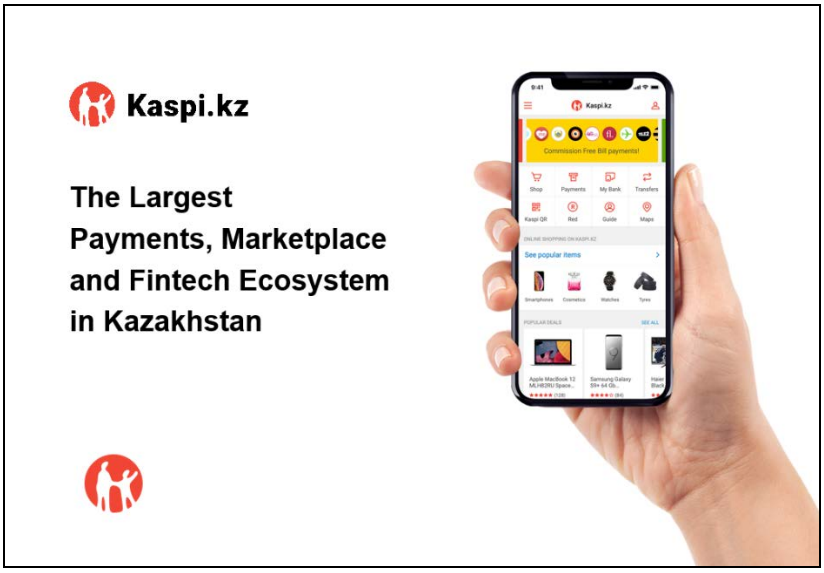
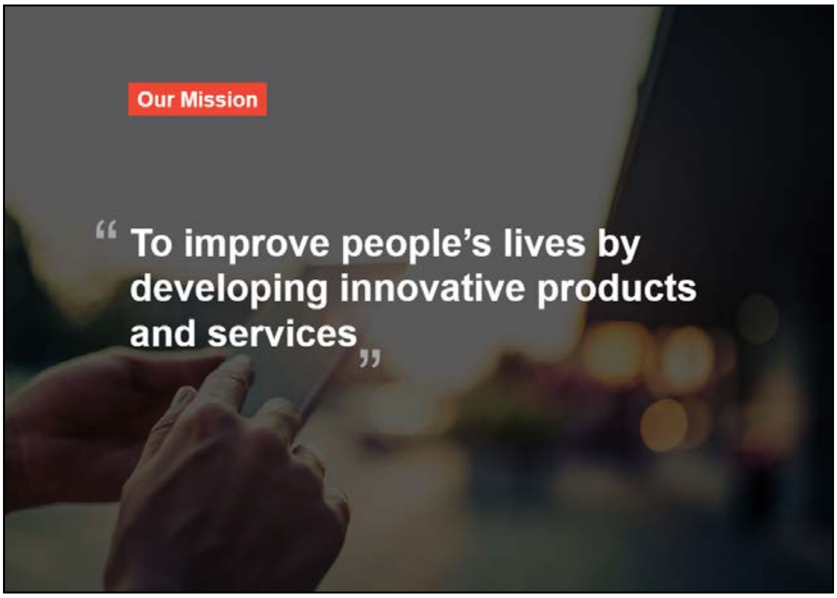
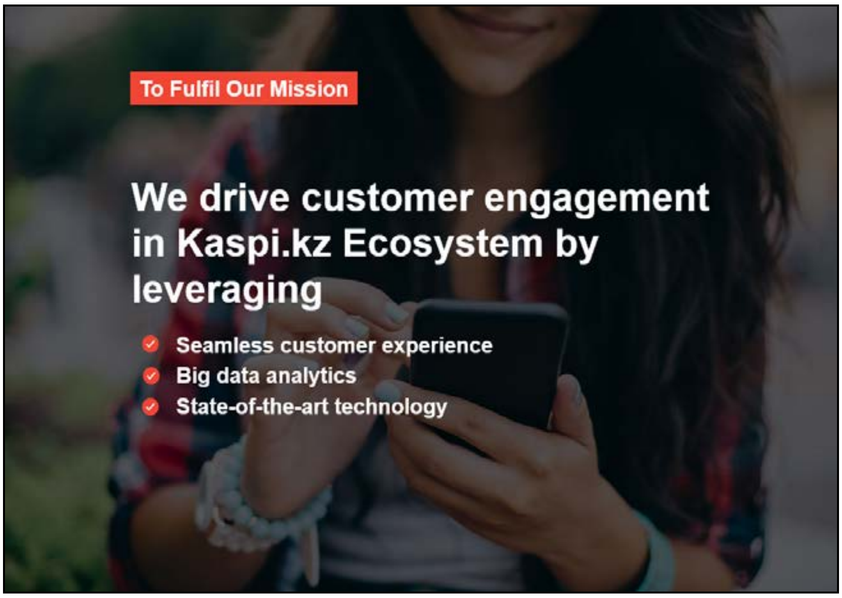
The date of this Registration Document is 16 September 2019


Kaspi.kz
The Largest
Payments, Marketplace
and Fintech Ecosystem
in Kazakhstan


Our Mission
“ To improve people’s lives by
developing innovative products
and services ”


To Fulfil Our Mission
We drive customer engagement
in Kaspi.kz Ecosystem by
leveraging
Seamless customer experience
Big data analytics
State-of-the-art technology

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RISK FACTORS

Prospective investors should consider carefully, among other things, the risks set forth below and the other information contained in this Registration Document prior to making any investment decision relating to the Group. The risks highlighted below could have a material adverse effect on the Group's business, financial condition, results of operations or prospects. Prospective investors should note that the risks described below are not the only risks Kaspi.kz faces. The Group has only described the risks it believes to be material. There may be additional risks that the Group currently considers immaterial or of which it is currently unaware, and any of these risks could have the effects set forth above.

The risks below have been classified into the following categories:

(i) Risks relating to Kaspi.kz's Business and Industry;

(ii) Risks relating to the Group's legal, regulatory and governance framework;

(iii) Risks relating to the Group's Strategy; and

(iv) Risks relating to Kazakhstan.

Risks relating to Kaspi.kz's Business and Industry

Kaspi.kz's business depends on consumers' consumption and income levels

The mass-market online financial services and marketplace industries in Kazakhstan, in which the Group operates are highly dependent on economic stability and growth, continuing increases in consumers' average disposable income and levels of consumer spending. Demand for the products and services of Kaspi.kz's Ecosystem may decrease if there is a deterioration in the future performance of Kazakhstan's economy or any stagnation or reduction in levels of personal income, individual purchasing power or consumer confidence in Kazakhstan. Consumer spending habits are affected by, among other things, levels of employment, salaries, consumer confidence and perception of economic conditions, inflation, prevailing interest rates, income tax rates, consumer debt levels, housing and utilities costs and consumer aspirations.

During periods of economic stagnation or decline, consumers tend to become more price-sensitive, which is likely to lead to a decrease in demand for Kaspi.kz's products and services. The Kazakhstan economy has faced, and might face in the future, challenges, primarily due to the decline in prices of oil and other commodities which are principal exports and important drivers of its economy, as well as the effects of any downturns in the economies of the country's key trading partners, including Russia or China. These factors have also contributed to the volatility of the tenge. According to the Ministry of National Economy of the Republic of Kazakhstan Committee on Statistics ("**MNE**"), Kazakhstan's real gross domestic product ("**GDP**") grew by 4.1% in 2018, 4.1% in 2017 and 1.1% in 2016. According to the MNE, Kazakhstan's GDP is expected to grow at a CAGR of 4.1% in 2019–2023. If the state of Kazakhstan's economy was to deteriorate, this could lead to a reduction in levels of personal income, individual purchasing power and/or consumer confidence, weakening consumer spending and savings and increasing insolvencies. As a result, the size of operations within the Kaspi Ecosystem may grow at a slower rate or even decrease, resulting in a slowdown or decrease in all or any sources of revenue (interest, fees and commissions, seller fees and transaction and membership revenue), which could have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

Maintaining the trusted status of Kaspi.kz's Ecosystem and a strong brand is critical to future growth

The Company has built its business on consumer and merchant confidence based on a strong brand name and reputation for its Ecosystem in Kazakhstan. Any loss of trust in Kaspi.kz's Ecosystem could affect its reputation and brand, and may result in consumers, merchants, brands and other counterparties reducing their activity in Kaspi.kz's Ecosystem, which could in turn adversely affect Kaspi.kz's revenues. Kaspi.kz's ability to maintain its position as an operator of a trusted Ecosystem rests, among other things, on: (i) the quality, breadth, functionality, connectivity, inter-operability, variety and appeal of the products, services, technology and content available through Kaspi.kz's Ecosystem; (ii) the commitment to high levels of service, reliability and integrity by the Company; (iii) the effectiveness and security of the procedures the Group has in place to maintain the safety, security and integrity of the data on Kaspi.kz's Ecosystem; (iv) the effectiveness and perceived fairness of the rules governing Kaspi.kz's Ecosystem; and (v) the strength of the protective measures in place in relation to Kaspi.kz's intellectual property rights. As Kaspi.kz relies on third parties for the supply of technological infrastructure, any deterioration in the business of those third parties poses a risk to our operations.

Kaspi.kz's management believes that the brand identity that it has developed through the strength of its Ecosystem and customer focus has significantly contributed to the success of its business. The Company also believes that maintaining and enhancing the Kaspi.kz brand is critical to expanding its customer base, network of merchants and other business partners. Maintaining and enhancing its brand will depend largely on Kaspi.kz's ability to continue to be a technology leader (including by maintaining relationships with third-party suppliers) and a provider of high quality and reliable services.

If the Company fails to maintain and enhance the trusted status of Kaspi.kz's Ecosystem and its strong brand, the Group's business, financial condition, results of operations or prospects could be materially adversely affected.

Kaspi.kz is dependent on its senior management personnel

The Group's ability to maintain its competitive position and to implement its business strategy is dependent on the skills and abilities of its senior management team. The Group's business has significantly benefited in the past from the vision and contributions of a number of the Group's key senior managers. In particular, Mr. Mikheil Lomtadze, a lead founder, CEO and one of principal shareholders, has been crucial to the development of the Group's culture and strategic direction. The loss of or diminution in the services of members of the Group's senior management team, or an inability to retain and attract additional senior management personnel, may impair Kaspi.kz's ability to achieve its strategic objectives.

If adoption of online or mobile device payment methods does not continue to increase and consumption patterns do not change as is anticipated, Kaspi.kz's ability to expand could be affected

The growth of the Group's business, as well as the development of the mass-market online financial services and marketplace industries in Kazakhstan in which it operates are largely dependent on the development of online and mobile consumption patterns and the wider consumer understanding and continuous acceptance of financial products offered online and of new products and solutions that Kaspi.kz intends to offer primarily through its Mobile App. The level of adoption of financial and marketplace services offered through mobile applications and online in Kazakhstan is relatively low as compared to those in more developed countries. As part of its strategy, Kaspi.kz focuses on increasing customer engagement in its Mobile App, which integrates all products and services offered by the Group.

The Group's ability to expand its operations may be affected if the adoption of online or mobile device payment methods does not grow, if online and mobile consumption patterns do not further develop or if Kaspi.kz is unable to attract a significant number of new mobile customers and increase levels of mobile engagement. This may adversely affect the Group's business, financial condition, results of operations and/or prospects.

Kaspi.kz's ability to keep pace with rapid technological developments to provide innovative services

In addition to Kaspi.kz's own innovations it relies in part on third parties for the development of, and access to, new technologies. Therefore, any rapid and significant technological developments including, for example, developments in mobile technologies, authentication, virtual currencies (including distributed ledger technologies), near-field communication and other proximity payment devices such as contactless payments, may result in the emergence of technologies superior to those currently employed by Kaspi.kz, and may render the technologies employed by Kaspi.kz obsolete. Developing and incorporating new technologies into Kaspi.kz's Ecosystem may require substantial expenditures, take considerable time, and/or ultimately may not be successful. If the Company fails to develop and incorporate new technologies or to adapt to technological changes and evolving industry standards in a timely manner, its business, financial condition, results of operations or prospects could be adversely affected.

Kaspi.kz's ability to maintain and improve the network effects of its Ecosystem

Kaspi.kz's ability to maintain a healthy and vibrant Ecosystem that creates strong network effects among consumers, merchants and other participants is critical to the Group's success. The extent to which the Company is able to maintain and strengthen these network effects depends, among other things, on its ability to: (i) offer secure and open platforms for all participants and balance the interests of these participants, including consumers, merchants, service providers and others; (ii) provide tools and services that meet the evolving needs of consumers and merchants; (iii) provide a wide range of high-quality product and service offerings to customers; (iv) provide merchants with a high level of traffic flow and effective online marketing services; and (v) further enhance the attractiveness of the Ecosystem.

The network effects of the Ecosystem also rest on Kaspi.kz's ability to attract and retain leading retailers as merchants, which can offer a wide selection of goods for customers at attractive prices. In addition, any changes Kaspi.kz may make to its current operations to enhance and improve its Ecosystem and balance the needs and interests of the various participants in the Ecosystem, or to comply with any regulatory requirements, may be viewed positively from one participant group's perspective, such as consumers, but may have negative effects from another group's perspective, such as merchants. If the Company fails to balance the interests of all participants in its Ecosystem, consumers, merchants and other participants may spend less time on the Group's platforms and conduct fewer transactions or use alternative platforms, any of which could result in a material adverse effect on the Group's business, financial condition, results of operations or prospects.

Kaspi.kz faces competition in all of its business segments and its market evolves rapidly

The Group faces competition in each separate product and service it offers:

- *Payments:* Kaspi.kz's Payments Platform competes with foreign and domestic payment service providers and with retail banks (both domestic banks and subsidiaries of foreign banks) that look to gain a competitive edge through contracts with merchants. See "*Industry Overview–Kazakhstan payments market*".

- *Marketplace:* Kaspi.kz's Marketplace Platform competes with global marketplace platforms, as well as online and offline retailers operating in Kazakhstan. Even though global marketplace platforms currently have limited presence in Kazakhstan, they seek to differentiate themselves mostly by providing a broad selection of listed items. See "*Industry Overview–Kazakhstan retail market*".

- *Fintech:* Kaspi.kz's Fintech Platform competes with retail banks (both domestic banks and subsidiaries of foreign banks) that seek to differentiate themselves by offering retail deposits and consumer loans through their branch networks and points of sale at stores and shopping centres. See "*Industry Overview–Kazakhstan consumer banking market*".

Some of Kaspi.kz's competitors may have greater merchant bases, scale and resources, which may provide them with competitive advantages. They may devote greater resources to the development, promotion, sale of products and services in the areas in which Kaspi.kz operates, and they may offer lower prices or more effectively introduce and market their own innovative products and services that may in turn adversely impact Kaspi.kz's growth. Mergers and acquisitions by the Group's competitors may lead to the emergence of even larger competitors with greater resources. Competing services tied to established brands might engender greater confidence in the safety and efficacy of their services relative to those offered by Kaspi.kz. Any initiatives undertaken by the National Bank of Kazakhstan (the "**NBK**") to enhance the efficiency and decrease costs of the financial services (such as the establishment of a "Suńqar" fast payment system) may also increase competition. The largest merchants that currently sell goods through the Marketplace Platform may decide, for any reason (including commercial considerations), to collectively negotiate the level of fees that Kaspi.kz charges, or they may establish a separate marketplace.

If the Group's customers move to Kaspi.kz's competitors for any reason, including due to the pricing and/or terms of any such competitors' products, or due to the Group's inability to continue developing and providing its customers with high-quality and up-to-date services or to appropriately co-ordinate its services with market opportunities, it may become less attractive to merchants and other business partners, which could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

Failure to improve or maintain technology infrastructure could affect Kaspi.kz's business

The Company relies on the efficiency of its technology infrastructure to protect the functionality and effectiveness of its software and platforms and in order to meet its business needs or the needs of its customers and partners. The Company frequently upgrades its platforms to provide increased scale, improved performance, additional built-in functionality (including functionality related to security) and additional capacity. Adopting new products, and maintaining and upgrading its technology infrastructure requires a significant investment of both time and resources. Any failure to improve or maintain its technology infrastructure could result in unanticipated system disruptions, slower response times, impaired user experience and delays in reporting accurate operating and financial information. Such issues may be further compounded during periods when user activity is higher than usual on Kaspi.kz's platforms, or as the Group expands its business. If the Group experiences problems with the functionality and effectiveness of its software or platforms, its business, financial condition, results of operations or prospects could be adversely affected.

Systems failures and resulting interruptions in the availability of services of Kaspi.kz's Ecosystem could affect its business

The Group's operations rely on the uninterrupted operation of its technology platforms and services. Kaspi.kz's systems and those of its service providers and partners may experience service interruptions because of hardware and software defects or malfunctions, human error, natural disasters, power losses, disruptions in telecommunications services, fraud, military or political conflicts, terrorist attacks, computer viruses or other malware, or other events. As a provider of payments solutions, Kaspi.kz is subject to heightened scrutiny by regulators that may require specific business continuity, resilience and disaster recovery plans, and more rigorous testing of such plans which may be costly, time-consuming and may divert resources from other business priorities.

Kaspi.kz has experienced and may experience in the future system failures, denial-of-service attacks, and other events or conditions from time to time that interrupt the availability, or reduce or adversely affect the speed or functionality of its platforms. Any prolonged interruption in the availability or any reduction in the availability, speed or functionality of Kaspi.kz's Ecosystem could adversely affect its business. Frequent or persistent interruptions in Kaspi.kz's services could cause current or potential customers to believe that its infrastructure is unreliable, leading them to switch to competitors or to avoid or reduce the use of Kaspi.kz's products and services, and could permanently affect the Company's reputation and brand. Moreover, if any system failure or similar event results in any damage to Kaspi.kz's customers or business partners, these customers or partners could seek compensation or contractual penalties from Kaspi.kz for their losses, and those claims, even if unsuccessful, would likely be time-consuming and costly to address. Any of these events could adversely affect the Group's business, financial condition, results of operations or prospects.

Kaspi.kz relies on third-party providers, including software and hardware suppliers, delivery services, credit bureaus and debt collection agencies

In carrying out its operations, the Group relies on a variety of third-party services. Kaspi.kz's technology infrastructure and services incorporate software, systems and technologies developed by third parties, as well as hardware purchased or commissioned from third-party suppliers. As the Company's technology infrastructure and services expand and become increasingly complex, the Company faces increased risks relating to the performance and security of its technology, including risks relating to incompatibility of the components produced by third parties, as well as service failures or delays or back-end procedures on hardware and software.

The Group also relies, to a certain extent, on facilities, components and services supplied by third parties, including data centre facilities. For example, Kaspi.kz depends on third parties in connection with its risk management processes, in particular, it relies on external data from credit bureaus in Kazakhstan and the Kazakhstan State Pension Payment Centre (the "**Pension Centre**") to perform credit assessments. As such, any risks related to the interruption of such credit bureaus' or the Pension Centre's operations, the accuracy of the data kept thereby and the availability of such data generally, may impact the Group's consumer finance origination process. Furthermore, as part of its debt collection process, Kaspi.kz outsources certain debt collection functions to third-party debt collection agencies, which collect up to 40% of the Group's NPLs, and any interruption in the operations of such agencies could negatively impact the Group's debt collection efforts or increase the cost of debt collection services. If these third parties cease to provide the facilities or services, experience operational interference or disruptions, breach their agreements with the Group, fail to perform their obligations or meet the Group's expectations, do not renew their licences or otherwise cease to make their services or products available at a reasonable cost or at all, Kaspi.kz's operations could be disrupted or otherwise adversely impacted, which in turn could result in an adverse effect on the Group's business, financial condition, results of operations or prospects.

Kaspi.kz's business is subject to cyberattacks and breaches of security

An increasing number of organisations, including large merchants and businesses, technology companies and financial institutions, such as Kaspi.kz, are subject to attacks on their information security systems, some of which involve sophisticated and highly targeted attacks on their websites and infrastructure.

The methods used to obtain unauthorised, improper or illegal access to information security systems are constantly evolving. Targeted attacks may also be difficult to detect quickly, and are often not recognised until they are launched against a target. Unauthorised parties may attempt to gain access to Kaspi.kz's Ecosystem through various means, including hacking into platforms, or attempting to fraudulently induce (often through spear phishing attacks) employees, customers, partners, vendors or other users of the Group's systems into disclosing user names, passwords, payment card information, or other sensitive information, which may in turn be used to access Kaspi.kz's systems. Kaspi.kz has experienced in the past and may experience in the future cyberattacks and other security breaches (due, among other factors, to human error, malfeasance, system errors or vulnerabilities, or other irregularities) affecting the functionality of its platforms. While Kaspi.kz has systems and processes designed to prevent cyberattacks and security breaches, which systems and processes have been effective in preventing the Group from incurring material financial losses in the past, and whilst the Group expects to continue to expend significant resources to bolster these protections, such measures cannot provide absolute security, and any security breach could adversely affect the Group's business, financial condition, results of operations or prospects.

Actual or perceived breaches of the Group's security could interrupt its operations, resulting in, amongst other things, its systems or services being unavailable, improper disclosure of data, material damage to the Group's reputation and brand, increased regulatory scrutiny or fines, as well as legal and/or financial exposure. In addition, such events could cause the Group to incur significant remediation costs, leading to loss of customer confidence in, or decreased use of, Kaspi.kz's products and services and the diversion of management's attention from the operation of the Group's business. This could result in significant compensation or contractual penalties payable to customers or merchants as a result of their claims, and could adversely affect the Group's business, financial condition, results of operations or prospects.

The performance, reliability and security of the telecommunications and internet infrastructure in Kazakhstan

Kaspi.kz's business depends on the performance, reliability and security of the telecommunications and internet infrastructure in Kazakhstan where all of the Group's computer hardware is currently located. Any disruptions in, or failures of, the telecommunications and internet infrastructure in Kazakhstan may adversely affect the quality or availability of Kaspi.kz's Ecosystem. The failure of telecommunications network operators to provide Kaspi.kz with the requisite bandwidth could affect the speed and availability of the Company's platforms and mobile applications.

Moreover, if the Group's security of domain names is compromised for any reason, Kaspi.kz will be unable to use such domain names in business operations, which in turn could adversely affect the Group's business and brand image. The Company may fail to implement adequate measures of encryption of data transmitted through the networks of the telecommunications and internet operators and such operators or their business partners may misappropriate Kaspi.kz's data, which could adversely affect the Group's business.

Customer complaints or negative publicity about Kaspi.kz could affect its reputation with customers

Customer complaints or negative publicity about Kaspi.kz could diminish consumer confidence in Kaspi.kz's services and its reputation with customers. The significant growth of Kaspi.kz's business heightens the need for prompt and attentive customer service to resolve irregularities or customer dissatisfaction. The reputation of Kaspi.kz may also be affected by instances of misconduct by Kaspi.kz's employees, as well as the employees' failure to comply with Kaspi.kz's compliance procedures and any applicable legislative requirements. In addition, any significant problems with collection practices employed by external collection agencies, to which Kaspi.kz outsources collections of its non-performing loans and to which Kaspi.kz sells such loans, could also adversely affect the Group's reputation and brand. The Company may fail to take measures to increase the quality of its customer service, which could compromise Kaspi.kz's ability to handle customer complaints in an effective manner. If Kaspi.kz is unable to handle customer complaints effectively, its reputation may suffer and it may lose customers' confidence, which could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

Kaspi.kz's Ecosystem may be used for fraudulent, illegal or improper purposes

Despite measures Kaspi.kz has taken and continues to take, its Ecosystem remains susceptible to potentially illegal or improper uses. These may include use of the Ecosystem (in particular, the Payments or Marketplace Platforms) in connection with fraudulent or counterfeited sales of goods or bank fraud, which are becoming increasingly sophisticated. There can be no assurance that measures implemented by Kaspi.kz, which are aimed at preventing its Ecosystem from being used as a vehicle for money laundering, fraud or other illegal activities, will effectively identify, monitor and manage these risks, and that no incidents of fraud or other illegal activities will occur in the future. Kaspi.kz cannot monitor with absolute certainty the sources of customers' or counterparties' funds or the ways in which they use them. Increases in chargebacks or other liabilities could have a material adverse effect on the Group's business, financial condition, results of operations or prospects. Furthermore, an increase in fraudulent transactions or publicity relating to chargeback disputes could harm Kaspi.kz's reputation and reduce consumer confidence in the use of its Ecosystem.

Furthermore, Kaspi.kz may be subject to allegations and lawsuits claiming that items listed on its Marketplace are pirated, counterfeit or illegal. The measures adopted by Kaspi.kz to verify the authenticity of products sold on the Marketplace Platform and minimise the risk of any potential infringement of third-party intellectual property rights may not be successful. For example, in order for a merchant to become a participant of the Marketplace, the merchant and Kaspi.kz sign an agreement whereby the merchant accepts the rules of the platform and represents to Kaspi.kz that any product sold through the Marketplace has been certified for sale by applicable laws. While Kaspi.kz does not act as seller, the Company may become subject to allegations of civil or criminal liability for unlawful activities carried out by third parties through the Marketplace Platform. In the event that alleged counterfeit, infringing or pirated products are listed or sold on the Kaspi Ecosystem, Kaspi.kz could face claims for such listings, sales or alleged infringement or for the failure to act in a timely or effective manner to restrict or limit such sales or infringement. A merchant whose content is removed or services are suspended or terminated, regardless of the Company's compliance with the applicable laws, may dispute the Group's actions and commence an action against Kaspi.kz for damages based on breach of contract or other causes of action and/or may make public complaints or allegations against the Company.

Continued public perception that counterfeit or pirated items are commonplace on the Marketplace Platform, perceived delays in the removal of these items, even if factually incorrect, or an increase in fraudulent transactions in Kaspi.kz's Ecosystem could damage Kaspi.kz's reputation, reduce consumer confidence in the use of the Ecosystem, result in lower list prices for goods sold through the Marketplace Platform and adversely affect the Group's business, financial condition, results of operations or prospects.

Kaspi.kz's corporate culture has contributed to its success, and if it cannot maintain the focus on teamwork and innovation fostered by this environment, Kaspi.kz's business could be adversely affected

Kaspi.kz's management believes that a critical contributing factor to the Group's success has been its corporate culture, which values and fosters teamwork and innovation. If the Company does not maintain the beneficial aspects of its corporate culture as it grows and implements more complex organisation management structures, this would adversely affect the Group's business, financial condition, results of operations or prospects.

Kaspi.kz may face difficulties in recruiting and retaining experienced personnel

Kaspi.kz's ability to continue to attract, retain and motivate qualified and experienced personnel is key in implementing its strategy. Competition in Kazakhstan's financial industry for personnel with relevant expertise is intense due to the relatively small number of available qualified individuals. Further increases in competition may lead to difficulties in recruiting qualified and experienced employees, as well as increased costs of recruitment, or a greater length of time taken to identify and recruit such employees and difficulties in retaining qualified and experienced employees, including increased costs of salaries and bonuses. In order to attract and recruit qualified and experienced employees and to minimise the possibility of their departure to other companies, the Group provides packages of compensation and non-financial incentives that are consistent with the evolving standards in Kazakhstan's labour market. Any failure to retain, manage or recruit qualified personnel in sufficient numbers may impair Kaspi.kz's ability to achieve its strategic objectives.

Kaspi.kz may lack sufficient insurance coverage

Kaspi.kz's insurance does not cover all of the Group's assets and liabilities. Kazakhstan's insurance industry is less developed than that in some more economically developed countries, with some insurance products being unavailable to Kaspi.kz on equivalent terms to those available in such economically developed countries, including insurance coverage for a business interruption. Kaspi.kz may incur an uninsured loss of assets and face claims which are not covered or are inadequately covered by its insurance policies. Any such losses or claims could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

The adoption of new IFRS standards may impact the Group's financial position and results of operation

The Group prepares its consolidated financial statement under IFRS on an annual basis and interim condensed financial statements under IAS 34 "Interim Financial Reporting" on a quarterly basis. The International Accounting Standards Board ("**IASB**"), an independent body which is responsible for setting new standards and constantly improves the IFRS framework by amending existing standards and issuing new standards.

During the period under review, with effect from 1 January 2018, the Group applied IFRS 9, Financial Instruments ("**IFRS 9**") and IFRS 15, Revenue from Contracts with Customers ("**IFRS 15**"). While, apart from providing more extensive disclosures for the Group's revenue transactions, the application of IFRS 15 did not have a significant impact on the Group's financial position and results of operations, the application of IFRS 9 has affected the Financial Statements. The application of IFRS 9 and the new forward-looking expected credit losses model has resulted in changes to accounting policies for a recognition, classification and measurement of financial assets and liabilities and impairment of financial assets. As IFRS 9 does not require the restatement of financial statements for any comparative periods and the Group has elected not to restate such figures and has recognised the difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 in total equity, as at 1 January 2018, in the amount of KZT10,071 million. Consequently, certain financial information presented as at and for the year ended 31 December 2016 and 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to such information presented as at and for the year ended 31 December 2018. The reconciliation of the carrying amounts of financial assets from their previous measurement categories into new measurement categories, as well as the reconciliation of closing loss allowance and the impact of transition to IFRS 9 on total equity are described in Note 3 (Adoption of IFRS 9 Financial Instruments) to the Financial Statements.

Furthermore, in January 2016, the IASB issued IFRS 16, Leases ("**IFRS 16**"), which sets out a new model for lease accounting and which replaces IAS 17 Leases with effect from 1 January 2019. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost. In accordance with the transition provisions of IFRS 16, the Group elected not to restate its financial statements for any comparative periods (where the difference in the carrying amounts of assets and liabilities will be recognised in retained earnings as at 1 January 2019). The IFRS 16 adoption has not materially affected the Group's consolidated statement of financial position.

The issue of any new standards that the Company will be required to adopt could lead to changes in its consolidated financial statements and may impact its reported financial position and results of operations.

The current significant shareholders will continue to control Kaspi.kz

For the foreseeable future, the Significant Shareholders will have significant influence over the strategy, management, policies and affairs of Kaspi.kz and over all matters requiring shareholder approval, including the election of directors, the amendment of the charter and significant corporate transactions. While the Company believes that such influence has been, and will continue to be, important in the development, pursuit and implementation of the Group's strategy, management, policies and affairs, there can be no assurance that the interests or views of the Significant Shareholders in relation to the development of the Group's business will coincide with those of other shareholders. If the Significant Shareholders were to act jointly, over the Group and the ability to elect a majority of the Company's directors, appoint management, issue additional shares and approve certain actions requiring the approval of a majority of the Company's shareholders. The ability of securities holders to influence the conduct of the Company will be limited. Potential conflicts may arise if the Significant Shareholders choose not to approve matters which would otherwise be in the interests of the remaining shareholders. Any divergence of interests of the Significant Shareholders and securities holders may adversely affect the market price of the securities.

Furthermore, from time to time the press and other non-traditional media may speculate about a wide variety of matters relating to the Group, including the Significant Shareholders. As a result of such reports, events with regard to the Company's shareholders may have an adverse impact on the Group's reputation and business. For example, in February 2019, Russian federal investigative authorities in Moscow initiated a case against Mr. Michael Calvey (the co-founder and senior partner of Baring Vostok Capital Partners) and three other employees of Baring Vostok Capital Partners, resulting in their pre-trial detention which continues as at the date of this Registration Document. Baring Vostok Capital Partners strongly denies the accusations against Mr. Michael Calvey and his colleagues, which relate to the performance of their respective roles as directors for a Baring Vostok Capital Partners' portfolio company. If the current allegations are cleared, it is expected that Mr. Michael Calvey will continue to play a key role as a senior partner in the private equity firm. As at the date of the Registration Document, the funds advised by Baring Vostok Capital Partners have no representation on the Board of Directors. While (i) neither Mr. Michael Calvey as an individual nor Baring Vostok Capital Partners as an institutional shareholder was or is engaged in the day-to-day operations of the Group (by way of participating in the operational decision making process or otherwise) and (ii) the pre-trial detention of Mr. Michael Calvey has not affected and is not expected to affect the Group's business and operations, these events have generated adverse press coverage with respect to the Group. Any reports in the media and other public statements of the kind referred to above, irrespective of whether such statements have any basis in fact, may adversely affect the Group's reputation and business, as well as the market price of the securities.

Risks relating to the Group's legal, regulatory and governance framework

Kaspi.kz operates in a highly regulated environment, and an inability to maintain a banking licence by Kaspi Bank could have a material adverse effect on the Group's business

The Company is a parent entity of a banking group, which primarily comprises JSC "Kaspi Bank" ("**Kaspi Bank**"), an entity regulated under the laws of Kazakhstan. Kaspi.kz's operations are subject to strict regulation by governmental authorities, particularly the NBK. A breach of any regulatory guidelines could expose the Group's regulated subsidiaries to potential liability, including the loss of its banking licence. If the NBK was to suspend or revoke the banking licence of Kaspi Bank, this would render the Group unable to perform its consumer lending, deposit taking and other banking operations (including processing the payments of its customers) and/or could lead to the winding-up of its business (whether by way of bankruptcy proceedings or liquidation). See "*Regulation*".

Existing laws and regulations could be amended, the manner in which laws and regulations are enforced or interpreted could change and new laws or regulations could be adopted. Certain failures by Kaspi.kz to comply with applicable laws or regulations could result in the withdrawal of Kaspi Bank's banking licence issued by the NBK, which would have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

The Kazakhstan regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities and the regulatory structure governing Kaspi Bank's operations is continuously evolving. The NBK expanded its powers, with effect from 1 January 2019, to enhance a risk-focused approach in financial regulation and supervision and specifically in applying its motivated judgement as part of such supervision, including in relation to the early identification of "problem banks" and taking measures in respect of such banks and identifying such banks' related parties, with the intention to regulate any relevant related party transactions. No assurance can be given that the NBK will not apply its motivated judgement arbitrarily in relation to financial institutions, including Kaspi Bank.

Kaspi Bank's capital position may require the Group to provide capital support, which may have an impact on the Group's profitability and restrict the Company's ability to grow and pay dividends

Kaspi Bank is the principal subsidiary of the Group and one of the core elements of Kaspi.kz's Ecosystem. The NBK's regulations require Kaspi Bank to have a minimum total capital adequacy ratio (K2 ratio) of 8.0%, a Tier 1 capital adequacy ratio (K1-2) of 6.5% and a core capital adequacy ratio (K1) of 5.5%, based on Kaspi Bank's financial statements prepared under IFRS. As at the date of the Registration Document, a capital conservation buffer of 2% is applicable to Kaspi Bank's minimum capital adequacy requirements. Kaspi Bank is required to report these ratios to the NBK on a monthly basis. As at 30 June 2019, Kaspi Bank's K2 ratio was 15.3%, its K1-2 ratio was 11.5% and its K1 ratio was 11.5%, which in each case exceeded the minimum required by the NBK. As at 1 September 2019, Kaspi Bank's K2 ratio was 13.9%, its K1-2 ratio was 10.5% and its K1 ratio was 10.5%, which in each case exceeded the minimum required by the NBK. Going forward, the Company plans to maintain Kaspi Bank's K1 ratio at a level above 10% and to use any additional portion above this threshold for the purposes of distributing dividends to shareholders, subject to applicable law and commercial considerations (including without limitation, cash requirements and future projects).

In addition, the Basel Committee on Banking Supervision (the "**Basel Committee**") recommends a minimum risk-based capital adequacy ratio of 8.0% and Tier 1 capital adequacy ratio of 6.5%, calculated in accordance with the Basel III International Regulatory Framework for Banks (December 2010, updated in June 2011) ("**Basel III**"). Kaspi Bank's total capital adequacy ratio, calculated under Basel III, was 23.0% as at 31 December 2018, 20.9% as at 31 December 2017 and 18.4% as at 31 December 2016, in each case higher than the minimum requirement of 8.0%. Kaspi Bank's Tier 1 capital adequacy ratio, calculated under Basel III, was 16.8% as at 31 December 2018, 13.9% as at 31 December 2017 and 12.3% as at 31 December 2016, in each case higher than the minimum requirement of 6.5%. Both ratios, the total capital adequacy ratio and Tier I capital adequacy ratio, exceeded the minimum requirements recommended by Basel III. See "*Regulation–Regulation of Banking Activities–Capital Adequacy, Liquidity Ratios*".

Since the introduction of the current management in 2006, Kaspi Bank has complied with all applicable capital adequacy requirements. If Kaspi Bank's capital position were to materially deteriorate, Kaspi Bank's ability to fund its operations could be negatively impacted. Further, if Kaspi Bank's capital position were to decline below the minimum levels of capital adequacy as required by statute, its banking licence could be suspended or revoked and it could encounter difficulties in continuing to operate its business, which could materially adversely affect the Group's business, financial condition, results of operations or prospects.

Under Kazakhstan law, the Company is a "bank holding" company by virtue of its indirect ownership of over 25% of the voting shares of Kaspi Bank. As such, the NBK may request Kaspi.kz to recapitalise Kaspi Bank in the event of the deterioration of its financial condition, systemic non-compliance with prudential requirements by Kaspi Bank and in some other cases as stipulated by law. Under the Law of the Republic of Kazakhstan No. 2444 "On Banks and Banking Activity in the Republic of Kazakhstan" dated 31 August 1995, as amended (the "**Banking Law**"), if a bank holding company is unable to provide to its bank subsidiary funding, as required by the NBK, the NBK may apply certain responsive measures as described in "*Regulation—Regulation of Banking Activities—The NBK's Powers under the Banking Law—Supervisory response measures*".

In 2016, the NBK increased the required risk-weighting measurement for unsecured consumer lending from 100% to 150%. If the NBK introduces further changes in the calculation of risk-weighted assets, Kaspi.kz may have to reduce the rate of growth of its loan portfolio and/or seek to raise additional capital in order to maintain sufficient capital.

If Kaspi Bank requires additional capital in the future, in the event the Company cannot provide it, there is no guarantee that it will be able to obtain it from third parties. If Kaspi Bank is unable to raise further capital to support its growth or if its capital position otherwise declines, Kaspi.kz's ability to implement its business strategy may be materially adversely affected. Kaspi Bank's ability to obtain additional capital may be restricted by a number of factors, including Kaspi Bank's financial condition, results of operations, any necessary government or regulatory approvals, regulatory changes and/or general market conditions for capital raising activities by financial institutions.

Kaspi.kz faces credit, liquidity and market risks

Credit risk

The Group takes on exposure to credit risk, which is the risk when one party to a financial instrument may cause a financial loss to the other party by failing to discharge an obligation. The Group's exposure to credit risk arises because of its lending activities and other transactions with counterparties that give rise to financial assets.

The scoring techniques and checks used by the Group to evaluate the creditworthiness of applicants for its loan products may not always present a complete and accurate picture of each customer's financial condition or be able to accurately evaluate the impact of various changes. Such changes may include changes in the macroeconomic environment, which could significantly and quickly alter a customer's financial profile. For example, Kaspi.kz's proprietary and highly adaptable scoring model and its regular access to data from credit bureaus, which allows it to assess the credit quality of its potential and current customers, cannot always accurately ascertain what the current indebtedness of any particular current or potential customer may be. Additionally, Kaspi.kz has no tools to prevent its customers from taking an additional loan from other financial institutions or otherwise taking steps that heighten the risk that a customer may default on a loan from the Group. As a result, Kaspi.kz may not always be able to correctly evaluate the current financial condition of each prospective customer and accurately determine the ability of its customers to repay their loans, which will result in increased loan losses.

There can be no guarantee that the Company's risk management strategies will protect the Group from increased levels of cost of risk and NPLs, particularly when confronted with risks that Kaspi.kz did not identify or anticipate from its existing portfolio. There can be no assurance that the Group's current level of loan recovery will be maintained in the future and any failure to accurately assess the credit risk of potential borrowers or acceptance of a higher degree of credit risk in the course of lending operations may result in a deterioration of the Group's loan portfolio and a corresponding increase in loan impairments, which would have a material adverse effect on the Group's business, financial conditions, results of operations or prospects.

In addition, the vast majority of the Group's loan portfolio is unsecured. While Kaspi.kz has no significant industry or single concentrations in its loan portfolio, in the event of defaults by a significant number of borrowers due to, for example, an economic downturn, Kaspi.kz may be unable to recover a significant proportion of the balance of such loans, which may have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

Liquidity risk

The Company is exposed to liquidity risk arising out of the mismatches between the maturities of the Group's assets and liabilities, which may result in Kaspi.kz being unable to meet its obligations in a timely manner. The Group is exposed to daily calls on its available cash resources from current accounts, maturing deposits and loan draw downs. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Company calculates and monitors liquidity ratios on a daily basis in accordance with the NBK's requirements.

Kaspi.kz meets a significant portion of its funding requirements using customer accounts (primarily deposits from retail customers), which gradually increased from KZT814.1 billion as at 31 December 2016 to KZT1,405 billion as at 30 June 2019. Over the past several years, Kaspi.kz has focused on retail customers, which has resulted in (i) the decrease of the share of corporate customers as a percentage of the Group's customer accounts from 8.6% (or KZT70,289 million) as at 31 December 2016 to 5.4% (or KZT75,302 million) as at 30 June 2019; and (ii) the decrease of customer accounts due to top-20 customers as a percentage of the Group's customer accounts from 10.5% (or KZT 85,675 million) as at 31 December 2016 to 7.6% (or KZT105,990 million) as at 30 June 2019. Any unexpected and significant withdrawal of deposits may impact the ability of Kaspi.kz to meet its funding requirements. The other portion of funding is primarily provided through the placement of local bonds (debt securities issued), which amounted to 8.3% of total liabilities as at 30 June 2019. Any deterioration in the Group's credit ratings could undermine confidence in the Group and limit its access to capital markets, which could require the Company to seek alternative, more expensive sources of funding.

Furthermore, Kaspi.kz's customers may be susceptible to the deliberate spread of rumours or false information about the Group's financial condition and state of its business. In the past, there have been several occasions on which misleading information regarding the instability of certain Kazakhstan banks, including Kaspi Bank, was circulated on the internet. For example, in February 2014, retail customers were alarmed by rumours and temporary instability in Kazakhstan's financial sector as a result of a significant devaluation of the tenge, which resulted in deposit withdrawals in Kaspi Bank. While this particular event had no material adverse effect on the Group, any dissemination of false information or rumours and resulting significant withdrawals of deposits may have material adverse effect on the stability of the Group's deposit base and may cause significant outflow of deposits.

Therefore, should any sources of short and, in particular, long-term funding become unexpectedly unavailable, or if maturity mismatches between Kaspi.kz's assets and liabilities occur, or if the Company is required to increase the interest rates on deposits to attract funding, particularly in light of a shortage of liquidity due to unfavourable economic conditions, this may result in liquidity gaps that the Company may not be able to cover without incurring additional expenses, if at all. Any inability to meet its liquidity needs in these circumstances could lead to a material adverse effect on the development of the Group's business or operations in the longer term.

Market risks

The Group has exposure to interest rate risk resulting from movements in interest rates that affect income, expense or the value of financial instruments. For example, instruments on both the asset and liability side may exhibit different sensitivities to changes in interest rates, including changes in long-term and short-term interest rates relative to one another. While the Group monitors interest rate fluctuations and its asset-liability tenors in order to mitigate such interest rate risk, any significant interest rate movement on either domestic and/or international markets may have a material adverse effect on the Group's business and results of operations.

The assets and liabilities of the Group are denominated in several currencies, with the majority of assets (loans to customers) and liabilities (customer accounts) denominated in tenge, although a portion of deposits are denominated in foreign currencies, principally U.S. Dollars. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. In order to manage foreign currency risk, Kaspi.kz's treasury function controls open foreign currency positions on a daily basis and uses derivative instruments to reduce the risk exposure. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. All derivative financial instruments are classified as held for trading and measured at fair value through profit or loss and not designated for hedge accounting. Any significant volatility in the money market or material exchange rate fluctuations may have a material adverse effect on Kaspi.kz's business and results of operations.

Kaspi.kz's securities portfolio (which is predominantly comprised of Kazakhstan government debt securities, representing 85.0% of total investment securities and derivatives as at 30 June 2019) is subject to fluctuations in the value of financial instruments caused by changes in market prices, whether caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Interest rate and price movements on both domestic and international markets may (including as a result of any downgrade in Kazakhstan's sovereign credit ratings) affect the value of Kaspi.kz's securities portfolio, which in turn may have a material adverse effect on the Group's business and results of operations.

Kaspi.kz's measures to prevent money laundering and financing of illicit activity may not be completely effective

Kazakhstan financial institutions, such as Kaspi.kz, are obliged to monitor certain transactions entered into by their clients by conducting due diligence, as set out under the applicable laws, with respect both to the clients and the relevant transactions. If it is not possible to conduct such due diligence, the financial institution must prevent their clients from entering into any such transaction. Kazakhstan law requires any suspicious transaction to be reported to an authorised state body immediately, and, in any case, before such suspicious transaction is processed.

Kaspi.kz has implemented measures aimed at preventing its Ecosystem from being used as a vehicle for money laundering, including "know your client" policies and the adoption of anti-money laundering and compliance procedures in all its branches and banking outlets. The Group's responsibility unit seeks to prevent money laundering and terrorist financing by performing, amongst other things, the following functions: (i) identifying both transactions subject to financial monitoring and suspicious transactions and reporting such transactions to the authorised state body; (ii) developing and improving policies, rules and other internal documents aimed at preventing the laundering of proceeds of crime and the financing of illicit activity (including terrorism); (iii) developing risk assessment criteria to assess customers of the Group from a money laundering perspective; (iv) implementing anti-money laundering training sessions for its employees and discussing the Group's anti-money laundering procedures with employees; (v) participating in the preparation of a database of information aimed at preventing the Group from engaging in transactions related to the financing of terrorism, in accordance with a list of terrorists and terrorist organisations provided to the Company by the relevant authorities; and (vi) maintaining an electronic database containing a list of suspicious customers of the Group. Currently, the Group complies with its existing policies, rules of internal control and with the requirements of all applicable laws.

There can be no assurance that attempts to launder money or finance illicit activity through Kaspi.kz will not be made or that anti-money laundering measures implemented by Kaspi.kz will always be effective. If Kaspi.kz were associated with money laundering, even if this is solely due to the failure of its anti-money laundering measures, or if it were unable to comply with all of the relevant laws and internal policies regarding financial assistance or money laundering, it could be subject to significant fines, as well as harm to its reputation, and its business, financial condition, results of operations or prospects may be materially and adversely affected.

Failure to maintain and protect customer and employee information

Kaspi.kz collects and processes personal data (including names, addresses, ages, bank details and other personal data) from its customers, business contacts and employees as part of the operation of its business and it must comply with data protection and privacy laws and industry standards in Kazakhstan. Those laws and standards impose certain requirements on Kaspi.kz in respect of the collection, use, processing (including accumulation, modification, distribution, depersonalisation, blocking and destruction of personal data) and storage of such personal data. Failure to operate effective data controls in respect of the collection, use, processing and storage of such personal data, as prescribed by applicable law, could potentially lead to administrative fines, financial costs, reputational damage and undermine trust in Kaspi.kz's Ecosystem and brand (see "-*Maintaining the trusted status of Kaspi.kz's Ecosystem and a strong brand is critical to future growth*"), any of which could adversely affect the Group's business, financial condition, results of operations or prospects.

The Law of the Republic of Kazakhstan "On Personal Data and the Protection Thereof" No. 94-V ZRK, dated 21 May 2013 (as amended) (the "**Personal Data Law**") is a special legislative act that established a framework for the protection of personal data. Prior to the adoption of this law, Kazakhstan did not have any specific laws regulating the protection of personal data. Therefore, there is currently no widely-established or consistent judicial practice in respect of personal data protection matters. Existing laws and regulations on personal data protection could be amended, the manner in which such laws and regulations are enforced or interpreted could change and new laws or regulations on personal data protection could be adopted, including in order to further regulate or restrict the use of personal data. If the existing interpretation of the laws and regulations were to change or future regulations were imposed, it could have an adverse effect on the Group's business.

Risks relating to the Group's Strategy

Kaspi.kz may fail to effectively manage the growth of its business and operations

Kaspi.kz's business has grown rapidly and significantly in recent years, and the implementation of its strategy is expected to increase the size of its overall business in the long term. During 2014-2018, the Group has evolved from a banking services provider to the largest Payments, Marketplace and Fintech Ecosystem. The Group's loans to customers (net of allowance for impairment losses) gradually increased from KZT715.1 billion as at 31 December 2016 to KZT1,130.9 billion as at 30 June 2019. The total number of the Group's Active Customers increased from 3.4 million as at 31 December 2016 to 5.7 million as at 30 June 2019. Kaspi.kz's GMV increased from KZT180.6 billion in 2016 to KZT415.1 billion in 2018. Kaspi.kz's TPV increased from KZT112 billion in 2016 to KZT1,400 billion in 2018. In the six months ended 30 June 2019, Kaspi.kz's GMV and TPV were KZT242 billion and KZT1,338 billion, respectively.

Because of the significant growth in Kaspi.kz's operations, the Group's exposure to business risks has increased. This growth will continue to require improved monitoring and control procedures with respect to Kaspi.kz's operations, as well as continued investment in its financial and information management systems, recruitment and training of employees, marketing, the monitoring of the consistency of customer service and increased operational costs. In addition, overall growth in the Group's business requires greater allocation of management resources away from day-to-day operations. Furthermore, the growth in Kaspi.kz's business may create significant operational challenges, including the ability of the Company's information technology systems to adequately handle the rate of growth of operations, the ability to design, implement and follow appropriate risk management procedures in respect of a much larger volume of operations, an increased variety of offered products and the ability to properly monitor the Group's financial performance. Failure by Kaspi.kz to manage its growth while at the same time maintaining adequate focus on its existing operating segments may have a material adverse effect on its business, financial condition, results of operations or prospects.

Kaspi.kz may face risks in relation to its planned expansion to some countries of Central Asia and the Caucasus and any related acquisitions

As part of its strategy, in mid-term the Group plans to expand its operations into certain countries in Central Asia and the Caucasus such as Azerbaijan, Georgia, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. In particular, in September 2019, the Group expanded its addressable market from 18 million people in Kazakhstan to 28 million people by entering Azerbaijan through the acquisition of three leading classifieds platforms (Turbo.az (a car marketplace), Tap.az (a used and new items marketplace) and Bina.az (a real estate marketplace)) (see "*Operating and Financial Review – Recent*

Developments – Acquisition of Marketplace Platforms in Azerbaijan"). Similarly to Kazakhstan, the abovementioned countries are emerging markets subject to greater political, economic, social and legal risks than more developed countries. In many respects, the inherent risks in transacting business in these countries are similar to, or even more significant than, those in Kazakhstan, particularly the risks set out under "—*Risks relating to Kazakhstan*" below.

Moreover, these countries are new operating environments for the Group, which are geographically distant from the Group's Kazakhstan operations and are subject to different regulatory regimes. Laws and corporate practices vary across the countries of Central Asia and the Caucasus and are generally not as well developed as in Western jurisdictions or in Kazakhstan. Thus, the Group may have to incur additional costs and allocate extra resources to ensure that its business in the respective countries is in compliance with applicable local laws and regulations, international business practices, and the Group's internal policies. Any failure to ensure such compliance, or any substantial expenses that the Group might have to incur to ensure such compliance, may have a material adverse effect on Kaspi.kz's business, financial condition, results of operations or prospects, and may result in the Group's failure to implement its international expansion strategy.

Furthermore, the successful integration of entities acquired pursuant to the Group's expansion strategy into the Group's operations may prove to be difficult for a variety of reasons, including contrasting cultures or management styles, poor records or internal controls, difficulty in establishing immediate control over cash flows and any delay in transition plans. As a result, any potential future acquisitions or joint ventures pose risks to the Group's existing operations, including additional demands being placed on the Group's senior management (which is also responsible for managing the Group's existing operations), increased overall operating complexity of the Group's business, requiring additional personnel and other resources, increased cash expenditure to integrate any acquired entities and the need to attract and retain a sufficient number of qualified management and other personnel.

Risks relating to Kazakhstan

The Group is largely dependent on the economic and political conditions prevailing in Kazakhstan

All of the Group's operations are conducted, and all of its assets are located in Kazakhstan. Kazakhstan became an independent sovereign state in 1991 upon the dissolution of the Soviet Union. Since then, Kazakhstan has experienced significant change as it has transformed from a centrally controlled command economy to a market-oriented economy. The transition was initially marked by political uncertainty and tension, a recessionary economy characterised by high inflation, instability of the local currency and rapid changes in the legal environment.

Since 1992, Kazakhstan has actively pursued a programme of economic reform designed to establish a free market economy through privatisation of government-owned enterprises and deregulation and is more advanced in this respect than some other countries of the former Soviet Union. However, as with any transition economy, there can be no assurance that such reforms will continue or that such reforms will achieve all or any of their intended aims.

Kazakhstan depends on neighbouring states for access to world markets for a number of its major exports, including oil, natural gas, steel, copper, ferroalloys, iron ore, aluminium, coal, lead, zinc and wheat. Thus, Kazakhstan is dependent upon good relations with its neighbours to ensure its ability to export. Should access to these export routes be materially impaired, this could adversely impact the economy of Kazakhstan. Moreover, adverse economic factors in regional markets may negatively impact Kazakhstan's economy, which could in turn have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

Pursuant to amendments adopted in May 2007, the Kazakhstan Constitution introduced the concept of the "first president" and established that the first president (Mr. Nursultan Nazarbayev, who was in office from 16 December 1991 to 19 March 2019) enjoys a number of privileges and may run in an unlimited number of elections. In 2017, the Kazakhstan Constitution was further amended to provide for the distribution of powers among the President, the Parliament and the Government. In 2018, the Law "On the Security Council of the Republic of Kazakhstan" changed the status of the Security Council of Kazakhstan from a consultative and advisory body under the President of Kazakhstan, to a constitutional body. Mr. Nazarbayev, as the first President of Kazakhstan, heads the Security Council. The first President of Kazakhstan is entitled to act as the head of the Security Council for the term of his life. However, it is currently unclear how in practice the Security Council will interact with the Government and other state bodies, and whether Kazakhstan law will create any conflicting authorities, which may have a material adverse effect on the socio-political situation in, and/or the economy of, Kazakhstan and, in turn, the Group's business, financial condition, results of operations or prospects.

Under President Nazarbayev, who resigned as the President on 19 March 2019, Kazakhstan enjoyed greater stability and prosperity than many other countries of the former Soviet Union. However, there can be no assurance that such results will be maintained or that any new administration will be able to achieve similar or better results. Following the resignation of Mr. Nazarbayev, on 20 March 2019 Mr. Tokayev as the Head of Senate of Kazakhstan, took office as the President of Kazakhstan in accordance with the presidential line of succession. On 9 June 2019, Mr. Tokayev was elected to the office of the President of Kazakhstan through early presidential elections. Should the new President of Kazakhstan fail to have sufficient support or the ability to govern effectively, Kazakhstan's political situation and economy could become unstable. If any future administration has a different political outlook than that of Mr. Nazarbayev, the business environment in Kazakhstan could change. Any amendments to laws affecting, among others, the property, tax or regulatory framework could have a material adverse effect on the Group's business, financial condition, results of operations or prospects and the investment climate in Kazakhstan, which could have a material adverse effect on the price of the securities.

Kazakhstan is heavily dependent upon export trade and commodity prices

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

The decline in world prices for oil and other commodities in 2014 and subsequent devaluation of the tenge against the U.S. Dollar in 2015 affected the public finances and resulted in a revision of the budget of Kazakhstan. There can be no assurance that further revisions of the state budget will not be required in light of continuing oil price volatility, which could adversely affect the development of Kazakhstan and, in turn, the Group's business, financial condition, results of operations or prospects.

An oversupply of oil or other commodities in world markets or a general downturn in the economies of any significant markets for oil or other commodities or a weakening of the U.S. Dollar relative to other currencies would have a material adverse effect on the Kazakhstan economy, which, in turn, could indirectly have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

Instability of the Kazakhstan banking sector

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

A failure or default of any financial institution could lead to defaults by other institutions. Concerns about, or a default by, one institution could prevent the Group from raising new or additional funds in the capital markets and could also significantly reduce depositors' confidence in the banking industry in general and in Kaspi.kz in particular. The commercial soundness of many financial institutions may be interconnected as a result of their credit, trading, clearing or other relationships and, accordingly, such concerns or defaults could also lead to significant liquidity problems, losses or defaults by other institutions. This risk is sometimes referred to as "systemic risk" or "contagion risk" and may adversely affect financial institutions with whom Kaspi.kz interacts on a daily basis. This could, in turn, have a material adverse effect on the Group's ability to raise new funds and have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

During periods of instability in the financial markets, the Government and the NBK have historically implemented measures to support the liquidity and solvency of Kazakhstan banks and to increase the availability of credit to businesses, which have been seen as critical for restoring investor confidence and for supporting the economy. However, there can be no assurance that the Government and the NBK will continue to implement such measures or, even if taken, that such measures will succeed in materially improving the liquidity position and financial condition of the affected financial institutions in the future or that such measures will not be implemented selectively. Continued instability in the Kazakhstan financial sector and reduced investor confidence caused by any factor including the downturn of the global economy or volatility of the financial markets, could be materially adverse to the Group's business, financial condition and results of operations or prospects.

Sustained periods of high inflation could adversely affect Kaspi.kz's business

Kaspi.kz's operations are located in Kazakhstan and a majority of the Group's costs are incurred in Kazakhstan. Since the majority of the Group's expenses are denominated in tenge, inflationary pressures in Kazakhstan are a significant factor affecting the Group's expenses. According to the NBK, annual consumer price inflation for 2016, 2017 and 2018 was 8.5%, 7.1% and 5.3%, respectively. A return to high and sustained inflation could lead to market instability, new financial crises, reductions in consumer purchasing power and the erosion of consumer confidence, all of which could have a material adverse effect on the Group's business, financial condition, and results of operations or prospects.

Exchange rate fluctuations could have an adverse impact on the Group

Since the NBK's adoption of a floating rate exchange policy for the tenge in 1999, the currency has fluctuated significantly, particularly during the periods of volatility on the global financial and commodity markets. As at 30 June 2019, the official KZT/U.S.$ exchange rate reported by the NBK was KZT380.53 per U.S.$1.00 as compared to KZT333.29 per U.S.$1.00, KZT332.33 per U.S.$1.00 and KZT384.2 per U.S.$1.00 as at 31 December 2016, 2017 and 2018, respectively.

As at 31 December 2016, 2017 and 2018, 35.8%, 29.3% and 22.8% respectively of Kaspi.kz's total financial liabilities was made up of borrowings denominated in currencies other than the tenge. Whilst the Group has a corresponding proportion of assets in foreign currencies, any significant devaluation of the tenge against the U.S. Dollar or other foreign currencies will increase Kaspi.kz's interest expense. Any such devaluation of the tenge against the U.S. Dollar or other foreign currencies could negatively affect the Group in a number of ways, including, among others, by causing a further outflow of tenge deposits and increasing Kaspi.kz's actual interest expense on its foreign currency denominated liabilities. Any of these developments may have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

Sanctions imposed on Russia could have an indirect adverse impact on Kazakhstan's economy and the Group

In connection with the conflicts in Ukraine and Syria, as well as alleged interference in the 2016 U.S. Presidential elections, the U.S. and the EU (and other nations, such as Canada, Switzerland, Australia and Japan) imposed sanctions on certain Russian persons and entities. A number of Russian government officials, entrepreneurs, banks and companies, as well as companies owned or controlled by such persons or entities, or certain entities that provide assistance with any prohibited actions taken by such entities or persons, have been subject to blocking sanctions. The sanctions have imposed a freeze on all of the assets of any such blocked persons and broadly prohibited transactions or other dealings (including the provision of services) for the benefit of the sanctioned persons, in each case involving U.S. persons or legal entities or any direct or indirect action within the United States (including the clearing of U.S. Dollar payments through the U.S. financial system).

Furthermore, the U.S. and EU have imposed sectoral sanctions on entities operating in certain sectors of the Russian economy, in particular in the financial, oil and gas, defence and related materials sectors. With respect to the financial sector, under these sectoral sanctions the EU and U.S. imposed prohibitions on transactions by EU and U.S. persons or within the EU or U.S. with respect to transacting in, providing financing for, or otherwise dealing in debt with a prescribed maturity or equity, if that debt or equity is issued on or after prescribed dates by, or on behalf of, or for the benefit of named persons, their property, or their interests in property.

The sanctions imposed to date have had an adverse effect on the Russian economy, prompting downward revisions to the credit ratings of the Russian Federation and a number of major Russian companies that are ultimately controlled by the Russian Federation, causing extensive capital outflows from Russia and impairing the ability of Russian issuers to access the international capital markets.

While Kazakhstan maintains strong independent diplomatic relationships with both Russia and Ukraine and has confirmed its neutral position with respect to the tensions between Russia and Ukraine, Kazakhstan has significant economic and political relations with Russia. The establishment and continued operation of the Eurasian Economic Union is expected to continue to strengthen Kazakhstan's economic relations with Russia.

A material worsening of Kazakhstan's close economic or political relations with Russia, the existing sanctions imposed on Russia and/or any future sanctions, could have a material adverse effect on Kazakhstan's economy.

As well as many other financial institutions, the Group, in the ordinary course of business, transacts with Subsidiary Bank Sberbank of Russia JSC (the Kazakhstan subsidiary of Sberbank of Russia) and Subsidiary JSC VTB Bank (Kazakhstan) (the Kazakhstan subsidiary of VTB Bank), which are the Group's counterparties on the interbank and foreign exchange markets, and Sberbank of Russia and VTB Bank (Europe) SE, which are correspondent bank counterparties, and which are subject to sectoral sanctions. All transactions with clients and counterparties are reviewed for sanctions compliance purposes by the compliance function of each entity of the Group and the authorised personnel. The vast majority of transactions with the abovementioned entities are rouble and Euro transfers, with the remaining transactions comprising of other banking operations, and all of them are permissible pursuant to applicable sanctions regimes. Other than the abovementioned entities operating in the financial sector, the Group does not transact with any sanctioned entities in any other sectors.

As of the date of this Registration Document, none of the Group's customers are subject to the U.S. or EU sanctions. The Company has no reason to believe that the Kazakhstan financial sector may be specifically targeted by the U.S. or EU sanctions. If, however, sanctions targeting the entire Russian banking sector are imposed, the Group's ability to transact with Russian banks may be affected. Depending on the circumstances, the Company may decide to either discontinue operations with Russian banks or replace such counterparties.

Kazakhstan's legislative and regulatory framework is evolving

Whilst a large volume of legislation was enacted several decades ago, the legal framework in Kazakhstan is still evolving in comparison to countries with more established market economies.

The judicial system, judicial officials and other Government officials in Kazakhstan may not be fully independent of external social, economic and political forces. For example, there have been instances of improper payments being made to public officials. Therefore, court decisions can be difficult to predict and administrative decisions have on occasion been inconsistent. Kazakhstan is a civil law-based jurisdiction and, as such, judicial precedents have no binding effect on subsequent decisions.

Whilst Kazakhstan has an established legal framework specifically dedicated to consumer lending, major amendments to the consumer lending regulations, any shifts in existing court practice or the regulator's interpretation of the laws (including with respect to the pricing of loan products, in particular, any change to the caps on interest rates charged by financial institutions on consumer loan products, which stood at 56% as at the date of this Registration Document) could have a material adverse effect on Kaspi.kz's business.

The NBK announced that in August 2019 it commenced an asset quality review with respect to the 14 largest banks in Kazakhstan, including Kaspi Bank. The asset quality review is a comprehensive assessment which is aimed at ensuring that banks are adequately capitalised and can withstand possible financial instability. The procedure is based on the principles and methodology of the European Central Bank, which were adjusted to account for Kazakhstan regulations and the business processes of local banks. The NBK has decided to undertake the review to reach three principal objectives: (i) transparency (to enhance the quality of information available on the conditions of banks), (ii) repair (to identify weaknesses and implement necessary enhancement actions) and (iii) confidence (to assure investors and customers that the relevant banks are fundamentally sound and trustworthy). The NBK intends to finalise the review in December 2019 and provide aggregate disclosure in respect of the overall outcomes, as well as recommendations to each bank subject to review. Although the Company believes that Kaspi Bank maintains a prudent and adequate loan loss provisioning policy, Kaspi.kz cannot give assurance that the NBK will not require Kaspi Bank to increase its provisions for loan impairment as a result of asset quality review (with its main focus on the loan portfolio assessment). Since the asset quality review is a new process employed by the NBK to assess the banking sector in Kazakhstan, and since the methodology of the review is yet to be fully disclosed and tested, the Company cannot estimate the precise impact of the review on the Group's business and financial condition.

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

Kaspi.kz may have difficulties in obtaining effective redress in court proceedings

The Kazakhstan judicial system is not immune from economic and political influences. The judicial system is often understaffed and underfunded. Judges are generally inexperienced in corporate law matters. Not all Kazakhstan legislation and court decisions are readily available to the public or organised in an accessible manner. The Kazakhstan judicial system can be slow and court orders are not always enforced or followed by law enforcement agencies. All of these shortcomings may affect the ability of the Group or holders of the Company's securities to obtain effective legal redress in Kazakhstan courts. In addition, the press has reported that court claims and government prosecutions are often used to further political aims supported by the courts. The Group may be subject to such political claims and may not receive a fair hearing. These uncertainties make judicial decisions in Kazakhstan difficult to predict and effective redress uncertain and could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

Risks Relating to Taxation

Kazakhstan taxation system is subject to frequent change

Kazakhstan's taxation system is continually evolving and is subject to frequent and, at times, ambiguous changes, which could have an adverse effect on the Group. Additionally, the 2019 Tax Code has been in force for a short period relative to the tax laws and regulations in more developed market economies and, therefore, risks of tax assessments within its jurisdiction are more probable than in nations with more developed tax systems. The Group's operations are principally conducted and most of the Group's assets are located in Kazakhstan and, therefore, the shortcomings of the Kazakhstan tax system could adversely affect the Group.

Historically, the system of tax collection in Kazakhstan has been difficult and unpredictable resulting in continual changes to the tax legislation, which have sometimes occurred on short notice and have been applied retroactively. Such changes to the Kazakhstan tax legislation may apply not only to the provisions that establish the rules of tax administration, but also to other provisions such as tax base and tax rate determination. Furthermore, the Kazakhstan tax legislation is subject to amendments on a regular basis. These changes produce tax uncertainties which may result in adverse tax implications for the Group.

Varying interpretations of tax regulations exist both among and within government bodies. Such inconsistent interpretations increase the level of uncertainty and, therefore, tax risks, and could potentially lead to the inconsistent enforcement of these laws and regulations. Official explanations and court decisions are often unclear and contradictory, whilst tax disputes could result in significant litigation costs for the Group. For example, clarifications of the tax authorities on particular Tax Code clauses are not legally binding on either taxpayers or the tax authorities themselves, and may not be taken into account during the settlement of tax disputes. In addition, the responsibility of the tax authorities for providing interpretations of articles of the 2019 Tax Code is not established by law. Thus, the tax authorities are allowed to change their position regarding the application of a particular article. Additionally, judges considering court cases related to the resolution of tax disputes sometimes issue decisions that may not be considered as definite. The creation of an investment court in 2016 for the resolution of investment disputes, including tax disputes relating to investments, did not lead to a significant improvement in the quality of tax litigation or in the resolution of tax disputes.

As a consequence of the complexities surrounding legal interpretations and the taxation mechanisms, the shortcomings of legal institutions, as well as gaps and contradictions that exist in the tax legislation, there are frequently different interpretations of the tax legislation by taxpayers and the tax authorities. During settlements of tax disputes, the tax authorities and courts often issue decisions in favour of the state budget. Therefore, taxation in Kazakhstan is often unclear or inconsistent, and may result in unexpected tax assessments and liabilities that could lead to a material adverse effect on, *inter alia*, the Group's business, financial condition, results of operations or prospects.

References to IFRS in the 2019 Tax Code could result in adverse tax assessment for the Group

A significant part of the 2019 Tax Code contains direct links to IFRS, which makes IFRS an important and considerable factor within the Kazakhstan tax system. Therefore, since IFRS is built on "substance over form" principle, application of certain principles and methods of IFRS is a matter of professional judgment, which may result in tax disputes between the Group and the tax authorities. During tax audits, the tax authorities sometimes interpret IFRS in a way that could differ from professional judgment of financial reporting specialists and / or auditors. In addition, the tax authorities issue letters where they give their own interpretation of IFRS, which does not take into account all aspects of application of standards.

The complicated nature of IFRS judicial-making and application of IFRS in the Kazakhstan taxation system entails a risk of ambiguous interpretation and practical application of IFRS provisions by taxpayers and the tax authorities, and may, therefore, lead to additional and, potentially, material, tax assessments on the Group that could have a material adverse effect on, *inter alia*, the Group's business, financial condition, results of operations or prospects.

RESPONSIBILITY STATEMENT

The Company accepts responsibility for the information contained in this Registration Document and to the best of the Company's knowledge, the information contained in this Registration Document is in accordance with the facts and this Registration Document contains no omissions likely to affect the import of such information.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

The financial information set out in this Registration Document with respect to the Group has, except where expressly stated otherwise, and subject to rounding, been derived from the Group's consolidated financial statements, which were prepared in accordance with IFRS as issued by the IASB.

The consolidated financial information of the Group set out in this Registration Document as at and for the six months ended 30 June 2018 and 2019 has been derived from the reviewed interim condensed consolidated financial information of the Group as at and for the six months ended 30 June 2019 (the "**Interim Financial Statements**"). The Interim Financial Statements, together with the report on review of the Interim Financial Statements, are set forth on pages F-2 to F-31 in this Registration Document.

The consolidated financial information of the Group set out in this Registration Document as at and for the years ended 31 December 2016, 2017 and 2018 has been derived from the audited consolidated financial statements of the Group as at and for the years ended 31 December 2016, 2017 and 2018 (the "**Annual Financial Statements**" and, together with the Interim Financial Statements, the "**Financial Statements**"). The Annual Financial Statements, together with the related independent auditor's report, are set forth on pages F-32 to F-109 in this Registration Document.

Certain financial information set out in this Registration Document with respect to the Group's reportable segments under IFRS 8: Payments, Marketplace and Fintech Platforms (other than consolidated financial information in relation to the segments set out in Notes 4 and 5 to each of the Interim Financial Statements and the Annual Financial Statements) has been derived from the Company's management accounting records which were prepared in accordance with IFRS, on the same basis as historical consolidated financial information derived from the Financial Statements.

Certain financial information set out in this Registration Document with respect to the Payments Platform (in particular, revenue, net revenue, net income, cost of revenue and calculations of cost of revenue as a share of revenue and net income margin) for the three months ended 31 March 2019 (the first quarter) has been derived from the interim condensed consolidated financial information of the Group as at and for the three months ended 31 March 2019. Certain financial information set out in this Registration Document with respect to the Payments Platform (in particular, revenue, net revenue, net income, cost of revenue and calculations of cost of revenue as a share of revenue and net income margin for the three months ended 30 June 2019 (the second quarter))) has been calculated by way of subtraction of the relevant numbers from the interim condensed consolidated financial information of the Group as at and for the three months ended 31 March 2019 from such corresponding numbers from the Interim Financial Statements.

New Accounting Standards

With effect from 1 January 2018, the Company adopted IFRS 9 and recorded a cumulative adjustment to total equity at that date of KZT10,071 million (as disclosed in Note 3 to the Financial Statements). With effect from 1 January 2018, the Company adopted IFRS 15 which, apart from providing more extensive disclosures for the Group's revenue transactions, did not have a significant impact on the Group's financial position and results of operations. The consolidated financial statements as at and for the years ended 31 December 2016 and 2017 have not been restated to reflect the changes from the application of IFRS 9. The respective comparative numbers as at and for the years ended 31 December 2016 and 2017 were prepared on the basis of IAS 18, Revenue and IAS 39, Financial Instruments: Recognition and Measurement, which were the accounting standards in effect at that time. Therefore, due to the adoption of the new accounting standards, certain financial information derived from the consolidated financial statements as at and for the year ended 31 December 2018 are not directly comparable with the respective financial information from the consolidated financial statements as at and for the years ended 31 December 2016 and 2017. See "*Risk Factors–Risks relating to Kaspi.kz's Business and Industry–The adoption of new IFRS standards may impact the Group's financial position and results of operation*".

Independent Auditors

The Financial Statements have been reviewed or audited as the case may be, in accordance with International Standards on Auditing by Deloitte, LLP ("**Deloitte**"), independent auditors, who have expressed an unqualified audit opinion or review report on the Financial Statements, as stated in the relevant report appearing herein. The address of Deloitte is 36 Al Farabi Ave., Almaty, 050059, Republic of Kazakhstan. Deloitte operates under a state license on auditing in the Republic of Kazakhstan, Number 0000015, type MFU-2, issued by the Ministry of Finance of the Republic of Kazakhstan dated 13 September 2006. Deloitte is a member of the Chamber of Auditors of the Republic of Kazakhstan.

Presentation of Segment Information

In this Registration Document, the Company presents certain financial and operating information by segments. Reportable segments are reported in a manner consistent with the internal reporting provided to the management of the Company. In the first half of 2019, the Company's management implemented changes in how the management operates the businesses. These changes resulted in a revision of reportable segments and comparative information for earlier periods to conform to the current presentation.

Starting in 2018, the Company's management changed the composition of reportable segments from two reportable segments for the years ended 31 December 2017 and 2016 to four reportable segments. Such changes reflected how the management operated the business of the Group to maximise efficiency in allocating resources and assessing performance. Changes to the reportable segments for 2017 and 2016 were revised in the comparative information presented in Note 5 of the 2018 Annual Financial Statements.

Subsequently, in line with the Company's management and internal reporting structures, the Company's management changed the composition of reportable segments and identified three reportable segments (the Payments Platform, the Marketplace Platform and the Fintech Platform (each as defined below)) that are reportable under IFRS in the first half of 2019 compared to four reportable segments previously identified in the year ended 31 December 2018. In the first half of 2019, the management decided to combine the Consumer Financial Services Platform and the e-Finance Platform, which had previously existed and been reported in the 2018 Annual Financial Statements, into one Fintech Platform in the Interim Financial Statements. The reason for the combination was that the migration from offline to online and mobile operations has been developing rapidly resulting in about 70% of transactions executed through online touchpoints (website and Mobile App). As a result of changes in reportable segments, the historical comparative information for the first half of 2018 has been revised within this Registration Document to conform to the current presentation (three operating segments).

Therefore, for the purposes of this Registration Document and for the convenience of the reader, the segment reporting structure for the years ended 31 December 2018, 2017, and 2016 as presented in Note 5 in the notes to the Annual Financial Statements with four segments has been revised to conform to the current reportable segment presentation to three segments. The Company's management believes that such revisions have enhanced the disclosure resulting in the provision of reliable and more relevant information. See Note 5 to the Interim Financial Statements and Note 5 to the Annual Financial Statements. The old segment presentation can be reconciled with the reportable segment presentation within this Registration Document through combining Consumer Financial Services Platform and e-Finance Platform presented in Note 5 from the 2018 Annual Financial Statements and the 2017 and 2016 comparative information into the Fintech Platform segment.

Throughout this Registration Document (unless stated otherwise), the following definitions are used:

- "**Consumer Loans**" means, for the purposes of industry review and analysis of the Company's market position, consumer finance loans issued to retail customers (excluding mortgage loans);

- "**Ecosystem**" or "**Kaspi Ecosystem**" means the Platforms;

- "**Group**", "**Kaspi.kz**" or "**we**" means the Company and its consolidated subsidiaries;

- "**Payments**" or "**Payments Platform**" means the segment which allows our customers to pay for regular household needs, as well as to make online and in-store purchases, and enables seamless online P2P payments within and outside our Ecosystem in Kazakhstan, between our customers and globally to any Mastercard or Visa card. Through the Payments Platform, we generate transaction fees from merchants and customers, annual fees from customers, as well as interest revenue from interest-free cash balances (current accounts);

- "**Marketplace**" or "**Marketplace Platform**" means the segment which enables customers to buy a broad selection of products and services from a variety of merchants. Our Marketplace is positioned as the starting point and destination for customer shopping journeys via our Mobile App, website and in-store. Customers come to our Marketplace to buy a broad selection of products and services from various merchants with seamless shopping experience. We believe that our Marketplace Platform appeals to buyers who value ease of use, a large selection of the most popular products and price competitiveness. Fulfilment options include in-store pick up, delivery by merchant and delivery powered by Kaspi.kz. Through the Marketplace Platform, we generate seller fees from merchants;

- "**Fintech**" or "**Fintech Platform**" means the segment which enables customers to manage their personal finance online and access consumer finance and deposit products and services mainly through the Kaspi.kz Mobile App. Our consumer finance products are also strategically designed around the product and merchant selection on our Marketplace Platform, which means that customers are able to select goods and merchants first, and then seamlessly access available solutions to finance their purchases. We generate interest, fee revenue and membership fees from customers who are members of the Kaspi Red Shopping Club; and

- "**Platforms**" means collectively the Payments Platform, the Marketplace Platform and the Fintech Platform.

Average Balance Sheet and Interest Rate Data

This Registration Document includes information on the average balances of interest-earning assets and interest-bearing liabilities of the Group, as well as the average yield received on interest income or average rate paid on interest expense for such assets and liabilities. For the purposes of this Registration Document, the average is calculated on the basis of unaudited monthly closing balances throughout each relevant period. Calculation of these average balances on a weekly or daily basis could result in materially different average results. Prospective investors are cautioned that the average balances and related data presented in this Registration Document are based on materially less frequent average methods than those used by other banks in the United States, Western Europe and other jurisdictions in connection with similar offers of securities.

The average yields/rates disclosed in this Registration Document are calculated by dividing aggregate interest income or expense for the relevant line item by the average balance for the same item for the applicable period. Average yields/rates are distinct from the effective yields/rates presented in the consolidated financial statements of the Group. The effective yield/rate method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic yield/rate (effective yield/rate) on the carrying amount. The effective yield/rate is the yield/rate that discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument. The effective yield/rate discounts cash flows of variable interest instruments to the next interest re-pricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the entire expected life of the instrument. The present value calculation includes all fees and basis points paid or received between parties to the contract that are an integral part of the effective yield/rate.

Kaspi.kz presents information on effective yields/rates because IFRS requires these yields/rates to be used in the preparation of its consolidated financial statements. Operationally, Kaspi.kz uses this information, as well as average yields/rates as both are considered useful business tools.

The average yields/rates measures are not defined under IFRS or other generally accepted accounting principles, nor should they be considered as substitutes for the information contained in the Financial Statements.

Non-IFRS Measures

This Registration Document includes certain financial measures that are not measures of performance specifically defined by IFRS. The Company has included these measures because it believes that they enhance an investor's understanding of the Group's financial performance. Further, the Company uses the non-IFRS measures disclosed in this Registration Document in the Group's business operations to, among other things, evaluate the performance of operations, develop budgets and measure performance against those budgets. The Company also believes that these non-IFRS measures are commonly reported by comparable businesses and used by investors in comparing the performance of businesses.

The non-IFRS measures disclosed in this Registration Document are unaudited supplementary measures of the Group's performance and liquidity that are not required by, or presented in accordance with, IFRS. These measures are not defined by IFRS and the Company's use and definition of these metrics may vary from other companies in its industry due to differences in accounting policies or differences in the calculation methodology. These non-IFRS measures have limitations and should not be considered in isolation, or as substitutes for financial information as reported under IFRS. Accordingly, undue reliance should not be placed on the non-IFRS measures presented in this Registration Document. For definition of each of the non-IFRS measures, see "*Selected Consolidated Financial and Other Information – Non-IFRS Measures*".

Currency

Throughout this Registration Document, unless stated otherwise, the following definitions are used:

- "**EUR**" or "**euro**" means the lawful currency for the time being of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended;
- "**RUB**" or "**rouble**" means the lawful currency for the time being of the Russian Federation;
- "**KZT**" or "**tenge**" means the lawful currency for the time being of the Republic of Kazakhstan; and
- "**U.S.$**", "**U.S. Dollar**" or "**dollar**" means the lawful currency for the time being of the United States.

Exchange Rate Information

The tenge is the functional and presentation currency of the Group.

The following table sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the tenge and the dollar, based on the official exchange rate quoted by the NBK. Fluctuations in exchange rates between the tenge and the dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the Financial Statements and those used in relation to the other information presented in this Registration Document.

	Exchange Rate			
	High	**Low**	**Average[(1)]**	**Period End**
	KZT/U.S.$			
Year/Period				
2015	349.12	182.35	222.25	339.47
2016	383.91	327.66	341.76	333.29
2017	345.00	310.40	326.08	332.33
2018	384.20	318.31	344.71	384.20
First half of 2019	384.53	373.56	379.14	380.53
January 2019	384.20	373.66	378.13	380.51
February 2019	382.74	373.56	377.43	377.26
March 2019	380.06	374.96	377.64	380.06
April 2019	381.94	377.11	379.42	381.94
May 2019	381.97	378.01	379.98	381.37
June 2019	384.53	377.18	382.26	380.53
July 2019	385.10	380.53	383.66	384.56
August 2019	387.73	384.20	386.68	387.46
September 2019 (through 16 September 2019)	388.28	385.89	387.30	386.71

Source: www.nationalbank.kz

Note:

(1) The average rates are calculated as the average of the daily exchange rates on each calendar day (which rate is announced by the NBK for each such day).

The tenge is generally not convertible outside Kazakhstan. A market exists within Kazakhstan for the conversion of tenge into other currencies, but the limited availability of other currencies may inflate their value relative to the tenge. No representation is made that the tenge or dollar amounts referred to herein could have been or could be converted into tenge or dollar, as the case may be, at these rates, at any particular rate or at all.

Certain financial information of the Group as at and for the year ended 31 December 2018, and as at and for the six months ended 30 June 2019 has been translated from the tenge into the dollar. These translations are solely for convenience of the reader and were calculated at the rate of (i) with regard to the numbers of the Group's consolidated statement of profit and loss and the Group's consolidated statement of cash flows, KZT344.71 per U.S.$1.00, which is the average exchange rate for 2018 (with respect to the year ended 31 December 2018), and KZT379.14 per U.S.$1.00, which is the average exchange rate for the six months ended 30 June 2019 (with respect to the six months ended 30 June 2019), and (ii) with regard to the numbers of the Group's consolidated statement of financial position, KZT384.20 per U.S.$1.00, which is the official exchange rate quoted by the NBK on 31 December 2018 (with respect to information as at 31 December 2018), and KZT380.53 per U.S.$1.00, which is the official exchange rate quoted by the NBK on 30 June 2019 (with respect to information as at 30 June 2019).

References

In this Registration Document, all references to "**United States**" and "**U.S.**" are to the United States of America, its territories, its possessions and all areas subject to its jurisdiction, all references to "**U.K.**" are to the United Kingdom and all references to "**European Union**" and "**E.U.**" are to the European Union, being a political and economic union of 28 member states that are located primarily in Europe, and all such member states as at the date of this Registration Document. All references to

"**CIS**" are to the countries that formerly comprised the Union of Soviet Socialist Republics and that are now members of the Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan and Uzbekistan. All references to "**Central Asia and the Caucasus**" are to the region comprising Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

Rounding

Some numerical figures included in this Registration Document have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them. Unless otherwise specified, all percentages have been rounded to the nearest one-tenth of one per cent.

Information Derived from Third Parties

The Company has derived certain information and statistics in this Registration Document, including certain information and statistics concerning the Kazakhstan banking, payment and retail industries, the Kazakhstan economy in general and related subjects from the NBK, the MNE, the Kazakhstan Deposit Insurance Fund, the World Bank, the IMF, Euromonitor International Ltd ("**Euromonitor**") (Economies and Consumers, Consumer Finance 2019 edition, Retailing 2019 edition (Retailing data in retail value RSP incl. VAT, current terms unless otherwise specified)), the Economist Intelligence Unit ("**EIU**"), Temkin Group, TNS Gallup and the People's Bank of China. Such information is contained in this Registration Document under the headings "*Presentation of Financial and Other Information*", "*Risk Factors*", "*Industry Overview*", "*Business*" and "*Operating and Financial Review*". Where third-party information, data or statistics are set out, they have been accurately reproduced, and, as far as the Company is aware and is able to ascertain from relevant available information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics inaccurate or misleading. Neither the Company, the Shareholders nor the Managers accept liability for the accuracy of any such information, and prospective investors are advised to use such information with caution.

Investors should keep in mind that none of the Company, the Shareholders or the Managers have independently verified information obtained from third-party sources, including from industry and Kazakhstan governmental bodies. Furthermore, measures of the financial or operating performance of the Group's competitors used in evaluating the Group's comparative position may have been calculated in a different manner to the corresponding measures employed by the Group.

DIVIDEND POLICY

The Company intends to pay dividends annually of at least 50% of net income, calculated under IFRS.

Pursuant to the Company's Charter, dividends are declared and paid in accordance with the Company's Charter and the resolution of the Company's General Meeting of Shareholders. The dividends are paid from the Company's net profit, determined on the basis of audited or reviewed financial statements for the respective period. The declaration and payment of dividends requires the approval of the Company's General Meeting of Shareholders.

Any decision to declare and pay dividends is subject to relevant restrictions set out in the applicable law, such as the prohibition on payment of dividends for companies with negative equity capital, companies which are insolvent, or companies whose equity capital would become negative or which would become insolvent as a result of paying dividends.

The Company's ability to pay dividends depends significantly on the extent to which it receives distributions from its subsidiaries, including Kaspi Bank. Kaspi Bank's capital adequacy level may decrease organically with the growth of the business, or as a result of deterioration of the loan portfolio and profitability or the payment of dividends. Under Kazakhstan law, if a bank has an insufficient capital conservation buffer, it will be partially or fully prohibited from declaring or paying dividends. While historically Kaspi Bank has maintained its capital conservation buffer at a level that enables it to pay dividends, any deterioration in Kaspi Bank's capital position could in turn affect the Company's capacity to make distributions to its shareholders. See "*Risk Factors—Risks relating to Kaspi.kz's Business and Industry—Kaspi Bank's capital position may require the Group to provide capital support, which may have an impact on the Group's profitability and restrict the Company's ability to grow and pay dividends*".

Payment of dividends based on quarterly or half-year results shall be made pursuant to the decision of the General Meeting of Shareholders. Decision on payment of dividends on common shares based on full-year results shall be adopted by the annual General Meeting of Shareholders.

The Company did not pay dividends in 2016. The Company declared dividends in the total amount of KZT15,162 million in 2017. The Company did not pay dividends in 2018, however purchased treasury shares in the total amount of KZT75,287 million.

In the first half of 2019, the Company declared dividends in the total amount of KZT31,140 million.

In August 2019, the Company declared and paid dividends in the amount of KZT32,990 million. On 29 August 2019, the Company's Board of Directors recommended that the shareholders approve further dividends in the amount of up to KZT 35,000 million at the General Meeting of Shareholders on 8 October 2019.The dividends are expected to be paid in full in October 2019.

CAPITALISATION

The following table sets forth the Group's consolidated capitalisation as at 30 June 2019, derived from the Financial Statements included elsewhere in this Registration Document. This information should be read in conjunction with "*Selected Consolidated Financial and Other Information*", "*Operating and Financial Overview*" and the Financial Statements included elsewhere in this Registration Document.

	As at 30 June 2019
	KZT million
Long-term debt and customer accounts[1]:	
Customer accounts	97,717
Debt securities issued	132,707
Subordinated debt	74,160
Total long-term debt and customer accounts	**304,584**
Share capital	95,826
Additional paid-in capital	506
Revaluation reserve of financial assets	787
Retained earnings	155,090
Total equity attributable to Shareholders of the Company	252,209
Non-controlling interests	2,447
Total equity	254,656
Total capitalisation[2]	**559,240**

(1) Long-term debt and customer accounts represent liabilities that fall due after more than one year from 30 June 2019 and are not secured.

(2) Total capitalisation is the sum of total long-term debt and customer accounts, and total equity.

Except as described below, there have been no material changes in the consolidated capitalisation of the Group since 30 June 2019.

In August 2019, the Company declared and paid dividends in the amount of KZT32,990 million. On 29 August 2019, the Company's Board of Directors recommended that the shareholders approve further dividends in the amount of up to KZT 35,000 million at the General Meeting of Shareholders on 8 October 2019. The dividends are expected to be paid in full in October 2019.

SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The following tables contain selected historical consolidated financial and operating information as at and for the six months ended 30 June 2018 and 2019, and for the years ended 31 December 2016, 2017 and 2018 for each of the Payments, Marketplace and Fintech Platforms, and for the Group. The Company has derived this information, without adjustments, from (i) the Interim Financial Statements (with respect to the Group's consolidated financial information as at and for the six months ended 30 June 2018 and 2019), (ii) the Annual Financial Statements (with respect to the Group's consolidated financial information as at and for the years ended 31 December 2016, 2017 and 2018), and (iii) the Company's management accounting records (with respect to consolidated financial information for each of the Payments, Marketplace and Fintech Platforms) which were prepared in accordance with IFRS, on the same basis as historical consolidated financial information derived from the Financial Statements. This section should be read in conjunction with the Financial Statements included in this Registration Document, as well as "*Presentation of Financial and Other Information*" and "*Operating and Financial Review*".

Results of Operations (Payments Platform)

	Year ended 31 December				Six months ended 30 June		
	2016	**2017**	**2018**	**2018**	**2018**	**2019**	**2019**
		KZT million		**U.S.$ million(1)**	**KZT million**		**U.S.$ million(2)**
REVENUE	**5,053**	**9,571**	**26,471**	**77**	**9,123**	**25,330**	**67**
Interest Revenue	2,289	4,042	8,595	25	3,161	6,838	18
Transaction & Membership Revenue	2,764	5,529	17,876	52	5,962	18,492	49
COST OF REVENUE	**(1,571)**	**(3,892)**	**(8,367)**	**(24)**	**(3,465)**	**(7,277)**	**(19)**
Transaction Expenses	(826)	(2,017)	(4,636)	(13)	(1,927)	(4,552)	(12)
Operating Expenses	(744)	(1,875)	(3,731)	(11)	(1,538)	(2,725)	(7)
TOTAL NET REVENUE	**3,482**	**5,679**	**18,103**	**53**	**5,659**	**18,053**	**48**
Technology & Product Development	(816)	(2,051)	(4,167)	(12)	(1,605)	(3,107)	(8)
Sales & Marketing	(340)	(1,302)	(4,926)	(14)	(1,786)	(3,496)	(9)
General & Administrative Expenses	(566)	(708)	(818)	(2)	(285)	(545)	(1)
Provision Expense	-	-	-	-	-	-	-
OPERATING INCOME	**1,759**	**1,618**	**8,192**	**24**	**1,984**	**10,906**	**29**
Income tax	(622)	(257)	(1,461)	(4)	(341)	(1,746)	(5)
NET INCOME	**1,137**	**1,360**	**6,731**	**20**	**1,643**	**9,160**	**24**
Cost of revenue ratio (%)	31.1%	40.7%	31.6%	-	38.0%	28.7%	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

(2) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

Results of Operations (Marketplace Platform)

	Year ended 31 December				Six months ended 30 June		
	2016	**2017**	**2018**	**2018**	**2018**	**2019**	**2019**
		KZT million		**U.S.$ million(1)**	**KZT million**		**U.S.$ million(2)**
REVENUE	**6,469**	**12,174**	**25,020**	**73**	**7,941**	**15,761**	**42**
Seller Fees	6,469	12,174	25,020	73	7,941	15,761	42
COST OF REVENUE	**(505)**	**(858)**	**(1,218)**	**(4)**	**(489)**	**(810)**	**(2)**
Interest Expenses	-	-	-	-	-	-	-

Transaction Expenses	(69)	(101)	(123)	-	(59)	(76)	-
Operating Expenses	(435)	(757)	(1,096)	(3)	(431)	(735)	(2)
TOTAL NET REVENUE	**5,964**	**11,316**	**23,801**	**69**	**7,452**	**14,951**	**39**
Technology & Product Development	(2,064)	(2,490)	(2,654)	(8)	(1,298)	(1,526)	(4)
Sales & Marketing	(806)	(1,669)	(3,150)	(9)	(1,495)	(1,731)	(5)
General & Administrative Expenses	(103)	(252)	(277)	(1)	(97)	(183)	-
OPERATING INCOME	**2,992**	**6,904**	**17,721**	**51**	**4,561**	**11,511**	**30**
Income tax	(1,058)	(1,098)	(3,160)	(9)	(785)	(1,843)	(5)
NET INCOME	**1,934**	**5,806**	**14,560**	**42**	**3,776**	**9,668**	**25**
Cost of revenue ratio (%)	7.8%	7.0%	4.9%	-	6.2%	5.1%	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

(2) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

Results of Operations (Fintech Platform)

	Year ended 31 December				Six months ended 30 June		
	2016	**2017**	**2018**	**2018**	**2018**	**2019**	**2019**
	KZT million			**U.S.$ million(1)**	**KZT million**		**U.S.$ million(2)**
REVENUE	**211,781**	**254,008**	**323,840**	**939**	**152,068**	**185,771**	**490**
Interest Revenue	126,735	153,929	186,471	541	88,684	111,725	295
Fees & Commissions	89,528	106,841	140,259	407	65,490	77,986	206
Transaction & Membership Revenue	5	219	1,379	4	429	1,678	4
Other gains/(losses)	(4,487)	(6,981)	(4,269)	(12)	(2,535)	(5,618)	(15)
COST OF REVENUE	**(109,857)**	**(125,297)**	**(135,095)**	**(392)**	**(66,588)**	**(77,236)**	**(204)**
Interest Expenses	(85,944)	(97,126)	(102,685)	(298)	(51,244)	(58,841)	(155)
Transaction Expenses	(1,363)	(1,171)	(1,950)	(6)	(764)	(1,585)	(4)
Operating Expenses	(22,549)	(27,000)	(30,461)	(88)	(14,580)	(16,810)	(44)
TOTAL NET REVENUE	**101,925**	**128,712**	**188,745**	**548**	**85,480**	**108,534**	**286**
Technology & Product Development	(9,152)	(8,924)	(8,901)	(26)	(4,486)	(4,820)	(13)
Sales & Marketing	(2,740)	(4,287)	(9,091)	(26)	(3,530)	(6,267)	(17)
General & Administrative Expenses	(9,700)	(11,501)	(8,850)	(26)	(3,950)	(4,975)	(13)
Provision Expense	(76,201)	(27,743)	(52,579)	(153)	(19,597)	(23,213)	(61)
OPERATING INCOME	**4,132**	**76,257**	**109,325**	**317**	**53,917**	**69,260**	**183**
Income tax	(1,461)	(12,129)	(19,497)	(57)	(9,282)	(11,087)	(29)
NET INCOME	**2,671**	**64,128**	**89,828**	**261**	**44,635**	**58,173**	**153**
Adjusted Net Income(3)	12,056	54,743	-	-	-	-	-
Cost of revenue ratio (%)	51.9%	49.3%	41.7%	-	43.8%	41.6%	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

(2) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

(3) Adjusted Net Income is a non-IFRS measure and represents historical net income for 2016 and 2017 adjusted for the provision expense of KZT9,385 million (net of income tax), which was reallocated from 2017 to 2016, as if the Group's provisioning methodology that it changed in 2017 had been applied since 2016. If we applied the amended provisioning methodology with

effect from 2016, our adjusted provision expense would amount to KZT64,470 million in 2016 and KZT39,475 million in 2017.

Selected Consolidated Statement of Profit or Loss (the Group)

	Year ended 31 December				**Six months ended 30 June**		
	2016	**2017**	**2018**	**2018**	**2018**	**2019**	**2019**
	KZT million			**U.S.$ million(1)**	**KZT million**		**U.S.$ million(2)**
						-	-
REVENUE	**223,303**	**275,753**	**375,331**	**1,089**	**169,132**	**226,862**	**598**
Interest Revenue	129,024	157,971	195,066	566	91,845	118,563	313
Fees & Commissions	89,528	106,841	140,259	407	65,490	77,986	206
Seller Fees	6,469	12,174	25,020	73	7,941	15,761	42
Transaction & Membership Revenue	2,769	5,748	19,255	56	6,391	20,170	53
Other gains/(losses)	(4,487)	(6,981)	(4,269)	(12)	(2,535)	(5,618)	(15)
COST OF REVENUE	**(111,932)**	**(130,046)**	**(144,682)**	**(420)**	**(70,542)**	**(85,324)**	**(225)**
Interest Expenses	(85,944)	(97,126)	(102,685)	(298)	(51,244)	(58,841)	(155)
Transaction Expenses	(2,259)	(3,288)	(6,709)	(19)	(2,749)	(6,213)	(16)
Operating Expenses	(23,729)	(29,632)	(35,288)	(102)	(16,549)	(20,270)	(53)
TOTAL NET REVENUE	**111,371**	**145,707**	**230,649**	**669**	**98,590**	**141,538**	**373**
Technology & Product Development	(12,032)	(13,465)	(15,721)	(46)	(7,388)	(9,453)	(25)
Sales & Marketing	(3,886)	(7,258)	(17,167)	(50)	(6,811)	(11,494)	(30)
General & Administrative Expenses	(10,369)	(12,462)	(9,945)	(29)	(4,331)	(5,703)	(15)
Provision Expense	(76,201)	(27,743)	(52,579)	(153)	(19,597)	(23,212)	(61)
OPERATING INCOME	**8,883**	**84,779**	**135,237**	**392**	**60,463**	**91,676**	**242**
Income tax	(3,141)	(13,485)	(24,118)	(70)	(10,409)	(14,675)	(39)
NET INCOME	**5,742**	**71,294**	**111,119**	**322**	**50,054**	**77,001**	**203**
Adjusted Net Income(3)	15,127	61,909	-	-	-	-	-
Cost of revenue ratio (%)	50.1%	47.2%	38.5%	-	41.7%	37.6%	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

(2) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

(3) Adjusted Net Income is a non-IFRS measure and represents historical net income for 2016 and 2017 adjusted for the provision expense of KZT9,385 million (net of income tax), which was reallocated from 2017 to 2016, as if the Group's provisioning methodology that it changed in 2017 had been applied since 2016. If we applied the amended provisioning methodology with effect from 2016, our adjusted provision expense would amount to KZT64,470 million in 2016 and KZT39,475 million in 2017.

Selected Consolidated Statement of Financial Position (the Group)

	As at 31 December				As at 30 June	
	2016	2017	2018	2018	2019	2019
		KZT million		USD million(1)	KZT million	USD million(2)
ASSETS						
Cash and cash equivalents	157,389	304,839	168,471	438	211,935	557
Mandatory cash balances with the National Bank of the Republic of Kazakhstan	7,684	10,870	17,215	45	20,786	55
Due from banks	1,554	8,334	22,872	60	28,933	76
Investment securities and derivatives	291,940	212,535	366,631	954	436,360	1,147
Loans to customers	715,053	891,323	1,067,002	2,777	1,130,868	2,972
Property, equipment and intangible assets	33,389	32,175	36,688	95	56,566	149
Other assets	12,358	12,766	20,773	54	41,862	110
Total assets	**1,219,367**	**1,472,842**	**1,699,652**	**4,424**	**1,927,310**	**5,065**
LIABILITIES AND EQUITY						
LIABILITIES						
Due to banks	40,272	63,200	49	0.1	1,257	3
Customer accounts	814,127	979,639	1,232,920	3,209	1,404,554	3,691
Debt securities issued	111,330	111,335	138,094	359	138,327	364
Insurance reserves	7,689	4,947	4,615	12	4,193	11
Other liabilities	14,829	29,290	20,453	53	34,718	91
Subordinated debt	93,905	93,579	89,603	233	89,605	235
Total liabilities	**1,082,152**	**1,281,990**	**1,485,734**	**3,867**	**1,672,654**	**4,396**
EQUITY						
Share capital	130,144	130,144	54,857	143	95,826	252
Additional paid-in capital	506	506	506	1	506	1
Revaluation reserve of financial assets	(687)	3,275	3,307	9	787	2
Other reserves	(48)	-	-	-	-	-
Retained earnings/(accumulated deficit)	(2,863)	47,207	142,822	372	155,090	408
Total equity attributable to shareholders of the Company	**127,052**	**181,132**	**201,492**	**524**	**252,209**	**663**
Non-controlling interests	10,163	9,720	12,426	32	2,447	6
Total equity	**137,215**	**190,852**	**213,918**	**557**	**254,656**	**669**
TOTAL LIABILITIES AND EQUITY	**1,219,367**	**1,472,842**	**1,699,652**	**4,424**	**1,927,310**	**5,065**

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT exchange rate as at 31 December 2018, comprising KZT384.20.

(2) U.S. Dollar figures have been calculated based on the U.S.$/KZT exchange rate as at 30 June 2019, comprising KZT380.53.

Selected Consolidated Statement of Cash Flow (the Group)

	Year ended 31 December				Six months ended 30 June		
	2016	2017	2018	2018	2018	2019	2019
	KZT million			USD million[(1)]	KZT million		USD million[(2)]
Net cash inflow (outflow) from operating activities	76,355	141,589	35,657	103	(93,756)	147,906	390
Net cash (outflow)/inflow from investing activities	(139,147)	26,248	(129,286)	(375)	(84,030)	(70,394)	(186)
Net cash outflow from financing activities	(61,831)	(20,434)	(57,079)	(166)	(16,417)	(33,177)	(88)
Net (decrease)/increase in cash and cash equivalents	(127,004)	147,450	(136,368)	(396)	(191,577)	43,464	115
Effect of changes in foreign exchange rate on cash and cash equivalents	(2,381)	47	14,340	42	2,626	(871)	(2)
Cash and cash equivalents, beginning of period	284,393	157,389	304,839	884	304,839	168,471	444
Cash and cash equivalents, end of period	157,389	304,839	168,471	489	113,262	211,935	559

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71

(2) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

Non-IFRS Measures

	As at or year ended 31 December			As at or six months ended 30 June	
	2016	2017	2018	2018	2019
Adjusted Measures					
Adjusted provision expense[(1)]	(64,470)	(39,475)	-	-	-
Adjusted Net Income (Group)[(2)]	15,127	61,909	-	-	-
Adjusted Net Income (Fintech)[(2)]	12,056	54,743	-	-	-
Profitability					
Net Income Margin (Group) (%)[(3)]	2.6%	25.9%	29.6%	29.6%	33.9%
Adjusted Net Income Margin (Group) (%)[(4)]	6.8%	22.5%	-	-	-
Net Income Margin (Payments) (%)[(3)]	22.5%	14.2%	25.4%	18.0%	36.2%
Net Income Margin (Marketplace) (%)[(3)]	29.9%	47.7%	58.2%	47.6%	61.3%
Net Income Margin (Fintech) (%)[(3)]	1.3%	25.2%	27.7%	29.4%	31.3%
Adjusted Net Income Margin (Fintech) (%)[(4)]	5.7%	21.6%	-	-	-
Asset Quality					
Provision for impairment of loans as a percentage of non-performing loans (%)	112.5%	110.7%	113.0%	129.5%	88.6%
Cost of risk (%)[(5)]	9.5%	3.1%	4.6%	3.8%	4.1%
Adjusted cost of risk (%)[(6)]	8.1%	4.4%	4.6%	3.8%	4.1%
Basel III Capital Adequacy (Kaspi Bank)					
Risk-weighted assets (KZT billion)	1,044	1,172	1,243	-	1,344
Total capital adequacy ratio (%)[(7)]	18.4%	20.9%	23.0%	-	22.9%
Tier I capital adequacy ratio (%)[(8)]	12.3%	13.9%	16.8%	-	17.2%
NBK Capital Adequacy (Kaspi Bank)					
Risk-weighted assets (KZT billion)	1,027	1,397	1,672	-	1,876

	As at or year ended 31 December			As at or six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
K1 capital adequacy ratio (%)(9)............	11.2%	11.0%	11.4%	-	11.5%
Tier 1 capital adequacy ratio (K1-2) (%)(10)..	11.2%	11.0%	11.4%	-	11.5%
Total capital adequacy ratio (K2) (%)(11)	13.6%	16.5%	15.7%	-	15.3%
Other Ratios					
Net loan to deposit ratio (%)(12)............	87.8%	91.0%	86.5%	-	80.5%
Cost of revenue ratio (%)(13)	50.1%	47.2%	38.5%	41.7%	37.6%
Return on equity ratio (Fintech)(%)(14)	9.1%	34.9%	49.6%	43.7%	54.0%

Adjusted Measures

(1) Adjusted provision expense represents the Group's historical provision expense for 2016 and 2017 adjusted for KZT11.7 billion in provision expenses, which were reallocated from 2017 to 2016 due to changes in the Group's provisioning methodology in 2017.

(2) Adjusted Net Income is a non-IFRS measure and represents historical net income for 2016 and 2017 adjusted for the provision expense of KZT9,385 million (net of income tax), which was reallocated from 2017 to 2016, as if the Group's provisioning methodology that it changed in 2017 had been applied since 2016. If we applied the amended provisioning methodology with effect from 2016, our adjusted provision expense would amount to KZT64,470 million in 2016 and KZT39,475 million in 2017. See "*Operating and Financial Review–Discussion and Analysis of Results of Operations–Provision Expense*".

Profitability

(3) Net Income Margin is a non-IFRS measure calculated for any period as the ratio of Net Income to Revenue (in respect of the Group or any of the Platforms, as the case may be), expressed as a percentage.

(4) Adjusted Net Income Margin is a non-IFRS measure calculated for any period as the ratio of Adjusted Net Income to Revenue (in respect of the Group or the Fintech Platform, as the case may be), expressed as a percentage.

Asset Quality

(5) Cost of risk is a non-IFRS measure calculated for any period as the total provision expense divided by the average balance of gross loans to customers for the same period (calculated as described in "*Selected Statistical Information–Average Balance Sheet and Interest Rate Data*"), expressed as a percentage.

(6) Adjusted cost of risk is a non-IFRS measure calculated for any period as the total adjusted provision expense divided by the average balance of gross loans to customers for the same period (calculated as described in "*Selected Statistical Information–Average Balance Sheet and Interest Rate Data*"), expressed as a percentage.

Basel III Capital Adequacy (Kaspi Bank)

(7) Total capital adequacy ratio is calculated for Kaspi Bank on a consolidated basis under the methodology set by the Basel Committee with capital adjustments as set out in Basel III and is expressed as a percentage.

(8) Tier I capital adequacy ratio is calculated for Kaspi Bank on a consolidated basis under the methodology set by the Basel Committee with capital adjustments as set out in Basel III and is expressed as a percentage.

NBK Capital Adequacy (Kaspi Bank)

(9) K1 capital adequacy ratio is calculated for Kaspi Bank in accordance with the rules of the NBK as the ratio of total base capital to total assets weighted for risk, expressed as a percentage.

(10) K1-2 capital adequacy ratio is calculated for Kaspi Bank in accordance with the rules of the NBK as the ratio of Tier I capital to total assets weighted for risk, expressed as a percentage.

(11) K2 capital adequacy ratio is calculated for Kaspi Bank in accordance with the rules of the NBK as the ratio of own capital to total assets weighted for risk, expressed as a percentage.

Other Ratios

(12) Net loan to deposit ratio is a non-IFRS measure calculated for any period as the Group's loans to customers divided by the Group's customer accounts for the respective period, expressed as a percentage.

(13) Cost of revenue ratio is a non-IFRS measure calculated for any period as the Group's cost of revenue divided by the Group's revenue for the respective period, expressed as a percentage.

(14) Return on equity ratio of Fintech is a non-IFRS measure calculated for any period as Adjusted Net Income of Fintech (for 2016 and 2017) or historical net income of Fintech (for 2018 and six months ended 30 June 2018 and 2019) divided by average equity of the Group for the respective period (adjusted by historical net income of Payments and Marketplace), expressed as a percentage.

Other Financial and Operating Data

	As at or year ended 31 December			As at or six months ended 30 June	
	2016	2017	2018	2018	2019
General					
Total Number of Transactions (thousands of transactions)(1)	158,563	220,393	417,661	287,214	686,223
Active Customers (thousands of customers)(2)...	3,431	3,963	5,056	4,386	5,745
Monthly Transactions per Active Customer (number of transactions)(3)....	3.9	4.6	6.9	5.5	10.0
Products per Active Customer (number of products)(4).......................................	1.7	2.2	3.0	2.6	3.6
Customers with Four or more Products (%)(5)..	10.5%	19.6%	35.2%	26.5%	45.9%
Retention Rate of Active Customers (per cent.)(6)..	86.4%	88.4%	92.4%	88.1%	93.0%
Payments Platform					
TPV (KZT millions)(7)	111,558	369,539	1,400,114	478,095	1,338,188
Payments Active Customers (thousands of customers)(8)	548	1,201	2,637	1,789	3,737
Payments Active Merchants (thousands of merchants)(9)	0.8	3.5	7.6	5.2	8.9
Payments Active Stores (thousands of stores)(10)	1.1	4.4	10.3	6.6	12.3
TNP (thousands of transactions)(11).......	29,562	68,118	243,280	101,780	226,730
TPV per Active Customer (KZT thousands)(12)	203	308	531	404	605
Payments per Active Customer(13)	54	57	92	80	99
Payments Take Rate (per cent.)(14)........	1.0%	1.0%	1.2%	1.1%	1.3%
Average Balances on Current Accounts (KZT million)(15)..................................	23,287	41,680	93,079	63,521	148,005
Yield on Average Balances (per cent.)(16)...	9.8%	9.7%	9.2%	10.0%	9.2%
Payments Average Check (KZT)(17)	3,774	5,425	5,755	4,697	5,902
Marketplace Platform					
GMV (KZT millions)(18)	180,635	265,533	415,107	155,130	241,776
In-Store GMV (KZT millions)(19)	155,189	183,582	202,482	84,477	98,144
Online GMV (KZT millions)(20)	23,960	54,208	116,937	36,439	64,150
Shopping Club GMV (KZT millions)(21)	1,486	27,744	95,688	34,215	79,481
Marketplace Active Customers (thousands of customers)(22).................	1,229	1,638	2,109	1,811	2,363
Marketplace Active Merchants (thousands of merchants)(23).................	4.5	5.0	7.2	5.6	8.8
Marketplace Active Stores (thousands of stores)(24)..	5.8	7.4	12.2	9.1	14.9
Number of Purchases (thousands of transactions)(25)	1,716	4,253	10,491	3,850	9,417
GMV per Active Customer (KZT thousands)(26)	147	162	197	175	212
GMV per Active Merchant (KZT millions)(27)	40	53	58	56	57
Purchases per Active Customer(28)........	1.4	2.6	5.0	3.7	6.8
Marketplace Take Rate (per cent.)(29)....	3.6%	4.6%	6.0%	5.1%	6.5%
Retention Rate of Marketplace Active Merchants (per cent.)(30).......................	-	99.9%	99.6%	99.5%	99.3%
Marketplace Average Check (KZT	105	62	40	40	26

	As at or year ended 31 December			As at or six months ended 30 June	
	2016	2017	2018	2018	2019
thousands)[31]					
Fintech Platform					
Fintech TFV (KZT millions)[32]	573,167	1,058,901	1,432,280	669,508	865,014
Fintech Active Customers (thousands of customers)[33]	1,768	2,330	2,843	2,561	3,069
Number of Fintech Financing Transactions (thousands of transactions)[34]	3,021	6,639	13,462	5,379	11,327
Number of Fintech Financing Transactions per Active Customer[35]....	1.7	2.8	4.7	3.7	6.3
Fintech TFV per Active Customer (KZT thousands)[36]	324	454	504	500	530
Fintech Average Net Loan Portfolio (KZT millions)[37]	729,791	778,188	987,785	935,281	1,089,481
Fintech Average Yield (per cent.)[38]	27.4%	30.0%	30.5%	30.1%	31.3%
Fintech TFV to Average Net Loan Portfolio Conversion Rate[39]...............	0.8	1.4	1.4	1.4	1.5
Fintech Average Check (KZT thousands)[40]	190	160	106	124	76
Mobile App					
Mobile App Monthly Active Users (thousands of users)[41]..........................	-	1,135	3,129	1,827	4,531
Share of Transactions via Mobile App in Kaspi Touchpoints (per cent.)[42]	-	22.6%	55.1%	37.7%	68.4%

General

(1) Total Number of Transactions is an operating metric calculated for any period as the overall number of transactions completed by Active Customers, expressed in thousands of transactions.

(2) Active Customers is an operating metric calculated for any period as the total number of customers which have used any of the Group's products or services at least once during the respective 12 months, expressed in thousands of customers as of the end of any such period.

(3) Monthly Transactions per Active Customer is an operating metric calculated for any period as the ratio of the Total Number of Transactions for the respective 12 months to the total number of Active Customers as of the end of any such period, divided by 12, expressed in a number of transactions.

(4) Products per Active Customer is an operating metric calculated for any period as the average number of Kaspi products used by our Active Customers in the respective period, expressed in a number of products.

(5) Customers with Four or more Products is an operating metric calculated for any period as the share of Active Customers which have used four or more Kaspi products in the respective period, expressed as a percentage.

(6) Retention Rate of Active Customers is an operating metric calculated for any period as (1-Churn Rate), where Churn Rate is the ratio of the number of Active Customers that decided to discontinue to use products or services of Kaspi to the number of Active Customers at the beginning of the respective period, expressed as a percentage.

Payments Platform

(7) Total Payment Volume (TPV) is a financial metric calculated for any period as the total value of revenue-generating transactions made by Active Customers within the Payments Platform, including bill payments, transactions with Kaspi Gold debit card, payment via payment terminals and P2P payments, expressed in millions of tenge.

(8) Payments Active Customers is an operating metric calculated for any period as the total number of customers which have used the Payments Platform's products or services at least once during the respective 12 months, expressed in thousands of customers as of the end of any such period.

(9) Payments Active Merchants is an operating metric calculated for any period as the total number of merchants that have received at least one payment from a customer through our Payments Platform via our Bill Payments service, payment terminals and Mobile App during the respective 12 months, expressed in thousands of merchants as of the end of any such period.

(10) Payments Active Stores is an operating metric calculated for any period as the total number of offline stores that have received at least one payment from a customer through our Payments Platform via our payment terminals and the Mobile App QR Code feature during the respective 12 months, expressed in thousands of stores as of the end of any such period.

(11) Total Number of Payments ("**TNP**") is an operating metric calculated for any period as the total number of payment transactions processed across all of the Group's Platforms, expressed in thousands of transactions.

(12) TPV per Active Customer is an operating metric calculated for any period as the ratio of TPV for the respective period to the number of Payments Active Customers for such period, expressed in thousands of tenge.

(13) Payments per Active Customer is an operating metric calculated for any period as the ratio of TNP for the respective period to the number of Payments Active Customers for such period.

(14) Payments Take Rate is a financial metric calculated for any period as the ratio of transaction and membership revenue excluding Kaspi Business revenue to TPV, expressed as a percentage.

(15) Average Balances on Current Accounts is a financial metric calculated for any period as the average total balance of the Payments Platform's accounts (including Kaspi Business and Kaspi Gold accounts) for each respective year based on the respective monthly average balances, expressed in millions of tenge.

(16) Yield on Average Balances is a financial metric calculated for any period in respect of the Payments Platform as the sum of interest revenue divided by the Average Balances on Current Accounts, expressed as a percentage. Yield on Average Balances is a non-IFRS performance measure.

(17) Payments Average Check is an operating metric calculated for any period as the ratio of TPV for the respective period to the TNP for such period, expressed in tenge.

Marketplace Platform

(18) Gross Merchandise Value ("**GMV**") is a financial metric calculated for any period as the total value of goods and services sold across our Marketplace Platform, expressed in millions of tenge.

(19) In-Store GMV is a financial metric calculated for any period as the value of goods and services sold across our Marketplace Platform via offline channels (except for goods and services sold via Kaspi Red Shopping Club), expressed in millions of tenge.

(20) Online GMV is a financial metric calculated for any period as the value of goods and services sold across our Marketplace Platform via Kaspi.kz website and our Mobile App, expressed in millions of tenge.

(21) Shopping Club GMV is a financial metric calculated for any period as the value of goods and services sold across our Marketplace Platform via Kaspi Red Shopping Club, expressed in millions of tenge.

(22) Marketplace Active Customers is an operating metric calculated for any period as the total number of customers which have completed at least one purchase on the Marketplace Platform during the respective 12 months, expressed in thousands of customers as of the end of any such period.

(23) Marketplace Active Merchants is an operating metric calculated for any period as the total number of merchants that have successfully completed the sale of goods or services to a customer on our Marketplace Platform at least once during the respective 12 months, expressed in thousands of merchants as of the end of any such period.

(24) Marketplace Active Stores is an operating metric calculated for any period as the total number of offline stores that have successfully completed the sale of goods or services to a customer on our Marketplace Platform at least once during the respective 12 months, expressed in thousands of stores as of the end of any such period.

(25) Number of Purchases is an operating metric calculated for any period as the total number of goods or services purchase transactions made by customers through the Marketplace Platform, expressed in thousands of transactions.

(26) GMV per Active Customer is an operating metric calculated for any period as GMV for the respective period divided by the number of Marketplace Active Customers for the respective period, expressed in thousands of tenge.

(27) GMV per Active Merchant is an operating metric calculated for any period as GMV for the respective period divided by the number of Marketplace Active Merchants for the respective period, expressed in millions of tenge.

(28) Purchases per Active Customer is an operating metric calculated for any period as the Number of Purchases for the respective period divided by the number of Marketplace Active Customers for the same period.

(29) Marketplace Take Rate is a financial metric calculated for any period as the ratio of seller fees to GMV, expressed as a percentage.

(30) Retention Rate of Marketplace Active Merchants is an operating metric calculated for any period as (1-Churn Rate), where Churn Rate is the ratio of the number of Marketplace Active Merchants that decided to discontinue to offer and sell their products or services through our Marketplace Platform to the number of Marketplace Active Merchants at the beginning of the respective period, expressed as a percentage.

(31) Marketplace Average Check is an operating metric calculated for any period as the ratio of GMV for the respective period to the Number of Purchases for such period, expressed in thousands of tenge.

Fintech Platform

(32) Fintech TFV is a financial metric calculated for any period as the total value of loans to customers issued within the Fintech Platform, expressed in millions of tenge.

(33) Fintech Active Customers is an operating metric calculated for any period as the total number of customers which held at least one outstanding financing product on the Fintech Platform during the respective 12 months, expressed in thousands of customers as of the end of any such period.

(34) Number of Fintech Financing Transactions is an operating metric calculated for any period as the overall number of loans and instalment finance products extended to customers within the Fintech Platform, expressed in thousands of transactions.

(35) Number of Fintech Financing Transactions per Active Customer is an operating metric calculated for any period as the ratio of the Number of Fintech Financing Transactions for the respective period to the number of Fintech Active Customers for such period.

(36) Fintech TFV per Active Customer is an operating metric calculated for any period as the ratio of Fintech TFV for the respective period to the number of Fintech Active Customers for such period, expressed in thousands of tenge.

(37) Fintech Average Net Loan Portfolio is a financial metric calculated for any period as the average balance of the Fintech Platform net loan portfolio for each respective year based on the respective monthly average balances, expressed in millions of tenge.

(38) Fintech Average Yield is a financial metric calculated for any period in respect of the Fintech Platform as the sum of interest income and banking fee divided by the Fintech Average Net Loan Portfolio, expressed as a percentage. Fintech Average Yield is a non-IFRS performance measure.

(39) Fintech TFV to Average Net Loan Portfolio Conversion Rate is a financial metric calculated for any period as Fintech TFV for the respective period divided by the Fintech Average Net Loan Portfolio for the respective period.

(40) Fintech Average Check is an operating metric calculated for any period as the ratio of Fintech TFV to the Number of Fintech Financing Transactions for such period, expressed in thousands of tenge.

Mobile App

(41) Mobile App Monthly Active Users ("**MAU**") is an operating metric calculated as the monthly number of users with at least one discrete session (visit) in excess of 10 seconds on the Mobile App for December of each relevant year and for June with respect to the first half of 2019, expressed in thousands of users.

(42) Share of Transactions via Mobile App in Kaspi Touchpoints is an operating metric calculated as the total number of Mobile App transactions divided by the total number of Transactions via Kaspi Touchpoints for December of each relevant year, expressed as a percentage.

SELECTED STATISTICAL INFORMATION

The following tables present certain of the Group's selected statistical information for the periods indicated. The statistical information and discussion and analysis presented below is presented solely for the convenience of the reader for analytical purposes and on the basis of Industry Guide 3 under the United States Securities Act of 1933, as amended (Statistical Disclosure by Bank Holding Companies) ("**Guide 3**"). Limitations in the Group's existing financial reporting system prevent it from generating certain information pursuant to Guide 3. This section should be read in conjunction with the Financial Statements included in this Registration Document, as well as "*Presentation of Financial and Other Information*" and "*Operating and Financial Review*".

Average Balance Sheet and Interest Rate Data

The following tables provide an analysis of the average balances of assets and liabilities of the Group for the six months ended 30 June 2019 and 2018, and the years ended 31 December 2016, 2017 and 2018. For the purposes of the following tables, the average is calculated on the basis of a simple average of monthly closing balances for each relevant period.

Average Assets and Liabilities

The following tables set out, for the six months ended 30 June 2019 and 2018, and the years ended 31 December 2016, 2017 and 2018: (i) the average balances for all major assets and liabilities of the Group; (ii) the average interest income received on each interest-bearing asset and the average interest expense paid for each interest-bearing liability; and (iii) the collective average yield for all interest-bearing assets and the collective average rate paid for all interest-bearing liabilities.

	For the year ended 31 December								
	2016			2017			2018		
	Average amount for the year[1]	Interest income / expense	Average yield / rate paid	Average amount for the year	Interest income / expense	Average yield / rate paid	Average amount for the year	Interest income / expense	Average yield / rate paid
	KZT million, except percentages								
Interest-earning assets									
Loans to customers[2]	729,791	112,523	15.4%	778,187	130,504	16.8%	987,784	168,642	17.1%
Debt securities	149,563	16,084	10.8%	239,755	21,337	8.9%	289,093	23,843	8.2%
Cash and equivalents[3] and due from banks	56,002	417	0.7%	94,461	6,130	6.5%	92,450	2,581	2.8%
Total interest-earning assets	**935,356**	**129,024**	**13.8%**	**1,112,403**	**157,971**	**14.2%**	**1,369,327**	**195,066**	**14.2%**
Other assets	289,437			200,219			171,294		
Total assets	**1,224,793**			**1,312,622**			**1,540,621**		
Interest-bearing liabilities									
Customer accounts	773,769	57,020	7.4%	875,919	73,317	8.4%	1,069,980	81,231	7.6%
Debt securities issued	150,615	14,752	9.8%	110,175	10,337	9.4%	106,942	10,091	9.4%
Subordinated debt	91,486	10,124	11.1%	90,922	9,692	10.7%	89,898	8,865	9.9%
Due to banks	47,422	4,048	8.5%	49,044	3,780	7.7%	32,676	2,498	7.6%
Total interest-bearing liabilities	**1,063,292**	**85,944**	**8.1%**	**1,126,061**	**97,126**	**8.6%**	**1,299,496**	**102,685**	**7.9%**
Other liabilities	24,382			27,554			34,972		
Total liabilities	**1,087,674**			**1,153,614**			**1,334,468**		
Net interest income[4]		43,080			60,845			92,381	

	For the year ended 31 December								
	2016			2017			2018		
	Average amount for the year[1]	**Interest income / expense**	**Average yield / rate paid**	**Average amount for the year**	**Interest income / expense**	**Average yield / rate paid**	**Average amount for the year**	**Interest income / expense**	**Average yield / rate paid**
	KZT million, except percentages								
Net interest spread[5]			**5.7%**			**5.6%**			**6.3%**
Net interest margin[6]................			**4.6%**			**5.5%**			**6.7%**
Yield components of loans to customers[7]...........		89,533	**12.3%**		107,060	**13.8%**		141,638	**14.3%**
Average yield on loans to customers[8]...........			**27.7%**			**30.5%**			**31.4%**
Net yield spread[9]			**15.3%**			**15.2%**			**16.7%**
Net yield margin[10]			**14.2%**			**15.1%**			**17.1%**

Notes:

(1) Calculated as a simple average of monthly closing balances for each relevant year.

(2) Calculated net of allowance for impairment losses.

(3) Excludes cash on hand and non-interest-bearing current accounts with other banks.

(4) Net interest income is defined and calculated as a difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities during the applicable period (calculated as described under "*Presentation of Financial and Other Information—Average Balance Sheet and Interest Rate Data*"). This is a non-IFRS performance measure.

(5) Net interest spread is defined and calculated as a difference between the average interest rate on interest-earning assets and the average interest rate on interest-bearing liabilities. Average interest-earning assets and average interest bearing liabilities are calculated as the average of monthly balances during the applicable period. The average interest rate on interest-earning assets is calculated as interest income for the period divided by average interest earning assets. The average interest rate on interest-earning liabilities is calculated as interest expense for the period divided by average interest earning liabilities. See also "*Presentation of Financial and Other Information—Average Balance Sheet and Interest Rate Data*". This is a non-IFRS performance measure.

(6) Net interest margin is defined and calculated as a ratio of net interest income divided by the average balance of total interest-earning assets. Average interest-earning assets are calculated as the average of monthly balances during the applicable period. See also "*Presentation of Financial and Other Information—Average Balance Sheet and Interest Rate Data*". This is a non-IFRS performance measure.

(7) Yield components of loans to customers is defined and calculated as the sum of interest income on loans and banking fees and commissions received by the Group in the Fintech Platform. This is a non-IFRS performance measure.

(8) Average yield on loans to customers is defined and calculated as the sum of interest income on loans and banking fees and commissions received by the Group in the Fintech Platform divided by average balances of net loans to customers. Average balances of net loans to customers is calculated as the average of monthly balances during the applicable period. This is a non-IFRS performance measure.

(9) Net yield spread is defined as the difference between the average yield (calculated as described under "*Presentation of Financial and Other Information—Average Balance Sheet and Interest Rate Data*") earned on interest-earning assets and the average rate paid (calculated as described under "*Presentation of Financial and Other Information—Average Balance Sheet and Interest Rate Data*") on interest-bearing liabilities. The average interest rate on interest-earning liabilities is calculated as interest expense for the period divided by average interest earning liabilities. This is a non-IFRS performance measure.

(10) Net yield margin is defined as the sum of interest income on loans and banking fees and commissions received by the Group in the Fintech Platform divided by average interest-earning assets (calculated as described under "*Presentation of Financial and Other Information—Average Balance Sheet and Interest Rate Data*"). Average interest-earning assets and average interest bearing liabilities are calculated as the average of monthly balances during the applicable period. This is a non-IFRS performance measure.

	Six months ended 30 June					
	2018			2019		
	Average amount for the period[1]	**Interest income / expense**	**Average yield / rate paid**	**Average amount for the period**	**Interest income / expense**	**Average yield / rate paid**
	KZT million, except percentages					
Interest-earning assets						
Loans to customers[2]	935,281	78,109	16.7%	1,089,481	97,682	17.9%
Debt securities	301,579	12,534	8.3%	434,598	18,681	8.6%
Cash and equivalents[3] and due from banks	86,267	1,202	2.8%	92,967	2,200	4.7%
Total interest-earning assets	**1,323,127**	**91,845**	**13.9%**	**1,617,046**	**118,563**	**14.7%**
Other assets	165,388			194,176		
Total assets	**1,488,515**			**1,811,222**		
Interest-bearing liabilities						
Customer accounts	1,005,572	39,781	7.9%	1,313,598	47,445	7.2%
Debt securities issued	102,781	4,849	9.4%	136,788	6,845	10.0%
Subordinated debt	91,590	4,617	10.1%	88,139	4,138	9.4%
Due to banks	50,794	1,997	7.9%	5,256	413	15.7%
Total interest-bearing liabilities	**1,250,737**	**51,244**	**8.2%**	**1,543,780**	**58,841**	**7.6%**
Other liabilities	33,386			34,745		
Total liabilities	**1,284,123**			**1,578,526**		
Net interest income[4]		40,601			59,722	
Net interest spread[5]			5.7%			7.0%
Net interest margin[6]			6.1%			7.4%
Yield components of loans to customers[7]		65,919	14.1%		79,664	14.6%
Average yield on loans to customers[8]			30.8%			32.6%
Net yield spread[9]			15.7%			16.9%
Net yield margin[10]			16.1%			17.2%

Notes:

(1) Calculated as a simple average of monthly closing balances for each relevant period.

(2) Calculated net of allowance for impairment losses.

(3) Excludes cash on hand and non-interest-bearing current accounts with other banks.

(4) Net interest income is defined and calculated as a difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities during the applicable period (calculated as described under "*Presentation of Financial and Other Information—Average Balance Sheet and Interest Rate Data*"). This is a non-IFRS performance measure.

(5) Net interest spread is defined and calculated as a difference between the average interest rate on interest-earning assets and the average interest rate on interest-bearing liabilities. Average interest-earning assets and average interest bearing liabilities are calculated as the average of monthly balances during the applicable period. The average interest rate on interest-earning assets is calculated as interest income for the period divided by average interest earning assets. The average interest rate on interest-earning liabilities is calculated as interest expense for the period divided by average interest earning liabilities. See also "*Presentation of Financial and Other Information—Average Balance Sheet and Interest Rate Data*". This is a non-IFRS performance measure.

(6) Net interest margin is defined and calculated as a ratio of net interest income divided by the average balance of total interest-earning assets. Average interest-earning assets are calculated as the average of monthly balances during the applicable period. See also "*Presentation of Financial and Other Information—Average Balance Sheet and Interest Rate Data*". This is a non-IFRS performance measure.

(7) Yield components of loans to customers is defined and calculated as the sum of interest income on loans and banking fees and commissions received by the Group in the Fintech Platform. This is a non-IFRS performance measure.

(8) Average yield on loans to customers is defined and calculated as the sum of interest income on loans and banking fees and commissions received by the Group in the Fintech Platform divided by average balances of net loans to customers. Average balances of net loans to customers is calculated as the average of monthly balances during the applicable period. This is a non-IFRS performance measure.

(9) Net yield spread is defined as the difference between the average yield (calculated as described under "*Presentation of Financial and Other Information—Average Balance Sheet and Interest Rate Data*") earned on interest-earning assets and the average rate paid (calculated as described under "*Presentation of Financial and Other Information—Average Balance Sheet and Interest Rate Data*") on interest-bearing liabilities. The average interest rate on interest-earning liabilities is calculated as interest expense for the period divided by average interest earning liabilities. This is a non-IFRS performance measure.

(10) Net yield margin is defined as the sum of interest income on loans and banking fees and commissions received by the Group in the Fintech Platform divided by average interest-earning assets (calculated as described under "*Presentation of Financial and Other Information—Average Balance Sheet and Interest Rate Data*"). Average interest-earning assets and average interest bearing liabilities are calculated as the average of monthly balances during the applicable period. This is a non-IFRS performance measure.

Changes in Interest Income and Interest Expense

The following table sets out, for the six months ended 30 June 2019 and 2018, and the years ended 31 December 2016, 2017 and 2018, changes in interest income/expense due to changes in volume and interest rates for the principal components of interest-earning assets and interest-bearing liabilities set out in the tables above.

	2017/2016			**2018/2017**		
	Change in interest income / expense	**Change in volume**	**Change in rates**	**Change in interest income / expense**	**Change in volume**	**Change in rates**
	KZT million					
Loans to customers[(1)]	17,981	7,462	10,519	38,138	35,150	2,988
Debt securities	5,253	9,699	(4,446)	2,506	4,391	(1,885)
Cash and cash equivalents, due from banks and securities[(2)]	5,713	286	5,427	(3,549)	(130)	(3,419)
Total interest-earning assets	**28,947**	**17,447**	**11,500**	**37,095**	**39,411**	**(2,316)**
Customer accounts	16,297	7,528	8,770	7,914	16,244	(8,330)
Debt securities issued	(4,415)	(3,961)	(454)	(246)	(303)	57
Subordinated debt	(432)	(62)	(371)	(827)	(109)	(718)
Due to banks	(268)	138	(406)	(1,282)	(1,261)	(21)
Total interest-bearing liabilities	**11,182**	**3,643**	**7,539**	**5,559**	**14,571**	**(9,012)**
Total net change	**17,765**	**13,804**	**3,961**	**31,536**	**24,840**	**6,696**

Notes:

(1) Calculated net of allowance for impairment losses.

(2) Excludes cash on hand and non-interest-bearing current accounts with other banks.

	Six months ended 30 June 2019/2018		
	Change in interest income / expense	Change in volume	Change in rates
		KZT million	
Loans to customers[1]	19,573	12,878	6,695
Debt securities	6,147	5,528	619
Cash and cash equivalents, due from banks and securities[3]	998	93	905
Total interest-earning assets	**26,718**	**18,499**	**8,219**
Customer accounts	7,664	12,186	(4,522)
Debt securities issued	1,996	1,604	392
Subordinated debt	(479)	(174)	(305)
Due to banks	(1,584)	(1,789)	205
Total interest-bearing liabilities	**7,597**	**11,827**	**(4,230)**
Total net change	**19,121**	**6,672**	**12,449**

Notes:

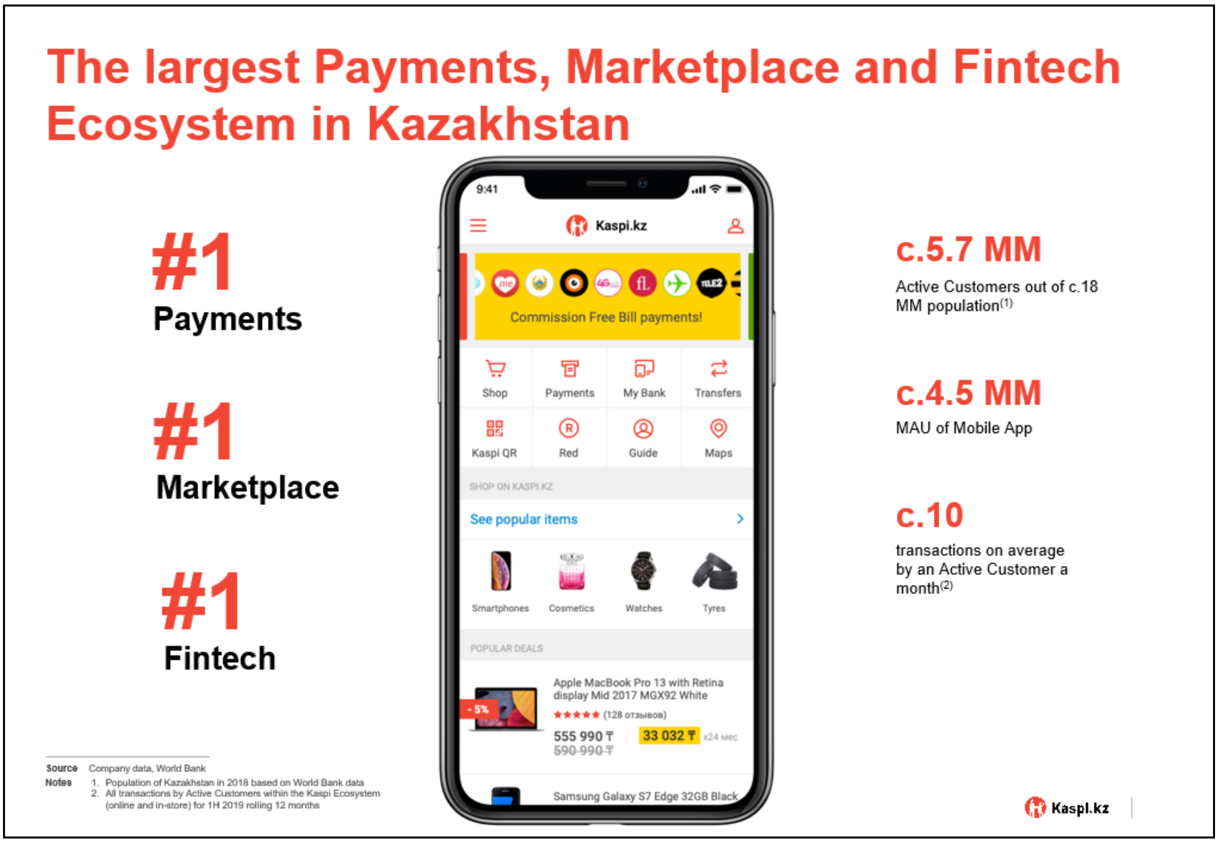
(1) Calculated net of allowance for impairment losses.

(2) Excludes cash on hand and non-interest-bearing current accounts with other banks.

BUSINESS

Overview

The Company is the largest Payments, Marketplace and Fintech Ecosystem in Kazakhstan with a leading market share in each of its key products and services. The Company provides a growing range of interconnected technologically advanced, seamless and innovative products and services that transform the way people pay, shop and manage their personal finances. We are a fast-growing, transaction-driven, profitable and dividend-paying business. We have recently expanded our addressable market from 18 million people (in Kazakhstan) to 28 million people by entering Azerbaijan through the acquisition of three leading classifieds platforms (Turbo.az (a car marketplace), Tap.az (a used and new items marketplace) and Bina.az (a real estate marketplace)) and are planning to further expand in the mid-term across several additional countries in Central Asia and the Caucasus.



We believe that our focus on innovation, among other factors, has propelled our Ecosystem to leading market positions across all our Platforms. The Kaspi Ecosystem is comprised of the following three market leading platforms centred around our customers' daily needs:

- *Payments Platform* which allows our customers to pay for regular household needs, as well as to make online and in-store purchases, and enables seamless online P2P payments within and outside our Ecosystem in Kazakhstan and between our customers and globally to any Mastercard or Visa card. Through the Payments Platform, we generate transaction fees from merchants and customers, annual fees from customers, as well as interest revenue from interest-free cash balances (current accounts).

  According to the NBK, in 2018, we reached a 35.4% market share by number of P2P payments, wire transfers, in-store and online transactions with our Kaspi Gold debit card and current accounts while our market share by value of such transactions reached 29.0%.

- *Marketplace Platform* which enables customers to buy a broad selection of products and services from a variety of merchants. Our Marketplace is positioned as the starting point and destination for customer shopping journeys via our Mobile App, our website and in-store. Customers come to our Marketplace to buy a broad selection of products and services from various merchants in a seamless shopping experience. We believe that our Marketplace Platform appeals to buyers who value ease of use, a large selection of the most popular products and price competitiveness. Fulfilment options include in-store pick up, delivery by merchants and delivery powered by Kaspi.kz. Through the Marketplace Platform, we generate seller fees from merchants.

  According to Euromonitor, Kaspi.kz was the largest online retailer in Kazakhstan by sales value in 2017 and 2018. Kaspi.kz's Online GMV corresponded to a value market share of 23.3% in 2017 and 40.9% in 2018, based on Euromonitor's market size estimate. Based on GFK data, the GMV of electronics sold through the Kaspi Ecosystem amounted to 39.5% of total electronics sales in Kazakhstan in 2018.

- *Fintech Platform* which enables customers to manage their personal finance online and access consumer finance and deposit products and services primarily through the Kaspi.kz Mobile App. Our consumer finance products are also strategically designed around the product and merchant selection on our Marketplace Platform, which means that customers are able to select goods and merchants first, and then seamlessly access available solutions to finance their purchases. We generate interest, fee revenue and membership fees from customers who are members of the Kaspi Red Shopping Club.

According to the NBK, we enjoy the largest market share in Consumer Loans in Kazakhstan, amounting to 31.2%, and hold the second largest position in retail deposits with a 12.9% market share, in each case, in 2018.

We believe that we have established a most recognised and trusted brand, primarily by offering a comprehensive suite of technologically advanced products and services. Our superior brand recognition has been confirmed by TNS Gallup's recent survey, in which our brand was ranked as the number one customer choice in online payments, electronics purchases, consumer lending, retail deposits and debit cards in Kazakhstan (on a rolling basis for the 12 months ended 30 June 2019) and was substantially higher than the second placed competitor in each of our service lines.

High internet and smartphone penetration in Kazakhstan allows us to implement a "Mobile App Only" approach in our product development and product offering initiatives. Our customers can access all the products and services of our Ecosystem through the convenient and readily accessible interface of our Mobile App, and some of our key products and services are accessible exclusively through the Mobile App. Whilst our Mobile App and online services continue to drive customer engagement, our customers can also access most of the products of the Kaspi Ecosystem through a broad range of touchpoints including payment terminals, ATMs, outlets and POS at merchant locations and shopping malls.

Our Ecosystem has experienced rapid growth in recent years, as demonstrated by the key operating metrics set out below:

	Six months ended 30 June			
	2018	**2019**		
	KZT	**KZT**	**U.S.$[(1)]**	**% Change**
	in millions, except percentages and quantities			
Payments Platform				
TPV (*KZT million*)...................................	478,095	1,338,188	3,530	179.9%
TNP (*thousands of transactions*).............	101,780	226,730	-	122.8%
Marketplace Platform				
GMV (*KZT million*).................................	155,130	241,776	638	55.9%
Number of Purchases (*thousands of transactions*)...	3,850	9,417	-	144.6%

Fintech Platform				
Fintech TFV (*KZT million*)	669,508	865,014	2,282	29.2%
Number of Fintech Financing Transactions (*thousands of transactions*)	5,379	11,327	-	110.6%

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

	Year ended 31 December			
	2017	2018		
	KZT	KZT	U.S.$[(1)]	% Change
	in millions, except percentages and quantities			
Payments Platform				
TPV (*KZT million*)	369,539	1,400,114	4,062	278.9%
TNP (*thousands of transactions*)	68,118	243,280	-	257.1%
Marketplace Platform				
GMV (*KZT million*)	265,533	415,107	1,204	56.3%
Number of Purchases (*thousands of transactions*)	4,253	10,491	-	146.7%
Fintech Platform				
Fintech TFV (*KZT million*)	1,058,901	1,432,280	4,155	35.3%
Number of Fintech Financing Transactions (*thousands of transactions*)	6,639	13,462	-	102.8%

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

Our strong financial performance reflects the success of our unique business model. Set out below are the key metrics demonstrating our results of operations in the periods indicated.

	Six months ended 30 June			
	2018	2019		
	KZT	KZT	U.S.$[(1)]	% Change
	in millions, except percentages			
Revenue				
Payments	9,123	25,330	67	177.6%
Marketplace	7,941	15,761	42	98.5%
Fintech	152,068	185,771	490	22.2%
Total revenue	**169,132**	**226,862**	**598**	**34.1%**
Net revenue				
Payments	5,659	18,053	48	219.0%
Marketplace	7,451	14,951	39	100.7%
Fintech	85,480	108,534	286	27.0%
Total net revenue	**98,590**	**141,538**	**373**	**43.6%**
Net income				
Payments	1,643	9,160	24	457.5%
Marketplace	3,776	9,668	25	156.0%
Fintech	44,635	58,173	153	30.3%
Total net income	**50,054**	**77,001**	**203**	**53.8%**
Distributed to shareholders (dividends declared)	-	31,140	82	-
Share of net income distributed to shareholders	-	40.4%	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

	Year ended 31 December			
	2017	2018		
	KZT	KZT	U.S.$[1]	% Change
	in millions, except percentages			
Revenue				
Payments	9,571	26,471	77	176.6%
Marketplace	12,174	25,020	73	105.5%
Fintech	254,008	323,840	939	27.5%
Total revenue	**275,753**	**375,331**	**1,089**	**36.1%**
Net revenue				
Payments	5,679	18,103	53	218.8%
Marketplace	11,316	23,801	69	110.3%
Fintech	128,712	188,745	548	46.6%
Total net revenue	**145,707**	**230,649**	**669**	**58.3%**
Net income				
Payments	1,360	6,731	20	394.9%
Marketplace	5,806	14,560	42	150.8%
Fintech	64,128	89,828	261	40.1%
Total net income	**71,294**	**111,119**	**322**	**55.9%**
Adjusted Net Income[2]	61,909	-	-	-
Distributed to shareholders (dividends declared and purchase of treasury shares)	15,162	75,287	218	396.6%
Share of net income distributed to shareholders	21.3%	67.8%	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

(2) Adjusted Net Income is a non-IFRS measure and represents historical net income for 2016 and 2017 adjusted for the provision expense of KZT9,385 million (net of income tax), which was reallocated from 2017 to 2016, as if the Group's provisioning methodology that it changed in 2017 had been applied since 2016. If we applied the amended provisioning methodology with effect from 2016, our adjusted provision expense would amount to KZT64,470 million in 2016 and KZT39,475 million in 2017. See "*Operating and Financial Review–Discussion and Analysis of Results of Operations–Provision Expense*".

Kaspi Ecosystem

We operate our Ecosystem with the mission to improve people's lives through developing innovative products and services that transform the way people pay, shop and manage their personal finances.

We have developed an integrated consumer-focused Ecosystem of diversified products and services around our three revenue-generating Platforms. Our Ecosystem includes customers, merchants, various service providers and Kolesa.kz (our strategic partner and a leading Kazakhstan car classifieds platform). Our Platforms enable participants to interconnect and interact, thus, creating value for each participant by being a part of the Kaspi Ecosystem. Our Ecosystem has a powerful network effect, which means that the growth and development of one service is contributing to the growth and development of other services.

We believe that the Kaspi Ecosystem has become an integral part of people's daily lives in Kazakhstan and our Active Customers are at the heart of our Ecosystem. We are driving consumer engagement by leveraging state-of-the-art technology and proprietary big data analytics, as well as by crafting seamless customer experience.

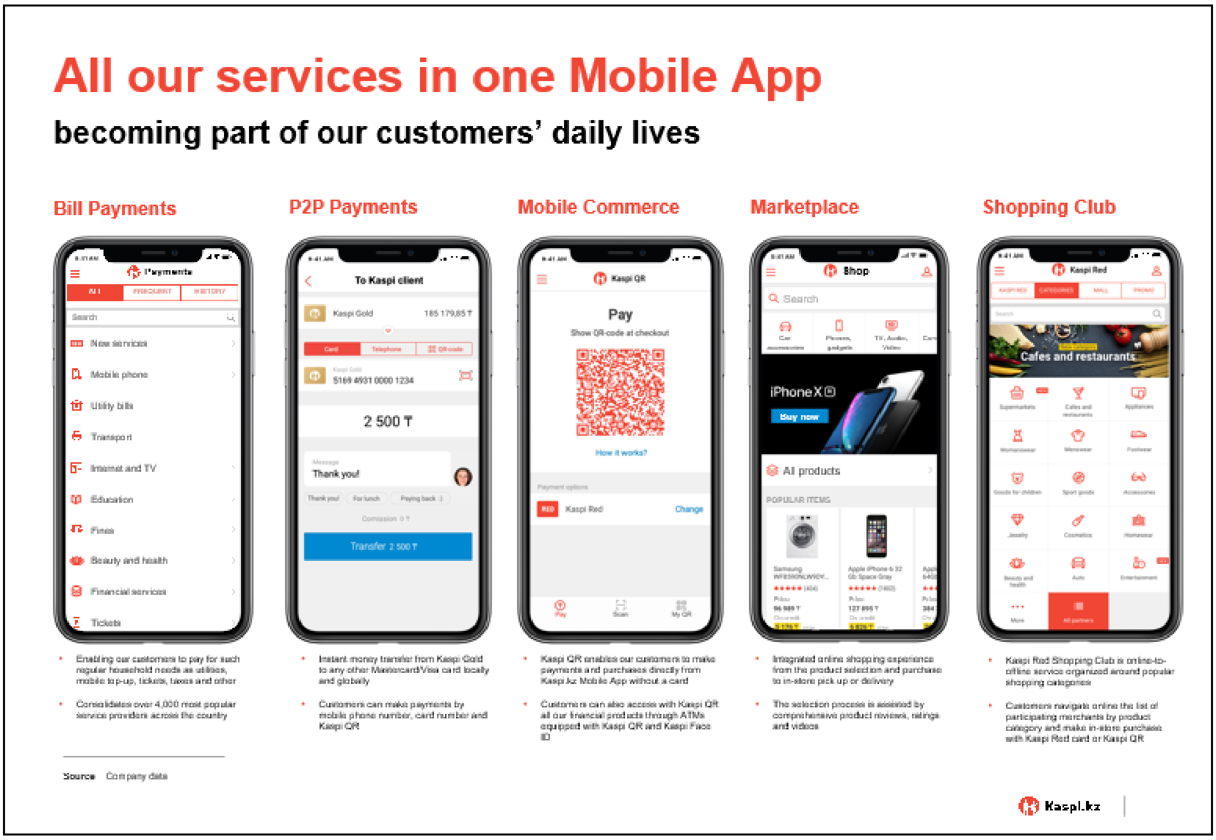
Our Mobile App

We believe that our Mobile App – and mobile technology in general – eliminates the boundaries between offline and online payments, shopping and finance and offers extra convenience to our customers and increases their engagement in our Ecosystem. We believe that we are achieving deep customer engagement by focusing on the "Mobile App Only" approach, which is the core concept of our Ecosystem with regards to interaction with customers and the delivery of products and services.

Our intuitive and user-friendly Mobile App serves as a single window into our entire Ecosystem and integrates all of our offerings into a single convenient and readily available interface.

We launched our Mobile App in July 2017 with the aim to operate a single application that would include all of the services of the Kaspi Ecosystem. While both our Mobile App and website offer access to our Ecosystem, certain services are available exclusively through the Mobile App. Such services include wire transfers between customers' own accounts, P2P payments within Kazakhstan, P2P payments to any bank card domestically and globally, use of accrued bonuses to pay for purchases on the Marketplace Platform, communications via Kaspi Message, Kaspi Gold card online application, Kaspi QR, access to online consumer finance and online deposits.

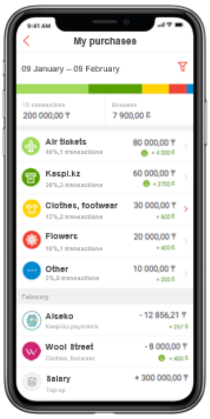
As we develop and expand the services offered through our Mobile App, we increase the number of MAU. In the six months ended 30 June 2019, our Mobile App had 4.5 million MAU, representing a 45.2% increase from 3.1 million MAU in 2018, which in turn increased by 181.8% from 1.1 million MAU in 2017. The share of transactions via the Mobile App in Kaspi Touchpoints reached 68.4% in June 2019, increasing from 55.1% in December 2018, which in turn grew from 22.6% in December 2017. In the six months ended 30 June 2019, 68.3% of our Active Customers (out of 5.7 million Active Customers) used our Mobile App as compared to 53.9% of our Active Customers (out of 5.1 million Active Customers) in 2018. In turn, the quarterly number of Mobile App transactions increased from 5.8 million in the third quarter of 2017 to 116.6 million in the second quarter of 2019. As at 30 June 2019, the number of cumulative downloads of the Mobile App was 7.3 million. In July 2019, our Mobile App was ranked first in the App Store and fifth in Google Play in Kazakhstan, according to App Annie.



All our services in one Mobile App

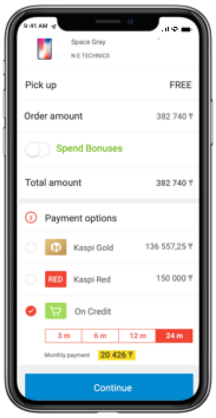
becoming part of our customers' daily lives

My Bank



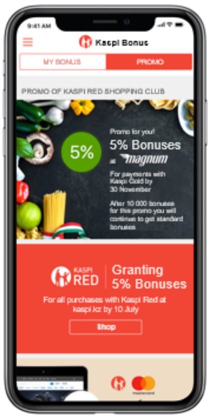
- Managing personal finance online straight from Kaspi.kz Mobile App
- Analyzing all purchases, checking balances, managing accounts

Fintech



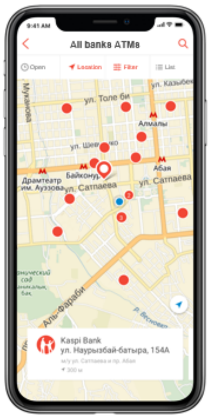
- Online access to consumer finance with near instant financing approval within 10 seconds
- Full monthly payment is clearly shown to customer

Bonus Program



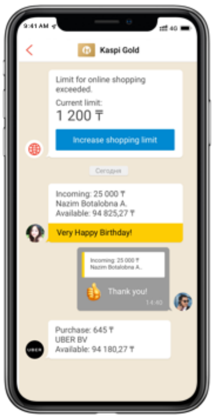
- Aiming to drive customer engagement in Kaspi.kz Ecosystem and incentivize to switch from offline to online behavior
- Accrued Bonuses can be spent only in our Mobile App on Bill Payments, Online Shopping and purchases with Kaspi QR

Maps



- Finding location and working hours of favorite shops, Kaspi.kz outlets, any bank ATMs, etc.
- Checking out the most convenient locations nearby, see wait time in any Kaspi.kz outlet

Messages



- Getting up to speed with payment and purchase history, checking balances and transactions
- Receiving notifications to enable one-click actions in Kaspi.kz Mobile App to facilitate transactions

Source Company data

Kaspi.kz

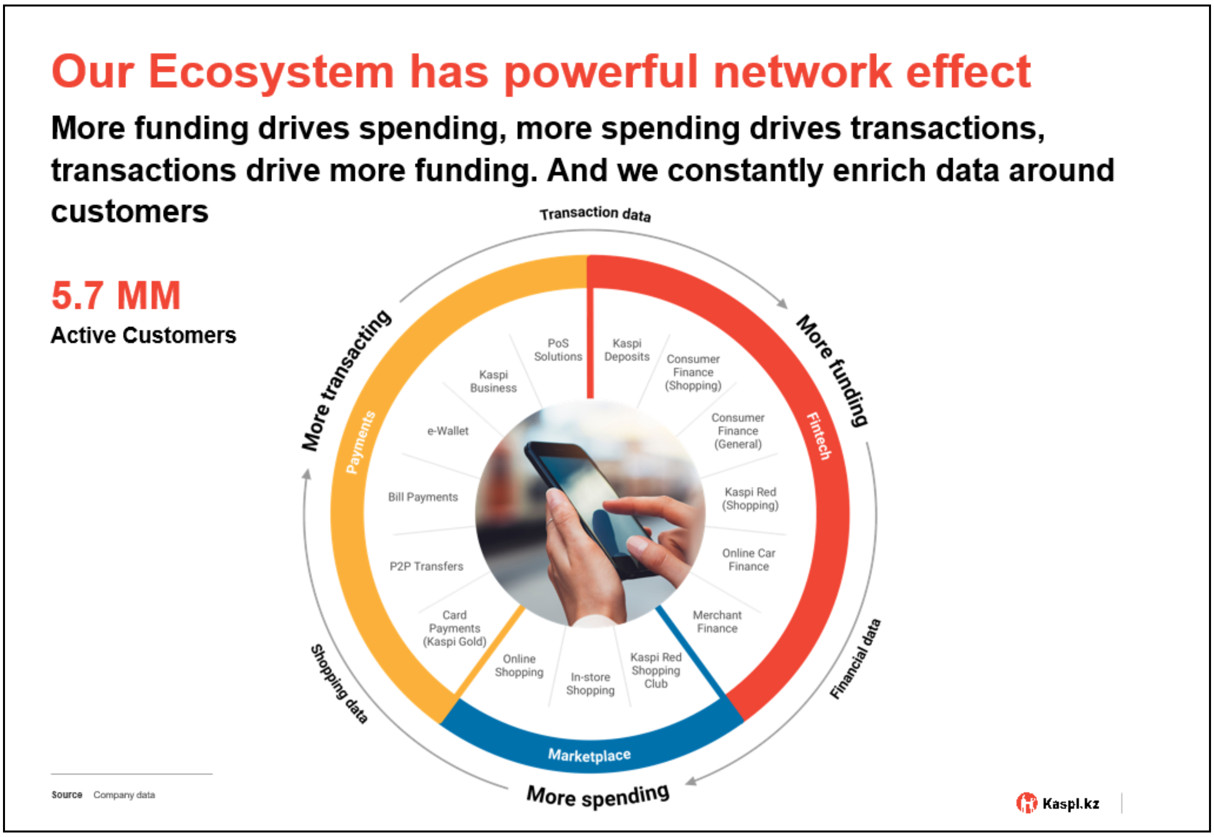
Our Competitive Strengths

We have established a strong operational and financial track record and believe that the following competitive strengths have contributed and will continue to contribute to our long-term success:

Integrated Consumer-focused Ecosystem with a Powerful Network Effect and Operating Leverage

We have developed an integrated Ecosystem covering a wide spectrum of online and offline consumer daily needs, ranging from shopping and paying for everyday expenses to multiple ways of funding purchases and managing personal finances. We believe that this diverse but complementary array of services on our Ecosystem results in an inherent, powerful and sustainable network effect, as the growth and development of one service directly contributes to the growth and evolution of other services. For example, the large number of Active Customers and the diverse range of convenient payment and financing options lead to increased consumer spending on our Marketplace. Higher spending on the Marketplace Platform in turn increases the number and volume of transactions through our Payments Platform, as well as financing through our Fintech Platform. In addition, we believe our highly engaged customer base attracts more merchants to our Marketplace, thereby increasing the product selection and shopping convenience for our customers. As we expand our base of Active Merchants, we drive the growth of Kaspi Business, which combines a comprehensive suite of products and services for our merchants and other businesses.

Our consumer-focused Ecosystem has significant operating leverage, driven by our business model, which enables us to reduce structural costs by providing significant synergies across our Platforms and maintaining low capital expenditures. Net income margin of our Payments Platform improved from 14.2% in 2017 to 25.4% in 2018 and further to 36.2% in the first half of 2019 while net income margin for our Marketplace increased from 47.7% in 2017 to 58.2% in 2018 and further to 61.3% in the six months ended 30 June 2019 and net income margin of our Fintech enhanced from 25.2% in 2017 to 27.7% in 2018 and further to 31.3% in the six months ended 30 June 2019.



Leading Market Position

We are the largest Payments, Marketplace and Fintech Ecosystem in Kazakhstan with a leading market share in each of our key products and services. The breadth of the products and services we offer, among other factors, has allowed us to attract 5.7 million Active Customers to our Platforms as at 30 June 2019, which equates to approximately 31.0% of the total population in Kazakhstan. We believe this makes our Ecosystem comparable to some of the leading consumer-oriented internet businesses globally in terms of Active Customers as a share of the population. Whilst we have a number of competitors in each of our segments, no single competitor offers the range of products and services that we are able to offer through our Ecosystem, under a most recognised brand and through a single Mobile App and a wide network of multiple touchpoints. We believe these factors translate into our market leading position across all of our Platforms. In 2018, our market share of sales of electronics (by GMV) was 39.5%, according to GFK, our Online GMV corresponded to a market share of 40.9% in value, according to Euromonitor market size estimate, and our market share by number of P2P and card transactions was 35.4%, according to the NBK. As at 31 December 2018, our market share of Consumer Loans was 31.2%, whereas our market share of retail deposits was 12.9%, according to the NBK. We estimate that in 2018 our Ecosystem processed approximately U.S.$6.9 billion of household consumption transactions (the sum of GMV, TFV (consumer finance for general purposes and car loans only excluding consumer finance for shopping and Kaspi Red purchases) and TPV (payments through our Mobile App, Kaspi website, terminals and Kaspi Gold POS payments)) out of U.S.$89.0 billion of household consumption transactions in Kazakhstan, based on EIU data.

Well-Known and Trusted Brand with Outstanding Net Promoter Score

We believe that our targeted marketing efforts and consistent delivery of high-quality consumer experiences have helped us to build a strong reputation and create a leading brand that consumers recognise and trust. Consistently high net promoter scores ("**NPS**") for our products and services underscore the value that we deliver to customers and help to drive customer engagement across all our products.

The level of our customers' satisfaction is evidenced by the industry-leading average NPS of 84 for the Payments Platform, 90 for the Marketplace Platform and 79 for the Fintech Platform, each calculated as an average for the 12 months ended 30 June 2019, which is higher than the respective United States industry averages (based on a consumer benchmark survey of 10,000 U.S. customers conducted by Temkin Group in the third quarter of 2018) and certain leaders in each relevant category in the United States.

The "Kaspi" brand, which was first introduced in 2008 by the current management team, is among the most recognisable in the country across all of our Platforms. For example, based on the results of a survey held by TNS Gallup (rolling for the 12 months ended 30 June 2019), we were the number one customer choice across all of our products: (i) in payments, with 64% of respondents intending to pay online through Kaspi.kz in the next three months compared to 17% for the nearest competitor; (ii) in e-commerce, with 27% of respondents intending to buy electronics through Kaspi.kz in the next three months compared to 18% for the nearest competitor; (iii) in consumer finance, with 47% of respondents intending to take a consumer loan from Kaspi.kz compared to 13% for the nearest competitor; (iv) in deposits, with 47% of respondents intending to place a deposit with Kaspi.kz compared to 18% for the nearest competitor; and (v) in debit cards, with 69% of respondents intending to use our Kaspi Gold card for in-store and online shopping compared to 12% for the nearest competitor.

We seek and will continue to seek to innovate in all of our business segments, as well as in new product areas. We believe that our strong brand awareness and consumer trust for Kaspi.kz gives us a unique ability to expand our offering to consumers, whilst achieving high adoption and customer engagement.

Highly Engaged and Loyal Customer Base

Whilst we already provide many innovative services that have changed the way consumers shop, pay and manage their personal finances, we constantly seek to improve our customers' experience within our Ecosystem by educating them about the way our products and services can improve their everyday lives and by leveraging our proprietary data analysis tools to make their experience increasingly personal and relevant.

We believe that these important initiatives, combined with delivering high quality products and services under one recognisable and trusted brand, contribute to a higher number of products and services being used by our Active Customers, which increases their engagement in our Ecosystem and contributes to a high Retention Rate of Active Customers.

The number of Active Customers increased from 3.4 million as at 31 December 2016 to 5.7 million as at 30 June 2019, while a growing number of them have used multiple products within our Ecosystem. In the first half of 2019, 45.9% of our Active Customers were Customers with four or more Products as compared to 35.2% in 2018 and 19.6% in 2017. Our Retention Rate of Active Customers was 93.0% in the first half of 2019, 92.4% in 2018 and 88.4% in 2017. In the first half of 2019, we had 10.0 Monthly Transactions per Active Customer.

Multiple Customer Touchpoints Around Customers' Daily Lives

We have created multiple touchpoints available to our customers by giving them access to the products and services of the Kaspi Ecosystem via a variety of convenient channels, both online (through our Mobile App and our website) and offline (through our nationwide network of Kaspi.kz retail outlets, merchant shops, POS, payment terminals and ATMs). We believe that our ability to manage both online and offline customer experience across our Ecosystem is a strategic differentiating factor, driving customer engagement across all our services.

The scale of our hybrid online/offline network results in high frequency of transactions through our Ecosystem, with 10.0 Monthly Transactions per Active Customer in the first half of 2019, representing an increase from 6.9 Monthly Transactions per Active Customer in 2018 and 4.6 Monthly Transactions per Active Customer in 2017.

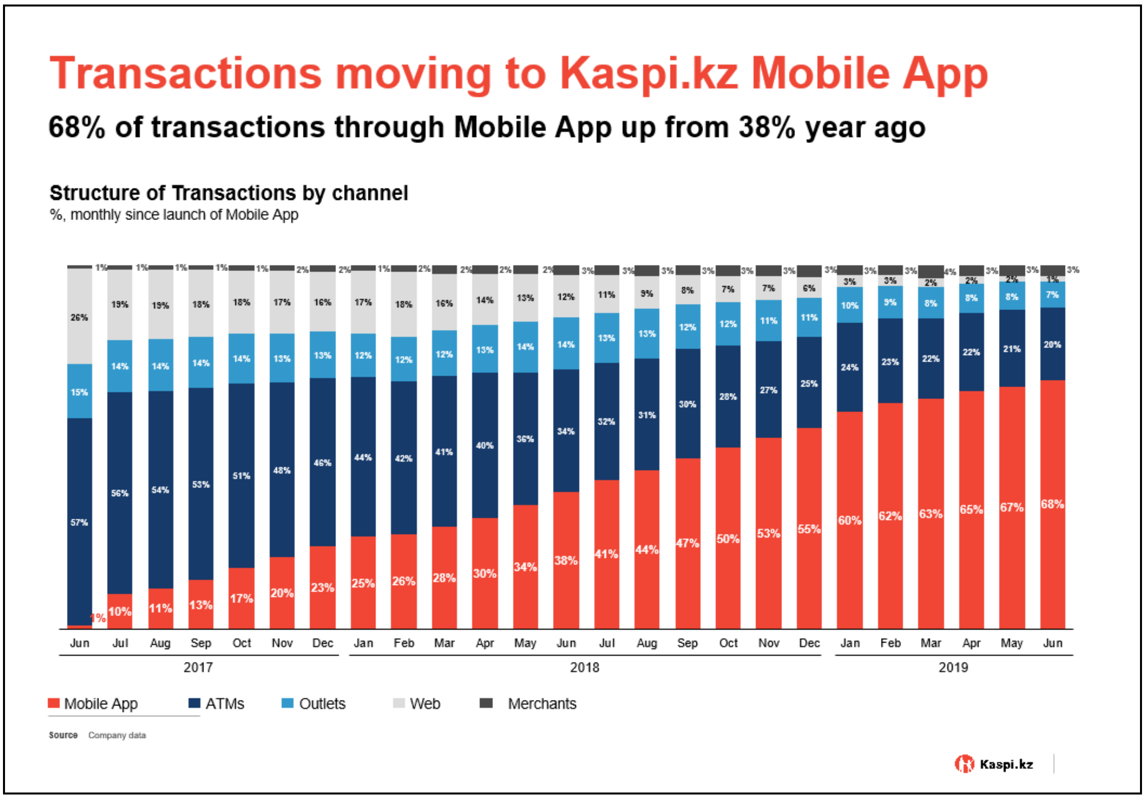
"Mobile App Only" Approach

Whilst we consider all of our channels to be important for providing a comprehensive set of products and services to our customers on a 24/7 basis, we believe that, because Kazakhstan has a high smartphone penetration level (at 65.3% in 2018 according to Ovum (World Cellular Information Service)), our Mobile App plays an essential and growing role in delivering the best experience to our existing customers and in attracting new customers to our Platforms.

Our Mobile App serves as a single window into our entire Ecosystem and integrates all of our products and services into one convenient and readily available interface. It eliminates the conventional offline/online boundaries in payments, shopping and personal finances, allowing our customers to shop online and in-store, make and receive payments, manage all aspects of their personal finances, including their bank account and debit card, use location services and manage the bonus programme.

In June 2019, the number of MAU reached 4.5 million MAU compared to 3.1 million in December 2018 and 1.1 million MAU in December 2017. In the first half of 2019, 68.3% of our Active Customers used our Mobile App. Due to the high engagement of our Active Customers in our Mobile App, we are able to make some of our products available exclusively via the Mobile App, increasing our cost efficiency, including by maintaining low capital expenditures while preserving the highest level of convenience for our customers.

The increasing share of mobile transactions across all of our Platforms drives our operating leverage which allows us to increase our net revenue by generating higher revenue and reducing our cost of revenue ratio. The share of Transactions via the Mobile App in Kaspi Touchpoints increased from 22.6% in December 2017 to 68.4% in June 2019, with the remainder of the Transactions attributable to other touchpoints (Kaspi.kz website, outlets, POS, terminals and ATMs).



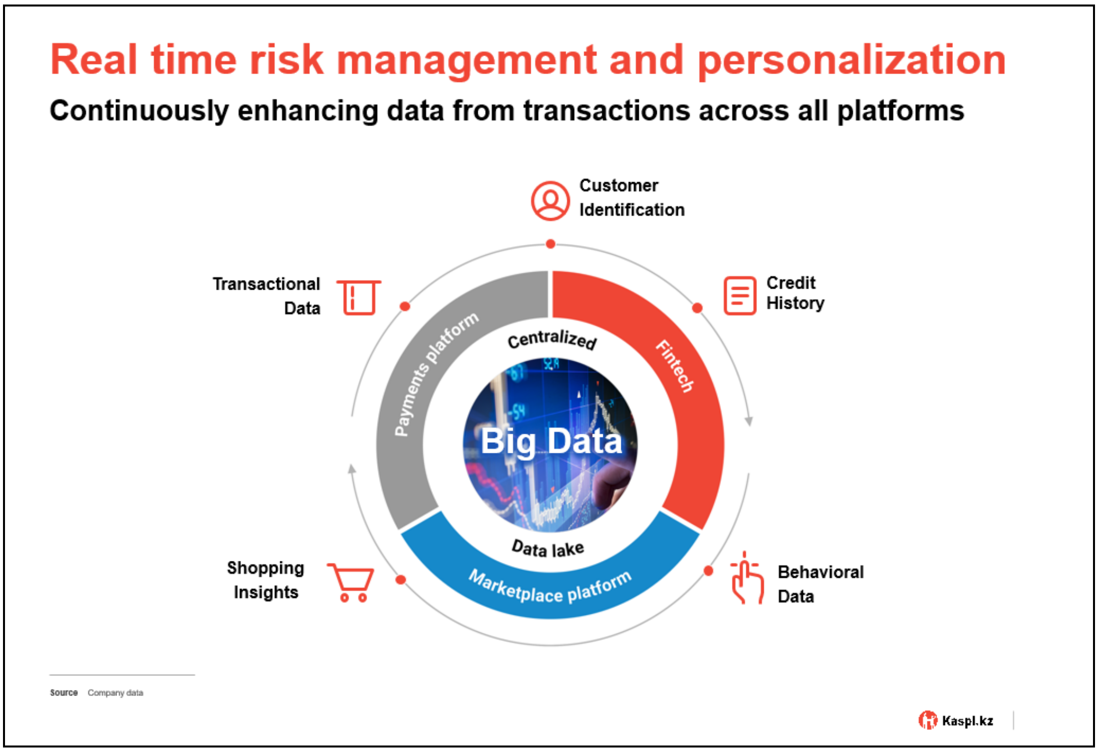
Modern, Scalable Technology Driving Every Part of Our Business

Seamless, convenient and uninterrupted customer experience is essential to all parts of our Ecosystem, therefore we continuously evaluate best-in-class technology solutions, which allow us to design and deploy modern and scalable products and services for our customers and merchants. We believe that we have built a highly reliable and scalable technology infrastructure, which we estimate is able to reliably handle a 25-fold increase in data volumes, and are continuing to invest in technology to drive the strong growth of our business and the ongoing evolution of our services. A high scalability of our technology supports our Ecosystem's powerful network effect and operating leverage because our technology and product development expenses grow at a slower rate than our revenue.

Our technology is designed to process high volumes of customer transactions, orders, consumer finance and deposit applications, customer requests and contacts. The combination of our modern technologies and big data enabled us to process one loan application per second in January-November 2018 and 10 loan applications per second during Kaspi Juma on 16-17 November 2018, with the potential to increase this to 25 loan applications per second, as proven by our own stress tests. In 2018, our systems also allowed us to process 13 transactions per second effected by our Active Customers and to make 99.9% of consumer loan approvals within 10 seconds.

Powerful Data Insights Driving Efficiencies and Credit and Transaction Risk Management

Our advanced technology enables us to collect significant amounts of behavioural, financial and transactional data throughout our Ecosystem, which in turn drives our proprietary algorithms, unlocking new capabilities and generating value for us and for our customers. Our experienced data scientists and data management systems, including powerful data analytics and machine learning algorithms, help us to effectively manage credit and transaction risk, run our business more efficiently and enable our customers to maximise the value of our Platforms. For example, data collected from customer activity on our Ecosystem can be used both to personalise and enhance our customers' shopping experiences and to make our credit and transaction risk management procedures more effective. As a result, such additional data insights have allowed us to improve our cost of risk and increase levels of customer engagement within our Ecosystem. We believe that our best-in-class risk management processes, based on proprietary data and state-of-art technology, will further support the growth of our Ecosystem.



Strong Growth and Profitability Profile

The successful implementation of our business model has driven strong growth in revenue and profitability in each Platform of our Ecosystem.

In the first half of 2019, our Payments' revenues and net income increased by 177.6% and 457.5%, respectively, as compared to the first half of 2018, whilst our Payments' Net Income Margin improved to 36.2% in the first half of 2019 from 25.4% in 2018 and 14.2% in 2017. Our Payments' revenues and net income increased by 176.6% and 394.9%, respectively, in 2018 as compared to 2017.

In the first half of 2019, our Marketplace's revenues and net income increased by 98.5% and 156.0%, respectively, as compared to the first half of 2018, whilst our Marketplace's Net Income Margin improved to 61.3% in the first half of 2019 from 58.2% in 2018 and 47.7% in 2017. Our Marketplace's revenues and net income increased by 105.5% and 150.8%, respectively, in 2018 as compared to 2017.

In the first half of 2019, our Fintech's revenues and net income increased by 22.2% and 30.3%, respectively, as compared to the first half of 2018, whilst our Fintech's Net Income Margin improved to 31.3% in the first half of 2019 from 27.7% in 2018 and 25.2% in 2017. Our Fintech's revenues and net income increased by 27.5% and 40.1%, respectively, in 2018 as compared to 2017.

This growth in profits has allowed us to continue to invest into all parts of our Ecosystem and to continue to increase the number of innovative products that we can offer to our customers, further increasing the gap between us and our competitors in terms of the market share. In 2017, 2018 and the first half of 2019, we had sufficiently high returns which allowed us to distribute funds to our shareholders via dividends and share buybacks.

Entrepreneurial, Long Standing Management Team and Strong Execution Driven Culture

Our company is led by an entrepreneurial management team with a proven track record of driving innovations. The key members of the management team have each been with Kaspi.kz for more than ten years. The team has both a global and regional perspective combined with experience acquired at the world's leading academic, financial and technology institutions.

Our corporate culture is central to our success and is based on our mission of leveraging technology to improve the everyday lives of people. We believe that even large organisations need to stay innovative and therefore we foster an environment that inspires teamwork, constant improvement and relentless focus on delivering the best possible experience to our customers.

Our Growth Strategy

Guided by our mission to improve people's lives through offering innovative products and services, we have been focusing on the rapid growth of our business that drives our revenues and profits. The key elements of our strategy are as follows:

Take Advantage of Underpenetrated Markets with High Growth Potential

Kazakhstan has benefited from robust economic growth in recent years, which has contributed to the strong performance of our business. According to the MNE, Kazakhstan's real GDP growth was 4.1% in both 2017 and 2018, and is expected to expand at a CAGR of 4.1% between 2019-2022. The IMF forecasts a real GDP growth at a CAGR of 3.3% between 2019-2022.

We believe that the growth in our Mobile App and online services stems from the considerable rate of growth in internet penetration and smartphone usage in Kazakhstan in recent years, with internet penetration reaching 76.4% in 2017 and smartphone penetration reaching 65.3% in 2018 as compared to 66% and 31.0% in 2014, respectively (according to the World Bank and Ovum (World Cellular Information Service)). Currently, according to Ovum (World Cellular Information Service), Kazakhstan's smartphone penetration level is one of the highest among emerging markets such as Brazil, Turkey, Russia and China. The influence of internet and smartphone penetration will continue to support the appeal of our Mobile App based services and subsequent growth of our Ecosystem.

Payments

The Kazakhstan payments market is at an early stage of development with a significant potential for growth. The market is underpenetrated both in terms of card transactions per capita (44 transactions in Kazakhstan, based on data of the NBK and the MNE, as compared to 176 transactions in Russia, 314 transactions in Turkey and 418 transactions in the United States in 2018, based on data of Euromonitor and the IMF) and total transaction value per capita (U.S.$9,394 in Kazakhstan, based on data of the NBK and the MNE, U.S.$11,709 in Russia, U.S.$12,986 in Turkey and U.S.$23,222 in the United States in 2018, based on data of Euromonitor and the IMF). Based on data from the World Bank, only 53.9% of the population over 15 years old received digital payments and only 24.3% of the population paid bills or shopped online in Kazakhstan in 2017 as compared to 70.5% and 39.6% in Russia, respectively, and 91.1% and 77.2% in the United States, respectively. Thus, we believe that we have a significant potential upside in the utilisation of digital payments.

Marketplace

We believe that low penetration of online retail sales in Kazakhstan, which accounted for 2.6% of the total retail market in 2018, which is significantly below other markets, according to Euromonitor, offers further high growth potential for our online Marketplace. Based on Euromonitor data and the historical development of online retail markets in other countries, we estimate the growth of Kazakhstan online retail market at a CAGR of 33.4% between 2018-2022, assuming a 5.8% average penetration rate. According to Euromonitor, Kazakhstan is also one of the most underpenetrated markets by e-commerce spend per capita with U.S.$64.4 per capita in Kazakhstan, U.S.$173.2 per capita in Russia and U.S.$584 per capita in Czech Republic in 2018.

Fintech

Similarly, we believe, Kazakhstan's consumer finance sector also has significant growth potential on the back of the low penetration of consumer financial services, with Consumer Loans accounting for only 5.4% of GDP, based on data of the NBK and the MNE, compared to 31.1% of GDP in South Africa, 22.9% of GDP in China, 11.3% of GDP in Turkey, 9.8% of GDP in Czech Republic, 8.2% of GDP in Poland and 7.4% of GDP in Russia, based on data of Euromonitor and the IMF, in each case as at 31 December 2018. Based on this data and the historical development of consumer finance markets in other countries, we estimate the growth of the Kazakhstan consumer finance market at a CAGR of 23.4% between 2018-2022, assuming a 10.4% average penetration rate. We believe that our leading market position and our Ecosystem-based business model will allow us to take full advantage of future growth in Kazakhstan's economy and consumer market.

This unique growth potential will allow us to drive and improve our business across all our Platforms (TPV and Payments Take Rate in the Payments, GMV and Marketplace Take Rate in the Marketplace and TFV and yield in Fintech).

Continue Driving TPV, GMV and TFV while Benefiting from Operating Leverage

Supported by our continued benefit from operating leverage and expected decrease in our operational costs, we anticipate delivering stable and profitable growth through the following medium-term targets:

Payments

Expanding our Payments Platform TPV at a CAGR of 40-50% (with a significantly higher growth in 2020) and increasing our Payments Take Rate in line with the expected growth in the volume of payment transactions, although visibly below public benchmarks for payment platforms (such as PayPal with a 2.6% take rate in the fourth quarter of 2018 and PagSeguro with a 3.0% take rate in the fourth quarter of 2018), with interest-free balances growing at a CAGR of 25-35%; we anticipate that the growth of our Payments Platform TPV and improvement of our Payments Take Rate will result in further improvement of our net income margin of the Payments Platform, which was 36.2% in the first half of 2019, by mid-teens points.

Marketplace

Growing our GMV at a CAGR of 35-45% (with a significantly higher growth in 2020) and increasing our Marketplace Take Rate by penetrating higher margin categories, although below public benchmarks for marketplace (such as eBay with a 8.3% take rate in 2018 and Mercadolibre with a 11.9% take rate in the third quarter of 2018); we expect that the growth of our GMV and improvement of our Marketplace Take Rate will positively impact our net income margin of our Marketplace, which was 61.3% in the first half of 2019, by high-single digit points.

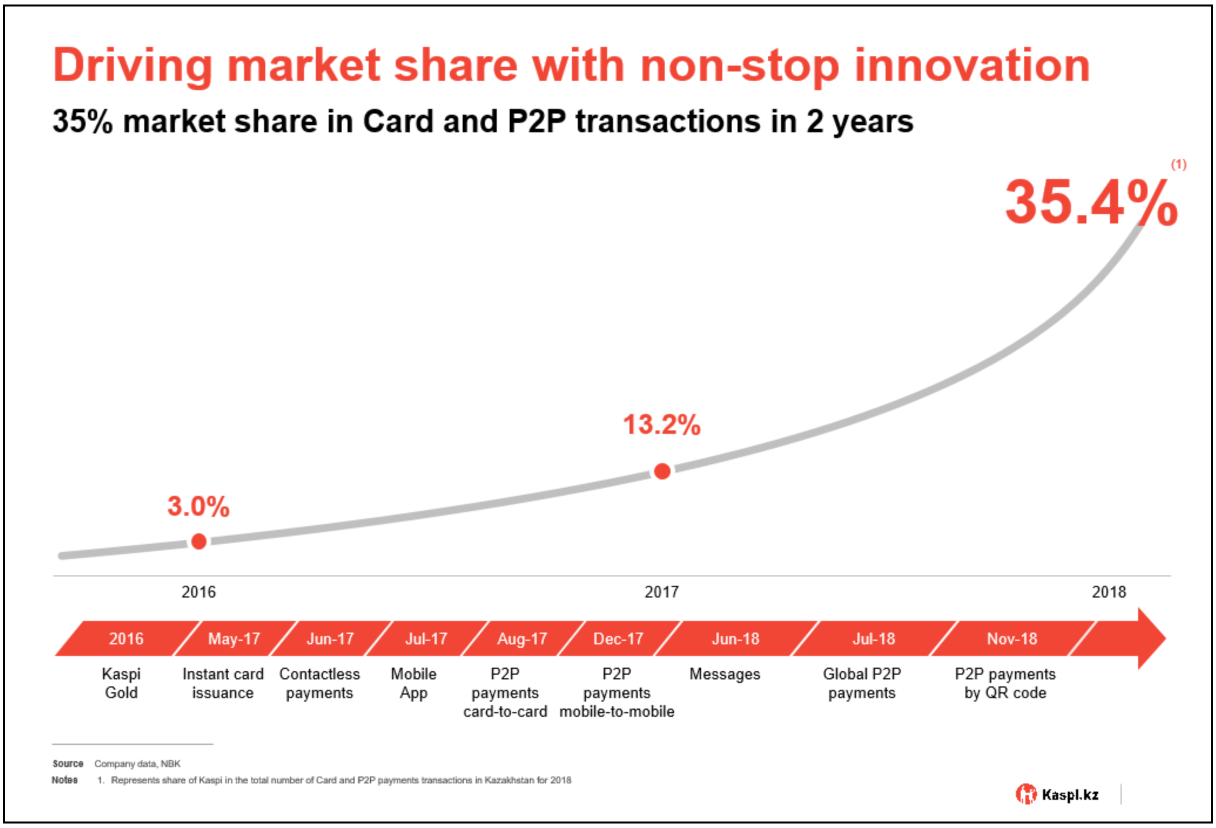
Fintech

Increasing our Fintech TFV at a CAGR of 20-30% (with higher part of the range in near-term) with broadly stable yield, cost of risk and TFV to Loan Portfolio Conversion Rate (with a slight increase in near-term); we forecast that the expansion of our TFV and sustainability of our yield, cost of risk and TFV to Loan Portfolio Conversion Rate will contribute into net income margin of our Fintech Platform, which was 31.3% in the first half of 2019, with its further improvement by mid-single digit points.

Introduce New Products through Continuing Innovation

As an innovation-driven company we have a proven track record of introducing cutting-edge products and services that have been quickly adopted by our customers (such as P2P payments by phone number and QR code introduced in 2017 and 2018, respectively). We intend to continue investing in the development of new products and technologies to efficiently satisfy our customers' everyday needs and enhance user experience. Such innovations eliminate borders between online and offline payments, shopping and finance to enable a faster and seamless user experience directly from our Mobile App, driving our customer engagement, which we believe should enhance the continued expansion of our market share.

For example, we entered the card payment business with the introduction of the Kaspi Gold debit card in late 2015. Since then, we have introduced such innovative services as instant card issuance, contactless payments, Mobile App, P2P payments, P2P payments by mobile phone number, Kaspi Messages, Global P2P, P2P payments by QR code and payment in-store by QR code. This pace of innovation has helped to propel our market share of number of card and P2P transactions from 3.0% in 2016 to 35.4% in 2018, according to the NBK. Furthermore, we have become the number one customer choice among all providers of debit cards in Kazakhstan, with 69% of respondents intending to use our card for in-store and online shopping compared to 12% for the nearest competitor, based on the results of a survey conducted by TNS Gallup (rolling for the 12 months ended 30 June 2019). In addition, we have launched ATMs with face recognition and QR code scanning technologies, which we intend to expand to over 1,200 ATMs by the third quarter of 2019.



Extend Service Offering to Merchants

We believe that a significant part of the success of our consumer-focused Ecosystem stems from the constant increase in the number of high-quality Active Merchants.

As at 30 June 2019, we had over 8.9 thousand Payments Active Merchants with 12.3 thousand Active Stores as compared to 5.2 thousand Payments Active Merchants with 6.6 thousand Active Stores as at 30 June 2018. As at 31 December 2018, we had over 7.6 thousand Payments Active Merchants with 10.3 thousand Active Stores compared to 3.5 thousand Payments Active Merchants with 4.4 thousand Active Stores as at 31 December 2017.

As at 30 June 2019, we had over 8.8 thousand Marketplace Active Merchants with 14.9 thousand Active Stores as compared to 5.6 thousand Marketplace Active Merchants with 9.1 thousand Active Stores as at 30 June 2018. As at 31 December 2018, we had over 7.2 thousand Marketplace Active Merchants with 12.2 thousand Active Stores compared to 5.0 thousand Marketplace Active Merchants with 7.4 thousand Active Stores as at 31 December 2017.

In 2018, we launched the Kaspi Business mobile application, enabling merchants to receive payments from our customers without using a PoS terminal, as well as to efficiently manage their company finances. As we expand our base of Active Merchants, we are driving the growth of Kaspi Business.

In the third quarter of 2019, we intend to offer Merchant Finance, a working capital finance product for our merchants operating in the Payments and Marketplace Platform with a targeted yield of 15 – 20%. The service will enable a merchant to drawdown a facility of up to 20% of GMV and TPV generated by such a merchant through the Payments and Marketplace Platforms.

We believe that such products will appeal to our existing merchants and further increase their engagement in our Ecosystem, attract new merchants and deliver new revenue streams for Kaspi.kz and expand our TPV, GMV and TFV for Payments, Marketplace and Fintech, respectively.

Increase Customer Engagement across Our Ecosystem

We believe there is a significant opportunity to increase customer engagement across the products and services in our Ecosystem by leveraging its powerful network effects in order to increase the number of Products per Active Customer. In the first half of 2019, 45.9% of our Active Customers were Customers with four or more Products as compared to 35.2% in 2018 and 19.6% in 2017, which we expect to continue to grow in the medium term. At present, only 30% of our Active Customers use the products and services of all three Platforms. We aim to further increase these shares by further developing our Ecosystem, using our big data capabilities to make our customer experience more personal and relevant, continuing to educate our customers about our products and services through tailored and targeted marketing, and expanding our Kaspi Bonus programme.

We believe that there is significant untapped potential in terms of the usage frequency of each particular product and service within our Ecosystem, which has been evidenced by strong growth in the average number of Monthly Transactions per Active Customer across all our Platforms. In the first half of 2019, the number of Monthly Transactions per Active Customer was 10.0, increasing from 6.9 in 2018 and 4.6 in 2017.

We plan to realise the full potential of our Ecosystem by eliminating the boundaries between online and offline payment, shopping and finance experience through our "Mobile App Only" approach. We will continue to offer our customers seamless and instant access to the most demanded and frequently used services (such as payment of utility bills, mobile phone top ups and other payments for regular household needs), as well as customer engagement services (such as Kaspi Message, Kaspi Maps and Kaspi Guide), while also introducing new Mobile App based services.

Expansion into Selected Markets of Central Asia and the Caucasus

We believe that our highly scalable asset light business model will enable us in the mid-term to efficiently expand our consumer offerings into selected adjacent countries in Central Asia and the Caucasus, extending our geographical reach to a total population of approximately 85.0 million people, and a total of approximately U.S.$180 billion of household consumption in 2017, according to the World Bank, with limited presence of global and local players in the payments, marketplace and fintech space. Our Marketplace and Payments Platforms can be offered via our Mobile App to the population of any country of presence relatively easily, allowing us to enter such additional geographies without significant capital expenditure requirements. In line with this strategy, we have recently expanded our addressable market from 18 million people (in Kazakhstan) to 28 million people by entering Azerbaijan through the acquisition of three leading classifieds platforms (Turbo.az (a car marketplace), Tap.az (a used and new items marketplace) and Bina.az (a real estate marketplace)). See "*Operating and Financial Review – Recent Developments – Acquisition of Marketplace Platforms in Azerbaijan*").

Our Principal Business Activities

Payments Platform

Overview

The Payments Platform enables our customers to pay for regular household needs and for both online and in-store purchases, as well as to make seamless online P2P payments and wire transfers both within and outside the Kaspi Ecosystem, inside Kazakhstan and globally. A consumer can transact using the Kaspi e-Wallet and the Kaspi Gold debit card both through our Mobile App and whilst shopping at brick-and-mortar retail outlets. Our Payments Platform encompasses our Bill Payment service, e-Wallet, Kaspi Gold debit card, P2P payments, Kaspi Business Mobile App and Kaspi.kz PoS solutions.

According to the NBK, in 2018, we reached a 35.4% market share of number of P2P payments, in-store and online transactions with our Kaspi Gold debit card and current accounts while our market share by value of such transactions reached 29.0%. Based on the results of a survey conducted by TNS Gallup (rolling for the 12 months ended 30 June 2019), Kaspi.kz was the number one customer choice among providers of online payment services in Kazakhstan, with 64% of respondents intending to pay online through Kaspi.kz in the next three months compared to 17% for the nearest competitor. Moreover, according to the results of a survey conducted by TNS Gallup (rolling for the 12 months ended 30 June 2019), Kaspi.kz was the number one customer choice among all providers of debit cards in Kazakhstan with 69% of respondents intending to use our Kaspi Gold debit card for in-store and online shopping compared to 12% for the nearest competitor.

Fees for transaction processing and other payment-related services constitute the majority of the revenues of the Payments Platform and are primarily based on the TPV. We also earn revenue for processing P2P payments to other bank cards (both inside Kazakhstan and globally), and transactions within Kaspi Business. The Payments Platform's revenue also includes annual fees paid by retail and Kaspi Business customers for engagement in the Kaspi Ecosystem. Finally, the Payments Platform derives interest revenue from cash balances (of which 75% were attributable to Kaspi Gold and 25% to Kaspi Business).

In the first half of 2019, our TPV increased by 179.9% and reached KZT1,338,188 million (U.S.$3,530 million) from KZT478,095 million in the first half of 2018, while our TNP grew by 122.8% to 226,730 thousand from 101,780 thousand in the first half of 2018. In 2018, our TPV demonstrated year-on-year growth of 278.9% and reached KZT1,400,114 million (U.S.$4,062 million) from KZT369,539 million in 2017, while our TNP demonstrated year-on-year growth of 257.1% and reached 243,280 thousand from 68,118 thousand in 2017. In the first half of 2019, the Payments Take Rate was 1.3% as compared to 1.2% in 2018 and 1.0% in 2017.

In the first half of 2019, the Payments Platform generated total revenue of KZT25,330 million (U.S.$67 million), representing an increase of 177.6% from KZT9,123 million in the first half of 2018, and net income of KZT9,160 million (U.S.$24 million), representing a growth of 457.5% from KZT1,643 million in the first half of 2018. In 2018, the Payments Platform generated total revenue of KZT26,471 million (U.S.$77 million), representing year-on-year growth of 176.6% from KZT9,571 million in 2017, and net income of KZT6,731 million (U.S.$20 million), representing year-on-year growth of 394.9% from KZT1,360 million in 2017.

For the periods indicated, the breakdown of our TPV by service was as follows:

	Year ended 31 December			**Six months ended 30 June**	
	2016	**2017**	**2018**	**2018**	**2019**
	Share of total TPV *(in %)*				
Bill Payments	89.0%	56.9%	33.5%	44.2%	27.2%
Kaspi Gold	8.8%	39.0%	53.1%	48.2%	62.4%
P2P payments	-	3.1%	12.8%	6.9%	9.9%
Other	2.2%	1.0%	0.6%	0.7%	0.5%

As at 30 June 2019, we had over 8.9 thousand Payments Active Merchants with 12.3 thousand Active Stores as compared to 5.2 thousand Payments Active Merchants with 6.6 thousand Active Stores as at 30 June 2018. As at 31 December 2018, we had over 7.6 thousand Payments Active Merchants with 10.3 thousand Active Stores compared to 3.5 thousand Payments Active Merchants with 4.4 thousand Active Stores as at 31 December 2017.

Bill Payments

We have created the Bill Payments platform to enable our customers to pay for regular household needs. Although we do not charge our customers for bill payments, this service is important to us as it drives customer engagement and increases transaction frequency.

We regularly add new merchants to our already extensive merchant list with the aim of creating a "one-stop payment" experience for our customers. Currently over 4,000 merchants are organised around the following categories: mobile operators, utility companies, public transportation, internet and cable TV, education, taxes, health and beauty, financial services and other categories. In the first half of 2019, our average take rate for Bill Payments was 0.3%.

e-Wallet

To register an e-Wallet account, a customer only needs to have a mobile phone number to which the wallet is linked. Our customers do not have to open and maintain a bank account to join our Ecosystem and can access our services through their e-Wallet by completing a simple and user-friendly online registration process on our Mobile App. Once registered, our customers can top-up their e-Wallet through any of our payment terminals or online, immediately receiving access to around 3,500 Payments Active Merchants on our Bill Payments platform, with funds available for payments 5 minutes after the top-up. Funds deposited on a customer's e-Wallet can be used exclusively within our Ecosystem and cannot be transferred to a third-party debit card.

Usually our customers use the e-Wallet as an initial step, allowing them to familiarise themselves with our payments services and further extend their product range to all other products of our Ecosystem. We do not charge any fees for opening or maintaining an e-Wallet and we consider this service as an effective gateway to our Ecosystem. Clients which are already using any of our products can deposit an unlimited amount of cash on their e-Wallet, whereas clients which do not have any Kaspi products are allowed to deposit a maximum amount of KZT252,000.

Kaspi Gold

Kaspi Gold is our Mastercard branded debit card that our customers can use to pay for purchases online and in-store.

Customers can receive a Kaspi Gold debit card instantly at any Kaspi.kz outlet or apply for it online via our Mobile App and then pick it up at any of our outlets. Kaspi Gold can be topped up online via our Mobile App or through our network of payment terminals and ATMs. We do not charge a service fee on Kaspi Gold for the first year, while an annual fee in the amount of KZT1,995 (U.S.$5) is charged each subsequent year. Under certain circumstances, we charge fees for cash withdrawals at ATMs. For example, a 0.95% fee is charged on withdrawal of amounts exceeding KZT300,000 at the time of withdrawal at ATM. In 2018, our take rate for Kaspi Gold was 1.7% as compared to 1.8% in the first half of 2019.

In the first half of 2019, 3,337 thousand Active Customers used Kaspi Gold, as compared to 2,142 thousand Active Customers in 2018, 674 thousand Active Customers in 2017 and 104 thousand Active Customers in 2016.

P2P Payments

We launched P2P payments to enable our customers to settle bills and expenses with friends, to transfer or receive money from other Kaspi.kz customers, as well as wire money to any Mastercard or Visa card domestically or globally. Our customers can make P2P payments in our Mobile App by card number, mobile phone number or Kaspi QR code. Customers can also supplement their transfer with additional text comments and confirm the wire straight from Kaspi Message in our Mobile App. We do not charge any fees for P2P payments between our customers except for transfers to a card issued by another bank, which accrue a fee in the amount of 0.95%.

Kaspi Business Mobile App

Launched in November 2018, Kaspi Business is a mobile application based transactional platform strategically aimed at merchants involved in the Kaspi Ecosystem, as well as a broader base of businesses. The Kaspi Business mobile application is designed for merchants and businesses to manage their finances from the screen of their smartphone either at home, in the office or on the move. It enables merchants to see the real time balances of their accounts, to pay and transfer money, keep track of their finances, and generate account statements online directly from the Kaspi Business application and website. We charge our clients fees for money transfers and monthly membership fees.

Kaspi.kz PoS Solutions

Launched in the summer of 2019, Kaspi.kz PoS Solutions are aimed at creating seamless and convenient ways for merchants to accept payments from Kaspi.kz customers, as well as payments by any other bank card. Our targeted take rate is up to 2.3%.

Kaspi.kz PoS terminal is powered by Kaspi Business Mobile App and Kaspi QR technology enabling merchants to accept payments from Kaspi.kz customers directly from Kaspi.kz Mobile App without the need of a card. The Kaspi.kz PoS Terminal enables merchants to receive payments from our customers via all of the Kaspi Ecosystem payment options: (i) consumer finance through the Fintech Platform; (ii) Kaspi Gold from our Payments Platform; (iii) pre-approved shopping limit of the Kaspi Red; and (iv) Kaspi Bonus.

Marketplace Platform

Overview

Our Marketplace is positioned as the starting point and destination for customer shopping journeys via our Mobile App, website and in-store. Customers come to our Marketplace to buy a broad selection of products and services from various merchants. We have developed and are continuing to develop mobile, online and QR technology to enable a seamless online and in-store shopping experience for our customers.

We believe that our Marketplace Platform appeals to buyers who value ease of use, a large selection of the most popular products and competitive prices. Our merchants in turn gain instant access to the large base of our Active Customers, thereby increasing their sales. We are investing in our

Marketplace Platform to grow GMV by leveraging our economies of scale and investing in product technology, marketing, customer acquisition and brand.

According to GFK, the GMV of electronics sold through our Marketplace amounted to 39.5% of total electronics sales in Kazakhstan in 2018. According to Euromonitor, Kaspi.kz was the largest online retailer in Kazakhstan by sales in 2017 and 2018. Kaspi.kz's Online GMV corresponded to a value market share of 23.3% in 2017 and 40.9% in 2018, based on Euromonitor market size estimate. Based on the results of a survey conducted by TNS Gallup (rolling for the 12 months ended 30 June 2019), Kaspi.kz was the number one customer choice in e-commerce, with 27% of respondents intending to buy electronics through Kaspi.kz in the next three months compared to 18% for the nearest competitor.

The Marketplace Platform (both online and in-store shopping) generates revenue by charging seller fees to merchants when a sale is completed within the Marketplace Platform, hence, our revenue is driven by the GMV. Our Marketplace customer engagement is also driven by other products and services such as consumer loans for in-store shopping and online consumer loans of our Fintech Platform and Kaspi Gold of our Payments Platform.

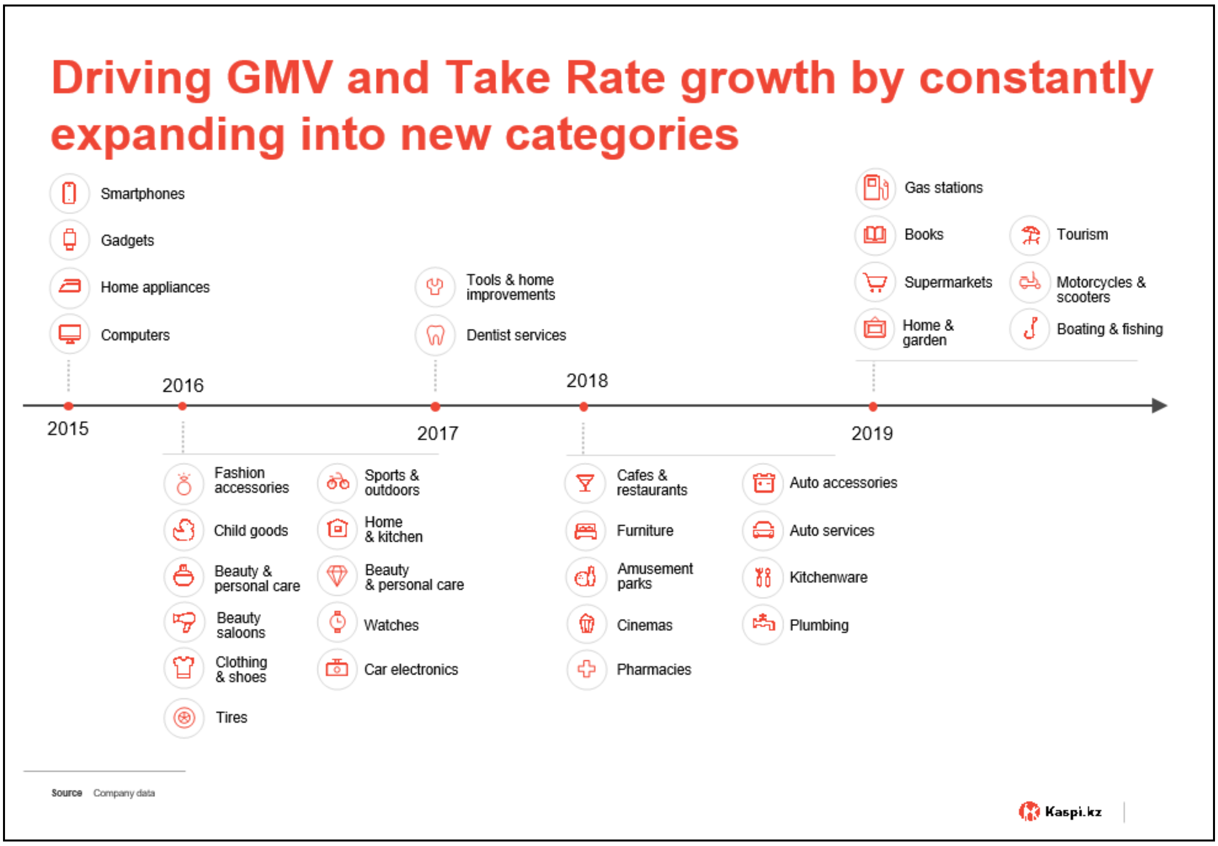
We believe that the relevance of the Marketplace Platform in the lives of our customers is evidenced by the growth of GMV and the Number of Purchases. In the first half of 2019, our GMV increased by 55.9% and reached KZT241,776 million (U.S.$638 million) from KZT155,130 million in the first half of 2018, whereas Online GMV had increased by 76.1% to KZT64,150 million (U.S.$169 million) from KZT36,439 million in in the first half of 2018, while the Number of Purchases demonstrated a growth of 144.6% and reached 9,417 thousand from 3,850 thousand in the first half of 2018.

In 2018, GMV had year-on-year growth of 56.3% and reached KZT415,107 million (U.S.$1,204 million) from KZT265,533 million in 2017, whereas Online GMV had year-on-year growth of 115.7% and reached KZT116,937 million (U.S.$339 million) from KZT54,208 million in 2017, while the Number of Purchases demonstrated year-on-year growth of 146.7% and reached 10,491 thousand from 4,253 thousand in 2017. Currently, all our In-Store GMV is financed either generally via our Fintech Platform or through Kaspi Red Shopping Club.

In the periods indicated, our GMV mix by type was as follows:

	Year ended 31 December			**Six months ended 30 June**	
	2016	**2017**	**2018**	**2018**	**2019**
	Share of total GMV *(in %)*				
In-Store GMV	85.9%	69.1%	48.8%	54.5%	40.6%
Online GMV	13.3%	20.4%	28.2%	23.5%	26.5%
Shopping Club GMV	0.8%	10.4%	23.0%	22.0%	32.9%

Since the launch of our Marketplace, we have been continuously expanding the range of goods available for purchase around our customer's needs. In 2018, we introduced a number of new verticals, such as restaurants, tyres, cosmetics and drug stores, while in 2019 we commenced selling books, home and garden goods, boating and fishing, motorcycles and scooters, and tourism.



In the periods indicated, our GMV breakdown by share was as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	Share of total GMV *(in %)*				
Smartphones and gadgets	45.7%	43.5%	38.2%	41.2%	31.9%
Clothing, shoes and accessories	2.8%	9.4%	17.7%	17.5%	21.9%
Home appliances	19.7%	17.4%	15.1%	14.9%	13.5%
Computers and other electronics	11.4%	11.9%	12.6%	12.5%	12.1%
TV, video and audio	10.5%	9.9%	7.4%	7.1%	5.6%
Home, garden and furniture	7.9%	5.1%	4.2%	3.2%	5.5%
Tyres and car accessories	1.7%	1.7%	2.8%	2.2%	3.3%
Supermarkets	-	-	-	-	2.9%
Beauty and personal care	0.4%	1.0%	1.6%	1.4%	2.2%
Other	-	-	0.3%	-	1.0%

In the periods indicated, our GMV breakdown by category was as follows:

	Year ended 31 December					Six months ended 30 June		
	2016	2017	2018	2017	2018	2018	2019	2019
	KZT million			% change from prior year		KZT million		% change from prior period
GMV breakdown								
Smartphones and gadgets	82,484	115,453	158,481	40.0%	37.3%	63,894	77,091	20.7%
Clothing, shoes and accessories	4,985	25,031	73,660	402.1%	194.3%	27,114	52,960	95.3%
Home appliances	35,548	46,327	62,803	30.3%	35.6%	23,094	32,586	41.1%
Computer and other electronics	20,521	31,723	52,139	54.6%	64.4%	19,393	29,363	51.4%

	Year ended 31 December					Six months ended 30 June		
	2016	2017	2018	2017	2018	2018	2019	2019
	KZT million			% change from prior year		KZT million		% change from prior period
TV, video and audio .	19,008	26,337	30,849	38.6%	17.1%	10,972	13,584	23.8%
Home, garden and furniture	14,358	13,528	17,459	(5.8)%	29.1%	4,970	13,407	169.8%
Tires and auto accessories	3,071	4,588	11,828	49.4%	157.8%	3,412	7,913	131.9%
Supermarkets	-	-	-	-	-	-	7,105	100.0%
Beauty and personal care	660	2,546	6,570	285.8%	158.1%	2,218	5,355	141.4%
Other.........................	-	-	1,319	0.0%	100.0%	63	2,412	3,728.6%
Total.........................	**180,635**	**265,533**	**415,107**	**47.0%**	**56.3%**	**155,130**	**241,776**	**55.9%**

As a result of the gradual development from the lower margin electronics category to higher margin verticals (such as clothing, accessories, restaurants and other categories), our Marketplace Take Rate improved to 6.5% in the first half of 2019 from 6.0% in 2018 and 4.6% in 2017. In 2018, the Marketplace Take Rate ranged from 5.0% (for electronics) to 15.0% (for medical services).

In the first half of 2019, the Marketplace Platform generated total revenue of KZT15,761 million (U.S.$42 million), representing an increase of 98.5% from KZT7,941 million in the first half of 2018, and net income of KZT9,668 million (U.S.$25 million), representing a 156.0% increase from KZT3,776 million in the first half of 2018.

In 2018, the Marketplace Platform generated total revenue of KZT25,020 million (U.S.$73 million), representing year-on-year growth of 105.5% from KZT12,174 million in 2017, and net income of KZT14,560 million (U.S.$42 million), representing year-on-year growth of 150.8% from KZT5,806 million in 2017.

Merchants

Our merchants operate both online and offline, and include large retailers and brands in Kazakhstan. They operate across various product categories such as electronics, clothing, children's goods, furniture, restaurants, car accessories and others. Our Marketplace works with a range of international brands, and cross-border sellers are increasingly approaching Kaspi as a gateway to consumers in the region. A few examples of international franchises operating in our Marketplace are Nike, New Balance, Samsonite, L'Occitane and Columbia. Our largest merchant by GMV is the leading electronics retailer with 115 stores across Kazakhstan. The contribution of our Marketplace into this merchant's sales is twice as large as the merchant's share in our GMV.

In order to become a participant of our Marketplace, a merchant signs an agreement with Kaspi.kz, whereby the merchant accepts the rules of the platform, goes through on-boarding and verification procedures and connects to our Marketplace to enable sales. In addition, a merchant has to open accounts with Kaspi.kz in order to enable the receipt of funds from transactions on the Marketplace, thereby contributing to the cross-selling of products and services from Kaspi Business.

Depending on the range and type of products sold by a merchant, we agree on commercial terms, primarily the seller fee, which is applied to the GMV generated by the merchant. Merchants pay the same seller fee irrespective of whether a customer buys an item through our online Marketplace, via in-store shopping, or with the Kaspi Red Shopping Club. Any material breach of the rules of our Marketplace (for example, a sale of counterfeit products or poor customer service) leads to the removal of the respective merchant from our Marketplace.

We regularly add new merchants to our already extensive merchant list with the aim of increasing the product selection, competitive prices and shopping convenience for our consumers. As at 30 June

2019, the total number of our Marketplace Active Merchants amounted to 8,835 as compared to 7,162 as at 31 December 2018 and 4,983 as at 31 December 2017. In the first half of 2019, our top-10 Marketplace Active Merchants represented 53% of GMV compared to 62% of GMV in 2018 and 70% of GMV in 2017.

In addition, we maintain stringent control over merchants' operations to ensure a high level of customer satisfaction. In cases of non-compliance with our quality standards (such cases of non-compliance include, *inter alia*, (i) the share of orders cancelled due to merchant's fault in the total number of orders booked with such merchant exceeding 5%; (ii) the share of returned orders in the total number of orders booked with the merchant exceeding 1%; and (iii) the merchant's rating falling below 3/5, we impose certain sanctions depending on the merchant's previous track record. After the first instance, we give the merchant a notice of non-compliance with quality standards; after the second instance, we cut the merchant off from the platform for 7 days; after the third instance, we cut the merchant off from the platform for 14 days; and after the fourth instance, we terminate the merchant until we receive assurances that all defects are being fixed in due course. Further, we strictly prohibit the following actions: (i) overstatement of the price of a product by the merchant; (ii) inclusion of the cost of additional services in the price of a product; (iii) sale of used or counterfeit goods; (iv) delivering a product with specifications different from those indicated in the order; (v) closing an order without providing a customer with a receipt; (vi) refusing to accept a return or to exchange a product in resalable condition within 14 days after the sale. After the first instance of any such prohibited action, we cut the merchant off from the platform and request a detailed explanation of the incident as well as the steps taken to avoid any future repetition of such incidents; after the second instance of any prohibited action, we terminate the merchant indefinitely until we have received assurances that all defects are being fixed.

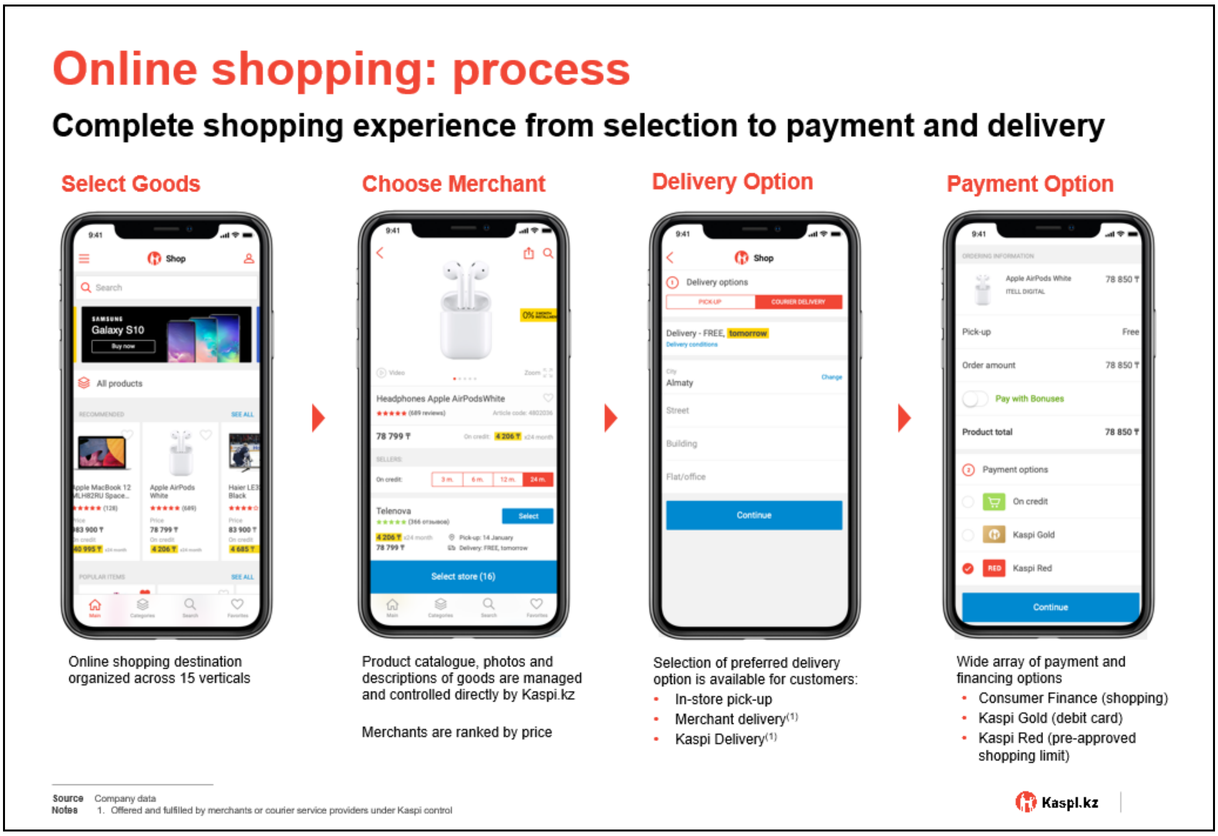
We believe that our Marketplace allows merchants to reach a large number of Active Customers, which in turn enables them to significantly expand their sales. We estimate that on average, an Active Merchant generates approximately one-third of their sales through the Marketplace Platform, which we believe contributes to a high Retention Rate of our Active Merchants, with Retention Rates totalling 99.3% in the first half of 2019 and 99.6% in 2018.

Online Shopping

Our online Marketplace provides an integrated online shopping experience starting from the product selection and purchase to in-store pick-up or delivery across Kazakhstan. A customer may buy any product offered on our online Marketplace through our Mobile App or website. The online Marketplace offers a list of product categories which makes the product selection convenient. The product selection process is facilitated with comprehensive product reviews, ratings and videos. We offer search tools on our Marketplace to make it easy for customers to find goods.

As at 30 June 2019, we offered a broad range of products under the following categories: (i) sport and tourism; (ii) shoes; (iii) smartphones and gadgets; (iv) car accessories; (v) jewellery and accessories; (vi) health and beauty; (vii) home appliances; (viii) leisure and books; (ix) home and repair; (x) computers; (xi) TV, audio and video; (xii) furniture; (xiii) construction; (xiv) children's goods; and (xv) clothes. Our merchants may also offer seasonal products such as Christmas trees.

After selecting a listed item, the customer has to select a merchant from the list of merchants selling the relevant item. The merchant selection process is assisted by merchant ratings and location details. Having chosen the item, price and merchant, a customer will be directed to select in-store pick up or delivery. Then we request the customer to confirm a payment option: (i) consumer finance from the Fintech Platform, (ii) Kaspi Gold from the Payments Platform, or (iii) by a pre-approved shopping limit of Kaspi Red. The customer may also pay partially or fully with points accrued under the Kaspi Bonus programme. If the customer chooses an online instalment or loan finance from the Fintech Platform, we make a decision within seconds to either approve the application or decline it, and notify the customer via our Kaspi Message service which is embedded into our Mobile App.



To ensure our customers receive a best-in-class seamless shopping experience, our Marketplace provides them with a variety of fulfilment options, including in-store pickup or delivery by merchant or by Kaspi Delivery. Through Kaspi Delivery, we offer to our customers a uniform and seamless shipping experience integrated with third-party logistics companies and shipping carriers (DHL, DPD and Exline). In the second quarter of 2019, 51% of purchases on our online Marketplace were delivered to customers (with 31% of purchases delivered by merchant and 20% delivered through Kaspi Delivery (18% were intercity delivery and 2% were within one city)), whereas the remaining 49% of purchases were picked up by customers in-store, as customers value the convenience of flexible timing and the ability to inspect the item in-store, as compared to 25% of purchases delivered (with 21% of purchases delivered by merchant and 4% of purchases delivered through Kaspi Delivery) and 74% picked up in-store in the fourth quarter of 2017, and 16% of purchases delivered by merchant with 84% of purchases picked up in-store, respectively, in the fourth quarter of 2016.

Delivery by merchant is offered free of charge on orders exceeding KZT10,000 or for charge of U.S.$2 on orders below KZT10,000, in each case delivery is usually carried out on a same-day basis. Kaspi Delivery is aimed at making the assortment of goods listed on our Marketplace available across Kazakhstan and driving price affordability for customers. The local delivery will cost on average U.S.$1 and take up to 3 days to complete while the intercity delivery will cost on average U.S.$5 and will take up to 5 days to complete. The cost of delivery depends on the weight of the package. We offer free returns to customers which have had their orders delivered by courier. Due to a “one-item one-order one-merchant” operating model of our Marketplace, where a customer orders from merchant each item separately, the cost of delivery is calculated per order. In 2018, the average check for online shopping was U.S.$300, which we expect will remain substantially higher than the Marketplace Average Check.

In-store Shopping

Our in-store shopping Marketplace offers the convenience of selecting an item at any of the physical stores of our partner merchants and finalising the purchase with our consumer finance products (both through a POS or the Mobile App) or with Kaspi Red. Kaspi.kz employees are strategically located in the largest retail chains to assist customers with completing their transactions and with becoming members of the Kaspi Red Shopping Club.

All in-store shopping merchants are listed in our Kaspi Maps service which is integrated into our Mobile App. Kaspi Maps allows customers to find the locations of specific merchants and their working hours.

As we help merchants drive sales by providing funding to prospective buyers, we charge merchants seller fees on the GMV generated by customers who made purchases using the pre-approved shopping limit of Kaspi Red or by consumer finance from the Fintech Platform.

Kaspi Red Shopping Club

Kaspi Red Shopping Club is an offline-to-online service organised around popular shopping categories and merchants and has a dedicated service on our Mobile App, a customer can navigate the list of participating merchants by product category with the additional filters of location, working hours, as well as any promotions taking place at that specific merchant. We have the following product categories in Kaspi Red: supermarkets, restaurants, electronics, clothing, shoes, children's goods, sports, accessories, jewellery, cosmetics, beauty and health, automotive and other categories.

Fintech Platform

Overview

Through the Fintech Platform, we enable our customers to access consumer financial products primarily online through our Mobile App. In the first half of 2019, 66.4% of our TFV originated through our Mobile App, website and Kaspi Red with the remaining portion of 33.6% of our TFV originating from outlets and POS as compared to 76.5% and 23.5%, respectively, in 2018. The Fintech Platform is also strategically built around the product selection on our Marketplace Platform, which means that customers are able to first select the goods they would like to buy, and then access available solutions to finance the purchase. Our technologically advanced infrastructure allows us to make a credit decision on online applications within seconds, which ensures smooth shopping experience to our customers.

Based on a survey conducted by TNS Gallup (rolling for the 12 months ended 30 June 2019), Kaspi.kz was the number one customer choice in consumer finance, with 47% of respondents intending to take a consumer loan from Kaspi.kz compared to 13% for the nearest competitor, and in deposits, with 47% of respondents intending to place a deposit with Kaspi.kz compared to 18% for the nearest competitor. According to the NBK, in 2018, we were the leader in Kazakhstan in terms of Consumer Loans with a 31.2% market share, and were the second in terms of volume of retail deposits, with a 12.9% market share. We have a highly diversified and relatively small average ticket depositor base.

We believe that the number of transactions is crucial to the cash flow turnover in our Ecosystem. Therefore, we incentivise customers to prepay any consumer finance product from the Fintech Platform without any penalty prior to contractual maturity. This drives the frequency of transactions and reduces the average term of the loan portfolio, thus increasing the turnover of our loan portfolio.

The Fintech Platform primarily generates interest revenue, fees from consumer finance loans and Kaspi Red Shopping Club membership and other fees. In the first half of 2019, we helped our customers to finance more than 11,327 thousand transactions with Fintech TFV of KZT865,014 million (U.S.$2,282 million), representing growth of 110.6%, as compared to 29.2% in the first half of 2018. In the first half of 2019, the Fintech Platform generated total revenue of KZT185,771 million (U.S.$490 million), representing a growth of 22.2% as compared to KZT152,068 million in the first half of 2018. In the first half of 2019, consumer finance products offered through our Fintech Platform had an average yield of 31.3% per annum as compared to 30.1% per annum in the first half of 2018.

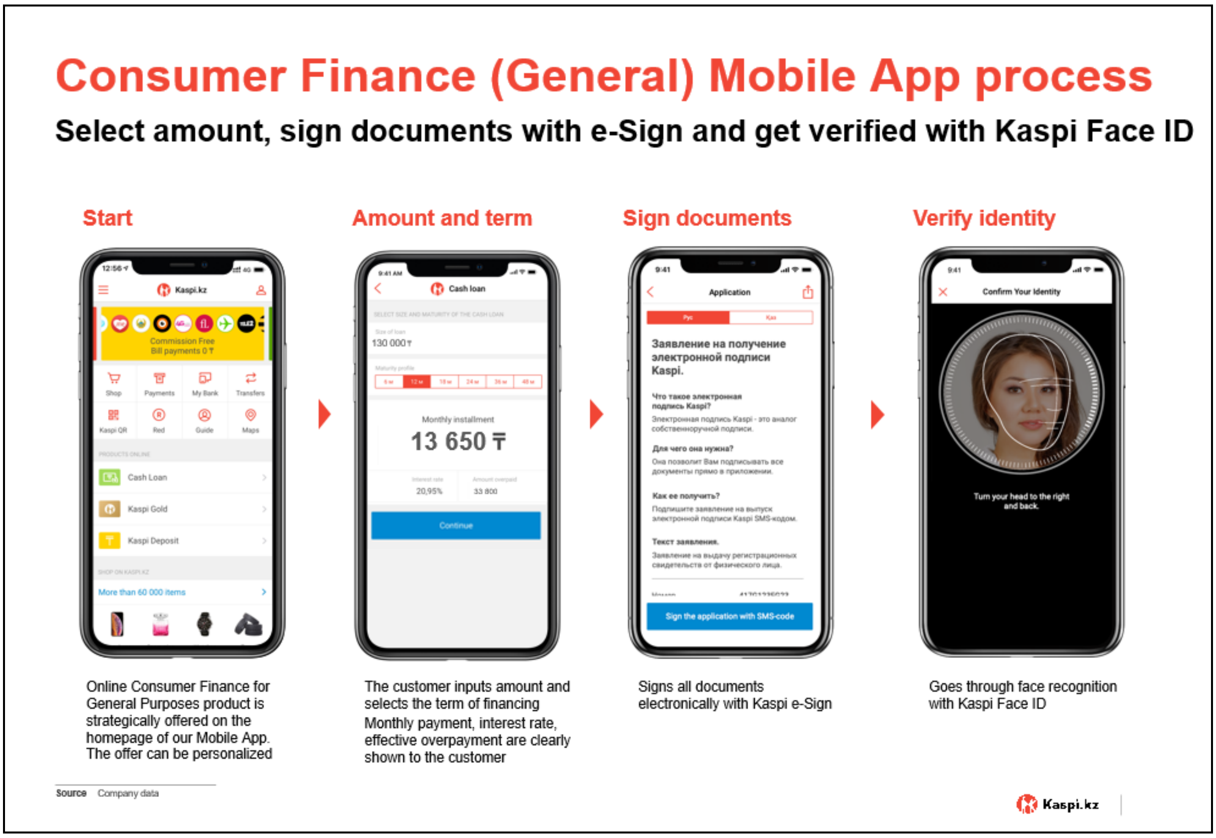
In 2018, we helped our customers to finance more than 13,462 thousand transactions with Fintech TFV of KZT1,432,280 million (U.S.$4,155 million), representing year-on-year growth of 102.8% and 35.3% respectively. In 2018, the Fintech Platform generated total revenue of KZT323,840 million (U.S.$939 million), representing year-on-year growth of 27.5% as compared to KZT254,008 million in 2017. In 2018, consumer finance products offered through our Fintech Platform had an average yield of 30.5% per annum as compared to 30.0% per annum in 2017.

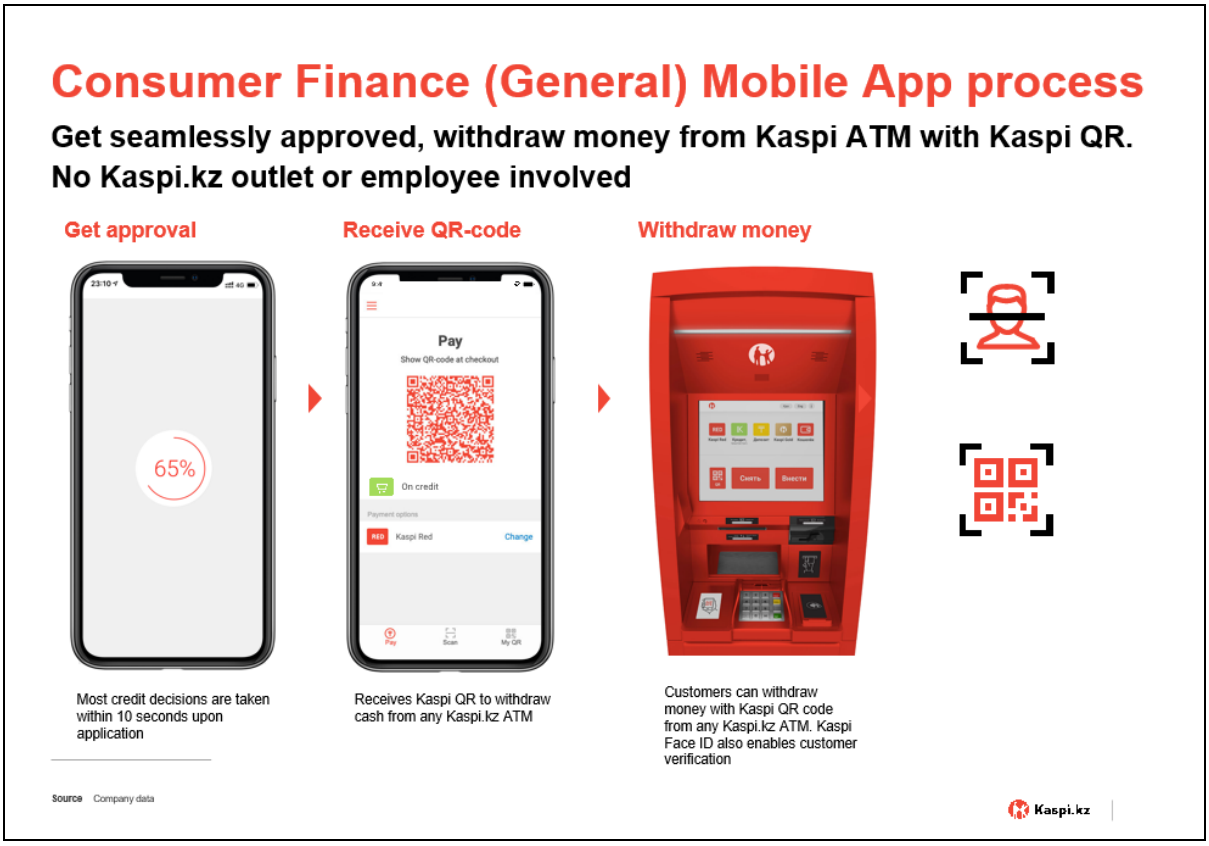
Consumer Finance

We offer unsecured consumer finance loans to our customers both for general purposes and specific purchases. Customers have access to consumer finance online through our Kaspi.kz Mobile App and website as well as Kaspi.kz outlets or POS, which are strategically located in many of the largest retail chains.

Financing is unsecured and is provided for a period of 3 to 24 months (for specific purchases) and 1 to 48 months (for general purposes), with a range of six maturity profiles available to customers. A borrower can repay the loan through ATMs, terminals and online on our Mobile App. As at 30 June 2019, Kaspi.kz's consumer finance products had an average term of 7 months (for specific purchase loans) and 8 months (for general purposes loans), whereas the average amount of a consumer finance loan amounted to U.S.$300 (for specific purchases) and U.S.$790 (for general purposes).

We offer our customers online access to consumer finance throughout our Mobile App and website, with near instant financing approval within 10 seconds. Depending on the applicant's credit profile, we may lower the financing amount when the decision on approval is being made in order to manage the envisaged monthly repayments. We originate consumer finance products for specific purchases with a maturity of less than three months on an interest-free instalment basis. Our customers may prepay any consumer finance loan without any penalty prior to contractual maturity. To craft a seamless shopping experience, we offer our customers online consumer finance products that allow them to instantly finance purchases on the Marketplace Platform.





Kaspi Red (Pre-Approved Shopping Limit)

Participation in Kaspi Red Shopping Club allows our customers to have a pre-approved shopping limit and make purchases free of any interest through an instalment loan, for a period of up to three months. We offer free membership for the first year. If the customer uses the services of the Kaspi Red Shopping Club, each subsequent year we will charge a membership fee (ranging from KZT5,995 to KZT13,995) which varies depending on the shopping limit chosen by the customer (ranging from KZT50,000 to KZT150,000).

The number of active customers of the Kaspi Red Shopping Cub was 26 thousand, 266 thousand, 722 thousand, and 937 thousand as at 31 December 2016, 2017, 2018 and 30 June 2019, respectively.

Online Car Finance

We have also developed a seamless online car purchase experience, from car selection to car financing, allowing customers to purchase a range of new and pre-owned cars. We have developed this product jointly with our strategic partner, Kolesa.kz, the leading online car classifieds platform in Kazakhstan (see "*Related Party Transactions*"). According to TNS Gallup, in 2018 Kolesa.kz was the number one customer choice in car sales.

In order to secure financing, a customer may select a car on Kolesa.kz and seamlessly apply for a loan originated through our Fintech Platform for the maximum term of 60 months. The loan approval process takes less than one minute, which then allows the customer to complete the car purchase funded by Kaspi.kz via the Kolesa.kz website or the respective mobile application. Kaspi.kz ensures the completion of the transaction by opening accounts for the seller and the buyer. We credit the purchase price to the seller's account. Purchased cars act as security for the financing which has been provided. Our customers may prepay car loans without any penalty prior to contractual maturity. As at 30 June 2019, Kaspi.kz's online car loans had an average term of 16 months and an average principal amount of U.S.$4.7 thousand.

Retail Deposits

We also offer retail deposits through our retail network and our Mobile App. Retail deposits are an important source of funding for our financing activities. Once a deposit is placed for the first time, our customers can top up their deposits through our Mobile App, any of our ATMs or payment terminals. We offer retail deposits denominated in the tenge and the U.S. Dollar.

In 2018, we had the second largest deposit base by value of deposits in Kazakhstan, according to the NBK. In the first half of 2019, the average retail deposit amount was KZT877 thousand (U.S.$2.3 thousand) and the average cost of deposits was 7.4%. The total value of deposits held by our customers comprised KZT744 billion, KZT880 billion and KZT1,150 billion, respectively, as at 31 December 2016, 2017 and 2018 and KZT1,329 billion as at 30 June 2019. Deposits of individuals denominated in KZT comprised 55%, 66%, 72% and 71%, respectively, of our total deposit portfolio of individuals as at the same date. Current accounts of individuals amounted to 4%, 6%, 11% and 12.0% of our total customer deposit base in the same periods. In the first half of 2019, 98.7% of term deposits maturing in the first half of 2019 were extended by our customers as compared to 99.9% of term deposits maturing in 2018 were extended by our customers in 2018.

Customer Engagement Services

Along with revenue-generating products and services, we develop free services that additionally enhance customer engagement with our Mobile App and facilitate the completion of transactions across all of our Platforms through our Mobile App. Such services include Kaspi Message, Kaspi QR, Kaspi Maps and Kaspi Guide.

Kaspi Message

Kaspi Message is a free service embedded in our Mobile App, which we initially launched to reduce dependence on mobile operators for the delivery of notifications and other customer communications via SMS messages. Since then, Kaspi Message evolved into a user-friendly and convenient personalised channel for communicating with each of our customers, which drives their engagement in our Mobile App.

Kaspi Message allows our customers to receive direct communication relating to, in particular, bill payment reminders, money transfers, top-ups, funds withdrawals from customers' accounts and deposits, bonus accruals, consumer finance approvals and monthly payment reminders.

Our customers can also confirm a P2P payments directly via Kaspi Message, and such confirmation is instantly seen by the other Kaspi customer involved in the corresponding P2P payment. This lays down a foundation for direct communication between our customers. In addition, our customers can make payments directly through an interactive message received in Kaspi Message. Kaspi Message also guides our customers through the process of completing specific transactions across our Ecosystem. For example, during a purchase on our online Marketplace, we inform a customer of each step towards successfully completing the purchase.

Kaspi QR

We launched Kaspi QR with the purpose of shifting our customers' payment experience in merchant stores from payments by card to payments via our Mobile App. This strategic move has been inspired by the wide adoption of mobile payments in China, where the population is increasingly using a combination of mobile technology and QR-code technology.

With the introduction of Kaspi QR in November 2018, the payment experience is becoming simpler and more accessible for both the customer and the merchant. When a customer selects an item or decides to pay a merchant's bill, the merchant scans the customer's personal Kaspi QR code and inputs the relevant amount, and the customer selects one of Kaspi Ecosystem payment options (Kaspi Gold, consumer finance or its Kaspi Red pre-approved shopping limit) and confirms the purchase. A customer can also pay with bonuses accrued under the Kaspi Bonus program. The merchant is instantly notified of the purchase via the Kaspi Business mobile application.

We expect that Kaspi QR, together with the Kaspi Business mobile application and Kaspi POS Solutions, will enable us to create a closed-loop, end-to-end payment and transactional network restricted to Kaspi.kz, our Active Customers and our Active Merchants. We believe that this will reduce our transaction costs through eliminating the need to rely on any third parties within our Payments Platform, such as Visa and Mastercard, and will allow us to fully control customer experience and transactions. In August 2019, our customers used Kaspi QR to purchase over 25% of in-store GMV and over 15% of Kaspi Red Shopping Club GMV.

In addition, all our terminals and ATMs are equipped with Kaspi QR, enabling our customers to seamlessly access our Ecosystem's products and services without a card. We also provide our customers with the opportunity to carry out P2P payments via Kaspi QR by scanning the relevant QR code.

Kaspi Maps

We launched Kaspi Maps to facilitate transactions within our Ecosystem and help our customers quickly and easily locate various points where they can shop and pay with Kaspi products.

Kaspi Maps enables our customers to locate any of the nearest (i) Kaspi.kz outlets with indication of their working hours and current queueing time in minutes; (ii) merchant stores where purchases can be completed via our Ecosystem, with indication of their working hours; (iii) ATMs of any bank in Kazakhstan with indication of their withdrawal limit; and (iv) Kaspi payment terminals where they can top up their deposits, Kaspi Gold debit card or e-Wallet. Additionally, Kaspi Maps gives customers access to information on discounts or promotion campaigns currently offered by our merchants participating in Kaspi.kz Ecosystem.

Kaspi Guide

Kaspi Guide is a customer self-service tool which we have introduced to provide a convenient one-stop utility that contains comprehensive information on each of our products and services. We have structured Kaspi Guide as a user-friendly Q&A with short and precise answers to frequently asked questions, as well as video instructions, which we believe would better assist our customers in explaining a product. Importantly, all commercial terms of our financial products are explained transparently and in detail. We believe that Kaspi Guide is an inherent element of our Ecosystem that ensures our customers' confidence in all of our products and services, which in turn drives their engagement in our Ecosystem.

Marketing

Overview

Our marketing strategy is designed to grow our Ecosystem by maintaining the recognition and trust of the "Kaspi.kz" brand, while also increasing existing customer engagement and attracting new customers. As a technologically advanced company with efficient big data processing we use our customers' behavioural, transactional and financial data to support our automated and highly personalised marketing efforts tailored to each customer's unique characteristics and needs.

Our marketing efforts also include maintaining a presence in key social media, TV advertising campaigns, as well as other promotional activities such as Kaspi Juma and Kaspi Bonus.

Kaspi Juma

In November 2017, Kaspi.kz first launched the Kaspi Juma shopping festival as a national shopping event similar to Black Friday in the U.S. and Singles Day in China. Kaspi Juma now takes place twice a year in the summer and autumn, and allows our customers to purchase online any goods listed on our Marketplace via interest-free instalment finance for up to 24 months. Customers can make such purchases exclusively through our Mobile App. Kaspi Juma helps us to further increase customer engagement in the Marketplace Platform, the Mobile App and in the Kaspi Ecosystem in general, which in turn enhances our customers' loyalty and increases the awareness of our products and services. Our daily GMV during Kaspi Juma is approximately 22 times above our average daily GMV. We believe that Kaspi Juma generates the highest two days of retail sales of electronics in Kazakhstan and receives wide coverage on leading national TV channels and media. The latest Kaspi Juma was held on 14-15 June 2019 and accounted for 26.5% of total monthly sales of electronics in Kazakhstan in June 2019. On average, merchants pay double seller fees to participate in Kaspi Juma.

Kaspi Bonus

We launched our customer bonus programme with the aim of driving our customer engagement in our Ecosystem and to incentivise customers to switch from offline to online payments and purchases. Customers receive bonuses for transactions within our Payments and Marketplace Platforms and can spend accrued bonuses only via Kaspi.kz website and through the Mobile App. Moreover, bonuses can be spent on purchases through our Marketplace exclusively via the Mobile App.

Members of Kaspi Bonus receive a 1% bonus for the majority of completed transactions. Kaspi.kz runs frequent promotional campaigns during which it provides extra bonuses for particular types of payments or purchases. Bonuses are accrued, and can be spent, instantly.

Our customers are highly engaged in Kaspi Bonus. In the first half of 2019, out of a total of 5.7 million Active Customers, 2.0 million Active Customers, or 35.0% of Active Customers, used Kaspi Bonus, as compared to 1.4 million Active Customers, or 27.5% of Active Customers in 2018, 0.7 million, or 17.7% of Active Customers in 2017 and 0.4 million, or 10.7% of Active Customers in 2016. Customers who participate in the Kaspi Bonus programme tend to use more products than those who do not subscribe to it. In the last twelve months ended 30 June 2019, clients who redeemed bonuses used 10 products per Active Customer, whereas those who did not redeem bonuses used 2.2 products per Active Customer. In 2018, clients who redeemed bonuses used 4.7 products per Active Customer, whereas those who did not redeem bonuses used 1.9 products per Active Customer. In the first half of 2019, 95% of the total number of bonuses earned by members of Kaspi Bonus were redeemed, as compared to 90% in 2018, 85% in 2017 and 82% in 2016.

Other Customer Touchpoints

We aim to be an integral part of our customers' daily lives and therefore we build our presence comprehensively around our customers, enabling access to our services online through our Mobile App and website, and offline through our wide network of various touchpoints.

We apply the "Mobile App Only" approach as the core concept of our Ecosystem with regard to the interaction with our customers and the delivery of services. Our Mobile App integrates all our offerings in a single convenient and readily available interface and serves as a single window into our entire Ecosystem. See "*—Our Mobile App*".

As at 30 June 2019, we operated 202 Kaspi.kz outlets and 575 POS as compared to 214 outlets and 661 POS as at 31 December 2018, which are strategically located in many of the largest retail chains and shopping malls across all regions of Kazakhstan. Our outlets play a key role for the Fintech Platform, customer education and engagement in online services, as well as Mobile App engagement. Each outlet typically has eight employees. Through POS in retail stores and shopping malls, Kaspi.kz provides financing for in-store purchases and signs up members for Kaspi Red shopping club. Our POS typically employ around three people.

Our outlets and POS operate to drive consumer engagement, allowing our customers to get in touch with Kaspi.kz's employees to get educated on all our Ecosystem products and services, to have the Kaspi.kz Mobile App installed and the first bill payment completed.

Furthermore, as at 30 June 2019, Kaspi.kz managed a network of 4,198 terminals and 1,153 ATMs as compared to 4,315 terminals and 618 ATMs as at 31 December 2018. Terminals and ATMs are used by customers mainly for deposits, e-Wallet and Kaspi Gold debit card top-ups, repayments of loans, as well as to pay for third-party services (e.g. mobile phones, landline, or internet). Kaspi.kz's ATMs are equipped with face recognition and QR code scanning technologies, enabling smooth customer experience. The enhanced functionality of ATMs enables us to rapidly expand them through Kazakhstan.

The table below demonstrates the share of each touchpoint in the total number of Transactions via Kaspi Touchpoints in the periods indicated:

	December		June	
	2017	**2018**	**2018**	**2019**
	Share in Transactions via Kaspi Touchpoints ***(in %)***			
Mobile App	23%	55%	38%	68%
ATMs	46%	25%	34%	20%
Outlets	13%	11%	13%	8%
Web	16%	6%	12%	1%
Merchants	2%	3%	3%	3%

Our consistent adherence to "Mobile App Only" approach has allowed us to increase the Share in Transactions via Mobile App to 68% in June 2019 from 23% in December 2017. The wide adoption of our Mobile App contributed into a continuous operating leverage effect. The number of outlets and POS decreased by 11.2% from 875 as at 31 December 2018 to 777 as at 30 June 2019 and by 12.2% from 875 as at 31 December 2018 to 768 as at August 2019. This shrinkage results in the decrease in the number of our employees at outlets and POS, leading to a 12.7% decrease in front office employees from 4,165 as at 31 December 2018 to 3,638 as at 30 June 2019 and a 18.2% decrease from 4,165 as at 31 December 2018 to 3,407 as at August 2019. At the same time, the share of Fintech TFV originated via outlets and POS decreased to 33.6% in the first half of 2019 from 88.5% in 2017 while the share of Fintech TFV originated via other touchpoints (Mobile App and website) increased 66.4% in the first half of 2019 from 11.5% in 2017, demonstrating the success of our

"Mobile App Only" strategy and its impact on our customer experience and behaviour, as well as our network. We believe that a further wider adoption of Mobile App by our customers (including on the basis of Kaspi QR technology) will lead to downsizing of our offline touchpoints with the optimal size comprising up to 120 outlets and with limited POS presence.

Customer Support

We believe that customer service excellence is crucial for Kaspi.kz's continuous market leadership. By helping our customers navigate our products and services and quickly responding to their requests, we have been able to build trust with our clients, which has increased their loyalty and enhanced our reputation. We provide our support through Kaspi Message and Kaspi Guide embedded in our Mobile App, and a call centre available 24/7.

We employ NPS as a key metric for measuring how well we are delivering on our mission of improving people's lives and evaluating our customers' satisfaction with the services we provide. The high level of customer satisfaction with Kaspi.kz's products and services is evidenced by the industry-leading NPS of 90 for our Marketplace, 84 for Payments and 79 for Fintech (average for the 12 months ended 30 June 2019), which is higher than that of the respective United States industry averages (based on a consumer benchmark survey of 10,000 U.S. customers conducted by Temkin Group in the third quarter of 2018) and certain leaders in each category in the United States.

In 2018, we had 1,232 full-time employees in functions related to customer support activities, including the operation and management of our call centre, social media accounts and product support as compared to 1,326 full-time employees in the first half of 2019.

Product Development and Technology

Overview

We consider our state-of-the-art technology to be a primary tool for providing customers with exceptional products and services that make their life better. Thus, we aim to employ best-in-class solutions, allowing us to design products and services generating high customer satisfaction and to fulfil our mission of improving people's lives.

Our key priorities in the product development cycle are high quality of the end-product (measured by NPS) and fast customer adoption (measured by customer engagement). We employ an agile approach to product development, which is based around more than 15 cross-functional teams organised around specific products and services and directly responsible for them. These teams combine individuals from design, user experience, product development, IT, data science, finance and legal functions around a single product. NPS is an integrated part of our product strategy and enables constant product development based on customer feedback.

Our product development strategy is driven by the "Mobile App Only" approach, which means that we make an increasing part of products and services available exclusively on the Mobile App. We believe that through the Mobile App, we will gradually eliminate the boundaries between online and offline payments, shopping and finance. We are developing our Mobile App with a view to becoming a convenient and integral part of our customers' everyday lives. We also believe that our Mobile App will enable us to expand our business effectively across Central Asia and the Caucasus. See "*—Our Growth Strategy—Expansion into Selected Markets of Central Asia and the Caucasus*".

Our technology investments enable us to continuously innovate and develop new products and services, while perfecting existing ones, use big data to better identify, analyse and address the needs of our customers, and provide a compelling customer value proposition and seamless customer usage experience across all our Platforms. Moreover, our technology investments have enabled us to achieve a high degree of automation, standardisation and control over our business processes, which helps to increase our efficiency and support business growth that leverages our economies of scale.

The benefits of our technology and the scale growth that it offers are shared by our customers, merchants, service providers and Kolesa.kz, our strategic partner.

Our technology is also designed to make real-time decisions and process high volumes of customer transactions, orders, consumer finance and deposit applications, customer requests and contacts. In 2018, our IT systems allowed us to process 53 million customer transactions, which is 2.5 times more than in December 2017. The combination of our modern technologies and big data enabled us to process one loan application per second in January-November 2018 and 10 loan applications per second during Kaspi Juma on 16-17 November 2018, with a potential to 25 loan applications per second as proven by our own stress tests. Our nimble infrastructure also allows us to amend our credit decision strategy in 15 minutes without IT staff involvement. In 2018, our systems also allowed us to process 13 transactions per second effected by our Active Customers and to make 99.9% of consumer loan approvals within 10 seconds.

In 2018, we had 823 full-time employees in functions relating to product development, technology, design, user experience and data science as compared to 1,045 full-time employees in the first half of 2019.

Our Technology

Technology is at the core of our strategy, powering our operational capabilities and the sustainable scalability of our Ecosystem. We believe that continuous investment in our technology has given us a competitive advantage and enabled fast innovation.

We develop most of the software based on state-of-the-art third-party architecture solutions offered by leading global providers such as Ataccama, EVAM, IBM, Oracle, SAP, SAS, TIBCO and others. This combination of third-party solutions customised by our developers to suit our needs gives us a stable, reliable, and highly scalable infrastructure with intuitive user interfaces, management tools, transaction processing, application programming interfaces ("**APIs**"), and database and network applications that help our customers utilise the full suite of products and services while maintaining the confidentiality of personal data.

While building, maintaining and optimising our technology platform, we apply the following key principles:

- API-first design. All the complexity of our business logic is accessible via a variety of APIs, i.e. a set of clearly defined methods of communication between different software components. When adding a new feature to our Platforms, we consider the tasks and actions our technology infrastructure should address and the most intuitive API design. This approach focuses our team on delivering the most sustainable solution with the best business outcome.

- Multi-tenancy. Our technology infrastructure is built for multi-tenancy and multi-client use. This allows the same infrastructure and service architecture to simultaneously support our Marketplace and other services, including our Mobile App and Kaspi Business mobile application. This architecture design provides security, data isolation and support for individual tenant configurations.

- Modularity. Our technology infrastructure's internal services have a modular design, allowing us to evolve individual system boundaries independently or replace components via integration with external modules.

- Flexibility. The ability to integrate with other platforms is key to our design. Our technology infrastructure has the flexibility to either be a part of other systems or allow other systems to become a part of ours.

- Reliability. Our technology infrastructure includes servers in dispersed, co-located data centres that are fault-tolerant and offer high reliability. As our Ecosystem is at the heart of our clients' personal finances and comprises an integral part of their daily lives, we employ a highly redundant, horizontally scalable, shared architecture to ensure resiliency and maximise availability.

Our technology architecture enables the following:

- Point of delivery. Our systems and infrastructure are designed to operate across multiple geo-distributed points of delivery. They are built using technologies that provide horizontal scalability, high-availability and data management.

- Technology and team organisation. The control of our systems design and architecture supports increased agility in our teams' growth and organisation. We rationally scale our organisation and technology, clustering teams around business areas with their specific domain languages and building small nimble teams within each area as new services are created, in order to break down the complexity.

- Innovation velocity. By having our business logic available via a centralised API-enabled technology platform, we can quickly make new technology platform innovations available to all applications and explore new scenarios at the consumer experience level, leveraging past learnings and experience embedded into our technology platform.

Technology Enhancement and Development

We strive to offer new features and formats to improve the user experience on our technology platform. This process starts by listening to feedback from our clients. We regularly conduct surveys involving regular and highly Active Customers to obtain feedback regarding our products and services, as well as suggestions and ideas for both improvements and new features. We also constantly run various usability tests while developing new innovative products and services.

We test our new products and features rigorously in-house and with pilot groups before rolling them out. Once our internal team has ensured they are working properly, we typically roll them out first to a select group of our own employees and customers on a trial basis, listening to feedback and suggestions and enhancing the final details of the product or feature before rolling out to all customers. We frequently update our software products and follow a regular software release schedule with improvements deployed periodically, ensuring our merchants and clients get immediate access to the latest features.

Our technology infrastructure simplifies the storage and processing of large amounts of data, automates many administrative tasks, and enables us to deploy and operate products and services on a wide scale. Our technology infrastructure is designed to reduce downtime in the event of system outages or catastrophic events, with continuity features, system redundancy, regular back-ups and protection against cyber-security threats.

Data Centres

In order to ensure business continuity in case of IT systems disruption and provide reliable and continuous access to business data and services, Kaspi.kz's IT systems are located in three dedicated data centres each connected to separate and independent power supply sources. The data centres provide 24/7 power, cooling, connectivity and security capabilities to protect critical operations and preserve business continuity for IT systems, ensuring a 99.99% availability across our Platforms and services.

Security and Fraud Prevention

Kaspi.kz maintains a system of controls designed to keep fraud risk at or below acceptable levels. For example, in order to prevent fraud, Kaspi.kz leverages its comprehensive real-time monitoring and analysis technology implemented for monitoring suspicious transactions. This monitoring system allows us to detect suspicious transactions, as well as to decline such transactions at the authorisation stage. In order to prevent fraud, Kaspi.kz also leverages its big data, machine learning and face recognition capabilities, which we have enhanced in our loan approval and risk assessment process.

For example, when we first contact a customer to provide one of our consumer financial services products, including deposits, Kaspi Gold or membership in Kaspi Red shopping club, we take his or her photograph and scan his or her ID documents, which are then additionally cross-verified as part of the decision-making process for granting such products. At later stages of using our products and services, we leverage our state-of-art face recognition technology to enable transactions while preventing fraud and provide extra security and peace of mind to our customers. Face recognition technology enables transactions in our Mobile App and in our ATMs.

Furthermore, most of our transactions are accompanied by an authentication process, whereby a transaction has to be confirmed by a unique code, which is generated by our systems and delivered to a customer's smartphone. The unique code needs to then be inserted on our Mobile App, ATM and other touchpoints to enable a transaction.

To ensure security of clients' transactions in our Mobile App and website, certain documents (in particular, relating to consumer finance products) should be confirmed through Kaspi e-Sign, an electronic signature that is required to confirm the identity of the borrower. The customer received e-Sign following a face recognition identification and confirmation via a unique code.

To manage our corporate data and strengthen information security, we use an information lifecycle management infrastructure which enables us to find and restore quickly a single data object rather than an entire system. In addition, we maintain an intelligent DDoS protection technology.

Consumer Finance Approval Process

We have developed a highly automated, centralised and big data-driven proprietary loan approval process that enables us to make credit decisions within seconds. During this process we extensively use our data mining, machine learning and big data analytical capabilities. The combination of our modern technologies and big data enabled us to process one loan application per second in January-November 2018 and 10 loan applications per second during Kaspi Juma on 16-17 November 2018, with a potential to 25 loan applications per second as proven by our own stress tests.

During the credit decision process, we use proprietary risk algorithms and sophisticated predictive scoring models to evaluate credit risks of potential borrowers using statistical modelling based on a wealth of proprietary internal data such as application, transactional, behavioural, shopping and payment history information, supplemented by external data such as data received from credit bureaus (LLC First Credit Bureau and JSC State Credit Bureau), which jointly maintain the credit histories of around 8.8 million customers in Kazakhstan, allowing us to estimate and monitor total customer borrowings to enable better quality credit decisions, and the Pension Centre, which as of June 2018 maintained a database containing information on the pension savings and payroll of 5.6 million Kazakhstan customers accessible to financial institutions, allowing us to additionally verify the solvency of potential borrowers.

Our scoring models and decision-making processes are assessed and analysed on a continuous basis for effectiveness and validity by our team of 60 data scientists. The additional proprietary data constantly accumulated around customer activity within our Ecosystem enables us to continuously improve our credit decision process, thereby keeping our risks at acceptable levels. Our data scientists can quickly modify the models to ensure an appropriate level of risk and to adapt to current market conditions, and our nimble infrastructure allows us to amend our credit decision-making strategy within 15 minutes.

Collection

We divide the loan collection process into two stages: before and after 90 days past due. Collection of loans less than 90 days past due is performed internally, whereas collection of loans more than 90 days past due is outsourced to 47 external debt collection companies, whose activities are regulated and supervised by the NBK.

Less than 90 days past due

We use various forms of communication to remind customers of how and when to pay. Automated calls, operator calls, SMS reminders and reminders through Kaspi Message service of our Mobile App are sent to customers shortly prior to the loan payment date. If a customer cannot be reached, we reach out to alternative contact persons whose information we obtained as part of the loan application process, where we require loan applicants to provide at least two such contacts.

At the early stages of the process, our primary objective is to understand and assess the reasons why a customer missed his or her payment in order to develop an appropriate course of action during the later stages of collection. The collection process is supported by a dedicated business unit from the call centre and by automated tools, including a computer-based dialling system that automatically places outbound calls based on information from our databases and specific collection campaigns. We extensively use data mining and machine learning capabilities while developing specific collection strategies to ensure the most effective collection result.

On the 15th day of delinquency, we place a lien on any account of the customer maintained with any bank in Kazakhstan, which has the ultimate effect of reducing the balance on the customer's account by the amount of the delinquent payment that is debited. The process is automated among the banks and may be accomplished without the need to apply to courts. During the later stage of collection, typically 60-90 days into delinquency, calls are made every 3 days explaining to the customer the consequences of not repaying the debt. If the overdue loan is not repaid within 90 days of the due date for payment, we issue a termination letter declaring that the outstanding principal amount of the loan, accrued interest and penalties are immediately due and payable. We do not accrue any interest or penalties beyond 90 days of delinquency.

Borrowers who are over 90 days delinquent cannot obtain any further financing through our Ecosystem.

We typically collect 98% of loans which are less than 90 days overdue.

More than 90 days past due

After 90 days of delinquency, we engage a large number of licensed debt collection companies with different capabilities.

Some debt collection companies are primarily focused on contacting customers by phone while others visit the customer at his home address in order to find a way to recover the amounts owed.

We provide collection companies with technologies and tools to enhance their collection effectiveness. We have a dedicated business unit that constantly monitors the work of collection companies and allocates delinquent portfolios across companies, rewarding the most effective of them.

We typically collect 40% of loans which are more than 90 days overdue.

Competition

We do not compete with one single competitor across all our products, services and platforms. Rather, we seek to differentiate ourselves from competitors primarily based on our integrated consumer-focused Ecosystem, which allows us to maintain high-quality regular relationships and contact with our customers and merchants and achieve a leadership position in each of our business areas.

We also seek to differentiate ourselves from competitors by focusing on building high-quality innovative products and services which are technology and data-driven. The high adoption of our Mobile App is a significant competitive advantage, whereas our 360-degrees-around-customer touchpoints enable broad access to all services and products of Kaspi Ecosystem.

Although we believe that we do not have directly comparable competitors, we face competition in each separate product and service:

- Payments: Our Payments Platform competes with foreign and domestic payment service providers and with retail banks (both domestic banks and subsidiaries of foreign banks) that look to gain a competitive edge through contracts with merchants. See "*Industry Overview – Kazakhstan payments market*".

- Marketplace: Our Marketplace Platform competes with global marketplace platforms, as well as online and offline retailers. Even though global marketplace platforms currently have limited presence in Kazakhstan, they seek to differentiate themselves mostly by the broad selection of listed items. See "*Industry Overview – Kazakhstan retail market*".

- Fintech: Our Fintech Platform competes with retail banks (both domestic banks and subsidiaries of foreign banks) that seek to differentiate themselves by offering retail deposits and consumer loans through their branch networks and points of sale at stores and shopping centres. See "*Industry Overview – Kazakhstan consumer banking market*".

We are the only company in Kazakhstan offering all of the above services through an integrated Ecosystem and under one Mobile App, which gives us an edge over competitors.

Intellectual Property

We develop and own various types of intellectual property that are important to our business. We also rely on a significant amount of licensed software. We actively protect our intellectual property and seek to adhere to the terms of our licences. We own or have the right to use all of the material intellectual property that we use.

Our most significant brand names and logos relate to "Kaspi.kz", all of which have been registered as trademarks and service marks in Kazakhstan. We have several domain names that we own, including www.kaspi.kz.

Employees

We believe that our team is one of our most important assets. Our culture reflects Kaspi.kz's teamwork and innovation-driven focus, instilling in our professionals a passion for our clients. In the first half of 2019, we had on average 9,648 full-time employees, including 1,045 employees in technology and product development, 1,326 employees in our call centre and customer support, 3,638 front office employees in Kaspi.kz retail outlets and POS and 3,639 employees in administration and other functions. In 2018, we had on average 9,947 full-time employees, including 823 employees in technology and product development, 1,232 employees in our call centre and customer support, 4,165 front office employees in Kaspi.kz retail outlets and POS and 3,727 in administration and other functions.

We seek to foster an innovative and result-oriented corporate culture among our employees and maintain an environment that inspires teamwork, innovation and constant improvement. We employ incentive programmes that reward our people with payment of bonuses based on achieving key quantitative performance indicators or success in specific projects for a particular business area or position under clearly defined criteria. We have developed our own evaluation and feedback processes based on NPS results, customer feedback and customer interaction recordings.

None of our employees are represented by a labour union or are subject to a collective bargaining agreement. We have not experienced any work stoppages, and we consider our relations with our employees to be good.

Real Property

Kaspi.kz's headquarters are located at 154A Nauryzbai Batyr Street, Almaty 1997, Kazakhstan. Most of our real estate space (including our headquarters) is leased.

Insurance

While the laws of Kazakhstan do not require us to maintain various forms of insurance of our material assets, liabilities or risks (other than (i) the mandatory insurance of retail deposits (i.e. the system of mandatory deposit guaranteeing); (ii) the mandatory system of guaranteeing insurance payments to insurers for certain mandatory types of insurance; and (iii) certain types of mandatory insurances such as the mandatory insurance of civil liability of vehicle owners, mandatory insurance of employee against accidents in the performance of labour (official) duties), we voluntarily insure our property and assets at levels that are in line with the standard in the Kazakhstan market. We believe that our insurance policies are in accordance with industry custom, including the terms of and the coverage provided by such insurance.

Incorporation and History

Originally, we operated our Fintech business through Kaspi Bank. In 2006, funds managed by Baring Vostok Capital Partners (a leading investment firm focusing on the CIS region that invested, amongst others, in Yandex) acquired a substantial interest in Bank Kaspisky, which later was renamed and rebranded into Kaspi Bank. The funds advised by Baring Vostok Capital Partners owned Bank Kaspisky jointly with Mr. Vyacheslav Kim, a prominent businessman with experience in the retail sector, who invested in Bank Kaspisky in 2006.

In 2007, Mikheil Lomtadze became CEO of Bank Kaspisky and assembled a new top management team.

In 2008, we rebranded Bank Kaspisky into Kaspi Bank, with the introduction of a new format of retail outlets.

In 2010, we introduced payment terminals, enabling our customers to top up accounts, repay consumer finance products and top up mobile phones.

In 2012, we became the largest in terms of market share in Consumer Loans in Kazakhstan, and embarked on a strategy of creating a consumer-oriented integrated Ecosystem by launching our Bill Payment platform and e-Wallet.

In 2013, we became 3rd largest in terms of market share in retail deposits in Kazakhstan.

In 2014, we introduced our online Marketplace to provide our customers with the convenience of a full-suite online shopping experience and Kaspi Bonus programme.

In 2015, we launched the Kaspi Gold debit card and online car finance jointly with Kolesa.kz, the largest car classifieds platform in Kazakhstan.

In 2016, we launched the Kaspi Red shopping club and Kaspi Guide.

In 2017, we introduced our Mobile App, Kaspi Maps and P2P payments. We also launched Kaspi Juma shopping festival.

In 2018, we became the largest e-commerce player with a 41% market share, the largest payment market participant with a 35% market share by number of transactions and the 2nd largest in terms of market share in retail deposits in Kazakhstan. We launched ATMs with facial recognition and QR technology. In addition, we launched Kaspi Message, P2P payments by QR code and started offering online deposits and online consumer finance for general purposes to customers exclusively via our Mobile App. We have also started to expand our Ecosystem to merchants by launching Kaspi Business mobile application.

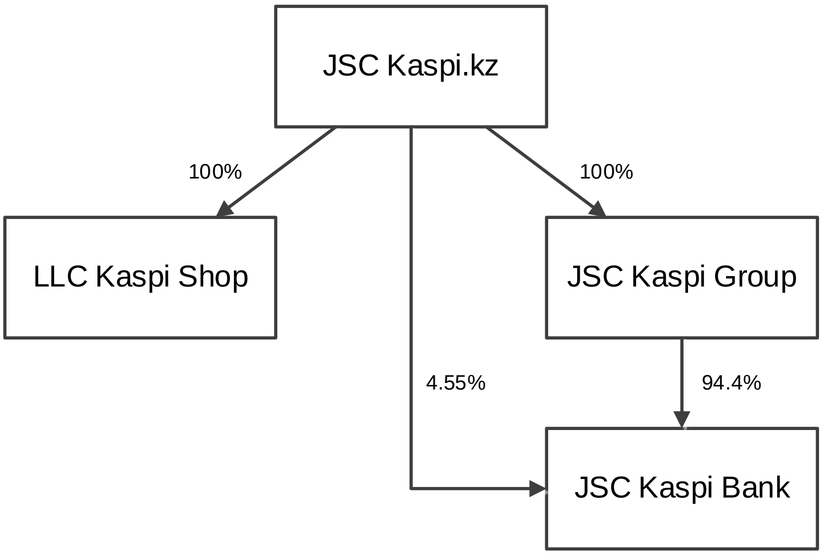
In 2019, we launched (i) in-store purchases directly through our Mobile App with Kaspi QR, without card; (ii) PoS Solutions aimed at creating seamless and convenient way for merchants to accept payments from Kaspi.kz customers, as well as payments by any other bank card; and (iii) face ID and e-Sign to ensure security and convenience of transactions through our Mobile App.

In September 2019, we expanded our addressable market from 18 million people in Kazakhstan to 28 million people by entering into Azerbaijan through acquiring three leading classifieds platforms (Turbo.az (a car marketplace), Tap.az (a used and new items marketplace) and Bina.az (a real estate marketplace)).

The Company was initially established on 16 October 2008 as a limited liability partnership. Through a series of transactions among its shareholders, the Company became a parent company of the Group, which currently consolidates the following principal subsidiaries: Kaspi Shop (the Marketplace Platform) and Kaspi Bank (the Payments and Fintech Platforms). The Company was subsequently transformed into a joint stock company on 17 October 2014.

Corporate Structure

The following chart sets out our principal subsidiaries.



JSC Kaspi.kz is a joint stock company incorporated in Kazakhstan and a parent company for the Group, which offers its products and services under "Kaspi.kz" brand. The Company has the status of the regulated bank holding company of Kaspi Bank under Kazakhstan laws. See "*Regulation*". Its registered address is at 154A Nauryzbai Batyr Street, Almaty 050013, Republic of Kazakhstan, and its telephone number is +7 727 3563419. The Company's website address is www.kaspi.kz. Any information contained on the Company's website does not form part of this Registration Document, unless explicitly incorporated by reference into this Registration Document.

LLC Kaspi Shop is a limited liability company incorporated in Kazakhstan which facilitates operation of Kaspi.kz's Marketplace Platform.

JSC Kaspi Group is a joint stock company incorporated in Kazakhstan and is an intermediary holding subsidiary of the Company. JSC Kaspi Group has the status of the bank holding company of Kaspi Bank under Kazakhstan laws. See "*Regulation*".

JSC Kaspi Bank is a joint stock company incorporated in Kazakhstan. Kaspi Bank is regulated by the NBK and conducts its business under a licence for conducting banking and other operations and activity on securities market (No. 1.2.245/61 dated 30 June 2009). Kaspi Bank's primary business consists of consumer banking activities.

Litigation

From time to time, Kaspi.kz is involved in litigation in the ordinary course of its business activities. There have been no governmental, legal or arbitration proceedings against Kaspi.kz and/or the Group (including any such proceedings which are pending or threatened of which we are aware) during the 12 months preceding the date of this Registration Document which may have, or have had in the recent past, significant effects on Kaspi.kz's and/or the Group's financial position or profitability.

OPERATING AND FINANCIAL REVIEW

The following operating and financial review of the Group's financial condition and results of operations as at and for the years ended 31 December 2016, 2017 and 2018, and as at and for the six months ended 30 June 2018 and 2019 should be read in conjunction with the Financial Statements and related notes included elsewhere in this Registration Document.

The following operating and financial review includes forward-looking statements that reflect the current view of the management and involve inherent risks and uncertainties. The actual results of operations could differ materially from those contained in such forward-looking statements due to factors discussed below and elsewhere in this Registration Document, particularly in "Risk Factors".

Financial information in this section has been derived from the Financial Statements, in each case without material adjustments, unless otherwise stated, as well as the Company's management financial reports. The Financial Statements have been prepared in accordance with IFRS.

Overview

The Company is the largest Payments, Marketplace and Fintech Ecosystem in Kazakhstan with a leading market share in each of its key products and services. The Company provides a growing range of interconnected technologically advanced, seamless and innovative products and services that transform the way people pay, shop and manage their personal finances. We are a fast-growing, transaction-driven, profitable and dividend-paying business. We have recently expanded our addressable market from 18 million people in Kazakhstan to 28 million people by entering into Azerbaijan through acquiring three leading classifieds platforms (Turbo.az (a car marketplace), Tap.az (a used and new items marketplace) and Bina.az (a real estate marketplace)) and are planning to further expand in the mid-term across several additional countries of Central Asia and the Caucasus.

We believe that our focus on innovation, among other factors, has propelled our Ecosystem to leading market positions across all our Platforms. The Kaspi Ecosystem is comprised of the following three market leading platforms centred around our customers' daily needs:

- *Payments Platform* which allows our customers to pay for regular household needs, as well as to make online and in-store purchases, and enables seamless online P2P payments within and outside our Ecosystem in Kazakhstan, between our customers and globally to any Mastercard or Visa card. Through the Payments Platform, we generate transaction fees from merchants and customers, annual fees from customers, as well as interest revenue from interest-free cash balances (current accounts).

  According to the NBK, in 2018, we reached a 35.4% market share by number of P2P payments, in-store and online transactions with our Kaspi Gold debit card and current accounts while our market share by value of such transactions reached 29.0%.

- *Marketplace Platform* which enables customers to buy a broad selection of products and services from a variety of merchants. Our Marketplace is positioned as the starting point and destination for customer shopping journeys via our Mobile App, website and in-store. Customers come to our Marketplace to buy a broad selection of products and services from various merchants with seamless shopping experience. We believe that our Marketplace Platform appeals to buyers who value ease of use, a large selection of the most popular products and price competitiveness. Fulfilment options include in-store pick up, delivery by merchant and delivery powered by Kaspi.kz. Through the Marketplace Platform, we generate seller fees from merchants.

  According to Euromonitor, Kaspi.kz was the largest online retailer in Kazakhstan by sales in 2017 and 2018. Kaspi.kz's Online GMV corresponded to a value market share of 23.3% in 2017 and 40.9% in 2018, based on Euromonitor market size estimate. Based on GFK data, the GMV of electronics sold through Kaspi Ecosystem amounted to 39.5% of total electronics sales in Kazakhstan in 2018.

- *Fintech Platform* which enables customers to manage their personal finance online and access consumer finance and deposit products and services mainly through the Kaspi.kz Mobile App. Our consumer finance products are also strategically designed around the product and merchant selection on our Marketplace Platform, which means that customers are able to select goods and merchants first, and then seamlessly access available solutions to finance their purchases. We generate interest, fee revenue and membership fees from customers who are members of the Kaspi Red Shopping Club.

According to the NBK, we enjoy the largest market share in Consumer Loans in Kazakhstan, amounting to 31.2%, and hold the second largest position in retail deposits with a 12.9% market share, in each case, in 2018.

We believe that we have established a most recognised and trusted brand, primarily by offering a comprehensive suite of technologically advanced products and services. Our superior brand recognition has been confirmed by TNS Gallup's recent survey, in which our brand was ranked as the number one customer choice in online payments, electronics purchases, consumer lending, retail deposits and debit cards in Kazakhstan (rolling for the 12 months ended 30 June 2019), substantially higher than the second placed competitor in each of our service lines.

High internet and smartphone penetration in Kazakhstan allows us to implement a "Mobile App Only" approach in our product development and product offering initiatives. Our customers can access all the products and services of our Ecosystem through the convenient and readily accessible interface of our Mobile App, and some of our key products and services are accessible exclusively through the Mobile App. While our Mobile App and online services continue to drive customer engagement, our customers can also access most of the products of the Kaspi Ecosystem through a broad range of touchpoints including payment terminals, ATMs, outlets and POS at merchant locations and shopping malls.

Reportable Segments

Our segment reporting is based on our three business Platforms: (i) the Payments Platform, (ii) the Marketplace Platform and (iii) the Fintech Platform. We believe that such presentation maximises the efficiency of our Ecosystem management, resource allocation and performance assessment. We present segment information after elimination of inter-company transactions. In general, revenue, cost of revenue, technology and product development expenses, sales and marketing expenses, general and administrative expenses and provision expense are directly attributable, or are allocated, to each segment. We allocate costs and expenses that are not directly attributable to a specific segment, such as those that support general infrastructure and customer engagement across the Kaspi Ecosystem, to different segments mainly on the basis of usage, revenue, headcount and the number of Active Customers, depending on the nature of the relevant costs and expenses.

In 2018, our management changed the presentation of certain line items on the Group's consolidated statement of profit or loss to enhance the disclosure and provide reliable and more relevant information. As a result, historical comparative information for 2017 and 2016 has been revised to conform to the current presentation.

In the first half of 2019, the management decided to combine Consumer Financial Services Platform and e-Finance Platform, which had previously existed and been reported in the Annual Financial Statements, into one Fintech Platform. The reason for combination was that the migration from offline to online and mobile operations is developing rapidly resulting in about 70% of transactions executed through online touchpoints (website and Mobile App). As a result of changes in reportable segments, the historical comparative information for the first half of 2018 has been revised to conform to the current presentation (three operating segments). As a result of changes in reportable segments in 2018, the historical comparative information for 2017 and 2016 was revised to conform to the then existing presentation (four operating segments).

Payments Platform

During the period under review we derived, and we anticipate that in the medium- and long-term period we will continue to derive an increasing part of our revenue from (i) fees paid by our Payments Active Merchants and customers, calculated as a percentage of the TPV on our Payments Platform, and (ii) interest income, which we generate on interest-free cash balances (current accounts). Our TPV has been and is expected to be primarily driven by the increasing number of payments that we enable through the Payments Platform thanks to the attractiveness of our payments products and services, such as Kaspi Gold, bill payments and P2P payments, as well as the increasing number of Payments Active Merchants and Payments Active Stores, which translates into the growth of our customer base.

Our TPV increased by 231.3% from KZT111,558 million in 2016 to KZT369,539 million in 2017, and further by 278.9% to KZT1,400,114 million (U.S.$4,062 million) in 2018. Our TPV increased by 179.9% from KZT478,095 million in the first half of 2018 to KZT1,388,188 million (U.S.$3,530 million) in the first half of 2019. The growth in TPV was mainly driven by the increasing number of transactions during the period under review as a result of the growth of the number of Payments Active Customers (from 548 thousand in 2016 to 1,201 thousand in 2017, 2,637 thousand in 2018 and further to 3,737 thousand in the first half of 2019), the number of Payments per Active Customer (from 54 in 2016 to 57 in 2017, 92 in 2018 and further to 99 in the first half of 2019) and the number of Payments Active Merchants (from 0.8 thousand in 2016 to 3.5 thousand in 2017, 7.6 thousand in 2018 and 8.9 thousand in the first half of 2019). The TNP that we enabled through our Payments Platform was 29.6 million, 68.1 million and 243.3 million in 2016, 2017 and 2018, respectively, representing year-on-year growth of 130.4% (2016 as compared to 2017) and 257.1% (2017 as compared to 2018). The TNP through our Payments Platform increased by 122.8% from 101.8 million in the first half of 2018 to 226.7 million in the first half of 2019. In 2016, 2017 and 2018, the number of Payments Active Merchants totalled 0.8 thousand, 3.5 thousand and 7.6 thousand, respectively, representing year-on-year growth of 337.5% (2016 as compared to 2017) and 117.1% (2017 as compared to 2018). The number of Payments Active Merchants grew by 72.5% from 5.2 thousand in the first half of 2018 to 8.9 thousand in the first half of 2019.

Our Payments Take Rate was 1.1% in 2016, 1.0% in 2017, 1.2% in 2018 and 1.3% in the first half of 2019. The improvement of the Payments Take Rate in the first half of 2019 as compared to 2016-2018 was primarily attributable to the growing share of higher margin transactions effected via Kaspi Gold debit card where we charge higher fees (from 8.8% of TPV in 2016 to 38.9% of TPV in 2017, 53.1% of TPV in 2018 and 62.4% of TPV in the first half of 2019).

Our Average Balances on Current Accounts comprised KZT23,287 million, KZT41,680 million and KZT93,079 million, respectively, in 2016, 2017 and 2018, and KZT148,005 million in the first half of 2019. The increase in Average Balances on Current Accounts was driven by the increase in the number of Active Customers which transact through, and maintain current accounts with, Kaspi.kz. In turn, the Yield on Average Balances was 9.8% in 2016, 9.7% in 2017, 9.2% in 2018 and 9.2% in the first half of 2019. Our Payments Average Check increased from KZT3,774 in 2016 to KZT5,425 in 2017, KZT5,755 in 2018 and further to KZT5,902 in the first half of 2019 due to the increasing share of Kaspi Gold transactions in our TPV.

The table below sets forth the key metrics in respect of our Payments Platform in the first half of 2018 and 2019:

	Six months ended 30 June			
	2018	**2019**	**2019**	**2019**
			U.S.$(1)	**% change from prior period**
TPV (*in KZT millions*)	478,095	1,338,188	3,530 million	179.9%

TPV per Active Customer (*in KZT thousands*)	404	605	1,595	49.5%
Number of Payments Active Customers (*thousands of customers*)	1,789	3,737	-	108.9%
TNP (*in thousands of transactions*)	101,780	226,730	-	122.8%
Number of Payments per Active Customer	80	99	-	22.6%
Number of Payments Active Merchants (*in thousands*)	5.2	8.9	-	72.5%
Number of Payments Active Stores (*in thousands*)	6.6	12.3	-	86.0%
Payments Take Rate (*in %*)	1.0%	1.3%	-	-
Average Balances on Current Accounts (*in KZT millions*)	63,521	148,005	390 million	133.0%
Yield on Average Balances (*in %*)	10.0%	9.2%	-	-
Payments Average Check (*in KZT*)	4,697	5,902	16	25.7%

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

The table below sets forth the key metrics in respect of our Payments Platform in 2016, 2017 and 2018:

	Year ended 31 December					
	2016	**2017**	**2018**	**2018**	**2017**	**2018**
				U.S.$(1)	**% change from prior year**	
TPV (*in KZT millions*)	111,558	369,539	1,400,114	4,062 million	231.3%	278.9%
TPV per Active Customer (*in KZT thousands*)	203	308	531	1,540	51.7%	72.4%
Number of Payments Active Customers (*thousands of customers*)	548	1,201	2,637	-	119.2%	119.6%
TNP (*in thousands of transactions*)	29,562	68,118	243,280	-	130.4%	257.1%
Number of Payments per Active Customer	54	57	92	-	5.6%	61.4%
Number of Payments Active Merchants (*in thousands*)	0.8	3.5	7.6	-	337.5%	117.1%
Number of Payments Active Stores (*in thousands*)	1.1	4.4	10.3	-	300.0%	134.1%
Payments Take Rate (*in %*)	1.0%	1.0%	1.2%	-	-	-
Average Balances on Current Accounts (*in KZT millions*)	23,287	41,680	93,079	270 million	79.0%	123.3%
Yield on Average Balances (*in %*)	9.8%	9.7%	9.2%	-	-	-
Payments Average Check (*in KZT*)	3,774	5,425	5,755	-	43.7%	6.1%

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

Marketplace Platform

During the period under review we derived, and we anticipate that in the medium- and long-term period we will continue to derive an increasing part of our revenue from seller fees paid by our merchants, calculated as a percentage of GMV on our Marketplace Platform. Our GMV has been and is expected to be primarily driven by our increasing customer base and the number of purchases that we enable through our Marketplace thanks to the attractiveness of our Marketplace as a result of various factors, including the availability of the combination of online and in-store shopping, the increased number of merchants, the wide range of listed merchandise, the convenient fulfilment of purchases and the diverse range of payment and financing options in online shopping. In addition, we believe that our Marketplace Platform benefits significantly from the Kaspi Ecosystem network effect. For example, a customer making an online bill payment via our Payments Platform is highly likely to make an online purchase on the Marketplace Platform.

Our GMV increased by 47.0% from KZT180,635 million in 2016 to KZT265,533 million in 2017, and further by 56.3% to KZT415,107 million (U.S.$1,204 million) in 2018. Our GMV increased by 55.9% from KZT155,130 million in the first half of 2018 to KZT241,776 million (U.S.$638 million) in the first half of 2019. The growth in GMV was mainly driven by the increasing number of purchases during the period under review as a result of the growth of the number of Marketplace Active Customers (from 1.2 million in 2016 to 1.6 million in 2017, 2.1 million in 2018 and further to 2.4 million in the first half of 2019) and the Purchases per Active Customer (1.4 in 2016 to 2.6 in 2017, 5.0 in 2018 and further to 6.8 in the first half of 2019). The Number of Purchases that we enabled through the Marketplace Platform increased by 146.7% to 10,491 thousand in 2018 from 4,253 thousand in 2017, which in turn increased by 147.8% from 1,716 thousand in 2016. The Number of Purchases through our Marketplace increased by 144.6% to 9,417 thousand in the first half of 2019 from 3,850 thousand in the first half of 2018. Our in-store shopping GMV comprised 86.0%, 69.1% and 48.8% of our total GMV in 2016, 2017 and 2018, respectively, whereas our Online GMV accounted for 13.3%, 20.4% and 28.2% of our total GMV, and our Shopping Club GMV accounted for 0.8%, 10.4% and 23.1% of our total GMV for the same periods, respectively. Our in-store shopping GMV comprised 54.5% and 40.6% of our total GMV in the first half of 2018 and 2019, respectively, while our Online GMV accounted for 23.5% and 26.5% of our total GMV, and our Shopping Club GMV accounted for 22.1% and 32.9% of our total GMV for the same periods, respectively.

Our Marketplace Take Rate increased from 3.6% in 2016 to 4.6% in 2017, 6.0% in 2018 and further to 6.5% in the first half of 2019. The increase in the Marketplace Take Rate reflects growth in the number of Marketplace Active Merchants (from 4.5 thousand in 2016 to 5.0 thousand in 2017, 7.2 thousand in 2018 and further to 8.8 thousand in the first half of 2019), the diversification in our GMV mix and our entry into higher margin product categories (such as clothing, cosmetics, accessories and restaurants which allows us to charge the respective merchants higher seller fees as compared to merchants engaged in lower margin sales such as electronics). Our Marketplace Average Check decreased from KZT105 thousand in 2016 to KZT62 thousand in 2017, KZT40 thousand in 2018 and further to KZT26 thousand in the first half of 2019 due to the increasing share of Kaspi Red purchases, typically associated with smaller checks, resulting from increasing diversification of a product range and decreasing share of large ticket electronic purchases.

The table below sets forth the key metrics in respect of our Marketplace Platform in the first half of 2018 and 2019:

	Six months ended 30 June			
	2018	**2019**	**2019**	**2019**
			U.S.$[1]	**% change from prior period**
GMV (*in KZT millions*)	155,130	241,776	638 million	55.9%
In-Store GMV (*in KZT millions*)	84,477	98,144	259 million	16.2%
Online GMV (*in KZT millions*)	36,439	64,150	169 million	76.1%
Shopping Club GMV (*in KZT millions*)	34,215	79,481	210 million	132.3%
Marketplace Active Customers (*in thousands of customers*)	1,811	2,363	-	30.4%
Number of Purchases (*in thousands of purchases*)	3,850	9,417	-	144.6%
Number of Marketplace Active Merchants (*in thousands of merchants*)	5.6	8.8	-	56.5%
Number of Marketplace Active Stores (*in thousands of stores*)	9.1	14.9	-	64.1%
Retention Rate of Marketplace Active Merchants (*in %*)	99.5%	99.3%	-	-
GMV per Active Customer (*in KZT thousands*)	175.5	212.4	560	21.0%
GMV per Active Merchant (*in KZT millions*)	56.3	56.8	149,790	0.8%
Number of Purchases per Active Customer	3.7	6.8	-	86.0%
Marketplace Take Rate (*in %*)	5.1%	6.5%	-	-
Marketplace Average Check (*in KZT thousands*)	40.3	25.7	68	(36.3)%

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

The table below sets forth the key metrics in respect of our Marketplace Platform in 2016, 2017 and 2018:

	Year ended 31 December					
	2016	2017	2018	2018	2017	2018
				U.S.$(1)	% change from prior year	
GMV (*in KZT millions*)	180,635	265,533	415,107	1,204 million	47.0%	56.3%
In-Store GMV (*in KZT millions*)	155,189	183,582	202,482	587 million	18.3%	10.3%
Online GMV (*in KZT millions*)	23,960	54,208	116,937	339 million	126.2%	115.7%
Shopping Club GMV (*in KZT millions*)	1,486	27,744	95,688	278 million	1,767.0%	244.9%
Marketplace Active Customers (*in thousands of customers*)	1,229	1,638	2,109	-	33.3%	28.8%
Number of Purchases (*in thousands of purchases*)	1,716	4,253	10,491	-	147.8%	146.7%
Number of Marketplace Active Merchants (*in thousands of merchants*)	4.5	5.0	7.2	-	11.1%	44.0%
Number of Marketplace Active Stores (*in thousands of stores*)	5.8	7.4	12.2	-	27.6%	64.9%
Retention Rate of Marketplace Active Merchants (*in %*)	-	99.9%	99.6%	-	-	-
GMV per Active Customer (*in KZT thousands*)	147	162	197	571	10.2%	21.6%
GMV per Active Merchant (*in KZT millions*)	40	53	58	168,140	32.5%	9.4%
Number of Purchases per Active Customer	1.4	2.6	5.0	-	85.7%	92.3%
Marketplace Take Rate (*in %*)	3.6%	4.6%	6.0%	-	-	-
Marketplace Average Check (*in KZT thousands*)	105	62	40	115	(41.0)%	(35.5)%

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

Fintech Platform

During the period under review, the majority of our revenue was attributable to interest and fees earned on the products and services offered through the Fintech Platform, although the share of this segment decreased from 94.8% in 2016 to 92.1% in 2017 and further to 86.3% in 2018, as a result of a faster growth of revenues of the Payments and Marketplace Platforms. We anticipate that in the medium- and long-term period the share of our revenue generated through our Fintech Platform will continue to decrease. Our Fintech TFV has been and is expected to be primarily driven by the increasing Number of Consumer Finance Financing Transactions provided via this platform thanks to the high quality of our customer experience stemming from the convenience of online access through our Mobile App, our quick data driven loan approval process, excellent customer service and high level of customer loyalty (our Retention Rate of Active Customers was 93.0% in the first half of 2019).

The Fintech TFV increased by 84.7% from KZT573,167 million in 2016 to KZT1,058,901 million in 2017, and further by 35.3% to KZT1,432,280 million (U.S.$4,155 million) in 2018. The Fintech TFV increased by 29.2% from KZT669,508 million in the first half of 2018 to KZT865,014 million (U.S.$2,282 million) in the first half of 2019. The growth in the Fintech TFV during the period under review was mainly driven by the increasing Number of Fintech Financing Transactions driven by strong demand for our financing products and the increasing Number of Fintech Active Customers.

In 2016, 2017 and 2018, we enabled 3,021 thousand, 6,639 thousand and 13,462 thousand of Fintech Financing Transactions, respectively, representing year-on-year growth of 119.8% (2016 as compared to 2017) and 102.8% (2017 as compared to 2018), whereas the Number of Fintech Active Customers amounted to 1,768 thousand in 2016, growing by 31.8% to 2,330 thousand Fintech Active Customers in 2017 and further increasing by 22.0% to 2,843 thousand Fintech Active Customers in 2018. In the first half of 2018, we had 5,379 thousand Fintech Financing Transactions, representing a 110.6% increase to 11,327 thousand Fintech Financing Transactions in the first half of 2019, while the Number of Fintech Active Customers grew by 19.8% from 2,561 thousand in the first half of 2018 to 3,069 thousand in the first half of 2019.

The Fintech Average Yield increased from 27.4% in 2016 to 30.0% in 2017, 30.5% in 2018 and further to 31.3% in the first half of 2019 mainly due to the change in product mix and the increase in prices for our consumer finance products. In turn, the Fintech Average Check decreased by 15.9% from KZT190 thousand in 2016 to KZT160 thousand in 2017 and further by 33.3% to KZT106 thousand in 2018. The Fintech Average Check decreased by 38.7% from KZT124 thousand in the first half of 2018 to KZT76 thousand in the first half of 2019. The gradual decrease in the Fintech Average Check is mainly due to the growth in the number of Kaspi Red Shopping Club transactions in the corresponding periods.

The table below sets forth the key metrics in respect of our Fintech Platform in the first half of 2018 and 2019:

	Six months ended 30 June			
	2018	**2019**	**2019**	**2019**
			U.S.$(1)	**% change from prior period**
Fintech TFV (*in KZT millions*)	669,508	865,014	2,282 million	29.2%
Number of Fintech Active Customers (*in thousands of customers*)	2,561	3,069	-	19.8%
Fintech TFV per Active Customer (*in KZT thousands*)	500	530	-	6.1%
Number of Fintech Financing Transactions (*in thousands of transactions*)	5,379	11,327	-	110.6%
Number of Fintech Financing Transactions per Active Customer	3.7	6.3	-	70.9%
Fintech Average Net Loan Portfolio (*in KZT millions*)	935,281	1,089,481	2,874 million	16.5%
Fintech Average Yield (*in %*)	30.1%	31.3%	-	-
Fintech TFV to Average Net Loan Portfolio Conversion Rate	1.4	1.5	-	-
Fintech Average Check (*in KZT thousands*)	124	76	201	(38.7)%

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

The table below sets forth the key metrics in respect of our Fintech Platform in 2016, 2017 and 2018:

	Year ended 31 December					
	2016	**2017**	**2018**	**2018**	**2017**	**2018**
				U.S.$(1)	**% change from prior year**	
Fintech TFV (*in KZT millions*)	573,167	1,058,901	1,432,280	4,155 million	84.7%	35.3%
Number of Fintech Active Customers (*in thousands of customers*)	1,768	2,330	2,843	-	31.8%	22.0%
Fintech TFV per Active Customer (*in KZT thousands*)	324	454	504	-	40.2%	10.9%
Number of Fintech Financing Transactions (*in thousands of*	3,021	6,639	13,462	-	119.8%	102.8%

transactions)						
Number of Fintech Financing Transactions per Active Customer	1.7	2.8	4.7	-	62.5%	53.8%
Fintech Average Net Loan Portfolio (*in KZT millions*)	729,791	778,188	987,785	2,866 million	6.6%	26.9%
Fintech Average Yield (*in %*)	27.4%	30.0%	30.5%	-	-	-
Fintech TFV to Average Net Loan Portfolio Conversion Rate	0.8	1.4	1.4	-	-	-
Fintech Average Check (*in KZT thousands*)	190	160	106	309	(15.9)%	(33.3)%

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

Recent Developments

Delisting and Increase of Shareholding in Kaspi Bank

In February 2019, following the approval by the general shareholders' meeting of Kaspi Bank, the common shares of Kaspi Bank were voluntarily delisted from the KASE. In connection with the delisting, Kaspi Bank purchased common shares from certain minority shareholders who decided to exercise their put right arising under Kazakhstan laws as a result of the delisting.

In April 2019, through a series of equity swaps with Baring Vostok Nexus Limited and ELQ Investors II Ltd (a wholly-owned subsidiary of The Goldman Sachs Group, Inc.), as a result of which 4.50% of treasury Shares were swapped for 4.54% of shares in Kaspi Bank, the Company increased its shareholding in Kaspi Bank from 94.40% to 98.95%. See "*Principal Shareholders – Changes in Shareholding*".

Acquisition of Marketplace Platforms in Azerbaijan

In September 2019, we acquired three leading classifieds platforms (Turbo.az (a car marketplace), Tap.az (a used and new items marketplace) and Bina.az (a real estate marketplace)) in Azerbaijan. We purchased 100% of shares in Digital Classifieds OÜ, an Estonian company, holding these platforms, from Blue Ocean Partners Ltd, our related party controlled by Mr. Mikheil Lomtadze, for a cash consideration of U.S.$31 million, which was paid in full. Dis-interested members of the Company's Board of Directors reviewed the transaction taking into account a valuation report of an independent financial adviser, and approved the purchase on 23 August 2019.

According to SimilarWeb, the visitor traffic of each of the purchased platforms is significantly higher than the second competitor. Turbo.az had 1.7 million monthly unique users, 34 thousand unique sellers and 30 thousand monthly active listings in May 2019. In the second quarter of 2019, unique paying sellers increased by 63%, unique sellers increased by 31% and monthly unique users increased by 10% as compared to the second quarter of 2018. Tap.az had 1.4 million monthly unique users, 81 thousand unique sellers and 400 thousand monthly active listings in May 2019. In the second quarter of 2019, unique paying sellers increased by 58%, unique sellers increased by 15% and monthly unique users increased by 6% as compared to the second quarter of 2018. Bina.az had 0.5 million monthly unique users, 10 thousand unique sellers and 30 thousand monthly active listings in May 2019. In the second quarter of 2019, unique paying sellers increased by 27%, unique sellers increased by 22% and monthly unique users increased by 32% as compared to the second quarter of 2018.

We believe that Azerbaijan has a strong and growing economy with significant potential in terms of e-commerce and payments. Based on data of the State Statistical Committee of the Republic of Azerbaijan and the IMF, with a population of 10 million as of 2018, Azerbaijan has the fourth largest population in the CIS region. As of 2018, Azerbaijan also had the 4th largest economy in the CIS region by GDP per capita. Based on Euromonitor estimates, Azerbaijan has a 67% mobile Internet penetration with significant upside potential. The Azerbaijan e-commerce industry currently remains at a nascent stage with 0.2% e-commerce penetration, according to Euromonitor. Likewise, only 25% of Azerbaijan's adult population made or received digital payments in 2017. Disposable income in

Azerbaijan is projected to grow at a CAGR of 6% in 2018-2023, whereas e-commerce CAGR is projected at a level of 32% in 2018-2023, according to Euromonitor.

In view of the factors outlined above, we believe that the acquisition of Turbo.az, Tap.az and Bina.az is in line with our strategy of expansion into selected markets of Central Asia and the Caucasus (see "*Business—Our Growth Strategy—Expansion into Selected Markets of Central Asia and the Caucasus*"), and we expect that it will allow us to further broaden our Active Customer base and drive the continuing growth of our Marketplace business. See also "*Risk Factors—Risks relating to the Group's Strategy—Kaspi.kz may face risks in relation to its planned expansion to some countries of Central Asia and the Caucasus and any related acquisitions*".

Payment of Dividends

In August 2019, the Company declared and paid dividends in the amount of KZT32,990 million. On 29 August 2019, the Company's Board of Directors recommended that the shareholders approve further dividends in the amount of up to KZT35,000 million at the General Meeting of Shareholders on 8 October 2019. The dividends are expected to be paid in full in October 2019.

Factors Affecting our Results of Operations

Our operations have historically been influenced by the following key factors, which our management believes will continue to affect the Group's results of operations in the future.

Increase in Number of Active Customers

We believe that we attract customers to our Platforms and engage them in our Ecosystem through the diversity of services and products that we build around their daily lives. Our Platforms are centred around regular shopping, payments and personal finance management needs of consumers in Kazakhstan. In order to continue engaging our customers, we are planning to continuously enhance and expand our product and service offerings and improve the overall user experience in our Ecosystem. The number of Active Customers increased to 5.7 million as at 30 June 2019 from 5.1 million as at 31 December 2018, 4.0 million as at 31 December 2017 and 3.4 million as at 31 December 2016. The growth in the number of Active Customers was one of the key drivers of increases in GMV and TPV, and contributed to the expansion of the Fintech TFV.

Growth in the Number of Products and Transactions per Active Customers

As our Active Customers increased their transaction volumes in terms of both value and number of transactions, our GMV, TPV and TFV each grew during the period under review, and we expect that they will continue to grow in the future. The increased use of our Ecosystem by our existing Active Customers was mainly fuelled by (i) an increase in customer engagement across our Ecosystem resulting in a higher number of transactions per Active Customer and (ii) an increase in customer engagement within specific products and services resulting in increased use of a specific products. As at 30 June 2019, 45.9% of our Active Customers were Customers with Four or more Products as compared to 35.2% of our Active Customers as at 31 December 2018, 19.6% of our Active Customers as at 31 December 2017 and 10.5% of our Active Customers as at 31 December 2016. In the first half of 2019, the number of Monthly Transactions per Active Customer amounted to 10.0 as compared to 6.9 Monthly Transactions per Active Customer in 2018, 4.6 Monthly Transactions per Active Customer in 2017 and 3.9 Monthly Transactions per Active Customer in 2016.

Leveraging Big Data and Technology

The growth of our business has enabled us to continuously acquire additional transactional, financial and behavioural data relating to our customers. We expect that our ability to deliver highly relevant and personalised content that will continue to increase customer engagement across our Ecosystem, resulting in growing number of products and transactions per Active Customer, and will be important for strengthening our Ecosystem and driving our growth going forward.

Furthermore, our big data-driven and adaptable scoring models allow us to enhance the effectiveness of our credit and transaction risk management, thus, maintaining delinquencies at acceptable levels. Our NPLs accounted for 8.9% as at 30 June 2019, and 9.0%, 8.3% and 9.3% of our gross loan portfolio 31 December 2018, 2017 and 2016, respectively. Our cost of risk decreased from 9.5% in 2016 to 3.1% in 2017 and then increased to 4.6% in 2018 with adjusted cost of risk decreasing from 8.1% in 2016 to adjusted cost of risk of 4.4% in 2017, historical cost of risk of 4.6% in 2018 and historical cost of risk of 4.1% in the first half of 2019. The decrease in the adjusted cost of risk in 2017 as compared to 2016 was primarily due to the increased payment discipline of our customers as a result of improved economic environment in Kazakhstan, as well as due to enhanced loan collection procedures. We have improved our cost of risk to 4.6% in 2018 and further to 4.1% in the first half of 2019 as compared to 4.4% in 2017 (adjusted cost of risk) as a result of our prudent provisioning policy. We believe that our ability to maintain a broadly stable ratio of NPLs and improve cost of risk ratio, despite an increase in our consumer loan portfolio, demonstrates the efficiency of our risk management system based on our big data and technology capabilities.

Marketplace GMV Mix

We generate revenue by charging seller fees on all transactions that we facilitate on our Marketplace Platform. Our Marketplace Take Rate increased from 3.6% in 2016 to 4.6% in 2017, 6.0% in 2018 and further to 6.5% in the first half of 2019. The increase in the Marketplace Take Rate reflects growth in the number of Marketplace Active Merchants, the diversification in our GMV mix and our entry into higher margin product categories (such as clothing, cosmetics, accessories and restaurants which allows us to charge the respective merchants higher seller fees as compared to merchants engaged in lower margin sales such as electronics). We expect that our revenues will continue to be influenced by the GMV mix on our Marketplace.

Operating Leverage and Network Effect

Our consumer-focused Ecosystem has significant operating leverage due to a meaningful amount of fixed costs in our cost structure which allows us to increase our net revenue by generating higher revenue, resulting in a lower cost of revenue. Our business model and scale of operations enable us to reduce structural costs allocated throughout our Platforms, providing significant synergies across our Platforms and maintaining low capital expenditures. Our technology-driven strategy has enabled us to increase our operational volumes while reducing marginal costs, thus, allowing us to achieve an economy of scale. For example, our “Mobile App Only” approach is transforming our operations in a way that we may optimise or keep fixed costs at acceptable level (for example, operating expenses to maintain outlets). The Net Income Margin of our Payments Platform improved from 14.2% in 2017 to 25.4% in 2018 and further to 36.2% in the first half of 2019 while the Net Income Margin of our Marketplace Platform increased from 47.7% in 2017 to 58.2% in 2018 and further to 61.3% in the six months ended 30 June 2019, and the Net Income Margin of our Fintech Platform grew from 25.2% in 2017 to 27.7% in 2018 and further to 31.3% in the six months ended 30 June 2019.

The large number of Active Customers enables us to benefit from the substantial network effect of our Ecosystem and drives cross-engagement opportunities across our Platforms. For example, an Active Customer that regularly pays household bills on our Payments Platform is highly likely to make purchases on our Marketplace Platform. In addition, the large number of Active Customers on our Marketplace and Payments Platforms attracts a correspondingly large number of high-quality merchants, who start using our Kaspi Business suite of products and services. These network effects provide synergies across our products and services, and allow us to deliver profitable long-term growth.

Industry Trends

We expect that the demand for our products and services will keep growing in the coming years, since, we believe, our addressable market remains significantly underpenetrated. We believe that this market opportunity will continue to fuel growth in our business, supported by increasing levels of penetration and usage of mobile devices and the internet as ways to pay, shop and manage personal finance.

Kazakhstan has the widest use of internet and mobile services among emerging markets globally which creates attractive opportunities for Kaspi.kz. According to the World Bank, 76.4% of the total population regularly used the internet in 2017, which was broadly in line with the USA and significantly above countries such as China, Turkey and Brazil. Over the last 10 years, internet penetration in Kazakhstan increased from 11.0% in 2008 to 76.4% in 2017, based on the World Bank data. Nonetheless, e-commerce penetration in Kazakhstan still has significant upside potential as compared to other emerging market countries and developed economies. Based on Euromonitor estimates, the GMV of Kazakhstan's online retail market accounted for 2.6% of the total retail sales value in 2018, as compared to 22.5% in China, 16.9% in the UK, 13.7% in the USA, 6.8% in Brazil, 5.0% in Russia and 4.8% in Turkey. Likewise, Kazakhstan's consumer banking sector is characterised by low penetration of consumer financial services. Consumer Loans in Kazakhstan amounted to 5.5% of the country's GDP as at 31 December 2017, as compared to 22.5% in China, 13.2% in Poland and 7.5% in Russia, based on the data of the World Bank and the respective national central banks (the NBK, the People's Bank of China, the National Bank of Poland and the Central Bank of Russia). Similarly, the Kazakhstan payments market is still at an early stage of development, as demonstrated by the number of bank cards per capita in Kazakhstan, amounting to 1.3 at the end of 2018, according to data from the NBK and the MNE, as compared to Poland (1.3), Russia (2.3), Brazil (3.0), Turkey (3.8) and China (12.5), and also lower than those of more developed economies such as the UK (6.6) and the USA (14.2), according to Euromonitor and the IMF. The total payment transaction value per capita at PPP (Purchasing Power Parity) in Kazakhstan was U.S.$9,394 in 2018, lower than those of other emerging economies such as China (U.S.$22,101), Turkey (U.S.$12,986), Russia (U.S.$11,709) and Poland (U.S.$10,425), according to data from Euromonitor, the IMF and World Bank.

Since we view payments and shopping via mobile devices as the key driver of growth going forward, we implement a "Mobile App Only" strategy, whereby we design our products and services to be used in our Mobile App so that our customers can be self-sufficient at all times. We believe that our strategy is supported by the increasing smartphone usage. According to Ovum (World Cellular Information Service), the total number of smartphone connections in Kazakhstan increased from 8.6 million in 2014 to 17.0 million in 2018, and is expected to reach 21.5 million by 2022, with the share of smartphones in total connections expected to increase from 65.3% in 2018 to 75.2% in 2022. See "*Industry Overview*".

Seasonality

Our Ecosystem is built around daily customer needs and therefore mirrors consumer spending. Consumers on our Marketplace tend to spend less in the first quarter of the year and increase spending as the year-end holiday shopping season commences.

In addition to the general trend, we face the impact of Kaspi Juma (our shopping festival similar to Black Friday in the U.S. and Singles Day in China) on our GMV which in turn affects the results of operations of our Marketplace in the relevant quarter. For example, 18.3% of our GMV in the second quarter of 2019 was attributable to Kaspi Juma in June 2019 while 12.1% of our GMV in the third quarter of 2018 was driven by Kaspi Juma in July 2018. In 2019, we decided to move Kaspi Juma to June in order to have a larger time gap between the shopping festival and back to school season. Therefore, in 2019 we had Kaspi Juma in the second quarter, while in 2018 we had Kaspi Juma in the third quarter. As a result of this change, in 2019 we have had an impact on the redistribution of quarterly GMV between the second and the third quarters which has led to higher growth of GMV in the second quarter of 2019 compared to the second quarter of 2018 and is expected to result in lower growth of GMV in the third quarter of 2019 as compared to the third quarter of 2018. Going forwards, we intend to conduct our summer Kaspi Juma event in June; thus, starting from 2020 our quarterly results of operations will be fully comparable with the respective results of the previous year.

Whilst we have not experienced significant seasonality in our results of operations during the period under review, due to our ongoing high growth which has mitigated seasonal effects, we may experience seasonal impact on our revenue in the future (in particular, on a quarterly basis) following our organic transition to moderate rates of growth.

Macroeconomic Environment

Substantially all our assets and customers are located in Kazakhstan. As a result, our revenues and profitability depend on economic conditions in Kazakhstan.

Macroeconomic conditions in Kazakhstan significantly impact the demand for our services. During periods of economic growth, overall consumer spending tends to increase along with growth of consumer wealth, and during economic downturns consumer spending tends to correspondingly decline. These fluctuations can have a considerable impact on the engagement of customers and merchants within our Ecosystem.

The following table sets forth certain key Kazakhstan economic indicators as at or for the years indicated:

	As at and for the year ended 31 December		
	2016	**2017**	**2018**
GDP (*in KZT billions at current prices*)	46,971	53,101	59,614
Nominal GDP growth (*in % change in physical volume of GDP*)	(25.5)%	16.1%	15.6%
Real GDP growth (*in % change in physical volume of GDP*)	1.1%	4.1%	4.1%
(Deficit)/surplus of the federal budget of Kazakhstan (*in KZT millions*)	(737,718)	(1,455,320)	(833,072)
Official reserves (*in U.S.$ billions*)	29.7	30.7	30.9
Inflation (*in %*)	8.5%	7.1%	5.3%
Unemployment (*in %*)	5.0%	4.9%	4.9%
Real wages (*in %*)	(1.1)%	(1.7)%	1.7%
Real disposable money income (*in %*)	(0.7)%	1.0%	5.3%
Nominal private consumption (*in KZT billions*)	25,620	27,584	30,672
Private consumption real growth (*in %*)	1.2%	1.3%	5.3%
Population (*in millions*)	17.9	18.2	18.4
Nominal appreciation/(depreciation) of the tenge against the dollar (*in %*)	(54.3)%	4.7%	(5.7)%
Real appreciation/(depreciation) of the tenge against the dollar (*in %*)	(29.4)%	10.4%	(1.8)%

Source: World Bank, NBK, MNE, EIU © Reproduced with permission of the Economist Intelligence Unit

Components of Results of Operations

Revenue

Revenue includes interest revenue, fees and commission revenue, seller fees, transaction and membership revenue and other gains/losses.

Interest revenue includes interest earned on loans to customers, securities and deposits.

Fees and commissions mainly include banking fees and commissions associated with provided consumer finance.

Seller fees include fees paid by merchants from shopping transaction originated during both online and in-store shopping. We earn seller fees when transactions are completed on the Marketplace Platform. Seller fees are generally calculated as a percentage based on the GMV being sold by merchants.

Transaction and membership revenue includes transaction fees paid by merchants and customers when we enable various payment, wire transfer and purchase transactions and membership fees paid by customers and merchants for accessing various Kaspi Ecosystem services.

Other gains/losses include net gains/losses on foreign exchange operations and financial assets and liabilities at fair value through profit or loss.

Cost of Revenue

Cost of revenue includes interest expense, transaction expenses and operating expenses, which are directly attributable to our everyday operating activities.

Interest expenses include interest expense on customer accounts, mandatory insurance of retail deposits, interest expense on debt securities and subordinated debt.

Transaction expenses are mainly composed of the costs associated with accepting, processing and otherwise enabling payment transactions. Those costs include fees paid to payment processors, payment networks and various service providers.

Operating expenses include costs incurred to operate our Kaspi.kz outlets and POS, 24-hour call support and communication with customers, product packaging, consumer finance origination and risk assessment, customer deposit acquisition and other expenses which can be attributed to our operating activities related to the origination and delivery of products and services.

Operational Costs

For the reader's convenience, we have grouped technology and product development, sales and marketing expenses, and general and administrative expenses into operational costs for the purposes of operating and financial review.

Technology and Product Development

Technology and product development expenses consist of staff and contractor costs that are incurred in connection with the research and development of new and existing products and services, development, design, data science and maintenance of our products and services, and infrastructure costs. Infrastructure costs include servers, networking equipment, data centre and payment equipment related depreciation, rent, utilities, and other expenses necessary to support our technologies and platforms. Collectively, these costs reflect the technology investments we make in order to offer a wide variety of products and services to our customers within the Kaspi Ecosystem.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of online and offline advertising expenses, promotion expenses, bonuses under Kaspi Bonus, staff costs and other expenses that are incurred directly to attract or retain consumers and merchants for the Kaspi Ecosystem.

General and Administrative Expenses

General and administrative expenses consist primarily of costs incurred to provide support to our business, including legal, human resources, finance, risk, compliance, executive, professional services fees, office facilities and other support functions.

Provision Expense

Impairment gains and losses recognised on financial assets are recorded in the "provision expense" line in our consolidated statement of profit or loss. For 2016 and 2017, financial assets were considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. With effect from 1 January 2018, provision expenses are recognised based on the Expected Credit Loss ("**ECL**") measurement in accordance with IFRS 9. ECL is a probability-weighted measurement of the present value of future cash shortfalls (i.e. the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights).

Income Tax

Income tax includes current income and deferred tax expense with respect to our operating income under the tax regulations of Kazakhstan.

Discussion and Analysis of Results of Operations for the six months ended 30 June 2019 and 2018

Payments Platform

The following table sets forth Payments Platform's results of operations for the periods indicated.

	Six months ended 30 June			
	2018	**2019**	**2019**	**2019**
	KZT million		**U.S.$ million(1)**	**% change from prior period**
REVENUE	**9,123**	**25,330**	**67**	**177.6%**
Interest Revenue	3,161	6,838	18	116.3%
Transaction & Membership Revenue	5,962	18,492	49	210.2%
COST OF REVENUE	**(3,464)**	**(7,277)**	**(19)**	110.0%
Transaction Expenses	(1,926)	(4,552)	(12)	136.3%
Operating Expenses	(1,538)	(2,725)	(7)	77.2%
TOTAL NET REVENUE	**5,659**	**18,053**	**48**	219.0%
Technology & Product Development	(1,604)	(3,107)	(8)	**93.6%**
Sales & Marketing	(1,786)	(3,496)	(9)	95.8%
General & Administrative Expenses	(285)	(545)	(1)	91.3%
OPERATING INCOME	**1,984**	**10,905**	**29**	449.7%
Income tax	(341)	(1,745)	(5)	411.2%
NET INCOME	**1,643**	**9,160**	**24**	**457.5%**

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

The table below sets forth the key metrics in respect of our Payments Platform in the first half of 2018 and 2019:

	Six months ended 30 June			
	2018	**2019**	**2019**	**2019**
			U.S.$(1)	**% change from prior period**
TPV (*in KZT millions*)	478,095	1,338,188	3,530 million	179.9%
TPV per Active Customer (*in KZT thousands*)	404	605	1,595	49.5%
Number of Payments Active Customers (*thousands of customers*)	1,789	3,737	-	109.0%
TNP (*in thousands of transactions*)	101,780	226,730	-	122.8%
Number of Payments per Active Customer	80	99	-	22.6%
Number of Payments Active Merchants (*in thousands*)	5.2	8.9	-	72.5%
Number of Payments Active Stores (*in thousands*)	6.6	12.3	-	86.0%
Payments Take Rate (*in %*)	1.1%	1.3%	-	-
Average Balances on Current Accounts (*in KZT millions*)	63,521	148,005	390 million	133.0%

Yield on Average Balances (*in %*)............................	10.0%	9.2%	-	-
Payments Average Check (*in KZT*)...........................	4,697	5,902	16	25.7%

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

Revenue

The revenue of our Payments Platform increased by 177.6% to KZT25,330 million (U.S.$67 million) in the first half of 2019 from KZT9,123 million in the first half of 2018. In turn, in the second quarter of 2019, the revenue of our Payments Platform increased by 29.8% to KZT14,306 million from KZT11,024 million in the first quarter of 2019. The increase was due to the growth of both components of revenue (transaction and membership revenue, as well as interest revenue).

Transaction and membership revenue increased by 210.2% to KZT18,492 million (U.S.$49 million) in the first half of 2019 from KZT5,962 million as a result of growth of TPV and Payments Take Rate. Our TPV increased by 179.9% from KZT478,095 million in the first half of 2018 to KZT1,388,188 million (U.S.$3,530 million) in the first half of 2019, and by 33.0% to KZT763,784 million in the second quarter of 2019 from KZT574,405 million in the first quarter of 2019. The growth in TPV was mainly driven by the increasing number of transactions during the period under review as a result of the growth of the number of Payments Active Customers (from 1,789 thousand in the first half of 2018 to 3,737 thousand in the first half of 2019), the number of Payments per Active Customer (from 80 in the first half of 2018 to 99 in the first half of 2019), the number of Payments Active Merchants (from 5.2 thousand in the first half of 2018 to 8.9 thousand in the first half of 2019), the number of Payments Active Stores (from 6.6 thousand in the first half of 2018 to 12.3 thousand in the first half of 2019), as well as the increasing Payments Average Check (from KZT4,697 in the first half of 2018 to KZT5,902 in the first half of 2019). The TNP through our Payments Platform increased by 122.8% from 101.8 million in the first half of 2018 to 226.7 million in the first half of 2019.

Our Payments Take Rate improved from 1.1% in the first half of 2018 to 1.3% in the first half of 2019, which was primarily attributable to the growing share of higher margin transactions effected via Kaspi Gold debit card where we charge higher fees (from 48.2% of TPV in the first half of 2018 to 62.4% of TPV in the first half of 2019).

Interest revenue increased by 116.3% to KZT6,838 million (U.S.$18 million) in the first half of 2019 from KZT3,161 million as a result of growth of our Average Balances on Current Accounts which increased by 133.0% to KZT148,005 million in the first half of 2019 from KZT63,521 million in the first half of 2018. The increase in Average Balances on Current Accounts was driven by the increase in the number of Active Customers which transact through, and maintain current accounts with, Kaspi.kz. In turn, the Yield on Average Balances decreased to 9.2% in the first half of 2019 from 10.0% in the first half of 2018 in line with the market environment.

Cost of Revenue

The following table sets forth breakdown of our cost of revenue of our Payments Platform and cost of revenue ratio for the periods indicated.

	Six-month period ended 30 June			
	2018	**2019**	**2019**	**2019**
	KZT million		**U.S.$ million(1)**	**% change from prior period**
Transaction Expenses	(1,926)	(4,552)	(12)	136.3%
Operating Expenses	(1,538)	(2,725)	(7)	77.2%
Total cost of revenue..............................	**(3,464)**	**(7,277)**	**(19)**	**110.0%**
Cost of revenue ratio (Payments) (%)......	38.0%	28.7%	-	-

	Six-month period ended 30 June			
	2018	2019	2019	2019
	KZT million		U.S.$ million[(1)]	% change from prior period

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

While cost of revenue of Payments Platform increased by 110.0% to KZT7,277 million (U.S.$19 million) in the first half of 2019 from KZT3,464 million in the first half of 2018 due to the growth of all components of our cost of revenue in line with expansion of our Payments business, our cost of revenue ratio of Payments Platform decreased from 38.0% in the first half of 2018 to 28.7% in the first half of 2019 (and from 35.1% in the first quarter of 2019 to 23.8% in the second quarter of 2019). This is mainly explained by the growth of the revenue of the Payments Platform at a higher rate (due to a higher demand for payment services) than the growth of our cost of revenue (including due to the renegotiation of fees charged by one of the international payment systems in the second quarter of 2019), which we believe demonstrates our operating leverage, whereby we can reduce structural costs through strong synergies across our Platforms due to the network effect. The cost of revenue of our Payments Platform decreased by 11.9% from KZT3,868 million in the first quarter of 2019 to KZT3,409 million in the second quarter of 2019.

Transaction expenses

Transaction expenses of the Payments Platform increased by 136.3% to KZT4,552 million (U.S.$12 million) in the first half of 2019 from KZT1,926 million in the first half of 2018 as a result of the growth in TPV, since we are required to pay fees to payment processors, payment networks and various service providers.

Operating expenses

Operating expenses of the Payments Platform increased by 77.2% to KZT2,725 million (U.S.$7 million) in the first half of 2019 from KZT1,538 million in the first half of 2018 in line with the growth of volumes of our Payments Platform and resulting increased expenses related to the origination and delivery of products and services.

Net Revenue

For the reasons described above, the net revenue of our Payments Platform was KZT5,659 million and KZT18,053 million in the first half of 2018 and 2019, respectively, and stood at KZT7,156 million and KZT10,897 million, respectively, in the first and second quarters of 2019.

Operational Costs

The following table sets forth breakdown of operational costs of our Payments Platform and operational costs as a percentage of revenue for the periods indicated.

	Six-month period ended 30 June			
	2018	2019	2019	2019
	KZT million		U.S.$ million[(1)]	% change from prior period
Technology and product development.....	(1,604)	(3,107)	(8)	93.6%
Sales and marketing................................	(1,786)	(3,496)	(9)	95.8%
General and administrative expenses.......	(285)	(545)	(1)	91.3%
Total operational costs	**(3,675)**	**(7,148)**	**(18)**	**94.5%**
Percentage of revenue (Payments) (%)....	40.3%	28.2%	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

While operational costs of the Payments Platform increased by 94.5% to KZT7,148 million (U.S.$18 million) in the first half of 2019 from KZT3,675 million in the first half of 2018, we managed to decrease them from 40.3% in the first half of 2018 to 28.2% in the first half of 2019 due to our prudent approach to cost management, which positively translates into increases of our Net Income Margin. A decrease in operational costs of Payments as a percentage of revenue of Payments is mainly due to a higher growth rate of revenue of Payments (94.5% as compared to 177.6%).

Technology and product development

Technology and product development expenses of Payments increased by 93.6% to KZT3,107 million (U.S.$8 million) in the first half of 2019 from KZT1,604 million in the first half of 2018. The growth of technology and product development expenses of Payments was driven by a 122.8% increase in the number of payment transactions and a 72.5% increase in the number of Payments Active Merchants.

Sales and marketing

Sales and marketing expenses of Payments increased by 95.8% to KZT3,496 million (U.S.$9 million) in the first half of 2019 from KZT1,786 million in the first half of 2018. The increase of sales and marketing expenses of Payments is a result of continuous growth of the number of Payments Active Customers by 109.0% and their transactions by 122.8% resulting in a 179.9% growth of TPV.

General and administrative expenses

General and administrative expenses of Payments increased by 91.3% to KZT545 million (U.S.$1 million) in the first half of 2019 from KZT285 million in the first half of 2018, which was in line with the growth of our Payments business.

Operating Income

For the reasons described above, the Payments Platform's operating income was KZT10,905 million and KZT1,984 million in the first half of 2019 and 2018, respectively.

Income Tax

Income tax of Payments increased by 411.2% from KZT341 million in first half of 2018 to KZT1,745 million (U.S.$5 million) in the first half of 2018 primarily due to higher amounts of taxable operating income.

Net Income

For the reasons described above, the Payments Platform's net income was KZT9,160 million and KZT1,643 million in the first half of 2019 and 2018, respectively, representing a 457.5% increase. In turn, in the second and first quarters of 2019, the Payments Platform's net income amounted to KZT5,958 million and KZT3,202 million, respectively, representing a 86.1% increase. The Net Income Margin of the Payments Platform improved from 18.0% in the first half of 2018 to 36.2% in the first half of 2019 and from 29.1% in the first quarter of 2019 to 41.7% in the second quarter of 2019 as a result of our ability to improve our operational costs with a significant increase of our revenue and operating income.

Marketplace Platform

The following table sets forth our Marketplace Platform's results of operations for the periods indicated.

	Six months ended 30 June			
	2018	**2019**	**2019**	**2019**
	KZT million		**U.S.$ million(1)**	**% change from prior period**
REVENUE	**7,941**	**15,761**	**42**	**98.5%**

Seller Fees	7,941	15,761	42	98.5%
COST OF REVENUE	**(489)**	**(810)**	**(2)**	**65.6%**
Transaction Expenses	(59)	(76)	-	28.8%
Operating Expenses	(431)	(735)	(2)	70.7%
TOTAL NET REVENUE	**7,451**	**14,951**	**39**	**100.6%**
Technology & Product Development	(1,298)	(1,526)	(4)	17.6%
Sales & Marketing	(1,495)	(1,731)	(5)	15.8%
General & Administrative Expenses	(97)	(183)	-	87.7%
OPERATING INCOME	**4,561**	**11,511**	**30**	**152.3%**
Income tax	(785)	(1,843)	(5)	134.6%
NET INCOME	**3,776**	**9,668**	**25**	**156.0%**
Cost of revenue ratio (%)	6.2%	5.1%	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

The table below sets forth the key metrics in respect of our Marketplace Platform in the first half of 2018 and 2019:

	Six months ended 30 June			
	2018	**2019**	**2019**	**2019**
			U.S.$(1)	**% change from prior period**
GMV (*in KZT millions*)	155,130	241,776	638 million	55.9%
In-Store GMV (*in KZT millions*)	84,477	98,144	259 million	16.2%
Online GMV (*in KZT millions*)	36,439	64,150	169 million	76.1%
Shopping Club GMV (*in KZT millions*)	34,215	79,481	210 million	132.3%
Marketplace Active Customers (*in thousands of customers*)	1,811	2,363	-	30.4%
Number of Purchases (*in thousands of purchases*)	3,850	9,417	-	144.6%
Number of Marketplace Active Merchants (*in thousands of merchants*)	5.6	8.8	-	56.5%
Number of Marketplace Active Stores (*in thousands of stores*)	9.1	14.9	-	64.1%
Retention Rate of Marketplace Active Merchants (*in %*)	99.5%	99.3%	-	-
GMV per Active Customer (*in KZT thousands*)	175.5	212.4	560	21.0%
GMV per Active Merchant (*in KZT millions*)	56.3	56.8	149,790	0.8%
Number of Purchases per Active Customer	3.7	6.8	-	86.0%
Marketplace Take Rate (*in %*)	5.1%	6.5%	-	-
Marketplace Average Check (*in KZT thousands*)	40.3	25.7	68	(36.3)%

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

Revenue

Revenue of our Marketplace Platform increased by 98.5% to KZT15,761 million (U.S.$42 million) in the first half of 2019 from KZT7,941 million in the first half of 2018 as a result of growth of seller fees due to the growth of GMV and Marketplace Take Rate.

Our GMV increased by 55.9% from KZT155,130 million in the first half of 2018 to KZT241,776 million (U.S.$638 million) in the first half of 2019. The growth in GMV was mainly driven by the increasing number of purchases during the period under review as a result of the growth of the number of Marketplace Active Customers (from 1.8 million in the first half of 2018 to 2.4 million in the first half of 2019) and the Purchases per Active Customer (from 3.7 in the first half of 2018 to 6.8

in the first half of 2019). The Number of Purchases through our Marketplace increased by 144.6% to 9,417 thousand in the first half of 2019 from 3,850 thousand in the first half of 2018.

On a quarterly basis, we face the impact of Kaspi Juma (our shopping festival similar to Black Friday in the U.S. and Singles Day in China) on our GMV which in turn affects results of operations of our Marketplace in the relevant quarter. For example, 18.3% of our GMV in the second quarter of 2019 was attributable to Kaspi Juma in June 2019 while 12.1% of our GMV in the third quarter of 2018 was driven by Kaspi Juma in July 2018. In 2019, we decided to move Kaspi Juma to June in order to have a larger time gap between the shopping festival and back-to-school season. Therefore, in 2019 we had Kaspi Juma in the second quarter, while in 2018 we had Kaspi Juma in the third quarter. As a result of this change, in 2019 we have had an impact on redistribution of quarterly GMV between the second and the third quarters which has led to higher growth of GMV in the second quarter of 2019 compared to the second quarter of 2018 and is expected to result in lower growth of GMV in the third quarter of 2019 as compared to the third quarter of 2018. Going forwards, we intend to conduct our summer Kaspi Juma event in June; thus, starting from 2020 our quarterly results of operations will be fully comparable with the respective results of the previous year. See "*-Factors Affecting our Results of Operations - Seasonality*".

Our Marketplace Take Rate increased from 5.1% in the first half of 2018 to 6.5% in the first half of 2019. The increase in the Marketplace Take Rate reflects growth in the number of Marketplace Active Merchants (from 5.6 thousand in the first half of 2018 to 8.8 thousand in the first half of 2019), the diversification in our GMV mix and our entry into higher margin product categories (such as clothing, cosmetics, accessories and restaurants which allows us to charge the respective merchants higher seller fees as compared to merchants engaged in lower margin sales such as electronics). Our Marketplace Average Check decreased from KZT40.3 thousand in the first half of 2018 to KZT25.7 thousand in the first half of 2019 due to the increasing share of Kaspi Red purchases, typically associated with smaller checks.

Cost of Revenue

The following table sets forth breakdown of our cost of revenue of our Marketplace and cost of revenue ratio for the periods indicated.

	Six-month period ended 30 June			
	2018	**2019**	**2019**	**2019**
	KZT million		**U.S.$ million(1)**	**% change from prior period**
Transaction Expenses	(59)	(76)	(0)	28.8%
Operating Expenses	(431)	(735)	(2)	70.7%
Total cost of revenue	**(489)**	**(810)**	**(2)**	**65.6%**
Cost of revenue ratio (Marketplace) (%)	6.2%	5.1%	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

While cost of revenue of Marketplace increased by 65.6% to KZT810 million (U.S.$2 million) in the first half of 2019 from KZT489 million in the first half of 2018 due to the growth of all components of our cost of revenue in line with expansion of our Marketplace business, our cost of revenue ratio of Marketplace decreased from 6.2% in the first half of 2018 to 5.1% in the first half of 2019 primarily due to the growth in the Marketplace Take Rate in the respective periods and gradual consumers' shift from in-store to online shopping, as well as our operating leverage, whereby we can reduce structural costs through strong synergies across our Platforms due to the network effect .

Transaction expenses

Transaction expenses of our Marketplace increased by 28.8% to KZT76 million in the first half of 2019 from KZT59 million in the first half of 2018 in line with the growth of our business.

Operating expenses

Operating expenses of our Marketplace increased by 70.7% to KZT735 million (U.S.$2 million) in the first half of 2019 from KZT431 million in the first half of 2018 in line with the growth of volumes of our Marketplace and resulting increased expenses related to the origination and delivery of products and services.

Net Revenue

For the reasons described above, net revenue of our Marketplace increased by 100.7% to KZT14,951 million in the first half of 2019 from KZT7,451 million in the first half of 2018.

Operational Costs

The following table sets forth breakdown of operational costs of our Marketplace and operational costs as a percentage of revenue for the periods indicated.

	Six-month period ended 30 June			
	2018	**2019**	**2019**	**2019**
	KZT million		**U.S.$ million[(1)]**	**% change from prior period**
Technology and product development	(1,298)	(1,526)	(4)	17.6%
Sales and marketing	(1,495)	(1,731)	(5)	15.8%
General and administrative expenses	(97)	(183)	-	87.7%
Total operational costs	**(2,890)**	**(3,440)**	**(9)**	**19.0%**
Percentage of revenue (Marketplace) (%)	36.4%	21.8%	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

While operational costs of our Marketplace increased by 19.0% to KZT3,440 million (U.S.$9 million) in the first half of 2019 from KZT2,890 million in the first half of 2018, we managed to decrease them as a percentage of revenue of our Marketplace from 36.4% in the first half of 2018 to 21.8% in the first half of 2019 due to our prudent approach to cost management, which positively translates into increases of our Net Income Margin. A decrease in operational costs of our Marketplace as a percentage of revenue of our Marketplace is mainly due to a substantially higher growth rate of revenue of our Marketplace (98.5% as compared to 19.0%).

Technology and product development

Technology and product development expenses of our Marketplace increased by 17.6% to KZT1,526 million (U.S.$4 million) in the first half of 2019 from KZT1,298 million in the first half of 2018. The increase in technology and product development expenses of our Marketplace was driven by a 144.6% increase in the number of purchases and a 56.5% increase in the number of Marketplace Active Merchants.

Sales and marketing

Sales and marketing expenses of our Marketplace increased by 15.8% to KZT1,731 million (U.S.$5 million) in the first half of 2019 from KZT1,495 million in the first half of 2018. The increase of sales and marketing expenses of our Marketplace is a result of continuous growth of the number of Marketplace Active Customers by 30.4% and their transactions by 144.6% resulting in a 55.9% growth of GMV.

General and administrative expenses

General and administrative expenses of our Marketplace increased by 87.7% to KZT183 million in the first half of 2019 from KZT97 million in the first half of 2018, which was in line with the growth of our Marketplace business.

Operating Income

For the reasons described above, the Marketplace Platform's operating income increased by 152.3% to KZT11,511 million in the first half of 2019 from KZT4,561 million in the first half of 2018.

Income Tax

Income tax of our Marketplace increased by 134.6% from KZT785 million in first half of 2018 to KZT1,843 million (U.S.$5 million) in the first half of 2018 primarily due to higher amounts of taxable operating income.

Net Income

For the reasons described above, the Marketplace Platform's net income increased by 156.0% to KZT9,668 million in the first half of 2019 from KZT3,776 million in the first half of 2018. Our Net Income Margin of our Marketplace improved from 47.6% in the first half of 2018 to 61.3% in the first half of 2019 as a result of our ability to improve our operational costs with a significant increase of our revenue.

Fintech Platform

The following table sets forth our Fintech Platform's results of operations for the periods indicated.

	Six months ended 30 June			
	2018	2019	2019	2019
	KZT million		U.S.$ million(1)	% change from prior period
REVENUE	**152,068**	**185,771**	**490**	**22.2%**
Interest Revenue	88,684	111,725	295	26.0%
Fees & Commissions	65,490	77,986	206	19.1%
Transaction & Membership Revenue	429	1,678	4	291.1%
Other gains/(losses)	(2,535)	(5,618)	(15)	121.6%
COST OF REVENUE	**(66,588)**	**(77,236)**	**(204)**	**16.0%**
Interest Expenses	(51,244)	(58,841)	(155)	14.8%
Transaction Expenses	(764)	(1,585)	(4)	107.5%
Operating Expenses	(14,580)	(16,810)	(44)	15.3%
TOTAL NET REVENUE	**85,480**	**108,534**	**286**	**27.0%**
Technology & Product Development	(4,486)	(4,820)	(13)	7.4%
Sales & Marketing	(3,530)	(6,267)	(17)	77.5%
General & Administrative Expenses	(3,950)	(4,975)	(13)	26.0%
Provision Expense	(19,597)	(23,213)	(61)	18.4%
OPERATING INCOME	**53,917**	**69,260**	**183**	**28.5%**
Income tax	(9,282)	(11,087)	(29)	19.4%
NET INCOME	**44,635**	**58,173**	**153**	**30.3%**
Cost of revenue ratio (%)	43.8%	41.6%	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

The table below sets forth the key metrics in respect of our Fintech Platform in the first half of 2018 and 2019:

	Six months ended 30 June			
	2018	**2019**	**2019**	**2019**
			U.S.$(1)	**% change from prior period**
Fintech TFV (*in KZT millions*)	669,508	865,014	2,282 million	29.2%
Number of Fintech Active Customers (*in thousands of customers*)	2,561	3,069	-	19.8%
Fintech TFV per Active Customer (*in KZT thousands*)	500	530	-	6.1%
Number of Fintech Financing Transactions (*in thousands of transactions*)	5,379	11,327	-	110.6%
Number of Fintech Financing Transactions per Active Customer	3.7	6.3	-	70.9%
Fintech Average Net Loan Portfolio (*in KZT millions*)	935,281	1,089,481	2,874 million	16.5%
Fintech Average Yield (*in %*)	30.1%	31.3%	-	-
Fintech TFV to Average Net Loan Portfolio Conversion Rate	1.4	1.5	-	-
Fintech Average Check (*in KZT thousands*)	124	76	201	(38.7)%

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

Revenue

Revenue of our Fintech Platform increased by 22.2% to KZT185,771 million (U.S.$490 million) in the first half of 2019 from KZT152,068 million in the first half of 2018 as a result of growth of principal components of revenue of Fintech (interest revenue and fees and commission mainly driven by expansion of TFV caused by the increasing number of consumer finance transactions fuelled by our Mobile App and Marketplace).

Interest revenue of our Fintech Platform increased by 26.0% to KZT111,725 million (U.S.$295 million) in the first half of 2019 from KZT88,684 million in the first half of 2018 as a result of growth of Fintech Average Net Loan Portfolio and Fintech Average Yield.

Fees and commissions of our Fintech Platform increased by 19.1% to KZT77,986 million (U.S.$206 million) in the first half of 2019 from KZT65,490 million in the first half of 2018 as a result of growth of number of Fintech Financing Transactions.

The increase in the number of Fintech Financing Transactions by 110.6% to 3,069 thousand in the first half of 2019 from 5,379 thousand in the first half of 2018 resulted in the growth of Fintech TFV by 29.2% to KZT865,014 million (U.S.$2,282 million) in the first half of 2019 from KZT669,508 million in the first half of 2018, mainly driven by the increase in the number of Fintech Active Customers by 19.8% to 3,069 thousand in the first half of 2019 from 2,561 thousand in the first half of 2018.

Our Fintech Average Yield increased to 31.3% in the first half of 2019 from 30.1% in the first half of 2018 as a result of changes in product mix (in particular, from the increasing share of general purpose loans, which are associated with higher yield), and the increase in prices for our consumer finance products.

Based on management accounts, in the first half of 2019, out of KZT185,771 million in total revenue of the Fintech Platform, yield-based revenue comprised KZT170,507 million, whereas other revenue (including interest revenue from liquidity management and other gains and losses) amounted to KZT15,264 million, as compared to KZT140,868 million and KZT11,200 million, respectively, out of KZT152,068 million in the first half of 2018.

The Fintech Average Check decreased by 38.7% from KZT124 thousand in the first half of 2018 to KZT76 thousand in the first half of 2019. The gradual decrease in the Fintech Average Check is mainly due to the growth in the number of Kaspi Red Shopping Club transactions in the corresponding periods.

Cost of Revenue

The following table sets forth breakdown of our cost of revenue of our Fintech and cost of revenue ratio for the periods indicated.

	Six-month period ended 30 June			
	2018	**2019**	**2019**	**2019**
	KZT million		**U.S.$ million[(1)]**	**% change from prior period**
Interest Expenses	(51,244)	(58,841)	(155)	14.8%
Transaction Expenses	**(764)**	(1,585)	(4)	107.5%
Operating Expenses	(14,580)	(16,810)	(44)	15.3%
Total cost of revenue	**(66,588)**	**(77,236)**	**(204)**	**16.0%**
Cost of revenue ratio (Fintech) (%)	43.8%	41.6%	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

While cost of revenue of Fintech increased by 16.0% to KZT77,236 million (U.S.$204 million) in the first half of 2019 from KZT66,588 million in the first half of 2018 due to the growth of all components of cost of revenue in line with expansion of Fintech operations, our cost of revenue ratio of Fintech decreased to 41.6% in the first half of 2019 from 43.8% in the first half of 2018 primarily due to the decrease in the cost of funding, as well as our operating leverage, whereby we can reduce structural costs through strong synergies across our Platforms due to the network effect.

Interest expenses

Interest expenses of Fintech increased by 14.8% to KZT58,841 million in the first half of 2019 from KZT51,244 million in the first half of 2018 due to the increase of our liabilities to fund the expansion of Fintech operations, primarily retail deposit portfolio.

Transaction expenses

Transaction expenses of Fintech increased by 107.5% to KZT1,585 million in the first half of 2019 from KZT764 million in the first half of 2018 due to the expansion of Fintech operations.

Operating expenses

Operating expenses of Fintech increased by 15.3% to KZT16,810 million (U.S.$44 million) in the first half of 2019 from KZT14,580 million in the first half of 2018 in line with the growth of volumes of Fintech and resulting increased expenses related to the origination and delivery of products and services.

Net Revenue

For the reasons described above, net revenue of Fintech increased by 27.0% to KZT108,534 million in the first half of 2019 from KZT85,480 million in the first half of 2018.

Operational Costs

The following table sets forth breakdown of operational costs of Fintech and operational costs as a percentage of revenue for the periods indicated.

	Six-month period ended 30 June			
	2018	2019	2019	2019
	KZT million		U.S.$ million(1)	% change from prior period
Technology and product development.....	(4,486)	(4,820)	(13)	7.4%
Sales and marketing................................	(3,530)	(6,267)	(17)	77.5%
General and administrative expenses.......	(3,950)	(4,975)	(13)	26.0%
Total operational costs	**(11,966)**	**(16,062)**	**(43)**	**34.2%**
Percentage of revenue (Fintech) (%)	7.9%	8.6%	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

Operational costs of Fintech increased by 34.2% to KZT16,062 million (U.S.$43 million) in the first half of 2019 from KZT11,966 million in the first half of 2018. Operational costs of Fintech as a percentage of revenue of Fintech also increased to 8.6% in the first half of 2019 from 7.9% in the first half of 2018 due to growth in sales and marketing costs and Kaspi Bonus in particular.

Technology and product development

Technology and product development expenses of Fintech increased by 7.4% to KZT4,820 million (U.S.$13 million) in the first half of 2019 from KZT4,486 million in the first half of 2018. The increase in technology and product development expenses of our Fintech was mainly driven by a 110.6% increase in the number of Fintech Financing Transactions.

Sales and marketing

Sales and marketing expenses of Fintech increased by 77.5% to KZT6,267 million (U.S.$17 million) in the first half of 2019 from KZT3,530 million in the first half of 2018. The increase of sales and marketing expenses of our Fintech is a result of continuous growth of the number of Fintech Active Customers by 19.8% and their transactions by 110.6% resulting in a 29.2% growth of Fintech TFV.

General and administrative expenses

General and administrative expenses of Fintech increased by 26.0% to KZT4,975 million in the first half of 2019 from KZT3,950 million in the first half of 2018 mainly due to the increase in employee benefits of Fintech.

Provision Expense

The following table sets forth the provision expense and cost of risk for the periods indicated:

	Six-month period ended 30 June			
	2018	2019	2019	2019
	KZT million		U.S.$ million(1)	% change from prior period
Provision expense...................................	(19,597)	(23,212)	(61)	18.5%
Cost of risk	3.8%	4.1%	-	-

Our provision expense increased by 18.5% to KZT23,212 million (U.S.$61 million) in the first half of 2019 from KZT19,597 million in the first half of 2018. This increase was primarily due to the expansion of the consumer finance portfolio originated through Fintech with the average balances of loans to customers were KZT1,089,481 million in the first half of 2019 as compared to KZT935,281 million in the first half of 2018. Our cost of risk remained stable at 4.1% in the first half of 2019 as compared to 3.8% in the first half of 2018 as a result of our prudent provisioning policy which relies on our centralised decision-making process, proprietary risk algorithms and predictive scoring models for the evaluation of the risks of potential borrowers using statistical modelling supplemented by data received from credit bureaus (LLC First Credit Bureau and LLC State Credit Bureau) and the Pension Centre with regard to each customer, as well as our effective collection procedures.

Operating Income

For the reasons described above, Fintech's operating income increased by 28.5% to KZT69,260 million in the first half of 2019 from KZT53,917 million in the first half of 2018.

Income Tax

Income tax of our Fintech increased by 19.4% to KZT11,087 million (U.S.$29 million) in first half of 2019 from KZT9,282 million in the first half of 2018 primarily due to higher amounts of taxable operating income.

Net Income

For the reasons described above, Fintech's net income increased by 30.3% to KZT58,173 million in the first half of 2019 from KZT44,635 million in the first half of 2018. Our Net Income Margin of our Fintech improved to 31.3% in the first half of 2019 from 29.4% in the first half of 2018 as a result of our ability to improve our operational costs with a significant increase of our revenue and operating income.

Group

We achieved significant growth and strong operating results in the first half of 2019. The following table sets forth our consolidated statement of profit or loss for the periods indicated.

	Six-month period ended 30 June			
	2018	**2019**	**2019**	**2019**
	KZT million		**U.S.$ million(1)**	**% change from prior period**
REVENUE	**169,132**	**226,862**	**598**	**34.13%**
Interest Revenue	91,845	118,563	313	29.1%
Fees & Commissions	65,490	77,986	206	19.1%
Seller Fees	7,941	15,761	42	98.5%
Transaction & Membership Revenue	6,391	20,170	53	215.6%
Other gains/(losses)	(2,535)	(5,618)	(15)	121.6%
COST OF REVENUE	**(70,542)**	**(85,324)**	**(225)**	**21.0%**
Interest Expenses	(51,244)	(58,841)	(155)	14.8%
Transaction Expenses	(2,749)	(6,213)	(16)	126.0%
Operating Expenses	(16,549)	(20,270)	(53)	22.5%
TOTAL NET REVENUE	**98,590**	**141,538**	**373**	**43.6%**
Technology & Product Development	(7,388)	(9,453)	(25)	27.9%
Sales & Marketing	(6,811)	(11,494)	(30)	68.8%
General & Administrative Expenses	(4,331)	(5,703)	(15)	31.7%
Provision Expense	(19,597)	(23,212)	(61)	18.45%
OPERATING INCOME	**60,463**	**91,676**	**242**	**51.6%**
Income tax	(10,409)	(14,675)	(39)	41.0%
NET INCOME	**50,054**	**77,001**	**203**	**53.84%**
Cost of revenue ratio	41.7%	37.6%	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

Revenue

Our revenue increased by 34.13% to KZT226,862 million (U.S.$598 million) in the first half of 2019 from KZT169,132 million in the first half of 2018. The increase was due to the growth of all components of revenue in each of our Platforms, with transaction and membership revenue (mostly attributable to our Payments) and seller fees (attributable to our Marketplace) growing at a higher rate than fees and commissions and interest revenue.

Our strong growth of revenue is primarily explained by the increase in: (i) the TPV and the Payments Take Rate in our Payments Platform; (ii) the GMV and the Marketplace Take Rate in our Marketplace Platform; and (iii) the TFV in our Fintech Platform. The growth of our principal metrics is primarily due to the increased number of transactions as a result of the growth of number of Active Customers and number of transactions per Active Customer.

In the first half of 2019, the majority of our revenue was attributable to the products and services offered through the Fintech Platform, although the share of this segment decreased from 89.9% in the six months ended 30 June 2018 to 81.9% in the first half of 2019 as a result of a faster growth of revenues of the Payments and Marketplace Platforms.

Cost of Revenue

The following table sets forth our cost of revenue breakdown by components for the periods indicated.

	Six-month period ended 30 June			
	2018	**2019**	**2019**	**2019**
	KZT million		**U.S.$ million(1)**	**% change from prior period**
Interest expenses	(51,244)	(58,841)	(155)	14.8%
Transaction expenses	(2,749)	(6,213)	(16)	126.0%
Operating expenses	(16,549)	(20,270)	(53)	22.5%
Cost of revenue	**(70,542)**	**(85,324)**	**(225)**	**21.0%**
Cost of revenue ratio (%)	41.7%	37.6%	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

Our total cost of revenue increased by 21.0% to KZT85,324 million (U.S.$225 million) in the six months ended 30 June 2019 from KZT70,542 million in the six months ended 30 June 2018 due to the growth of all components of our cost of revenue in line with expansion of our business. In the meantime, our cost of revenue ratio decreased from 41.7% in the six months ended 30 June 2018 to 37.6% in the six months ended 30 June 2019, which we believe demonstrates our operating leverage, whereby we can reduce structural costs through strong synergies across our Platforms due to the network effect.

Interest expenses

The following table sets forth breakdown of our interest expenses for the periods indicated.

	Six-month period ended 30 June			
	2018	**2019**	**2019**	**2019**
	KZT million		**U.S.$ million(1)**	**% change from prior period**
Customer accounts	(39,781)	(47,445)	(125)	19.3%
Debt securities issued	(4,849)	(6,845)	(18)	41.2%
Subordinated debt	(4,617)	(4,138)	(11)	(10.4)%
Due to banks	(1,997)	(413)	(1)	(79.3)%

	Six-month period ended 30 June			
	2018	2019	2019	2019
	KZT million		U.S.$ million(1)	% change from prior period
Total interest expenses	**(51,244)**	**(58,841)**	**(155)**	**14.8%**
Average rate paid on interest-bearing liabilities (%)(2)	8.2%	7.6%	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

(2) Average rate paid on interest-bearing liabilities is calculated as interest expense for the respective period divided by average interest-bearing liabilities (calculated on the basis of a simple average of monthly closing balances for each relevant period) and annualised. The calculation comprises a six-monthly basis multiplied by two.

Our interest expenses increased by 14.8% to KZT58,841 million (U.S.$155 million) in the first half of 2019 from KZT51,244 million in the first half of 2018 due to a 23.4% growth of average interest-bearing liabilities in the first half of 2019 as compared to the first half of 2018 as a result of an increase of average balances of customer accounts, while average rate paid on interest-bearing liabilities decreased to 7.6% in the first half of 2019 in line with the prevailing interest rate environment.

Our interest expenses on customer accounts increased by 19.3% to KZT47,445 million (U.S$125 million) in the first half of 2019 from KZT39,781 million in the first half of 2018. The growth was primarily due to a 30.6% growth of average balances of customer accounts as a result of increase of retail deposits while the average rate paid on customer accounts decreased to 7.2% in the first half of 2019 from 7.9% in the first half of 2018 in line with the prevailing interest rate environment.

Our interest expenses on debt securities issued increased by 41.2% to KZT6,845 million (U.S.$18 million) in the first half of 2019 from KZT4,849 million in the first half of 2018. The increase was primarily due to a 33.1% increase of average balances of debt securities issued as a result of issuance of tenge-denominated bonds in the period between September 2018-December 2018 while average rate paid on debt securities increased to 10.0% in the first half of 2019 from 9.4% in the first half of 2018 in line with the prevailing interest environment. See also "Discussion and Analysis of Principal Assets – Funding – Debt Securities Issued".

Our interest expenses on subordinated debt decreased by 10.4% to KZT4,138 million (U.S.$11 million) in the first half of 2019 from KZT4,617 million in the first half of 2018. The decrease was primarily due to a 3.8% decrease of average balances of subordinated debt as a result of the repayment of tenge-denominated bonds in June 2018 while average rate paid on subordinated debt decreased to 9.4% in the first half of 2019 from 10.1% in the first half of 2018 as a result of calculation of an interest rate on subordinated bonds with a reference to inflation in Kazakhstan which decreased in 2018.

Our interest expenses on due to banks decreased by 79.3% to KZT413 million (U.S.$1 million) in the first half of 2019 from KZT1,997 million in the first half of 2018. The decrease was primarily due to a 89.7% decrease of average balances of due to banks as a result of lower amounts of time deposits of banks and other financial institutions and repurchase agreement due to a contractual repayment of these balances made as part of our short-term liquidity management, while average rate paid on due to banks increased to 15.7% in the first half of 2019 from 7.9% in the first half of 2018 in line with the prevailing interest rate environment.

Transaction expenses

Our transaction expenses increased by 126.0% to KZT6,213 million (U.S.$16 million) in the first half of 2019 from KZT2,749 million in the first half of 2018 primarily due to an increase of transaction expenses of the Payments Platform as a result of the growth in TPV, since we are required to pay fees to payment processors, payment networks and various service providers.

Operating expenses

Our operating expenses increased by 22.5% to KZT20,270 million (U.S.$53 million) in the first half of 2019 from KZT16,549 million in the first half of 2018 primarily due to growth of volumes of all our Platforms and resulting increased expenses attributable to our core operating activities related to the origination and delivery of products and services.

Net Revenue

For the reasons described above, our net revenue was KZT98,590 million and KZT141,538 million in the first half of 2018 and 2019, respectively.

Operational Costs

The following table sets forth our operational costs breakdown and operational costs as a percentage of revenue for the periods indicated.

	Six-month period ended 30 June			
	2018	2019	2019	2019
	KZT million		U.S.$ million[1]	% change from prior period
Technology and product development.....	(7,388)	(9,453)	(25)	27.9%
Sales and marketing................................	(6,811)	(11,494)	(30)	68.8%
General and administrative expenses.......	(4,331)	(5,703)	(15)	31.7%
Total operational costs	**(18,530)**	**(26,650)**	**(70)**	**43.8%**
Percentage of revenue (Group) (%).........	11.0%	11.7%	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for the six months ended 30 June 2019, comprising KZT379.14.

Our operational costs include expenses relating to technology and product development, sales and marketing, and general and administrative expenses. While our operational costs increased by 43.8% to KZT26,650 million (U.S.$70 million) in the first half of 2019 from KZT18,530 million in the first half of 2018, we managed to keep them relatively stable as a percentage of our revenue with 11.7% and 11.0% in the first half of 2019 and 2018, respectively, due to our prudent approach to cost management, which positively translates into increases of our Net Income Margin. An increase in operational costs as a percentage of revenue is mainly due to a higher growth rate of total sales and marketing costs than the growth of revenue.

Technology and product development

Our technology and product development expenses increased by 27.9% to KZT9,453 million (U.S.$25 million) in the first half of 2019 from KZT7,388 million in the first half of 2018 primarily due to the growth of technology and product development expenses attributable to the Payments Platform as a result of continued investment in IT infrastructure and growth in the number of, and salaries payable to, our IT and product development personnel.

Sales and marketing

Our sales and marketing expenses increased by 68.8% to KZT11,494 million (U.S.$30 million) in the first half of 2019 from KZT6,811 million in the first half of 2018. The increase of sales and marketing expenses in all our Platforms during the periods under review is a result of continuous growth of the number of Active Customers and transactions across all our Platforms, as well as the increasing participation in our Kaspi Bonus loyalty programme and growing redemption of accrued bonuses.

General and administrative expenses

Our general and administrative expenses increased by 31.7% to KZT5,703 million (U.S.$15 million) in the first half of 2019 from KZT4,331 million in the first half of 2018, which was primarily due to the growth of general and administrative expenses attributable to the Fintech Platform primarily as a result of the increase in employee benefits.

Provision Expense

Our provision expense increased by 18.5% to KZT23,212 million (U.S.$61 million) in the first half of 2019 from KZT19,597 million in the first half of 2018. This increase was primarily due to the expansion of the consumer finance portfolio originated through Fintech with the average balances of loans to customers were KZT1,089,481 million in the first half of 2019 as compared to KZT935,281 million in the first half of 2018.

Operating Income

For the reasons described above, the Group's operating income was KZT91,676 million and KZT60,463 million in the first half of 2019 and 2018, respectively.

Income Tax

The Group provides for taxes for the relevant period based on the tax accounts maintained and prepared in accordance with the tax regulations of the Republic of Kazakhstan, where the Group operates and which may differ from IFRS. Our income tax expenses increased by 41.0% from KZT10,409 million in first half of 2018 to KZT14,675 million (U.S.$39 million) in the first half of 2018 primarily due to higher amounts of taxable operating income.

Net Income

For the reasons described above, the Group's net income was KZT77,001 million and KZT50,054 million in the first half of 2019 and 2018, respectively, representing a 53.8% increase. Our Net Income Margin improved from 29.6% in the first half of 2018 to 33.9% in the first half of 2019 as a result of our ability to maintain our operational costs at stable levels with a significant increase of our revenue and operating income.

Discussion and Analysis of Results of Operations for the years ended 31 December 2018, 2017 and 2016

Payments Platform

The following table sets forth our Payments Platform's results of operations for the periods indicated.

	Year ended 31 December					
	2016	**2017**	**2018**	**2018**	**2017**	**2018**
	KZT million			**U.S.$ million(1)**	**% change from prior year**	
REVENUE	**5,053**	**9,571**	**26,471**	**77**	**89.4%**	**176.6%**
Interest Revenue	2,289	4,042	8,595	25	76.6%	112.6%
Transaction & Membership Revenue	2,764	5,529	17,876	52	100.0%	223.3%
COST OF REVENUE	**(1,571)**	**(3,892)**	**(8,367)**	**(24)**	**147.8%**	**115.0%**
Transaction Expenses	(826)	(2,017)	(4,636)	(13)	144.1%	129.9%
Operating Expenses	(744)	(1,875)	(3,731)	(11)	151.9%	99.0%
TOTAL NET REVENUE	**3,482**	**5,679**	**18,103**	**53**	**63.1%**	**218.8%**
Technology & Product Development	(816)	(2,051)	(4,167)	(12)	151.3%	103.2%
Sales & Marketing	(340)	(1,302)	(4,926)	(14)	282.9%	278.3%
General & Administrative Expenses	(566)	(708)	(818)	(2)	25.1%	15.5%
OPERATING INCOME	**1,759**	**1,618**	**8,192**	**24**	**(8.0)%**	**406.4%**
Income tax	(622)	(257)	(1,461)	(4)	(58.6)%	467.8%

NET INCOME	**1,137**	**1,360**	**6,731**	**20**	**19.6%**	**394.9%**

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

The table below sets forth the key metrics in respect of our Payments Platform for the periods indicated.

	Year ended 31 December					
	2016	2017	2018	2018	2017	2018
				U.S.$(1)	% change from prior year	
TPV (*in KZT millions*)	111,558	369,539	1,400,114	4,062 million	231.2%	278.9%
TPV per Active Customer (*in KZT thousands*)	203	308	531	1,540	51.7%	72.4%
Number of Payments Active Customers (*thousands of customers*)	548	1,201	2,637	-	119.2%	119.6%
TNP (*in thousands of transactions*)	29,562	68,118	243,280	-	130.4%	257.1%
Number of Payments per Active Customer	54	57	92	-	5.6%	61.4%
Number of Payments Active Merchants (*in thousands*)	0.8	3.5	7.6	-	337.5%	117.1%
Number of Payments Active Stores (*in thousands*)	1.0	4.4	10.3	-	300.0%	134.1%
Payments Take Rate (*in %*)	1.1%	1.0%	1.2%	-	-	-
Average Balances on Current Accounts (*in KZT millions*)	23,287	41,680	93,079	270 million	79.0%	123.3%
Yield on Average Balances (*in %*)	9.8%	9.7%	9.2%	-	-	-
Payments Average Check (*in KZT*)	3,774	5,425	5,755	-	43.7%	6.1%

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

Revenue

Payments revenue increased by 176.6% to KZT26,471 million (U.S.$77 million) in 2018 from KZT9,571 million in 2017, which in turn increased by 89.4% from KZT5,053 million in 2016. The year-on-year increase was due to the growth of transaction and membership revenue and interest revenue.

Transaction and membership revenue increased by 223.3% to KZT17,876 million (U.S.$52 million) in 2018 from KZT5,529 million in 2017, which in turn increased by 100.0% from KZT2,764 million in 2016 primarily due to increase in TPV and increase in the Payments Take Rate.

Our TPV increased by 231% from KZT111,558 million in 2016 to KZT369,539 million in 2017, and further by 279% to KZT1,400,114 million (U.S.$4,062 million) in 2018. The growth in TPV was mainly driven by the increasing number of transactions during the period under review as a result of the growth of the number of Payments Active Customers (from 548 thousand in 2016 to 1,201 thousand in 2017 and 2,637 thousand in 2018), the number of payments per Payments Active Customer (from 54 in 2016 to 57 in 2017 and 92 in 2018) and the number of Payments Active Merchants (from 0.8 thousand in 2016 to 3.5 thousand in 2017 and 7.6 thousand in 2018). The TNP that we enabled through our Payments Platform was 30 million, 68 million and 243 million in 2016, 2017 and 2018, respectively, representing year-on-year growth of 130.4% (2016 as compared to 2017) and 257.1% (2017 as compared to 2018). In 2016, 2017 and 2018, the number of Payments Active Merchants totalled 0.8 thousand, 3.5 thousand and 7.6 thousand, respectively, representing year-on-year growth of 337.5% in 2017 and 117.1% in 2018.

Our Payments Take Rate was 1.1% in 2016, 1.0% in 2017 and 1.2% in 2018. The improvement of the Payments Take Rate in 2018 as compared to 2017 and 2016 was primarily attributable to the growing share of higher margin transactions effected via Kaspi Gold debit card where we charge higher fees (from 8.8% of TPV in 2016 to 38.9% of TPV in 2017 and 53.1% of TPV in 2018).

Interest revenue increased by 112.6% to KZT8,595 million (U.S.$25 million) in 2018 from KZT4,042 million in 2017, which in turn increased by 76.6% from KZT2,289 million in 2016 primarily due to increase in average cash balances from Kaspi Gold and Kaspi Business customers. Average Balances on Current Accounts increased by 123.3% to KZT93.1 billion (U.S.$270 million) in 2018 from KZT41.7 billion in 2017, which in turn increased by 79.0% from KZT23.3 billion in 2016. The increase in Average Balances on Current Accounts was driven by the increase in the number of Active Customers which transact through, and maintain current accounts with, Kaspi.kz.

Cost of Revenue

The following table sets forth cost of revenue of Payments and cost of revenue ratio for the years indicated.

	Year ended 31 December					
	2016	**2017**	**2018**	**2018**	**2017**	**2018**
	KZT million			**U.S.$ million(1)**	**% change from prior year**	
Transaction Expenses	(826)	(2,017)	(4,636)	(13)	144.2%	129.8%
Operating Expenses	(744)	(1,875)	(3,731)	(11)	152.0%	99.0%
Total cost of revenue	**(1,571)**	**(3,892)**	**(8,367)**	**(24)**	**147.8%**	**115.0%**
Cost of revenue ratio (Payments) (%)	31.1%	40.7%	31.6%	-	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

Cost of revenue of Payments increased to KZT8,367 million (U.S.$24 million) in 2018 from KZT3,892 million in 2017, which in turn increased from KZT1,571 million in 2016 due to the growth of all components of cost of revenue in line with expansion of Payments business. Cost of revenue ratio of Payments grew from 31.1% in 2016 to 40.7% in 2017 and subsequently reduced to 31.6% in 2018. The reduction in cost of revenue ratio of the Payments Platform in 2018 is attributable to the lower growth of transaction expenses related to payment networks in the respective period and introduction of the proprietary Kaspi Message service in our Mobile App, which is replacing costly SMS alerts sent through mobile operators. The increase in cost of revenue ratio of the Payments Platform in 2017 as compared to 2016 was driven by the accelerated customer acquisition.

Transaction expenses

Transaction expenses of Payments increased by 129.9% to KZT4,636 million (U.S.$13 million) in 2018 from KZT2,017 million in 2017, which in turn increased by 144.1% from KZT826 million in 2016 primarily due to the growth in TPV, since we are required to pay fees to payment processors, payment networks and various service providers.

Operating expenses

Operating expenses of Payments increased by 99.0% to KZT3,731 million (U.S.$11 million) in 2018 from KZT1,875 million in 2017, which in turn increased by 152.0% from KZT744 million in 2016 primarily due to growth of volumes of Payments and resulting increased expenses related to the origination and delivery of products and services.

Net Revenue

For the reasons described above, net revenue of Payments was KZT18,103 million, KZT5,679 million and KZT3,482 million in 2018, 2017 and 2016, respectively, representing a 218.8% increase in 2018 as compared to 2017 and a 63.1% increase in 2017 as compared to 2016.

Operational Costs

The following table sets forth breakdown of operational costs of Payments and operational costs as a percentage of revenue for the periods indicated.

	Year ended 31 December					
	2016	**2017**	**2018**	**2018**	**2017**	**2018**
	KZT million			**U.S.$ million(1)**	**% change from prior year**	
Technology and product development ..	(816)	(2,051)	(4,167)	(12)	151.3%	103.2%
Sales and marketing	(340)	(1,302)	(4,926)	(14)	282.9%	278.3%
General and administrative expenses	(566)	(708)	(818)	(2)	25.1%	15.5%
Total operational costs.........................	**(1,722)**	**(4,061)**	**(9,911)**	**(28)**	**135.8%**	**144.0%**
Percentage of revenue (Payments) (%) .	34.1%	42.4%	37.4%	-	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

Operational costs of Payments include expenses relating to technology and product development, sales and marketing, and general and administrative expenses. Operational costs of Payments increased by 144.0% to KZT9,911 million (U.S.$28 million) in 2018 from KZT4,061 million in 2017, which in turn increased by 135.8% from KZT1,722 million in 2016 in line with the expansion of our Payments business. Operational costs of Payments as a percentage of revenue of Payments increased from 34.1% in 2016 to 42.4% in 2017 and then decreased to 37.4% in 2018 due to our prudent approach to cost management, which positively translates into increases of Net Income Margin of Payments.

Technology and product development

Technology and product development expenses of Payments increased by 103.2% to KZT4,167 million (U.S.$12 million) in 2018 from KZT2,051 million in 2017, which in turn increased by 151.3% from KZT816 million in 2016 primarily due to our expenses in IT infrastructure and growth in the number of, and salaries payable to, our IT and product development personnel.

Sales and marketing

Sales and marketing expenses of Payments increased by 278.3% to KZT4,926 million (U.S.$14 million) in 2018 from KZT1,302 million in 2017, which in turn increased by 282.9% from KZT340 million in 2016. The increase of sales and marketing expenses is a result of continuous growth of the number of Payments Active Customers and TNP.

General and administrative expenses

Our general and administrative expenses increased by 15.5% to KZT818 million (U.S.$2 million) in 2018 from KZT708 million in 2017, which in turn increased by 25.1% from KZT566 million in 2016 in line with the growth of our Payments business.

Operating Income

For the reasons described above, operating income of Payments was KZT8,192 million, KZT1,618 million and KZT1,759 million in 2018, 2017 and 2016, respectively.

Income Tax

Income tax expenses of Payments decreased by 58.6% from KZT622 million in 2016 to KZT257 million in 2017, and then increased by 467.8% to KZT1,461 million (U.S.$4 million) in 2018 in line with taxable operating income.

Net Income

For the reasons described above, net income of Payments was KZT6,731 million, KZT1,360 million and KZT1,137 million in 2018, 2017 and 2016, respectively, representing a 394.9% increase in 2018 as compared to 2017 and a 19.6% increase in 2017 as compared to 2016. Net Income Margin of Payments decreased from 22.5% in 2016 to 14.2% in 2017 and then improved to 25.4% in 2018 primarily as a result of our ability to maintain our operational costs at stable levels with a significant increase of our revenue.

Marketplace Platform

The following table sets forth our Marketplace Platform's results of operations for the periods indicated.

	Year ended 31 December					
	2016	**2017**	**2018**	**2018**	**2017**	**2018**
	KZT million			**U.S.$ million[1]**	**% change from prior year**	
REVENUE	**6,469**	**12,174**	**25,020**	**73**	88.2%	105.5%
Seller Fees	6,469	12,174	25,020	73	88.2%	105.5%
COST OF REVENUE	**(505)**	**(858)**	**(1,218)**	**(4)**	69.9%	42.0%
Transaction Expenses	(69)	(101)	(123)	-	46.4%	21.8%
Operating Expenses	(435)	(757)	(1,096)	(3)	74.0%	44.8%
TOTAL NET REVENUE	**5,964**	**11,316**	**23,801**	**69**	**89.7%**	**110.3%**
Technology & Product Development	(2,064)	(2,490)	(2,654)	(8)	20.6%	6.6%
Sales & Marketing	(806)	(1,669)	(3,150)	(9)	107.1%	88.7%
General & Administrative Expenses	(103)	(252)	(277)	(1)	144.7%	9.9%
OPERATING INCOME	**2,992**	**6,904**	**17,721**	**51**	**130.7%**	**156.7%**
Income tax	(1,058)	(1,098)	(3,160)	(9)	3.8%	187.8%
NET INCOME	**1,934**	**5,806**	**14,560**	**42**	**200.2%**	**150.8%**
Cost of revenue ratio (%)	7.8%	7.0%	4.9%	-	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

The table below sets forth the key metrics in respect of our Marketplace Platform in 2016, 2017 and 2018:

	Year ended 31 December					
	2016	**2017**	**2018**	**2018**	**2017**	**2018**
				U.S.$[1]	**% change from prior year**	
GMV (*in KZT millions*)	180,635	265,533	415,107	1,204 million	47.0%	56.3%
In-Store GMV (*in KZT millions*)	155,189	183,582	202,482	587 million	18.3%	10.3%
Online GMV (*in KZT millions*)	23,960	54,208	116,937	339 million	126.2%	115.7%
Shopping Club GMV (*in KZT millions*)	1,486	27,744	95,688	278 million	1,767.0%	244.9%
Marketplace Active Customers (*in thousands of customers*)	1,229	1,638	2,109	-	33.3%	28.8%
Number of Purchases (*in*	1,716	4,253	10,491	-	147.8%	146.7%

thousands of purchases)..............						
Number of Marketplace Active Merchants (*in thousands of merchants*)	4.5	5.0	7.2	-	11.1%	44.0%
Number of Marketplace Active Stores (*in thousands of stores*).....	5.8	7.4	12.2	-	27.6%	64.9%
Retention Rate of Marketplace Active Merchants (*in %*).............	-	99.9%	99.6%	-	-	-
GMV per Active Customer (*in KZT thousands*)...........................	147	162	197	571	10.2%	21.6%
GMV per Active Merchant (*in KZT millions*)..............................	40	53	58	168,257	32.5%	9.4%
Number of Purchases per Active Customer	1.4	2.6	5.0	-	85.7%	92.3%
Marketplace Take Rate (*in %*)	3.6%	4.6%	6.0%	-	-	-
Marketplace Average Check (*in KZT thousands*)...........................	105	62	40	116	(41.0)%	(35.5)%

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

Revenue

Marketplace revenue, represented by Seller Fees, increased by 105.5% to KZT25,020 million (U.S.$73 million) in 2018 from KZT12,174 million in 2017, which in turn increased by 88.2% from KZT6,469 million in 2016, driven by expanding GMV and the Marketplace Take Rate.

Our GMV increased by 47.0% from KZT180,635 million in 2016 to KZT265,533 million in 2017, and further by 56.3% to KZT415,107 million (U.S.$1,204 million) in 2018. The growth in GMV was mainly driven by the increasing number of purchases during the period under review as a result of the growth of the number of Marketplace Active Customers (from 1.2 million in 2016 to 1.6 million in 2017 and 2.1 million in 2018) and the Number of Purchases per Marketplace Active Customer (1.4 in 2016 to 2.6 in 2017 and 5.0 in 2018). The number of purchases that we enabled through the Marketplace Platform increased by 144.2% to 10.5 million in 2018 from 4.3 million in 2017, which in turn increased by 147.8% from 1.7 million in 2016.

Our Marketplace Take Rate increased from 3.6% in 2016 to 4.6% in 2017 and further increased to 6.0% in 2018. The increase in the Marketplace Take Rate reflects growth in the number of Marketplace Active Merchants (from 4.5 thousand in 2016 to 5.0 thousand in 2017 and 7.2 thousand in 2018), the diversification in our GMV mix and our entry into higher margin product categories (such as clothing, cosmetics, accessories and restaurants which allows us to charge the respective merchants higher seller fees as compared to merchants engaged in lower margin sales such as electronics).

Cost of Revenue

The following table sets forth breakdown of our cost of revenue of our Marketplace Platform and cost of revenue ratio for the periods indicated.

	Year ended 31 December					
	2016	**2017**	**2018**	**2018**	**2017**	**2018**
	KZT million		**U.S.$ million[1]**		**% change from prior year**	
Transaction expenses	(69)	(101)	(123)	-	46.4%	21.8%
Operating expenses	(435)	(757)	(1,096)	(3)	74.0%	44.8%
Total cost of revenue.....................	(505)	(858)	(1,218)	(4)	69.9%	42.0%
Cost of revenue ratio (%)	7.8%	7.0%	4.9%	-	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

While the cost of revenue of the Marketplace Platform increased by 42.0% to KZT1,218 million (U.S.$4 million) in 2018 from KZT858 million in 2017 (which in turn represented a 69.9% increase from KZT505 million in 2016) due to the growth of all components of our cost of revenue in line with expansion of our Marketplace business, the cost of revenue ratio of the Marketplace Platform substantially decreased from 7.8% in 2016 and 7.0% in 2017 to 4.9% in 2018 primarily due to the growth in the Marketplace Take Rate in the respective periods and consumers' shift from in-store to online shopping, as well as our operating leverage, whereby we can reduce structural costs through strong synergies across our Platforms due to the network effect.

Transaction expenses

Transaction expenses of Marketplace increased by 21.3% to KZT123 million in 2018 from KZT101 million in 2017, which in turn increased by 46.0% from KZT69 million in 2016, which was in line with the growth of our Marketplace operations.

Operating expenses

Operating expenses of Marketplace increased by 44.8% to KZT1,096 million (U.S.$3 million) in 2018 from KZT757 million in 2017, which in turn increased by 74.0% from KZT435 million in 2016 primarily due to growth of volumes of Marketplace and resulting increased expenses related to the origination and delivery of products and services.

Net Revenue

For the reasons described above, net revenue of Marketplace was KZT23,801 million (U.S.$69 million), KZT11,316 million and KZT5,964 million in 2018, 2017 and 2016, respectively, representing a 110.3% increase in 2018 as compared to 2017 and a 89.7% increase in 2017 as compared to 2016.

Operational Costs

The following table sets forth breakdown of operational costs of our Marketplace and operational costs as a percentage of revenue for the periods indicated.

	Year ended 31 December					
	2016	2017	2018	2018	2017	2018
	KZT million			U.S.$ million(1)	% change from prior year	
Technology & Product Development..........	(2,064)	(2,490)	(2,654)	(8)	20.6%	6.6%
Sales & Marketing......................................	(806)	(1,669)	(3,150)	(9)	107.1%	88.7%
General & Administrative Expenses	(103)	(252)	(277)	(1)	144.7%	9.9%
Total operational costs.........................	**(2,973)**	**(4,411)**	**(6,081)**	**(18)**	**48.4%**	**37.9%**
Percentage of revenue (Marketplace) (%)	46.0%	36.2%	24.3%	-	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

While operational costs of our Marketplace increased by 37.9% to KZT6,081 million (U.S.$18 million) in 2018 from KZT4,411 million in 2017 (which in turn represented a 48.4% increase from KZT2,973 million in 2016), we managed to decrease them as a percentage of revenue of our Marketplace from 46.0% in 2016 to 36.2% in 2017 and further to 24.3% in 2018 due to our prudent approach to cost management, which positively translates into increases of our Net Income Margin. A decrease in operational costs of our Marketplace as a percentage of revenue of our Marketplace is mainly due to a substantially higher growth rate of revenue of our Marketplace (105.5% from 2017 to 2018 and 88.2% from 2016 to 2017 growth of revenue as compared to 37.9% and 48.4% growth of operational costs, respectively).

Technology and product development

Technology and product development expenses of Marketplace increased by 6.6% to KZT2,654 million (U.S.$8 million) in 2018 from KZT2,490 million in 2017, which in turn increased by 20.6% from KZT2,064 million in 2016 primarily as a result of continued investment in IT infrastructure and growth in the number of, and salaries payable to, our IT and product development personnel.

Sales and marketing

Sales and marketing expenses of our Marketplace increased by 88.7% to KZT3,150 million (U.S.$9 million) in 2018 from KZT1,669 million in 2017, which in turn increased by 107.1% from KZT806 million in 2016. The increase of sales and marketing expenses of our Marketplace in the respective periods resulted from the continuous growth of the number of Marketplace Active Customers.

General and administrative expenses

General and administrative expenses of our Marketplace increased by 9.9% to KZT277 million (U.S.$1 million) in 2018 from KZT252 million in 2017, which in turn represented an increase of 144.7% from KZT103 million in 2016. The increase in general and administrative expenses was in line with the growth of our Marketplace business in the corresponding periods.

Operating Income

For the reasons described above, the Marketplace Platform's operating income increased by 156.7% to KZT17,721 million (U.S.$51 million) in 2018 from KZT6,904 million in 2017, which in turn represented a 130.7% increase from KZT2,992 million in 2016.

Income Tax

Income tax of our Marketplace increased by 3.8% from KZT1,058 million in 2016 to KZT1,098 million in 2017 and further by 187.8% to KZT3,160 million (U.S.$9 million) in 2018, primarily due to higher amounts of taxable operating income in the corresponding periods.

Net Income

For the reasons described above, the Marketplace Platform's net income increased by 200.2% to KZT5,806 million in 2017 from KZT1,934 million in 2016 and further by 150.8% to KZT14,560 million (U.S.$42 million) in 2018. The Net Income Margin of our Marketplace improved from 29.9% in 2016 to 47.7% in 2017 and further to 58.2% in 2018 as a result of our ability to improve our operational costs with a significant increase of our revenue and operating income.

Fintech Platform

The following table sets forth our Fintech Platform's results of operations for the periods indicated.

	Year ended 31 December					
	2016	**2017**	**2018**	**2018**	**2017**	**2018**
	KZT million			**U.S.$ million[1]**	**% change from prior year**	
REVENUE	**211,781**	**254,008**	**323,840**	**939**	**19.9%**	**27.5%**
Interest Revenue	126,735	153,929	186,471	541	21.5%	21.1%
Fees & Commissions	89,528	106,841	140,259	407	19.3%	31.3%
Seller Fees	-	-	-	-	-	-
Transaction & Membership Revenue	5	219	1,379	4	4,505.3%	529.8%
Other gains/(losses)	(4,487)	(6,981)	(4,269)	(12)	55.6%	(38.9)%
COST OF REVENUE	**(109,857)**	**(125,297)**	**(135,095)**	**(392)**	**14.1%**	**7.8%**
Interest Expenses	(85,944)	(97,126)	(102,685)	(298)	13.0%	5.7%
Transaction Expenses	(1,363)	(1,171)	(1,950)	(6)	(14.1)%	66.6%
Operating Expenses	(22,549)	(27,000)	(30,461)	(88)	19.7%	12.8%

TOTAL NET REVENUE	**101,925**	**128,712**	**188,745**	**548**	**26.3%**	**46.6%**
Technology & Product Development	(9,152)	(8,924)	(8,901)	(26)	(2.5)%	(0.3)%
Sales & Marketing	(2,740)	(4,287)	(9,091)	(26)	56.5%	112.1%
General & Administrative Expenses	(9,700)	(11,501)	(8,850)	(26)	18.6%	(23.1)%
Provision Expense	(76,201)	(27,743)	(52,579)	(153)	(63.6)%	89.5%
OPERATING INCOME	**4,132**	**76,257**	**109,325**	**317**	**1,745.4%**	**43.4%**
Income tax	(1,461)	(12,129)	(19,497)	(57)	730.0%	60.7%
NET INCOME	**2,671**	**64,128**	**89,828**	**261**	**2,301.0%**	**40.1%**
Adjusted Net Income[(2)]	12,056	54,743	-	-	354.1%	64.1%
Cost of revenue ratio (%)	51.9%	49.3%	41.7%	-	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

(2) Adjusted Net Income is a non-IFRS measure and represents historical net income for 2016 and 2017 adjusted for the provision expense of KZT9,385 million (net of income tax), which was reallocated from 2017 to 2016, as if the Group's provisioning methodology that it changed in 2017 had been applied since 2016. If we applied the amended provisioning methodology with effect from 2016, our adjusted provision expense would amount to KZT64,470 million in 2016 and KZT39,475 million in 2017.

The table below sets forth the key metrics in respect of our Fintech Platform in 2016, 2017 and 2018:

	Year ended 31 December					
	2016	**2017**	**2018**	**2018**	**2017**	**2018**
				U.S.$[(1)]	**% change from prior year**	
Fintech TFV (*in KZT millions*)	573,167	1,058,901	1,432,280	4,155 million	84.7%	35.3%
Number of Fintech Active Customers (*in thousands of customers*)	1,768	2,330	2,843	-	31.8%	22.0%
Fintech TFV per Active Customer (*in KZT thousands*)	324	454	504	-	40.2%	10.9%
Number of Fintech Financing Transactions (*in thousands of transactions*)	3,021	6,639	13,462	-	119.8%	102.8%
Number of Fintech Financing Transactions per Active Customer	1.7	2.8	4.7	-	62.5%	53.8%
Fintech Average Net Loan Portfolio (*in KZT millions*)	729,791	778,188	987,785	2,866 million	6.6%	26.9%
Fintech Average Yield (*in %*)	27.4%	30.0%	30.5%	-	-	-
Fintech TFV to Average Net Loan Portfolio Conversion Rate	0.8	1.4	1.4	-	-	-
Fintech Average Check (*in KZT thousands*)	190	160	106	309	(15.9)%	(33.3)%

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

Revenue

Fintech revenue increased by 27.5% to KZT323,840 million (U.S.$939 million) in 2018 from KZT254,008 million in 2017, which in turn increased by 19.9% from KZT211,781 million in 2016. The year-on-year increase was due to the growth in interest revenue and fees and commission mainly driven by expansion of TFV caused by the increasing number of consumer finance transactions fuelled by our Mobile App and Marketplace.

Interest revenue increased by 21.1% to KZT186,471 million (U.S.$541 million) in 2018 from KZT153,929 million in 2017, which in turn increased by 21.5% from KZT126,735 million in 2016. Fees and commissions increased by 31.3% to KZT140,259 million (U.S.$407 million) in 2018 from KZT106,841 million in 2017, which in turn increased by 19.3% from KZT89,528 million in 2016.

The year-on-year increase was primarily due to (i) the increase in Fintech Financing Transactions to 13,462 thousand in 2018 from 6,639 thousand in 2017 and 3,021 thousand in 2016 which resulted in increase of TFV by 35.3% to KZT1,432,280 million (U.S.$4,155 million) in 2018 from KZT1,058,901 million in 2017, which in turn increased by 84.7% from KZT573,167 million in 2016, mainly driven by the increase in the number of Fintech Active Customers; and (ii) the increase in Fintech Average Yield to 30.5% in 2018 from 30.0% in 2017 and 27.4% in 2016 resulting from changes in product mix (in particular, from the increasing share of general purpose loans, which are associated with higher yield), and pricing, partially offset by the decrease in yield on certain products driven by the strategic incentives we offered in 2017 and 2018 (in the form of lower interest rates and commissions) to encourage customers to switch to our Mobile App in accordance with our Mobile App Only strategy.

Based on management accounts, in 2018, out of KZT323.8 billion in total revenue of the Fintech Platform, yield-based revenue comprised KZT301.7 billion, whereas other revenue (including interest revenue from liquidity management and other gains and losses) amounted to KZT22.1 billion, as compared to KZT233.5 billion and KZT20.5 billion, respectively, out of KZT254.0 billion in 2017 and KZT199.8 billion and KZT12.0 billion, respectively, out of KZT211.8 billion in 2016.

We operate our Fintech Platform on a portfolio yield basis that includes both interest and fees and commissions which we receive from our customers. This approach is built around the customer and transactions that drive our TFV.

Cost of Revenue

The following table sets forth breakdown of our cost of revenue of our Fintech and cost of revenue ratio for the periods indicated.

	Year ended 31 December					
	2016	**2017**	**2018**	**2018**	**2017**	**2018**
	KZT million			**U.S.$ million[(1)]**	**% change from prior year**	
Interest expenses	(85,944)	(97,126)	(102,685)	(298)	13.0%	5.7%
Transaction expenses	(1,363)	(1,171)	(1,950)	(6)	(14.1)%	66.6%
Operating expenses	(22,549)	(27,000)	(30,461)	(88)	19.7%	12.8%
Cost of revenue	**(109,857)**	**(125,297)**	**(135,095)**	**(392)**	**14.1%**	**7.8%**
Cost of revenue ratio (%)	51.9%	49.3%	41.7%	-	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

Cost of revenue of Fintech increased by 7.8% to KZT135,095 million (U.S.$392 million) in 2018 from KZT125,297 million in 2017, which in turn increased by 14.1% from KZT109,857 million in 2016 due to the growth of all components of our cost of revenue for the reasons described below in line with expansion of our business. Cost of revenue ratio of Fintech decreased to 41.7% in 2018 from 49.3% in 2017 and 51.9% in 2016, which we believe demonstrates our operating leverage, whereby we can reduce structural costs through strong synergies across our Platforms due to the network effect.

Interest expenses

Our interest expenses increased by 5.7% to KZT102,685 million (U.S.$298 million) in 2018 from KZT97,126 million in 2017, which in turn increased by 13.0% from KZT85,944 million in 2016 primarily due to a 15.4% growth of average interest-bearing liabilities in 2018 as compared to 2017 and a 5.9% growth of average interest-bearing liabilities in 2017 as compared to 2016 primarily as a result of a year-on-year increase of average balances of customer accounts, as well as growth of average rate paid on interest-bearing liabilities from 8.1% in 2016 to 8.6% in 2017 while average rate paid on interest-bearing liabilities decreased to 7.9% in 2018 in line with the prevailing interest rate environment. See "*- the Group - Interest Expenses*" above.

Transaction expenses

Transaction expenses of Fintech increased by 66.6% to KZT1,950 million (U.S.$6 million) in 2018 from KZT1,171 million in 2017, which in turn decreased by 14.1% from KZT1,363 million in 2016 primarily due to expansion of Fintech operations.

Operating expenses

Operating expenses of Fintech increased by 12.8% to KZT30,461 million (U.S.$88 million) in 2018 from KZT27,000 million in 2017, which in turn increased by 19.7% from KZT22,549 million in 2016 primarily due to growth of volumes of Fintech and resulting increased expenses related to the origination and delivery of products and services.

Net Revenue

For the reasons described above, net revenue of Fintech was KZT188,745 million, KZT128,712 million and KZT101,925 million in 2018, 2017 and 2016, respectively, representing a 46.6% increase in 2018 as compared to 2017 and a 26.3% increase in 2017 as compared to 2016.

Operational Costs

The following table sets forth breakdown of operational costs of Fintech and operational costs as a percentage of revenue for the periods indicated.

	Year ended 31 December					
	2016	**2017**	**2018**	**2018**	**2017**	**2018**
	KZT million			**U.S.$ million(1)**	**% change from prior year**	
Technology and product development ..	(9,152)	(8,924)	(8,901)	(26)	(2.5)%	(0.3)%
Sales and marketing	(2,740)	(4,287)	(9,091)	(26)	56.5%	112.1%
General and administrative expenses	(9,700)	(11,501)	(8,850)	(26)	18.6%	(23.0)%
Total operational costs.........................	**(21,592)**	**(24,711)**	**(26,841)**	**(78)**	**14.4%**	**8.6%**
Percentage of revenue (Fintech) (%).....	10.2%	9.7%	8.3%	-	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

Operational costs of Fintech include expenses relating to technology and product development, sales and marketing, and general and administrative expenses. While operational costs of Fintech increased by 8.6% to KZT26,841 million (U.S.$78 million) in 2018 from KZT24,711 million in 2017, which in turn increased by 14.4% from KZT21,592 million in 2016 in line with the expansion of our Fintech business, we managed to keep them relatively stable as a percentage of revenue of Fintech with 10.2% in 2016, 9.7% in 2017 and 8.3% in 2018 due to our prudent approach to cost management, which positively translates into increases of Net Income Margin of Fintech.

Technology and product development

Technology and product development expenses of Fintech decreased by 0.3% to KZT8,901 million (U.S.$26 million) in 2018 from KZT8,924 million in 2017, which in turn decreased by 2.5% from KZT9,152 million in 2016 primarily due to significant expenses that we made in prior years as a result of investment in IT infrastructure and growth in the number of, and salaries payable to, our IT and product development personnel.

Sales and marketing

Sales and marketing expenses of Fintech increased by 112.1% to KZT9,091 million (U.S.$26 million) in 2018 from KZT4,287 million in 2017, which in turn increased by 56.5% from KZT2,740 million in 2016. The increase of sales and marketing expenses is a result of continuous growth of the number of Fintech Active Customers and transactions, as well as the increasing participation in our Kaspi Bonus loyalty programme and growing redemption of accrued bonuses.

General and administrative expenses

General and administrative expenses of Fintech decreased by 23.0% to KZT8,850 million (U.S.$26 million) in 2018 from KZT11,501 million in 2017, which in turn increased by 18.6% from KZT9,700 million in 2016. The decrease in 2018 as compared to 2017 was primarily due to the expiration of our management incentive programme. We discontinued accruing incentives and terminated the unvested part in the first quarter of 2018. We plan to introduce a new long-term incentive programme in due course, based on the best global practice for public companies. See "*Management and Corporate Governance—Long-Term Incentive Plan*". The increase in our general and administrative expenses in 2017 as compared to 2016 was primarily due to the increase in employee benefits of Fintech.

Provision Expense

The following table sets forth the provision expense of Fintech for the periods indicated:

	For the year ended as at 31 December		
	2016	2017	2018
	KZT million		
Provision expense	(76,201)	(27,743)	(52,579)
Adjusted provision expense[(1)]	(64,470)	(39,475)	-
Cost of risk	9.5%	3.1%	4.6%
Adjusted cost of risk[(2)]	8.1%	4.4%	-

(1) Adjusted provision expense represents the Group's historical provision expense for 2016 and 2017 adjusted for KZT11.7 billion in provision expenses, which were reallocated from 2017 to 2016 due to changes in the Group's provisioning methodology in 2017.

(2) Adjusted cost of risk is a non-IFRS measure calculated for any period as the total adjusted provision expense divided by the average balance of gross loans to customers for the same period, expressed as a percentage.

Our provision expense of Fintech increased by 89.5% to KZT52,579 million (U.S.$153 million) in 2018 from KZT27,743 million in 2017, which in turn decreased by 63.6% from KZT76,201 million in 2016. Our adjusted cost of risk fluctuated from 8.1% in 2016 to 4.4% in 2017. The decrease in the adjusted cost of risk in 2017 as compared to 2016 was primarily due to the decrease in provision expenses as a result of increased payment discipline of our customers because of improved economic environment in Kazakhstan, as well as due to enhanced loan collection procedures. We had a relatively low and stable historical cost of risk of 4.6% in 2018 as compared to adjusted cost of risk of 4.4% in 2017 due to our centralised decision-making process, proprietary risk algorithms and predictive scoring models for the evaluation of the risks of potential borrowers using statistical modelling supplemented by data received from credit bureaus (LLC First Credit Bureau and LLC State Credit Bureau) and the Pension Centre with regard to each customer, as well as our effective collection procedures.

The increase in provision expense in 2018 as compared to 2017 was primarily due to the introduction of IFRS 9, which requires us to calculate the provision expense under the ECL measurement, as well as the expansion of the consumer finance portfolio.

The decrease in provision expense in 2017 as compared to 2016 was primarily attributable to the following factors. In the course of 2016, we implemented significant changes to our overdue loan collection procedures. This has led to substantially improved collection results for such loans. To reflect these improvements, changes have been introduced to our loan loss provision methodology. Previously, any collection of loan amounts past due over 360 days was considered insignificant and was not factored into the calculation for provision calculation purposes. However, actual collection amounts past due over 360 days became material in 2017. Accordingly, collections of amounts up to 1,080 days past due are now included in the calculation for loan loss collection purposes. As a result, provision expense decreased in 2017 compared to 2016 primarily due to such changes to our loan loss provision methodology. If we applied the amended provisioning methodology with effect from 2016, our adjusted provision expense would amount to KZT64,470 million in 2016, which would have a positive effect on our net income in 2016 while our adjusted provision expense would amount to KZT39,475 million in 2017, which would have a negative effect on our net income in 2017.

Operating Income

For the reasons described above, operating income of Fintech was KZT109,325 million, KZT76,257 million and KZT4,132 million in 2018, 2017 and 2016, respectively.

Income Tax

Income tax expenses of Fintech increased by 730.0% from KZT1,461 million in 2016 to KZT12,129 million in 2017, and further increased by 60.7% to KZT19,497 million (U.S.$57 million) in 2018 primarily due to higher amounts of taxable operating income.

Net Income

The following table sets forth historical net income, Adjusted Net Income, Net Income Margin and Adjusted Net Income Margin attributable to Fintech for the years indicated.

	Year ended 31 December					
	2016	**2017**	**2018**	**2018**	**2017**	**2018**
	KZT million			**U.S.$ million(1)**	**% change from prior year**	
Net income	2,671	64,128	89,828	261	2,300.9%	40.1%
Net Income Margin (Fintech) (%)	1.3%	25.2%	27.7%	-	-	-
Adjusted Net Income (Fintech)(2)	12,056	55,743	-	-	354.1%	-
Adjusted Net Income Margin (Fintech) (%)	5.7%	21.6%	-	-	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

(2) Adjusted Net Income for the Fintech Platform is a non-IFRS measure and represents historical net income for 2016 and 2017 adjusted for the provision expense of KZT9,385 (net of income tax), which was reallocated from 2017 to 2016, as if the Group's provisioning methodology that it changed in 2017 had been applied since 2016. If we applied the amended provisioning methodology with effect from 2016, our adjusted provision expense for the Fintech Platform would amount to KZT63,566 million in 2016 and KZT38,793 million in 2017. See "- *Provision Expense*" below.

For the reasons described above, net income of Fintech was KZT89,828 million, KZT64,128 million and KZT2,671 million in 2018, 2017 and 2016, respectively, representing a 40.1% increase in 2018 as compared to 2017 and a 2,300.9% increase in 2017 as compared to 2016. Net Income Margin of Fintech improved from 5.7% in 2016 (Adjusted Net Income Margin) to 21.6% in 2017 (Adjusted Net Income Margin) and further to 27.7% in 2018 (historical Net Income Margin) primarily as a result of our ability to maintain our operational costs at stable levels with a significant increase of our revenue.

The Group

We achieved significant growth and strong operating results during the period under review. The following table sets forth the Group's consolidated statements of profit or loss for the years indicated.

Year ended 31 December					
2016	**2017**	**2018**	**2018**	**2017**	**2018**

	KZT million			U.S.$ million(1)	% change from prior year	
REVENUE	**223,303**	**275,753**	**375,331**	**1,089**	**23.5%**	**36.1%**
Interest Revenue	129,024	157,971	195,066	566	22.4%	23.5%
Fees & Commissions	89,528	106,841	140,259	407	19.3%	31.3%
Seller Fees	6,469	12,174	25,020	73	88.2%	105.5%
Transaction & Membership Revenue	2,769	5,748	19,255	56	107.6%	235.0%
Other gains/(losses)	(4,487)	(6,981)	(4,269)	(12)	55.6%	(38.8)%
COST OF REVENUE	**(111,932)**	**(130,046)**	**(144,682)**	**(420)**	**16.2%**	**11.3%**
Interest Expenses	(85,944)	(97,126)	(102,685)	(298)	13.0%	5.7%
Transaction Expenses	(2,259)	(3,288)	(6,709)	(19)	45.6%	104.0%
Operating Expenses	(23,729)	(29,632)	(35,288)	(102)	24.9%	19.1%
TOTAL NET REVENUE	**111,371**	**145,707**	**230,649**	**669**	**30.8%**	**58.3%**
Technology & Product Development	(12,032)	(13,465)	(15,721)	(46)	11.9%	16.8%
Sales & Marketing	(3,886)	(7,258)	(17,167)	(50)	86.8%	136.5%
General & Administrative Expenses	(10,369)	(12,462)	(9,945)	(29)	20.2%	(20.2)%
Provision Expense	(76,201)	(27,743)	(52,579)	(153)	(63.6)%	89.5%
OPERATING INCOME	**8,883**	**84,779**	**135,237**	**392**	**854.4%**	**59.5%**
Income tax	(3,141)	(13,485)	(24,118)	(70)	329.3%	78.9%
NET INCOME	**5,742**	**71,294**	**111,119**	**322**	**1,141.6%**	**55.9%**
Adjusted Net Income(2)	15,127	61,909	-	-	309.3%	-
Cost of revenue ratio (%)	50.1%	47.2%	38.5%	-	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

(2) Adjusted Net Income is a non-IFRS measure and represents historical net income for 2016 and 2017 adjusted for the provision expense of KZT9,385 million (net of income tax), which was reallocated from 2017 to 2016, as if the Group's provisioning methodology that it changed in 2017 had been applied since 2016. If we applied the amended provisioning methodology with effect from 2016, our adjusted provision expense would amount to KZT64,470 million in 2016 and KZT39,475 million in 2017.

Revenue

Our revenue increased by 36.1% to KZT375,331 million (U.S.$1,089 million) in 2018 from KZT275,753 million in 2017, which in turn increased by 23.5% from KZT223,303 million in 2016. The year-on-year increase was due to the growth of all components of revenue in each of our segments, with seller fees (attributable to our Marketplace) and transaction and membership revenue (mostly attributable to our Payments) growing at a higher rate than fees and commissions and interest revenue (mostly attributable to our Fintech).

Our strong growth of revenue is primarily explained by the increase in: (i) the TPV and the Payments Take Rate in our Payments Platform; (ii) the GMV and the Marketplace Take Rate in our Marketplace Platform; and (iii) the TFV in our Fintech Platform. The growth of our principal metrics is primarily due to the increased number of transactions as a result of the growth of number of Active Customers and number of transactions per Active Customer.

During the period under review, the majority of our revenue was attributable to the products and services offered through the Fintech Platform, although the share of this segment decreased from 94.8% in 2016 to 92.1% in 2017 and further to 86.3% in 2018, as a result of a faster growth of revenues of the Marketplace and Payments Platforms.

Cost of Revenue

The following table sets forth our cost of revenue breakdown by components for the years indicated.

Year ended 31 December					
2016	2017	2018	2018	2017	2018
KZT million			U.S.$	% change from prior	

	Year ended 31 December					
	2016	2017	2018	2018	2017	2018
				million(1)	year	
Interest expenses	(85,944)	(97,126)	(102,685)	(298)	13.0%	5.7%
Transaction expenses	(2,259)	(3,288)	(6,709)	(19)	45.6%	104.0%
Operating expenses	(23,729)	(29,632)	(35,288)	(102)	24.9%	19.1%
Cost of revenue	**(111,932)**	**(130,046)**	**(144,682)**	**(420)**	**16.2%**	**11.3%**
Cost of revenue ratio (%)	50.1%	47.2%	38.5%	-	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

Our total cost of revenue increased by 11.3% to KZT144,682 million (U.S.$420 million) in 2018 from KZT130,046 million in 2017, which in turn increased by 16.2% from KZT111,932 million in 2016 due to the growth of all components of our cost of revenue for the reasons described below in line with expansion of our business. Our cost of revenue ratio decreased from 50.1% in 2016 to 47.2% in 2017 and further to 38.5% in 2018, which we believe demonstrates our operating leverage, whereby we can reduce structural costs through strong synergies across our Platforms due to the network effect.

Interest Expenses

	Year ended 31 December					
	2016	2017	2018	2018	2017	2018
	KZT million			U.S.$ million(1)	% change from prior year	
Customer accounts	(57,020)	(73,317)	(81,230)	(236)	28.6%	10.8%
Debt securities issued	(14,752)	(10,337)	(10,091)	(29)	(29.9)%	(2.4)%
Subordinated debt	(10,124)	(9,692)	(8,865)	(26)	(4.3)%	(8.5)%
Due to banks	(4,048)	(3,780)	(2,498)	(7)	(6.6)%	(33.9)%
Total interest expenses	**(85,944)**	**(97,126)**	**(102,685)**	(298)	**13.0%**	**5.7%**
Average rate paid on interest-bearing liabilities (%)(2)	8.1%	8.6%	7.9%	-	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

(2) Average rate paid on interest-bearing liabilities is calculated as interest expense for the respective period divided by average interest-bearing liabilities (calculated on the basis of a simple average of monthly closing balances for each relevant period).

Our interest expenses increased by 5.7% to KZT102,685 million (U.S.$298 million) in 2018 from KZT97,126 million in 2017, which in turn increased by 13.0% from KZT85,944 million in 2016 primarily due to a 15.4% growth of average interest-bearing liabilities in 2018 as compared to 2017 and a 5.9% growth of average interest-bearing liabilities in 2017 as compared to 2016 primarily as a result of a year-on-year increase of average balances of customer accounts, as well as growth of average rate paid on interest-bearing liabilities from 8.1% in 2016 to 8.6% in 2017 while average rate paid on interest-bearing liabilities decreased to 7.9% in 2018 in line with the prevailing interest rate environment.

Our interest expenses on customer accounts increased by 10.8% to KZT81,230 million (U.S.$236 million) in 2018 from KZT73,317 million in 2017, which in turn increased by 28.6% from KZT57,020 million in 2016. The growth in 2018 as compared to 2017 was primarily due to a 22.2% growth of average balances of customer accounts as a result of increase of retail deposits while the average rate paid on customer accounts decreased to 7.6% in 2018 from 8.4% in 2017 in line with the prevailing interest rate environment. The growth in 2017 as compared to 2016 was primarily due to a 13.2% growth of average balances of customer accounts as a result of increase of retail deposits, as well as average interest rate paid on customer accounts to 8.4% in 2017 from 7.4% in 2016 in line with the prevailing interest rate environment.

Our interest expenses on debt securities issued decreased by 2.4% to KZT10,091 million (U.S.$29 million) in 2018 from KZT10,337 million in 2017, which in turn decreased by 29.9% from KZT14,752 million in 2016. The decline in 2018 as compared to 2017 was primarily due to a 2.9% decrease of average balances of debt securities issued as a result of the repayment of tenge-denominated bonds in February 2018 and June 2018 while average rate paid on debt securities remained unchanged (9.4% in 2018 and 2017). The decline in 2017 as compared to 2016 was primarily due to a 26.8% decrease of average balances of debt securities issued as a result of the repayment of tenge-denominated bonds in July 2016 and dollar-denominated Eurobonds in October 2016 and the decrease in average rate paid on debt securities issued to 9.4% in 2017 from 9.8% in 2016 in line with the prevailing interest rate environment. See also "*Discussion and Analysis of Principal Assets – Funding – Debt Securities Issued*".

Our interest expenses on subordinated debt decreased by 8.5% to KZT8,865 million (U.S.$26 million) in 2018 from KZT9,692 million in 2017, which in turn decreased by 4.3% from KZT10,124 million in 2016. The decrease in 2018 as compared to 2017 was primarily due to a 1.1% decrease of average balances of subordinated debt as a result of the repayment of tenge-denominated bonds in June 2018 and average rate paid on subordinated debt to 9.9% in 2018 from 10.7% in 2017 as a result of calculation of an interest rate on subordinated bonds with a reference to inflation in Kazakhstan which decreased in 2018. The decrease in 2017 as compared to 2016 was primarily due to a 0.6% decrease of average balances of subordinated debt and average rate paid on subordinated debt to 10.7% in 2017 from 11.1% in 2016 as a result of calculation of an interest rate on subordinated bonds with a reference to inflation in Kazakhstan which decreased in 2018.

Our interest expenses on due to banks decreased by 33.9% to KZT2,498 million (U.S.$7 million) in 2018 from KZT3,780 million in 2017, which in turn decreased by 6.6% from KZT4,048 million in 2016. The decrease in 2018 as compared to 2017 was primarily due to a 33.4% decrease of average balances of due to banks as a result of lower amounts of time deposits of banks and other financial institutions and repurchase agreement due to a contractual repayment of these balances made as part of our short-term liquidity management, as well as the decrease in average rate paid on due to banks to 7.6% in 2018 from 7.7% in 2017. While average balances of due to banks increased by 3.4% in 2017 as compared to 2016 primarily due to the repurchase agreements as part of our short-term liquidity management, interest expenses on due to banks decreased in 2017 as compared to 2016 as a result of a decline in average rate paid on due to banks to 7.7% in 2017 from 8.5% in 2016 in line with the prevailing interest rate environment.

Transaction expenses

Our transaction expenses increased by 104.0% to KZT6,709 million (U.S.$19 million) in 2018 from KZT3,288 million in 2017, which in turn increased by 45.6% from KZT2,259 million in 2016 primarily due to an increase of transaction expenses of the Payments Platform as a result of the growth in TPV, since we are required to pay fees to payment processors, payment networks and various service providers.

Operating expenses

Our operating expenses increased by 19.1% to KZT35,288 million (U.S.$102 million) in 2018 from KZT29,632 million in 2017, which in turn increased by 24.9% from KZT23,729 million in 2016 primarily due to growth of volumes of all our Platforms and resulting increased expenses attributable to our core operating activities related to the origination and delivery of products and services.

Net Revenue

For the reasons described above, our net revenue was KZT230,649 million, KZT145,707 million and KZT111,371 million in 2018, 2017 and 2016, respectively, representing a 58.3% increase in 2018 as compared to 2017 and a 30.8% increase in 2017 as compared to 2016.

Operational Costs

The following table sets forth our operational costs breakdown by segments and operational costs as a percentage of revenue for the years indicated.

	Year ended 31 December					
	2016	**2017**	**2018**	**2018**	**2017**	**2018**
	KZT million			**U.S.$ million(1)**	**% change from prior year**	
Technology and product development ..	(12,032)	(13,465)	(15,721)	(46)	11.9%	16.8%
Sales and marketing	(3,886)	(7,258)	(17,167)	(50)	86.8%	136.5%
General and administrative expenses	(10,369)	(12,462)	(9,945)	(29)	20.2%	(20.2)%
Total operational costs.........................	**(26,287)**	**(33,185)**	**(42,833)**	**(125)**	**26.2%**	**29.1%**
Percentage of revenue (Group) (%).......	11.8%	12.0%	11.4%	-	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

Our operational costs include expenses relating to technology and product development, sales and marketing, and general and administrative expenses. While our operational costs increased by 29.1% to KZT42,833 million (U.S.$125 million) in 2018 from KZT33,185 million in 2017, which in turn increased by 26.2% from KZT26,287 million in 2016 in line with the expansion of our business, we managed to keep them relatively stable as a percentage of our revenue with 11.8% in 2016, 12.0% in 2017 and 11.4% in 2018 due to our prudent approach to cost management, which positively translates into increases of our Net Income Margin.

Technology and product development

Our technology and product development expenses increased by 16.8% to KZT15,721 million (U.S.$46 million) in 2018 from KZT13,465 million in 2017, which in turn increased by 11.9% from KZT12,032 million in 2016 primarily due to the growth of technology and product development expenses attributable to the Payments Platform as a result of continued investment in IT infrastructure and growth in the number of, and salaries payable to, our IT and product development personnel.

Sales and marketing

Our sales and marketing expenses increased by 136.5% to KZT17,167 million (U.S.$50 million) in 2018 from KZT7,258 million in 2017, which in turn increased by 86.8% from KZT3,886 million in 2016. The increase of sales and marketing expenses in all our Platforms during the period under review is a result of continuous growth of the number of Active Customers and transactions across all our Platforms, as well as the increasing participation in our Kaspi Bonus loyalty programme and growing redemption of accrued bonuses.

General and administrative expenses

Our general and administrative expenses decreased by 20.2% to KZT9,945 million (U.S.$29 million) in 2018 from KZT12,462 million in 2017, which in turn increased by 20.2% from KZT10,369 million in 2016. The decrease in 2018 as compared to 2017 was primarily due to the expiration of our management incentive programme. We discontinued accruing incentives and terminated the unvested part in the first quarter of 2018. We plan to introduce a new long-term incentive programme in due course, based on the best global practice for public companies. See "*Management and Corporate Governance—Long-Term Incentive Plan*". The increase in our general and administrative expenses in

2017 as compared to 2016 was primarily due to the increase in employee benefits across all our Platforms.

Provision Expense

Our provision expense increased by 89.5% to KZT52,579 million (U.S.$153 million) in 2018 from KZT27,743 million in 2017, which in turn decreased by 63.6% from KZT76,201 million in 2016. Our adjusted cost of risk fluctuated from 8.1% in 2016 to 4.4% in 2017. We had a relatively low and stable historical cost of risk of 4.6% in 2018 as compared to adjusted cost of risk of 4.4% in 2017. The changes were due to the reasons as described in "- *Fintech Platform – Provision Expense*" above.

Operating Income

For the reasons described above, the Group's operating income was KZT135,237 million, KZT84,779 million and KZT8,883 million in 2018, 2017 and 2016, respectively.

Income Tax

Our income tax expenses increased by 329.3% from KZT3,141 million in 2016 to KZT13,485 million in 2017, and further increased by 78.9% to KZT24,118 million (U.S.$70 million) in 2018 primarily due to higher amounts of taxable operating income.

Net Income

The following table sets forth our historical net income, Adjusted Net Income, Net Income Margin and Adjusted Net Income Margin for the years indicated.

	Year ended 31 December					
	2016	**2017**	**2018**	**2018**	**2017**	**2018**
		KZT million		**U.S.$ million(1)**	**% change from prior year**	
Net income	5,742	71,294	111,119	322	1,141.6%	55.9%
Adjusted Net Income (Group)(2)	15,127	61,909	-	-	309.3%	-
Net Income Margin (Group) (%)	2.6%	25.9%	29.6%	-	-	-
Adjusted Net Income Margin (Group) (%)	6.8%	22.5%	-	-	-	-

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT average exchange rate for 2018, comprising KZT344.71.

(2) Adjusted Net Income is a non-IFRS measure and represents historical net income for 2016 and 2017 adjusted for the provision expense of KZT9,385 million (net of income tax), which was reallocated from 2017 to 2016, as if the Group's provisioning methodology that it changed in 2017 had been applied since 2016. If we applied the amended provisioning methodology with effect from 2016, our adjusted provision expense would amount to KZT64,470 million in 2016 and KZT39,475 million in 2017. See "- *Provision Expense*" above.

For the reasons described above, the Group's net income was KZT111,119 million, KZT71,294 million and KZT5,742 million in 2018, 2017 and 2016, respectively, representing a 55.9% increase in 2018 as compared to 2017 and a 1,141.6% increase in 2017 as compared to 2016. Our Net Income Margin improved from 6.8% in 2016 (Adjusted Net Income Margin) to 22.5% in 2017 (Adjusted Net Income Margin) and further to 29.6% in 2018 (historical Net Income Margin) primarily as a result of our ability to maintain our operational costs at stable levels with a significant increase of our revenue.

Discussion and Analysis of Principal Assets

General

The following table sets forth the principal components of our total assets as at the dates indicated.

	As at 31 December							As at 30 June		
	2016		2017		2018			2019		
	KZT million	% of total	KZT million	% of total	KZT million	% of total	U.S.$ million(1)	KZT million	% of total	U.S.$ million(2)
Loans to customers	715,053	58.6%	891,323	60.5%	1,067,002	62.8%	2,777	1,130,868	58.7%	2,972
Investment securities and derivatives.........	291,940	23.9%	212,535	14.4%	366,631	21.6%	954	436,360	22.6%	1,147
Cash and cash equivalents	157,389	12.9%	304,839	20.7%	168,471	9.9%	438	211,935	11.0%	557
Property, equipment and intangible assets................	33,389	2.7%	32,175	2.2%	36,688	2.2%	95	56,566	2.9%	149
Other assets.......	12,358	1.0%	12,766	0.9%	20,773	1.2%	54	41,862	2.2%	110
Due from banks................	1,554	0.1%	8,334	0.6%	22,872	1.3%	60	28,933	1.5%	76
Mandatory cash balances with the National Bank of the Republic of Kazakhstan........	7,684	0.6%	10,870	0.7%	17,215	1.0%	45	20,786	1.1%	55
Total assets.......	**1,219,367**	**100.0%**	**1,472,842**	**100.0%**	**1,699,652**	**100.0%**	**4,424**	**1,927,310**	**100.0%**	**5,065**

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT exchange rate as at 31 December 2018, comprising KZT384.20.

(2) U.S. Dollar figures have been calculated based on the U.S.$/KZT exchange rate as at 30 June 2019, comprising KZT380.5.

Our total assets increased by 13.4% to KZT1,927,310 million as at 30 June 2019 from KZT1,699,652 million as at 31 December 2018, which in turn increased by 15.4% from KZT1,472,842 million as at 31 December 2017, representing a 20.8% growth from KZT1,219,367 million as at 31 December 2016.

The increase in total assets in the first half of 2019 as compared to the end of 2018 was a result of growth of all components of our assets, and mainly due to (i) a 6.0% growth in loans to customers from KZT1,067,002 million as at 31 December 2018 to KZT1,130,868 million as at 30 June 2019 mainly as a result of the increase in TFV of our Fintech Platform, (ii) a 19.0% growth in investment securities and derivatives from KZT366,631 million as at 31 December 2018 to KZT436,360 million as at 30 June 2019 mainly driven by the growth of our debt securities portfolio as part of our liquidity management and (iii) a 25.8% growth in cash and cash equivalents from KZT168,471 million as at 31 December 2018 to KZT211,935 million as at 30 June 2019 mainly as a result of an increase in current accounts with other banks, short-term deposits with other banks and reverse repurchase agreements.

The increase in total assets in 2018 as compared to 2017 is mainly due to (i) a 19.7% growth in loans to customers from KZT891,323 million as at 31 December 2017 to KZT1,067,002 million as at 31 December 2018 mainly as a result of the increase in TFV of our Fintech Platform and (ii) a 72.5% growth in investment securities and derivatives from KZT212,535 million as at 31 December 2017 to KZT366,631 million as at 31 December 2018 mainly driven by the growth of our debt securities portfolio as part of our liquidity management. The increase in total assets in 2018 as compared to 2017 was partially offset by a 44.7% decrease in cash and cash equivalents mainly due to the decrease in current accounts with other banks reflecting liquidity management operations.

The increase in total assets 2017 as compared to 2016 is primarily attributable to (i) a 24.7% growth in loans to customers from KZT715,053 million as at 31 December 2016 to KZT891,323 million as at 31 December 2017 mainly as a result of the increase in TFV of our Fintech Platform and (ii) a 93.7% growth in cash and cash equivalents from KZT157,389 million as at 31 December 2016 to

KZT304,839 million as at 31 December 2017 mainly as a result of an increase in current accounts with other banks and short-term deposits with other banks. The changes in investment securities and derivatives and cash and cash equivalents are attributable to our liquidity management policy pursuant to which we invest excess liquidity in high-quality debt securities or lend to other banks on the interbank market.

For a discussion and analysis of cash and cash equivalents and investment securities and derivatives, see "—*Liquidity*" below.

Loans to Customers

Loans to customers are the largest component of our assets, accounting for 58.7% as at 30 June 2019, and 62.8%, 60.5% and 58.6% of total assets 31 December 2018, 2017 and 2016, respectively.

Our loans to customers increased by 6.0% to KZT1,130,868 million as at 30 June 2019 KZT1,067,002 million as at 31 December 2018, which in turn increased by 19.7% from KZT891,323 million as at 31 December 2017, representing a 24.7% growth from KZT715,053 million as at 31 December 2016. The gradual increase is attributable to the expansion of our consumer finance operations.

The following table sets forth our gross loan portfolio as at the dates indicated:

	As at 31 December				As at 30 June	
	2016	2017	2018	2018	2019	
	KZT million			U.S.$ million(1)	KZT million	U.S.$ million(2)
Gross loans to customers	798,562	981,471	1,187,797	3,092	1,228,216	3,228.0
Less allowance for impairment losses	(83,509)	(90,148)	(120,795)	(314)	(97,348)	256
Total loans to customers	**715,053**	**891,323**	**1,067,002**	**2,777**	**1,130,868**	**2,972**

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT exchange rate as at 31 December 2018, comprising KZT384.20.

(2) U.S. Dollar figures have been calculated based on the U.S.$/KZT exchange rate as at 30 June 2019, comprising KZT380.5.

Gross loans to customers originated within our Fintech Platform amounted to KZT1,228,216 million as at 30 June 2019, and KZT1,187,797 million, KZT981,471 million and KZT798,562 million as at 31 December 2018, 2017 and 2016, respectively. The growth in our gross loan portfolio during the period under review was driven by (i) the increasing number of consumer finance transactions fuelled by strong demand for our financing products and the growth of our Marketplace Platform; (ii) the launch of general purpose online consumer finance loans; and (iii) the growth in the number of car financing transactions through Kolesa.kz.

All of our loans to customers accrue interest at a fixed rate. The following table sets forth the breakdown of our loan portfolio by remaining contractual maturity dates as at 30 June 2019:

	Less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 year to 5 years	More than 5 years
	KZT million					
Gross loans to customers	110,500	170,513	183,723	245,259	488,316	29,905

The following table sets out the composition of our gross loan portfolio by the status of loans as at the dates indicated:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	KZT million			
Non-overdue	685,279	863,942	1,028,632	1,073,865
Less than 31 days overdue	16,206	16,126	22,050	22,510
31 to 90 days overdue	22,827	19,942	30,230	21,925
91 to 180 days overdue	12,291	12,908	24,175	27,250
181 to 360 days overdue	42,507	21,248	36,165	48,799
More than 360 days overdue	19,452	47,305	46,545	33,867
Total gross loans to customers	**798,562**	**981,471**	**1,187,797**	**1,228,216**

The following table sets out the breakdown of our NPLs, allowance for impairment and allowance for impairment to gross NPLs as at the dates indicated:

	Gross NPLs	Allowance for impairment	Allowance for impairment to gross NPLs
	KZT million		%
Non-performing loans to customers as at 31 December 2016	74,250	83,509	112%
Non-performing loans to customers as at 31 December 2017	81,461	90,148	111%
Non-performing loans to customers as at 31 December 2018	106,886	120,795	113%
Non-performing loans to customers as at 30 June 2019	109,917	97,348	89%

Non-performing loans, or NPLs, represent loans with payments of principal and/or interest overdue by more than 90 days. Provision for impairment to gross NPLs reflects our ability to absorb potential losses from non-performing loans. Considering the ratio represents impairment loan loss allowances for the specific pool as a percentage of NPLs, the ratio can exceed 100%.

The following table sets forth the breakdown of NPLs as a proportion of our gross loan portfolio as at the dates indicated.

As at 31 December						As at 30 June	
2016		2017		2018		2019	
Gross NPLs	% of gross loans	Gross NPLs	% of gross loans	Gross NPLs	% of gross loans	Gross NPLs	% of gross loans
74,250	9.3%	81,461	8.3%	106,886	9.0%	109,917	8.9%

Our NPLs accounted for 8.9% as at 30 June 2019, and 9.0%, 8.3% and 9.3% of our gross loan portfolio as at 31 December 2018, 2017 and 2016, respectively. Our first payment default rate (the share of loans where borrowers failed to pay the first payment under their loan agreements) decreased from 3.3% in the first quarter of 2016 to 1.5% in the first quarter of 2019. Our second payment default rate (the share of loans where borrowers failed to pay the first and the second payments under their loan agreements) decreased from 1.6% in the first quarter of 2016 to 0.6% in the fourth quarter of 2018. Our delinquency rate (the share of loans that were not delinquent in the previous month but missed their current due date) decreased from 5.9% in the first quarter of 2016 to 3.2% in the second quarter of 2019. Our loss rate vintages (expected loss rate of portfolio originated in specific quarter/month as a combination of actual NPL as of reporting date and expected recovery of NPL based on statistics) were below 3% throughout the period between 2016 and the first quarter of 2019. We believe that our ability to maintain a sustainable ratio of NPLs and improve other metrics despite a rapid growth of our consumer loan portfolio demonstrates the efficiency of our risk management system.

The following table sets forth the movements in loss allowance with regard to loans to customers as at the dates indicated:

	Year ended 31 December	
	2016	2017
	KZT million	
At the beginning of the period	**64,995**	**83,509**
Provision	75,930	27,269
Write-off of assets	(75,507)	(48,015)
Foreign exchange difference	(169)	150
Recoveries of assets previously written off	18,260	27,235
At the end of the period	**83,509**	**90,148**

The following table sets forth the movements in loss allowance with regard to loans to customers as at the dates indicated:

	Year ended 31 December
	2018
	KZT million
At 1 January 2018 before the adoption of IFRS 9	90,148
Effect of the adoption of IFRS 9	12,366
At the beginning of the period	**102,514**
Net changes, resulting from changes in credit risk parameters	62,767
Write-off, net of recoveries	(31,877)
New assets issued or acquired	16,022
Matured or derecognised assets (except for write off)	(28,600)
Foreign exchange difference	(31)
At the end of the period	**120,795**

	As at 30 June
	2019
	KZT million
At the beginning of the period	**120,795**
Net changes, resulting from changes in credit risk parameters	22,893
Write-off, net of recoveries	(48,793)
New assets issued or acquired	12,953
Matured or derecognised assets (except for write off)	(11,019)
Foreign exchange difference	519
At the end of the period	**97,348**

Our loss allowance for loans to customers decreased by 19.4% to KZT97,348 million as at 30 June 2019 from KZT120,795 million as at 31 December 2018, which in turn increased by 34.0% from KZT90,148 million as at 31 December 2017, representing a 8.0% growth from KZT83,509 million as at 31 December 2016. The 19.4% decrease in the first half of 2019 is mainly explained by the write off, net of recoveries, of loans in the amount of KZT48,793 million.

Our loss allowance as of 1 January 2018 includes a remeasurement effect due to the adoption of IFRS 9 (see also “Adoption of IFRS 9 Financial instruments” in Note 3 to the Financial Statements).

Liquidity

Our liquidity needs arise primarily from financing the operations of our Fintech Platform, which mainly include issuing loans to customers and cash transactions in our outlets and ATMs. We invest excess liquidity in high-quality interest-bearing financial instruments. We fund our liquidity needs largely through customer accounts, debt securities issued, subordinated debt and interbank borrowings (due to banks).

Cash and Cash Equivalents

Our cash and cash equivalents increased by 25.8% to KZT211,935 million as at 30 June 2019 from KZT168,471 million as at 31 December 2018, representing a 44.7% decrease from KZT304,839 million as at 31 December 2017, which in turn increased by 93.7% from KZT157,389 million as at 31 December 2016. The changes in cash and cash equivalents in the relevant periods are attributable to our liquidity management policy pursuant to which we invest excess liquidity in high quality debt securities or lend to other banks on the interbank market.

Investment Securities and Derivatives

Our securities portfolio primarily consists of debt securities. The following table sets forth information relating to securities held in each of the two categories set forth below as at the dates indicated.

	As at 31 December				As at 30 June	
	2016	2017	2018	2018	2019	
	KZT million			U.S.$ million(1)	KZT million	U.S.$ million(2)
Debt securities	216,228	212,256	356,311	927	436,064	1,146
Equity investments	286	252	378	1	296	0.8
Total financial assets at fair value through other comprehensive income (2017 and 2016: investments available-for-sale)	**216,514**	**212,508**	**356,689**	**928**	**436,360**	**1,147**
Total financial assets held for trading(3)	**75,426**	**27**	**9,942**	**26**	**-**	**-**
Total investment securities and derivatives	**291,940**	**212,535**	**366,631**	**954**	**436,360**	**1,147**

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT exchange rate as at 31 December 2018, comprising KZT384.20.

(2) U.S. Dollar figures have been calculated based on the U.S.$/KZT exchange rate as at 30 June 2019, comprising KZT380.5.

(3) Total financial assets at fair value through profit or loss comprises derivative financial instruments.

In line with our liquidity management approach, we primarily invest in either government or quasi-government issued debt such as treasury notes of the Ministry of Finance of Republic of Kazakhstan, notes of the NBK, or high-grade "blue-chip" corporate debt. As at 30 June 2019, and 31 December 2018, 2017 and 2016, the majority of our debt securities portfolio consisted of sovereign debt securities. In terms of derivative instruments, we engage primarily in currency derivatives in the process of managing our open currency position.

Our investment securities and derivatives increased by 19.0% to KZT436,360 million as at 30 June 2019 from KZT366,631 million as at 31 December 2018, which in turn increased by 72.5% from KZT212,535 million as at 31 December 2017, representing a 27.2% decline from KZT291,940 million as at 31 December 2016. The changes in our investment securities and derivatives in the respective periods are attributable to our liquidity management policy pursuant to which we invest excess liquidity in high quality debt securities or lend to other banks on the interbank market.

During the period under review, we had no securities with significant unrealised losses recognised in other comprehensive income.

Cash Flows

The following table sets forth a summary of cash flows for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	KZT million				
Net cash inflow (outflow) from operating activities	76,355	141,589	35,657	(93,756)	147,906
Net cash (outflow)/inflow from investing activities	(139,147)	26,248	(129,286)	(84,030)	(70,394)
Net cash (outflow) from financing activities	(61,831)	(20,434)	(57,079)	(16,417)	(33,177)
Cash and cash equivalents at the beginning of the period	284,393	157,389	304,839	304,839	168,471
Cash and cash equivalents at the end of the period	157,389	304,839	168,471	113,262	211,935

In the first half of 2019, we had net cash inflow from operating activities of KZT147,906 million as compared to net cash outflow from operating activities of KZT93,756 million in the first half of 2018. Net cash outflow from operating activities in the first half of 2018 was mainly a result of changes in operating assets and liabilities (primarily as a result of cash outflow with respect to due to banks) notwithstanding net cash inflow from operating activities before changes in operating assets and liabilities.

In the first half of 2019, we had net cash outflow from investing activities of KZT70,394 million as compared to KZT84,030 million in the first half of 2018. The decrease is mainly due to the changes in proceeds on sale and purchase of financial assets at fair value through other comprehensive income in line with our liquidity management.

In the first half of 2019, we had net cash outflow from financing activities of KZT33,177 million as compared to KZT16,417 million in the first half of 2018. The increase is mainly due to the dividends paid to our shareholders in the amount of KZT33,177 million, as well as due to no repayment of debt securities issued and subordinated debt in the first half of 2019.

Net cash inflow from operating activities decreased to KZT35,657 million in 2018 from KZT141,589 million in 2017, which in turn increased by 85.4% from KZT76,355 million in 2016. In 2018 as compared to 2017 our net cash inflow from operating activities decreased due to changes in operating assets and liabilities in line with the development of our core operations notwithstanding the increase in net cash inflow from operating activities before changes in operating assets and liabilities (primarily as a result of increase in interest received on our interest-earning assets (mainly our loan portfolio) and fees and commission received, partially offset by increases in interest paid on our interest-bearing liabilities (mainly customer accounts), fees and commissions paid and other expenses paid (primarily consisting of operating expenses)). The increase in our net cash inflow from operating activities in 2017 as compared to 2016 is primarily attributable to increase in interest received on our interest-earning assets (mainly our loan portfolio) and fees and commission received, partially offset by increases in interest paid on our interest-bearing liabilities (mainly customer accounts), other expenses paid (primarily consisting of operating expenses) and due to changes in operating assets and liabilities in line with the development of our core operations. During the period under review, our operating assets changed mainly due to the expansion of our loan portfolio while the growth of customer accounts was a key contributor to the increase of our operating liabilities.

In 2018, we had net cash outflow from investing activities of KZT129,286 million as compared to the inflow of KZT26,248 million in 2017 and the outflow of KZT139,147 million in 2016. The outflow in 2018 as compared to the inflow in 2017 is mainly due to a KZT118,731 million net outflow as a result of purchase of financial assets at fair value through other comprehensive income, since we applied excess cash primarily to debt securities as part of our liquidity management. The inflow in 2017 as compared to the outflow in 2016 is primarily attributable to a KZT30,808 million net inflow as a result of proceeds from financial assets at fair value through other comprehensive income which we used to finance the expansion of our loan portfolio. The cash inflow or outflow from proceeds or purchase of financial assets at fair value through other comprehensive income are explained by our liquidity management policy pursuant to which we invest excess liquidity in high quality debt securities as it is not always possible to immediately apply cash for the loan origination.

Net cash outflow from financing activities increased by 179.3% to KZT57,079 million in 2018 from KZT20,434 million in 2017, which in turn decreased by 67.0% from KZT61,831 million in 2016. The increase of the outflow in 2018 as compared to 2017 was primarily a result of the purchase of treasury shares in the amount of KZT75,287 million as a result of the buy-back through KASE (see "*Principal Shareholders – Changes in Shareholding*"), although the increase of the outflow in 2018 was partially offset by the issue of debt securities issued of KZT38,108 million while we had no issue of debt securities issued in 2017. The decrease of the outflow in 2017 as compared to 2016 was primarily due to no repayments of debt securities issued in 2017, while we repaid debt securities of KZT58,023 million in 2016. The decrease of the outflow in 2017 was partially offset by dividends paid of KZT15,156 million while we paid no dividends in 2016.

Funding

Our funding base relies primarily on customer accounts (term deposits and current accounts). Other sources of funding include debt securities issued, subordinated debt and due to banks.

The following table sets forth our sources of funding as at the dates indicated.

	As at 31 December							As at 30 June		
	2016		2017		2018		2018	2019		
	Amount	% of total funding	Amount	% of total funding	Amount	% of total funding	U.S.$(1) million	Amount	% of total funding	U.S.$(2) million
	KZT million, except percentages									
Term deposits ...	752,543	71.0%	900,591	72.2%	1,066,783	73.0%	2,777	1,210,800	74.1%	3,182
Current accounts	61,584	5.8%	79,048	6.3%	166,137	11.4%	432	193,754	11.9%	509
Total customer accounts..........	**814,127**	**76.8%**	**979,639**	**78.5%**	**1,232,920**	**84.4%**	**3,209**	**1,404,554**	**86.0%**	**3,691**
Total debt securities issued...............	**111,330**	**10.5%**	**111,335**	**8.9%**	**138,094**	**9.5%**	**359**	**138,327**	**8.5%**	**364**
Total subordinated debt	**93,905**	**8.9%**	**93,579**	**7.5%**	**89,603**	**6.1%**	**233**	**89,605**	**5.5%**	**235**
Time deposits of banks and other financial institutions	40,272	3.8%	40,156	3.2%	-	-	-	-	-	-
Repurchase agreements........	-	-	23,044	1.8%	49	0.0%	0.1	1,257	0.1%	3
Total due to banks...............	**40,272**	**3.8%**	**63,200**	**5.0%**	**49**	**0.0%**	**0.1**	**1,257**	**0.1%**	**3**
Total funding...	**1,059,634**	**100.00%**	**1,247,753**	**100.00%**	**1,460,666**	**100.0%**	**3,802**	**1,633,743**	**100.0%**	**4,293**

(1) U.S. Dollar figures have been calculated based on the U.S.$/KZT exchange rate as at 31 December 2018, comprising KZT384.20.

(2) U.S. Dollar figures have been calculated based on the U.S.$/KZT exchange rate as at 30 June 2019, comprising KZT380.5.

Customer Accounts

Term deposits and current accounts by customers are the largest component of our liabilities and constitute our main source of funding. We open interest-bearing term deposits for a specified period and non-interest-bearing current accounts for retail customers and legal entities. We believe that our deposit base is highly diversified with an average time deposit per customer of KZT908 thousand as at 31 December 2018. In 2018, 99.9% of deposits maturing in 2018 were extended.

The following table sets forth the breakdown of our customer accounts as at the dates indicated:

	As at 31 December							As at 30 June		
	2016		2017		2018		2018	2019		
	KZT million	% of total	KZT million	% of total	KZT million	% of total	U.S.$ million	KZT million	% of total	U.S.$ million
Individuals										
Term deposits......	712,891	87.6%	828,734	84.6%	1,025,099	83.1%	2,668	1,163,269	82.8%	3,057
Current accounts.....	30,947	3.8%	50,806	5.2%	124,971	10.1%	325	165,983	11.8%	436
Total due to individuals	**743,838**	**91.4%**	**879,540**	**89.8%**	**1,150,070**	**93.2%**	**2,993**	**1,329,252**	**94.6%**	**3,493**
Corporate customers										
Term deposits......	39,652	4.9%	71,857	7.3%	41,684	3.4%	108	47,531	3.4%	125
Current accounts.....	30,637	3.8%	28,242	2.9%	41,166	3.3%	108	27,771	2.0%	73
Total due to corporate customers..	**70,289**	**8.7%**	**100,099**	**10.2%**	**82,850**	**6.7%**	**216**	**75,302**	**5.4%**	**198**
Total customer accounts....	**814,127**	**100.0%**	**979,639**	**100.0%**	**1,232,920**	**100.0%**	**3,209**	**1,404,554**	**100.0%**	**3,691**

Customer accounts increased by 13.9% to KZT1,404,554 million as at 30 June 2019 from KZT1,232,920 million as at 31 December 2018, which in turn increased by 25.9% from KZT979,639 million as at 31 December 2017, representing a 20.3% growth from KZT814,127 million as at 31 December 2016. The increases during the period under review is primarily attributable to the growth of retail deposits, which mainly results from an increase in the number of Active Customers and the further integration of current customers into our Ecosystem.

Our average balances of customer accounts increased by 30.6% to KZT1,313,598 million in the first half of 2019 from KZT1,069,980 million in 2018, which in turn increased by 22.2% from KZT875,919 million in 2017, representing a 13.2% growth from KZT773,769 million in 2016, while average rate paid on customer accounts changed from 7.4% in 2016 to 8.4% in 2017, 7.6% in 2018 and 7.2% in the first half of 2019. The decreases in average rate paid on customer accounts in the first half of 2019 and the first half of 2018, and in 2018 as compared to 2017 were in line with the prevailing interest rate environment and our funding needs while the increase in average rate paid on customer accounts in 2017 as compared to 2016 was mainly due to the conversion by customers of the dollar-denominated deposits to the tenge-denominated, which have higher interest rates than the dollar-denominated product.

As at 30 June 2019, our twenty largest customers held KZT105,990 million, or 7.6% of customer accounts, as compared to KZT78,531 million, or 6.4% of customer accounts, as at 31 December 2018, KZT103,651 million, or 10.6% of customer accounts, as at 31 December 2017 and KZT85,675 million, or 10.5% of customer accounts, as at 31 December 2016.

Under Kazakhstan laws, individuals have a right to withdraw their term deposits prior to maturity if they forfeit their right to the contractually agreed accrued interest (but in this instance they will still be entitled to accrued interest at the rate applicable to call deposits).

Debt Securities Issued

We issue debt securities in the domestic market to fund the ongoing growth of our business operations. To minimise currency risk, we issue tenge-denominated debt securities since we conduct our business operations predominantly in tenge. The terms and conditions of the Group's debt instruments include a number of general covenants such as non-change of business, non-change of legal form and compliance with applicable reporting requirements, which are customary to KASE-listed bonds. As at the date of this Registration Document, the Company believes that the Group is in compliance with such covenants. There are no covenants prohibiting the Group from incurring additional debt or issuing equity securities.

Debt securities issued insignificantly increased to KZT138,327 million as at 30 June 2019 from KZT138,094 million as at 31 December 2018, which in turn increased by 24.0% from KZT111,335 million as at 31 December 2017, representing an insignificant increase from KZT111,330 million as at 31 December 2016.

The increase in the first half of 2019 as compared to the first half of 2018 is due to the placement of the tenge-denominated bonds for long-term funding at an attractive cost of borrowing in the second half of 2018 and repayment of the tenge-denominated bonds in the first half of 2018. Our average balances of debt securities issued increased by 33.1% to KZT136,788 million in the first half of 2019 from KZT102,781 million in the first half of 2018 as a result of the issue of tenge-denominated bonds in the aggregate amount of KZT38,108 million in the second half of 2018.

The increase in 2018 as compared to 2017 is due to the placement of the tenge-denominated bonds for long-term funding at an attractive cost of borrowing. While debt securities issued increased as at 31 December 2018 as compared to 31 December 2017, our average balances of debt securities issued decreased by 2.9% to KZT106,942 million in 2018 from KZT110,175 million in 2017 as a result of the repayment of tenge-denominated bonds in the aggregate amount of KZT12,715 million in February 2018 and June 2018.

While there were no notable changes in debt securities issued as at 31 December 2017 as compared to 31 December 2016, our average balances of debt securities issued decreased by 26.8% to KZT110,175 million in 2017 from KZT150,615 million in 2016 as a result of the repayment of tenge-denominated bonds in July 2016 and dollar-denominated Eurobonds in October 2016 in the aggregate amount of KZT58,023 million.

Average rate paid on debt securities issued changed from 9.8% in 2016 to 9.4% in each of 2017 and 2018 and the first half of 2018 and to 10.0% in the first half of 2019 in line with the prevailing interest rate environment.

The following table sets forth the breakdown of our debt securities issued as at the dates indicated:

	As at 31 December					As at 30 June
	Maturity date	**Nominal interest rate**	**2016**	**2017**	**2018**	**2019**
	Month/ year	**%**	**KZT million**			
Recorded at amortised cost						
Second bond programme – fourth issue............................	February 2018	8.00%	10,283	10,285	-	-
Second bond programme – fifth issue............................	June 2018	8.00%	1,603	1,603	-	-
Third bond programme – first issue	January 2025	9.90%	51,039	51,040	51,041	51,041
Third bond programme – second issue.............	January 2024	9.80%	48,405	48,407	48,408	48,409
Third bond programme – second issue.............	January 2023	9.70%	-	-	38,645	38,877

	As at 31 December					As at 30 June
	Maturity date	**Nominal interest rate**	**2016**	**2017**	**2018**	**2019**
	Month/ year	**%**	**KZT million**			
Total debt securities issued			**111,330**	**111,335**	**138,094**	**138,327**

Subordinated Debt

The amount of subordinated debt of KZT89,605 million as at 30 June 2019 had no notable changes as compared to KZT89,603 million as at 31 December 2018, which in turn decreased by 4.2% from KZT93,579 million as at 31 December 2017, representing an insignificant decrease from KZT93,905 million as at 31 December 2016. The decrease in 2018 as compared to 2017 is mainly due to the repayment of a portion of subordinated debt upon maturity in the amount of KZT3,924 million. There were no notable changes in subordinated debt securities issued as at 31 December 2017 as compared to 31 December 2016.

Our average balances of subordinated debt decreased by 3.8% to KZT88,139 million in the first half of 2019 from KZT91,590 million in the first half of 2018 as a result of the repayment of tenge-denominated subordinated bonds in June 2018 in the amount of KZT3,924 million. In the first half of 2019, we did not place or repaid our subordinated debt. In July 2019, we repaid tenge-denominated subordinated bonds in the aggregate amount of KZT11,782 million (including accrued but unpaid interest).

Our average balances of subordinated debt decreased by 1.1% to KZT89,898 million in 2018 from KZT90,922 million in 2017 as a result of the repayment of tenge-denominated subordinated bonds in June 2018 in the amount of KZT3,924 million. Our average balances of subordinated debt decreased by 0.6% to KZT90,922 million in 2017 from KZT91,486 million in 2016 as a result of the repayment of an insignificant portion of subordinated debt.

Average rate paid on subordinated debt decreased from 11.1% in 2016 to 10.7% in 2017, 10.1% in the first half of 2018, 9.9% in 2018 and further to 9.4% in the first half of 2019 as a result of calculation of an interest rate on subordinated bonds with a reference to inflation in Kazakhstan which decreased during the period under review.

We attract subordinated debt through the issue of tenge-denominated bonds in the domestic market. The instruments qualify as part of regulatory capital of Kaspi Bank and are included in Tier II component of regulatory capital. The terms and conditions of the Group's subordinated debt instruments do not contain any covenants prohibiting the Group from incurring additional debt or issuing equity securities.

The following table sets forth the breakdown of our subordinated debt as at the dates indicated:

	As at 31 December					As at 30 June
	Maturity date	**Nominal interest rate**	**2016**	**2017**	**2018**	**2019**
	Month/ year	**%**	**KZT million**			
Recorded at amortised cost						
First bond programme – third issue	June 2018	2.5% plus inflation rate	3,843	3,912	-	-
First bond programme	July 2019	2% plus	6,448	6,273	6,221	6,188

	As at 31 December						As at 30 June
	Maturity date	Nominal interest rate	2016	2017	2018		2019
	Month/ year	%	KZT million				
– fourth issue..............		inflation rate					
First bond programme – fifth issue.................	July 2019	2% plus inflation rate	5,561	5,499	5,563		5,594
Second bond programme – first issue	July 2021	1% plus inflation rate	9,975	9,941	9,981		9,994
Second bond programme – third issue............................	February 2023	2% plus inflation rate	5,812	5,686	5,569		5,511
Third bond programme – fourth issue..............	June 2025	10.7%	62,255	62,257	62,259		62,260
Debt component of preference shares.........	N/A	N/A	11	11	10		58
Total subordinated debt.............................			**93,905**	**93,579**	**89,603**		**89,605**

Due to Banks

Amounts due to banks include time deposits of banks and other financial institutions and repurchase agreements. Due to banks increased to KZT1,257 million as at 30 June 2019 from KZT49 million as at 31 December 2018, which in turn decreased from KZT63,200 million as at 31 December 2017, representing a 56.9% growth from KZT40,272 million as at 31 December 2016. The increase as at 30 June 2019 as compared to 31 December 2018 is due to the increase of repurchase agreements entered into as part of our short-term liquidity management. The decrease in 2018 as compared to 2017 is mainly due to the repayment of all balances of time deposits of banks and other financial institutions and decrease in the repurchase agreements from KZT23,044 million as at 31 December 2017 to KZT49 million as at 31 December 2018 upon expiration, entered into as part of our short-term liquidity management. The increase in 2017 as compared to 2016 is attributable to repurchase agreements in the amount of KZT23,044 million as at 31 December 2017, entered into as part of our short-term liquidity management.

Our average balances of due to banks decreased to KZT5,256 million in the first half of 2019 from KZT50,794 million in the first half of 2018 as a result of repayment of all balances of time deposits of banks and other financial institutions and decrease in the repurchase agreements upon expiration, entered into as part of our short-term liquidity management.

Our average balances of due to banks decreased by 33.4% to KZT32,676 million in 2018 from KZT49,044 million in 2017 as a result of repayment of all balances of time deposits of banks and other financial institutions and decrease in the repurchase agreements upon expiration, entered into as part of our short-term liquidity management. Our average balances of due to banks increased by 3.4% to KZT49,044 million in 2017 from KZT47,422 million in 2016 as a result of repurchase agreements that we entered into as part of our short-term liquidity management.

Average rate paid on due to banks was 8.5% in 2016, 7.7% in 2017, 7.6% in 2018, 7.9% in the first half of 2018 and 15.7% in the first half of 2019 in line with the prevailing interest rate environment.

Capital Adequacy and Capital Management

The management of Kaspi Bank monitors Kaspi Bank's capital adequacy ratios based on the requirements of the Basel III framework. The table below sets forth the respective ratios calculated on the basis of Kaspi Bank's consolidated financial statements under Basel III as at the dates indicated:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
Risk-weighted assets (KZT million)........	1,043,794	1,172,317	1,243,295	1,344,106
Tier 1 capital adequacy ratio (%)	12.3%	13.9%	16.8%	17.2%
Total capital adequacy ratio (%).............	18.4%	20.9%	23.0%	22.9%

In addition to Basel III capital adequacy ratios, as a Kazakhstan bank, Kaspi Bank is obliged to comply with the regulatory capital adequacy ratios stipulated by the NBK. These ratios are calculated in accordance with NBK regulations. Going forward, we plan to maintain Kaspi Bank's K1 ratio at a level above 10% with the remaining portion above this threshold to distribute as dividends to shareholders, subject to applicable law and commercial considerations (including without limitation, cash requirements and future projects). The table below sets forth the respective ratios recorded by Kaspi Bank as at and for the periods indicated:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
Risk-weighted assets (KZT million)........	1,026,642	1,397,186	1,672,224	1,875,729
K1 capital adequacy ratio (%)	11.2%	11.0%	11.4%	11.5%
Tier 1 capital adequacy ratio (K1-2) (%).	11.2%	11.0%	11.4%	11.5%
Total capital adequacy ratio (K2) (%)	13.6%	16.5%	15.7%	15.3%

Commitments and Contingencies

In the ordinary course of business we enter into financial instruments with off-balance sheet risk in order to meet the needs of our customers. Guarantees issued included below represent financial guarantees, where payment is not probable as at the respective reporting date, and therefore have not been recorded in the consolidated statement of financial position.

Our maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

We use the same credit policy in undertaking contingent commitments as we do for on-balance operations. As at 30 June 2019, we had provisions for losses on contingent liabilities of KZT49 million as compared to KZT42 million as at 31 December 2018 and no provisions for losses on contingent liabilities as at 31 December 2017 and 2016.

The following table sets forth our contingent liabilities and credit commitments as at the dates indicated:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	KZT million			
Commitments on loans and unused credit lines	42,922	55,202	61,320	72,117
Guarantees issued and similar commitments	2,068	1,793	1,409	1,337
Total contingent liabilities and credit commitments	**44,990**	**56,995**	**62,729**	**73,454**

The increase in total contingent liabilities and credit commitments is primarily attributable to the increase in commitments on loans and unused credit lines in connection with Kaspi Red Shopping Club cards, resulting from a corresponding increase in the number of Active Customers using Kaspi Red Shopping Club.

Quantitative and Qualitative Disclosure about Risks

The main risks that could adversely affect our results of operations are credit risk, liquidity risk and market risks (interest rate, currency and securities portfolio risks). Our management reviews and supports policies for managing each of the risks summarised below. For a detailed description of our risk management and exposures, see Note 26 to the Annual Financial Statements.

Credit Risk

Overview

In the course of our operations, we are exposed to credit risk, i.e. the risk that one party to a financial instrument may fail to discharge any of its obligations and thereby cause the other party to incur a financial loss. Our credit risk exposure arises primarily from our consumer finance business through the Fintech Platform. To this end, we have developed a comprehensive data-driven risk management framework.

To manage credit risk during loan origination the Group centralised all processes related to decision making, verification and accounting. The Group has developed an automated, centralised and big data-driven proprietary loan approval process that enables it to make instant credit decisions. The fully centralised risk management is responsible for maintaining scoring models and decision-making process. The quality of approved loans are monitored by the risk management bodies unit on day-to-day basis with periodical validation of the models. In terms of credit risk, the risk management consists of independent modelling, anti-fraud, monitoring and provisioning divisions.

Our broad proprietary database of information in respect of clients which have at any time taken a loan through any of our Platforms, together with the capabilities of our IT systems, provide a substantial basis for constant improvement of current credit risk models and development of new risk analysis tools. The comprehensive database of information on our clients is fully centralised. All processes of credit risk management are subject to functional separation for unbiased and adequate reaction to credit risk events.

Our data-driven decision making process is based on (i) data engineering (we constantly enrich our proprietary customer data due to multiple touchpoints (transactional data, behavioural data, shopping information)); (ii) data preparation (we structure the collected data to use it for our risk management and do not share with third parties unless required by laws); (iii) data analysis (we employ our proprietary risk algorithms, sophisticated predictive scoring models and machine learning for the analysis of the structured data, after that each customer is assigned to one of over 1,000 decision scenarios based on multiple factors); and (iv) implementation (our credit decisions are based on real time strategies which may be modified within 15 minutes with no involvement of IT specialists).

We monitor our exposure on a regular basis to ensure that the credit limits and creditworthiness guidelines established by our risk management policy are not breached.

Scoring models

We have developed a highly automated, centralised and big data-driven proprietary loan approval process that enables us to make high-quality credit decisions in real time within seconds. During this process we extensively use our data mining, machine learning and big data analytical capabilities. The combination of our modern technologies and big data enabled us to process one loan application per second in January-November 2018 and 10 loan applications per second during Kaspi Juma on 16-17 November 2018, with a potential to 25 loan applications per second as proven by our own stress tests.

During the credit decision process, our platforms use proprietary risk algorithms and sophisticated predictive scoring models for evaluation of the risks of potential borrowers using statistical modelling based on (i) a wealth of proprietary internal data such as application, transactional, behavioural, shopping and payment history information, which is supplemented by (ii) external data such as data received from credit bureaus (LLC First Credit Bureau and JSC State Credit Bureau) and the Pension Centre.

Our scoring models and decision-making process are assessed and analysed on a continuous basis for effectiveness and validity. The additional proprietary data constantly accumulated around our customers' activity within our Ecosystem enables us to continuously improve our credit decisioning process, thereby managing our risks at acceptable levels. Our team of 60 data scientists may swiftly adjust the models to ensure level of risk at acceptable levels and to adapt to current market conditions.

Write off of loans to customers

Loans to customers are written off against the allowance for impairment losses. Decision for the write off is taken by the Credit Committee and commonly at overdue more than one year. However, write off of loans does not indicate that no other actions will be undertaken to collect the loans. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated statement of profit or loss in the period of recovery.

Liquidity Risk

We are exposed to liquidity risk arising out of the mismatches between the maturities of our assets and liabilities, which may result in us being unable to meet obligations in a timely manner. Our liquidity risk exposure arises primarily from the potential significant withdrawals of deposits prior to their stated maturities. A major part of our liabilities consists of retail customer accounts with an average contractual maturity less than 2 years. In accordance with Kazakhstan laws, individuals have a right to withdraw their term deposits prior to maturity. However, the actual duration of a customer account deposit is on average more than 5 years, which ensures our reliable and long-term funding base. In the first half of 2019, the average balance of our customer accounts is KZT977 thousand and 98.7% of deposits matured in the first half of 2019 were extended, which is another factor of diversification and stability of the funding base. As at 30 June 2019, approximately 80% of our deposits of individuals were under the insurance cap.

To support our liquidity position, we maintain a significant amount of high quality liquid assets which comprise mainly cash and cash equivalents, as well as debt securities issued by the Ministry of Finance of Kazakhstan.

Market Risks

Market risks covers interest rate risk, currency risk and securities portfolio risk to which the Group is exposed.

Interest Rate Risk

The Group has exposure to interest rate risk resulting from movements in interest rates that affect income, expense or the value of financial instruments. The contractual maturities of the Group's assets and liabilities have modest gaps, which provides the option of instant reaction to changes in market interest rates. We have significant amounts of high-quality liquid assets with short maturity, which helps us to minimise its sensitivity to sharp increases in interest rates in case of liquidity shortfall on the market.

Currency Risk

Our assets and liabilities are denominated in several currencies, with the substantial majority of assets (loans) denominated in tenge and a portion of deposits denominated in foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. We manage our currency risk by maintaining a modest open currency position. We issue loans to customers exclusively in tenge, which protects us from hidden currency risk in the event of currency devaluation.

Price Risk

Our securities portfolio risk arises from fluctuations in the value of financial instruments because of changes in market prices whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. We have established various limits on our operations with securities, including instrument specific limits, in order to balance profit and risk in the securities portfolio. Our portfolio is predominantly comprised of Kazakhstan government debt securities, which represented 88.0% of total investment securities and derivatives as at 30 June 2019.

Significant Accounting Policies

The Group applies certain significant accounting policies in the preparation of the Financial Statements. These accounting policies have been consistently applied to all periods presented in the Financial Statements. A detailed description of the Group's significant accounting policies is set forth in Note 3 to the Annual Financial Statements.

Accounting Estimates and Judgements

The Group has identified the critical accounting policies under which significant judgements, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results of the financial position reported in future periods. A detailed description of the Group's significant accounting estimates and judgements is set forth in Note 3 to the Annual Financial Statements.

Recent Accounting Pronouncements

The IASB has published a number of amendments to IFRS, which are effective for accounting periods starting from 1 January 2019. Their adoption have not had a significant effect on the consolidated financial statements of the Group. The Group has not early adopted any of the amendments effective after 31 December 2018.

New and Revised Standards

The IASB has issued the following new standards and interpretations which are not yet effective in respect of the financial period included in the Financial Statements, and which have not been adopted in the Financial Statements:

- IFRS 17, Insurance Contracts ("**IFRS 17**") – effective for accounting periods starting from 1 January 2021.

It is not practicable to provide a reasonable estimate of the financial effect of IFRS 17 until a detailed review has been completed by the management.

Except as stated above, the management of the Group is not yet in a position to state whether the relevant amendments, new standards and interpretations would have a significant impact on the Group's results of operations and financial position. For a detailed description, see Note 3 to the Annual Financial Statements.

Tax Legislation

Tax, currency and customs legislations of the Republic of Kazakhstan are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and state authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. As at 30 June 2019, and 31 December 2018, 2017 and 2016, the Management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax, currency and customs positions will be sustained.

MANAGEMENT AND CORPORATE GOVERNANCE

Board of Directors

The Board of Directors is the primary supervisory body of the Company. The Board of Directors, among other functions, approves appointments to the Management Board of the Company (the "**Management Board**"), approves material acquisitions and disposals by the Company, and forms the audit and remuneration and strategic review committees.

As at the date of this Registration Document, the Board of Directors of the Company consists of six members (including three independent directors) as set out below. The current Board of Directors was elected by the General Meeting of Shareholders on 8 April 2019 until 26 November 2023.

Name	Age	Position/Title	Years with the Group
Vyacheslav Kim..................	49	Non-Executive Director, Chairman	12
Mikheil Lomtadze...............	43	Executive Director, Chairman of the Management Board (CEO)	12
Nikolay Zinoviev	45	Non-Executive Director	-
Douglas Gardner	56	Independent Non-Executive Director	-
Szymon Gutkowski.............	49	Independent Non-Executive Director	-
Alina Prawdzik....................	50	Independent Non-Executive Director	-

The business address of the Board of Directors is 050013, Republic of Kazakhstan, Almaty, Nauryzbai Batyr Street, 154A.

Mr. Vyacheslav Kim

Chairman of the Board of Directors

Mr. Vyacheslav Kim is a co-founder of Kaspi.kz and has been with the Group since its inception and currently serves as the Chairman of the Board of Directors. Mr. Kim is also an advisor on Central Asia strategy to Baring Vostok Capital Partners, the leading private equity firm in the CIS. Mr. Kim is a prominent businessman with extensive experience in the sphere of retail. He currently serves as a Member of the Board of Directors of Magnum, the largest hypermarket chain in Kazakhstan. He is also on the Board of Governors of the Physics and Mathematics School, the leading and most recognised high school in Kazakhstan. Mr. Kim is a Member of National Investor's Council chaired by the President of the Republic of Kazakhstan. He graduated from Almaty State University, majoring in Finance.

Mr. Mikheil Lomtadze

Member of the Board of Directors

Mr. Mikheil Lomtadze is a co-founder of Kaspi.kz ecosystem business and currently serves as a Chairman of the Management Board. Mr. Lomtadze joined the Group in 2007. Prior to that, Mr. Lomtadze was a Partner at Baring Vostok Capital Partners. From 1995 to 2000, Mr. Lomtadze founded and developed GCG Audit, the leading strategy consulting and auditing firm in Georgia, which later became part of the Ernst & Young global network. In 2018, Mr. Lomtadze was named the best CEO in Kazakhstan by members of Kazakhstan Growth Forum. He was also named the best CEO in Kazakhstan according to the survey carried out by Forbes and PricewaterhouseCoopers in 2018 and 2019. Mr. Lomtadze received a Bachelor's degree from the European School of Management (Georgia) and holds an MBA degree from Harvard Business School (Class 2002). Mr. Lomtadze is currently a member of Harvard Business School's Middle East & North Africa Advisory Board.

Mr. Nikolai Zinoviev

Non-Executive Director

Mr. Nikolai Zinoviev serves as a Non-Executive Director of the Company. Mr. Zinoviev previously was CEO and founder of Europlan, the largest car leasing company in Russia. Prior to that, he was Vice-President at the US-Russia Investment Fund, established by the United States government to provide equity and debt financing to small and medium size enterprises in Russia. Currently, Mr. Zinoviev is founder and CEO of the leading B2B online marketplace Superbrands.ru. Mr. Zinoviev received a Bachelor's degree in English from the State Pedagogical University, Rostov-on-Don and a Bachelor's of Economics from the Moscow State University.

Mr. Douglas Gardner

Independent Non-Executive Director

Mr. Douglas (Doug) Gardner serves as an Independent Non-Executive Director of the Company. Mr. Gardner previously has held Board and Audit Committee Chairman positions for banks, retail enterprises, real estate development firms and family offices. He has provided advisory services to companies, focusing on their corporate governance and financial reporting processes. Prior to that, Mr. Gardner held the post of Managing Partner for Ernst & Young Russia, Kazakhstan and CIS. Mr. Gardner is a Certified Public Accountant. Mr. Gardner graduated of the University of Oklahoma with a Bachelor's of Business Administration in Accounting degree.

Mr. Szymon Gutkowski

Independent Non-Executive Director

Mr. Szymon Gutkowski serves as an Independent Non-Executive Director of the Company. Mr. Gutkowski is a Managing Partner of DDB&tribal Poland, the leading marketing strategy company in Poland. His expertise lies in the field of brand building, marketing and communications strategy. Since 2014, Mr. Gutkowski is a President of Polish Marketing Communication Association and since 2017 Member of the Client Advisory Board of Facebook in Poland. He is decorated with the Knights Cross of Polonia Restituta Order. Mr. Gutkowski graduated from Warsaw University with a degree in Theoretical Mathematics and obtained an executive MBA from the joint program of the University of Illinois Urbana-Champaign and the International Management Centre of Warsaw University.

Mrs. Alina Prawdzik

Independent Non-Executive Director

Mrs. Prawdzik serves as an Independent Non-Executive Director of the Company. Mrs. Prawdzik is a Managing Partner at Innogy Innovation Hub, is responsible for operations in Central Eastern Europe and is a Head of its "Smart & Connected Buildings" investment focus. Previously, she worked at e-Bay.com as a Regional Manager responsible for European Emerging Markets and as a General Manager responsible for International Expansion Europe. Mrs. Prawdzik graduated from the University of Gdansk (Poland), majoring in International Trade.

Management Board

The composition of the Management Board as at the date of this Registration Document is set out below.

Name	Age	Position/Title	Years with the Group
Mikheil Lomtadze................	43	Chairman of the Management Board (CEO)	12
Tengiz Mosidze	44	Deputy Chairman of the Management Board (CFO)	11
Yuri Didenko	45	Deputy Chairman of the Management Board	12
Pavel Mironov	39	Deputy Chairman of the Management Board	11

The business address of the Management Board is 050013, Republic of Kazakhstan, Almaty, Nauryzbai Batyr Street, 154A.

Mr. Mikheil Lomtadze

Chairman of the Management Board

Mr. Lomtadze serves as the Chairman of the Management Board. See "—*Board of Directors*" above.

Mr. Tengiz Mosidze

Deputy Chairman of the Management Board

Mr. Tengiz Mosidze joined the Group as a member of the founding management team in 2008 and currently serves as a Deputy Chairman of the Management Board, responsible for finance. Mr. Mosidze has extensive experience in the area of finance. Prior to joining the Group, Mr. Mosidze worked at Ernst & Young as a Financial Manager for the Caucasus and Central Asia region. Prior to that, Mr. Mosidze had been part of the World Bank team responsible for the development of microfinance organisations in Georgia. Mr. Mosidze received a Bachelor's degree and a Master's degree in Finance from the European School of Management (Georgia). Mr. Mosidze also graduated from the Harvard Business School GMP programme (Class of 2013).

Mr. Yuri Didenko

Deputy Chairman of the Management Board

Mr. Yuri Didenko joined the Group as a member of the founding management team in 2007 and currently serves as a Deputy Chairman of the Management Board, responsible for capital markets and treasury. Mr. Didenko has extensive experience in investment and financial analysis. Prior to joining the Group, Mr. Didenko was a Director of Investments at Baring Vostok Capital Partners. Mr. Didenko graduated from Kyiv National Economic University with a degree in Finance and is a CFA Charterholder. Mr. Didenko also graduated from the Harvard Business School GMP programme (Class of 2015).

Mr. Pavel Mironov

Deputy Chairman of the Management Board

Mr. Pavel Mironov joined the Group as a member of the founding management team in 2008 and currently serves as a Deputy Chairman of the Management Board, responsible for the Group's daily operations. Mr. Mironov has extensive experience in technology. Prior to joining the Group, he worked at Tieto, a leading European IT and software company, and covered projects in Russia, Georgia, Kazakhstan and other CIS countries. Mr. Mironov graduated from the Moscow Institute of Electronics and Mathematics of the Higher School of Economics with a degree in Computer Science. Mr. Mironov also graduated from the Harvard Business School GMP programme (Class of 2015).

Management Remuneration

In accordance with the Company's Charter, the remuneration of the members of the Board of Directors is determined by the General Meeting of Shareholders, while the remuneration of the Chairman of the Management Board is determined by the Board of Directors. There is no amount set aside or accrued by the Company for the purposes of providing retirement or similar benefits to such persons.

The Group's aggregate remuneration of the key management personnel was KZT496 million, KZT3,034 million and KZT5,177 million in 2016, 2017 and 2018, respectively, and KZT554 million and KZT568 million in the first half of 2018 and 2019, respectively.

There are no conflicts or potential conflicts between the duties of the members of the Board of Directors or the Management Board of the Company and their private interests or other duties.

No member of the Board of Directors or of the Management Board is a party to any service contract with the Group where such contract provides for benefits upon termination of employment.

Long-term Incentive Plan

In due course, the Company intends to adopt a long-term incentive plan (the "**LTIP**"), which will envisage the provision of equity incentives to our key employees and members of the Board of Directors in the amount up to 7% of our total share capital. Initially, approximately 50 managers could be eligible to participate in the LTIP. The vesting period will be three to five years, as determined by the Board of Directors under recommendation of the remuneration and strategic review committee.

Control and Shareholdings

The Company is not aware of any person who, as at the date of this Registration Document, exercises, or could exercise, directly or indirectly, control over the Company.

As at the date of this Registration Document, other than Messrs. Mikheil Lomtadze and Vyacheslav Kim, none of the members of the Board of Directors or Senior Management held any Shares or options to acquire any Shares.

Litigation Statement about Directors and Senior Management

As at the date of this Registration Document, and for the 5 years preceding the date of this Registration Document, none of the Directors or Senior Management:

- has had any convictions in relation to fraudulent offences;
- has been a member of the administrative, management or supervisory bodies of any company, or been a partner in any partnership, at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to official public incrimination or sanction by a statutory or regulatory authority (including a professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of a company.

Corporate Governance

Corporate Governance Code

The Board of Directors is committed to the highest standards of corporate governance appropriate for a company of the Company's size and country of incorporation. The Company's Corporate

Governance Code, which was adopted in 2018, is largely consistent with the principles of governance applicable to Kazakhstan companies whose shares are listed on KASE. The Company complies with the corporate governance regime under Kazakhstan laws. The Company has implemented corporate governance measures under which it has appointed three independent non-executive directors, two non-executive directors, one executive director, and has established two committees of the board of directors (the audit committee and the remuneration and strategic review committee), in each case chaired by non-executive independent directors.

Overview

All of the committees of the Board of Directors perform their duties on behalf of the Board of Directors, and the Board of Directors is responsible for constituting, assigning, co-opting and fixing the terms of service for the committee members.

The composition of the committees as at the date of this Registration Document, as well as a brief description of the terms of reference of the committees, is set forth below.

Audit Committee

The audit committee comprises three directors, two of whom are independent, and meets at least four times a year. The audit committee is chaired by an independent director. The audit committee is responsible for, among other matters: (i) overseeing the integrity of the Group's consolidated financial statements, systems of internal control and compliance with legal and regulatory requirements; (ii) reviewing of the terms of appointment and remuneration of the independent auditors; and (iii) reviewing and approving the annual audit plan. As at the date of this Registration Document, the audit committee is chaired by Mr. Douglas Gardner, and Mr. Nikolay Zinovyev and Mr. Szymon Gutkowski are the other committee members

Remuneration and Strategic Review Committee

The remuneration and strategic review committee comprises three directors, one of whom is independent, and meets at least four times a year. The remuneration and strategic review committee is chaired by an independent director. The remuneration and strategic review committee is responsible for determining and reviewing, among other matters, the Company's remuneration policies, compensation and benefits plans, including incentive compensation and equity-based plans. The remuneration and strategic review committee determines and reviews the remuneration of members of the Board of Directors and the Management Board. As at the date of this Registration Document, the remuneration and strategic review committee is chaired by Mr. Szymon Gutkowski, and Mrs. Alina Prawdzik and Mr. Mikheil Lomtadze are the other committee members.

Internal Audit Service

The internal audit service is responsible for the oversight of the business operations of the Company in relation to the internal control and risk management. The internal audit service carries out auditing assignments in accordance with the plan established by the Board of Directors, and reports on the Company's compliance with the plan's recommendations. The internal audit service reports to the Board of Directors. The members of the internal audit service must be available for any meetings of the Board of Directors.

PRINCIPAL SHAREHOLDERS

General

The following table sets forth the shareholding in the Company through ownership of the Shares or global depositary receipts representing the Shares as at the date of this Registration Document.

Shareholder	Number	%[1]
Mr. Vyacheslav Kim	60,944,066	31.77%
Mr. Mikheil Lomtadze	55,620,385	29.00%
Asia Equity Partners Limited[2]	54,358,605	28.34%
Baring Vostok Nexus Limited[3]	13,209,758	6.89%
ELQ Investors II Ltd[7]	7,672,186	4.00%
Total outstanding shares	**191,805,000**	**100.0%**
Treasury Shares[8]	**7,695,000**	N/A

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(1) Percentage shareholding in share capital.

(2) Asia Equity Partners Limited is a company organised and existing under the laws of Luxembourg with its registered office and principal place of business at 16 rue Erasme L-1468, Luxembourg. At the date of this Registration Document, 28.34% of the Company's outstanding shares represented by global depositary receipts were held by Asia Equity Partners Limited, which is owned by Baring Vostok Nexus Limited, which is in turn owned by the partnerships comprising Baring Vostok Private Equity Fund III, Baring Vostok Private Equity Fund V, and Baring Vostok Fund V Supplemental Fund.

(3) Baring Vostok Nexus Limited is a company organised and existing under the laws of Guernsey with its registered office and principal place of business at 1 Royal Plaza, Royal Avenue, St. Peter Port, Guernsey GY1 2HL. At the date of this Registration Document, 6.89% of the Company's issued and outstanding shares are held by Baring Vostok Nexus Limited, which is owned by the partnerships comprising Baring Vostok Private Equity Fund III, Baring Vostok Private Equity Fund V, and Baring Vostok Fund V Supplemental Fund. The 6.89% shareholding includes 12,257,305 Shares represented by global depositary receipts held under the participation deed between Mr. Vyacheslav Kim and Baring Vostok Nexus Limited dated 25 June 2019, whereby Mr. Vyacheslav Kim is a shareholder of record while Baring Vostok Nexus Limited has all economic rights relating to the Shares (including the right to dividend distributions and to transfer or dispose of Shares). In total, together with the 28.34% of the Company's outstanding shares represented by global depositary receipts held by Asia Equity Partners Limited, the Baring Vostok Funds beneficially own 35.23% of the Company's outstanding shares represented by global depositary receipts at the date of this Registration Document.

(4) ELQ Investors II Ltd is a company incorporated under the laws of England and Wales with its registered office at Plumtree Court, 25 Shoe Lane, London, EC4A 4AU, United Kingdom. ELQ Investors II Ltd is a wholly-owned subsidiary of The Goldman Sachs Group, Inc.

(5) The Company purchased treasury Shares as part of its buy back programme in 2018. No dividends accrue or are payable on the treasury Shares, and such Shares are not counted for the purposes of determining a quorum at the shareholders' meeting and do not carry the right to vote. The Company intends to use the treasury Shares for the LTIP.

Programme for Global Depositary Receipts

On 28 March 2019, the Company and The Bank of New York Mellon as depositary entered into the Deposit Agreement for the establishment and maintenance of the programme for the global depositary receipts. Following the establishment of the programme, as at the date of this Registration Document the depositary has issued 191,805,000 global depositary receipts against the deposit by the existing shareholders of 191,805,000 Shares.

Changes in Shareholding

Throughout 2016 and 2017, the Company's shareholding structure remained unchanged, with 38.57% of the Company's outstanding Shares being owned by the funds advised by Baring Vostok Capital Partners, 30.00% of the Company's outstanding Shares being owned by Mr. Kairat Satybaldyuly, 21.45% of the Company's outstanding Shares being owned by Mr. Vyacheslav Kim and 9.98% of the Company's outstanding Shares being owned by Mr. Mikheil Lomtadze.

Between July and September 2018, Mr. Kairat Satybaldyuly sold his entire shareholding in the Company through a series of sales via the trading platform of the KASE. In the same period (i) Mr. Vyacheslav Kim purchased and sold Shares and (ii) as part of a share buy-back programme launched by the Company in July 2018 and discontinued in October 2018, the Company purchased 16,320,000 Shares, in each case, via the trading platform of the KASE. As a result of such transactions, Mr. Satybaldyuly ceased to be a shareholder of the Company with effect from 1 October 2018.

In December 2018, pursuant to a long-standing arrangement encompassing their various business interests (including, but not limited to, the Company), Mr. Vyacheslav Kim transferred 52,038,988 Shares to Mr. Mikheil Lomtadze for certain non-cash consideration, such that Mr. Mikheil Lomtadze's beneficial interest in the Company increased to 31.62% as at 31 December 2018.

As at 31 December 2018, 35.11% of the Company's outstanding Shares were beneficially owned by the funds advised by Baring Vostok Capital Partners, 33.27% by Mr. Vyacheslav Kim and 31.62% by Mr. Mikheil Lomtadze.

In April 2019, as a result of a series of stand-alone transactions among the Company, its principal shareholders and ELQ Investors II Ltd (a wholly-owned subsidiary of The Goldman Sachs Group, Inc.), the Company acquired 4.55% of the common shares in Kaspi Bank, of which 3.84% and 0.71% were previously held by ELQ Investors II Ltd and Baring Vostok Nexus Limited, respectively. The Company used 4.5% of Shares held by it in treasury as consideration for the transfer to the Company of 4.55% of the common shares in Kaspi Bank. Separately, Mr. Mikheil Lomtadze settled his residual obligations in connection with his former partnership at Baring Vostok Capital Partners Limited by transferring 2,198,160 Shares to Baring Vostok Nexus Limited.

Following these transactions, the Company increased its shareholding in Kaspi Bank from 94.40% to 98.95%. As a result, the Company's shareholding structure has changed in the following way: (i) the funds advised by Baring Vostok Capital Partners increased their beneficial ownership from 35.11% of the Company's outstanding Shares as at 31 December 2018 to 35.23% of the Company's outstanding Shares, (ii) Mr. Vyacheslav Kim decreased his beneficial ownership from 33.27% of the Company's outstanding Shares as at 31 December 2018 to 31.77% of the Company's outstanding Shares, (iii) Mr. Mikheil Lomtadze decreased his beneficial ownership from 31.62% of the Company's outstanding Shares as at 31 December 2018 to 29.00% of the Company's outstanding Shares, and (iv) ELQ Investors II Ltd has become a 4.00% shareholder in the Company.

In August 2019, the Company offered 7,695,000 treasury Shares to its shareholders in exchange for the same number of global depositary receipts held by its shareholders. Following the securities exchange, 7,695,000 treasury global depositary receipts will be held by the Company and reserved for the LTIP. It is expected that the transaction will close in October 2019 and will not affect the shareholding structure.

In August 2019, the Company's General Meeting of Shareholders approved the increase of authorised share capital by 6,742,000 Shares. Following the registration of authorised shares by the NBK, which is expected to occur in September 2019, the Company's authorised share capital will amount to 216,742,000 Shares.

Summary of Minority Shareholders' Rights

Certain protections are afforded to minority shareholders of a joint stock company under the JSC Law, albeit indirectly. In particular, the JSC Law:

- requires all interested party transactions to be approved by dis-interested directors and all major transactions to be approved by the board of directors of the joint stock company;
- empowers shareholders to request certain information from the joint stock company;
- empowers shareholders holding, either independently or collectively, 10% or more of the voting shares of the joint stock company to request its board of directors to call general meetings of shareholders and request audits;

- provides for cumulative voting when members of the board of directors of the joint stock company are being elected;

- empowers shareholders to request the joint stock company to buy-back (repurchase) their shares in certain limited circumstances;

- empowers shareholders holding, either independently or collectively, 5% or more of the voting shares to:

  - file a claim with a court seeking compensation in favour of the joint stock company for losses caused by the joint stock company's officials and return to the joint stock company, by the officials and/or their affiliates, of the profit (income) received by them as a result of adopting a resolution approving the conclusion of major transactions and/or interested party transactions in instances provided by the JSC Law;

  - propose to the board of directors of the joint stock company to include additional matters to the agenda of the general meeting of shareholders; and

  - receive information on the amount of remuneration as the result of the year of each member of the board of directors and/or the management board, in the manner established under the JSC Law; and

- empowers minority shareholders to apply to the registrar of securities of the company in order to enable them to combine their votes at general meetings of shareholders for the purposes of voting.

For a detailed description of rights attached to common shares of the Company, see "*Description of Share Capital and Applicable Kazakhstan Legislation*".

RELATED PARTY TRANSACTIONS

The following is an overview of our transactions with related parties as at the dates indicated below. Our financial information set forth herein has, unless otherwise indicated, been extracted without material adjustment from the Financial Statements.

According to IFRS, parties are considered to be related if one party has the ability to control the other party, is under common control with, or exercises significant influence over, the other party's financial or operational decisions, or if a person is a member of the key management personnel of the reporting entity or of a parent of the reporting entity, as defined by IAS 24 "Related Party Disclosures". In determining each possible related party relationship, one must consider the substance of the relationship and not merely the legal form. The Company enters into banking transactions in the ordinary course of its business with shareholders, management, subsidiaries and companies with which it has significant shareholders in common. These transactions include loans and customer accounts and are priced predominantly at market rates. It is the Company's policy to conduct transactions with related parties on the same terms and conditions as it applies to non-related party transactions.

We had the following transactions outstanding as at 31 December 2016, 2017 and 2018, and 30 June 2019 with related parties:

	As at 31 December						As at 30 June	
	2016		2017		2018		2019	
	KZT million							
	Transactions with related parties	Total category as per financial statements captions	Transactions with related parties	Total category as per financial statements captions	Transactions with related parties	Total category as per financial statements captions	Transactions with related parties	Total category as per financial statements captions
Loans to customers	**1,308**	**798,562**	**1,396**	**981,471**	**1,529**	**1,187,797**	**1,445**	**1,228,216**
Key management personnel of the Group	1,308	-	1,396	-	1,518	-	1,445	-
Other related parties	-	-	-	-	11	-	-	-
Allowance for losses on loans to customers	**-**	**(83,509)**	**(181)**	**(90,148)**	**(1)**	**(120,795)**	**-**	**(97,348)**
Key management personnel of the Group	-	-	(181)	-	-	-	-	-
Other related parties	-	-	-	-	(1)	-	-	-
Customer accounts	**8,482**	**814,127**	**14,892**	**979,639**	**11,603**	**1,232,920**	**23,797**	**1,404,554**
Key management personnel of the Group	721	-	1,384	-	4,103	-	13,160	-
Other related parties	7,761	-	13,508	-	7,500	-	10,637	-

Further, in January 2018, the Company provided a loan in the amount of KZT20,000 million on market terms to one of its shareholders which was fully repaid in June 2018.

In addition, as part of its Fintech operations, the Group offers its online car finance products at Kolesa.kz, a major Kazakhstan classifieds platform. The Group pays a fee to Kolesa.kz for the loan generated at Kolesa.kz. See "*Business—Our Principal Business Activities—Fintech Platform—Online Car Finance*". Kolesa.kz is owned by the private equity funds advised by Baring Vostok Capital Partners and Mr. Mikheil Lomtadze.

In September 2019, we acquired three leading classifieds platforms (Turbo.az (a car marketplace), Tap.az (a used and new items marketplace) and Bina.az (a real estate marketplace)) in Azerbaijan expanding our addressable market from 18 million to 28 million people. We purchased 100% of shares in Digital Classifieds OÜ, an Estonian company, holding these platforms, from Blue Ocean Partners Ltd, our related party controlled by Mr. Mikheil Lomtadze, for a cash consideration of U.S.$31 million, which was paid in full. Dis-interested members of the Company's Board of Directors reviewed the transaction taking into account a valuation report of an independent financial adviser, and approved the purchase on 23 August 2019. See "*Operating and Financial Review – Recent Developments – Acquisition of Marketplace Platforms in Azerbaijan*".

Compensation to directors and other members of key management (in the form of employee benefits) comprised KZT568 million and KZT554 million in the first half of 2019 and 2018, respectively, and KZT5,177 million, KZT3,034 million and KZT496 million in 2018, 2017 and 2016, respectively. The year-on-year increases in compensation to directors and other members of key management during 2016-2018 is attributable to higher compensation for achieved objectives as a result of a strong financial performance of the Group.

Kazakhstan is the largest rapidly growing economy in Central Asia

Kazakhstan is the largest rapidly developing economy in the Central Asian region and the second largest economy in the Commonwealth of Independent States according to World Bank with 2018 nominal GDP of U.S.$172.9 billion based on MNE data. Kazakhstan's economy expanded in 2017 and 2018 by real GDP growth rate of 4.1% and 4.1%, respectively, according to the MNE. According to the IMF's World Economic Outlook database as of April 2019, Kazakhstan's real GDP is forecasted to grow at a 2019-22 CAGR of 3.3%, comparing favourably versus Poland, Brazil, Russia and Turkey, which are forecasted to grow at a 2019-22 CAGR of 3.1%, 2.3%, 1.6% and 1.5%, respectively.

Real GDP growth estimates and forecasts

		2019F	2020F	2021F	2022F	CAGR 2019F-22F
China	%	6.3	6.1	6.0	5.8	6.0
Kazakhstan	**%**	**3.2**	**3.2**	**3.3**	**3.3**	**3.3**
Poland	%	3.8	3.1	2.8	2.8	3.1
Brazil	%	2.1	2.5	2.2	2.2	2.3
USA	%	2.3	1.9	1.8	1.6	1.9
Russia	%	1.6	1.7	1.7	1.6	1.6
Turkey	%	(2.5)	2.5	3.0	3.0	1.5
UK	%	1.2	1.4	1.5	1.6	1.4

Source: IMF

Economic growth and household consumption are supported by favourable demographic trends. As of 1 January 2019, Kazakhstan had a population of 18.4 million, which increased by 2.4 million from 16.0 million since the end of 2008, demonstrating a 1.4% CAGR according to the MNE. Over the same period, from 2008 to 2018, unemployment rate in Kazakhstan decreased from 6.6% to 4.9%, based on MNE data. According to the EIU, Kazakhstan's population is expected to grow at a CAGR of 1.1% between 2018 and 2022, which compares favourably to other countries: 1.0% for Turkey, 0.8% for the USA, 0.7% for Brazil, 0.5% for the UK, 0.3% for China, 0.0% for Russia and (0.01)% for Poland.

Kazakhstan's population older than 15 years of age and below retirement age amounted to 10.9 million, making up 59.1% of the total population as at 1 January 2019 based on MNE data, implying that our Ecosystem covered four out of ten people in Kazakhstan as at 1 January 2019 (calculated based on the number of our Active Customers as of the same date). According to the MNE, in 2018, 58.2% of the Kazakhstan population lived in urban areas, which is similar, for example, to China. Adult working population living in cities is the major driver of household consumption with a particularly high contribution to demand growth in total retail and online retail markets.

Population wealth has increased considerably over the last 20 years: according to the MNE, per capita nominal income increased from U.S.$38.6 in 1998 to U.S.$268.9 in 2018, implying a 10.2% CAGR. Real private consumption is forecast to grow at a 2019–22 CAGR of 3.7% based on EIU data, primarily driven by increasing real wages and real personal disposable income.

Private income and consumption forecast

		2019F	2020F	2021F	2022F
Average real wages growth	%	4.0	3.1	3.4	4.4
Real personal disposable income growth	%	6.8	6.5	7.1	6.2
Private consumption real growth	%	4.0	2.9	4.2	3.9

		2019F	2020F	2021F	2022F
Nominal private consumption	KZTbn	33,984	37,239	40,996	45,547

Source: EIU © *Reproduced with permission of the Economist Intelligence Unit.*

Kazakhstan has a strong debt profile with public debt amounting to only 26.3% of GDP in 2018 (as compared to 77.2% for Brazil and 28.9% for Turkey) according to the EIU and with an "investment grade" long-term foreign currency sovereign credit rating of Baa3 (positive) / BBB- (stable) / BBB (stable) assigned by Moody's / Standard & Poor's / Fitch as of the date of this Registration Document, respectively. Kazakhstan's foreign currency and gold reserves amounted to approximately U.S.$150 billion as of 1 January 2019 (12x external government debt).

Public debt as % of GDP in emerging markets

		2018
Brazil	%	77.2
Poland	%	48.9
Turkey	%	28.9
Kazakhstan	**%**	**26.3**
China	%	15.2
Russia	%	10.3

Source: EIU © *Reproduced with permission of the Economist Intelligence Unit.*

Kazakhstan was ranked 28 (out of 190 countries) in the World Bank's 2019 Ease of Doing Business ranking, which compares favourably to other emerging markets. For example, China was ranked 46. Kazakhstan was also ranked 59 in the 2019 Index of Economic Freedom prepared by The Heritage Foundation with an overall score of 65.4 (by way of comparison, China was ranked 100 with an overall score of 58.4).

Kazakhstan has direct borders with China, Russia, Kyrgyzstan, Uzbekistan and Turkmenistan. Kazakhstan benefits from diversified trading exposure thanks to its favourable geographical location at the intersection of Europe and Asia, as well as its multi-vector foreign policy, avoiding excessive dependence on any single country.

Kazakhstan's economy is on a way to diversification with an increasing contribution of services and a declining reliance on natural resources. According to MNE data, share of services production in total GDP increased from 51.7% in 2010 to 54.4% in 2018, while share of goods production decreased from 45.1% in 2010 to 38.7% in 2018, of which share of mining and quarrying industry decreased from 19.5% in 2010 to 15.2% in 2018.

On 20 August 2015, the NBK switched from a managed peg exchange rate system to a free-floating exchange rate regime and medium-term inflation targeting policy, moving the country to a more market-oriented macroeconomic environment. According to MNE, the exchange rate has relatively stabilised in recent years with KZT/U.S.$ exchange rate of 333.3 at the end of 2016, 332.3 at the end of 2017 and 384.2 at the end of 2018. The Kazakhstan economy has achieved a degree of economic stability resulting in a 2.6% CAGR in sustainable private consumption during 2016 and 2018, reaching KZT30,672 billion (U.S.$89.0 billion) in 2018, based on EIU data. The Kazakhstan economy has undergone reform and achieved steady economic development and set solid ground for future economic growth.

Key macroeconomic data

		2016	2017	2018
Nominal GDP	U.S.$bn	137.3	162.9	172.9
Real GDP growth	%	1.1	4.1	4.1
Year-end CPI change	%	8.5	7.1	5.3
Federal budget surplus/(deficit) to GDP	%	1.6	2.7	1.4

		2016	2017	2018
Year-end U.S.$/KZT exchange rate	U.S.$/KZT	333.3	332.3	384.2
Nominal private consumption	KZTbn	25,620	27,584	30,672
Private consumption real growth	%	1.2	1.3	5.3
Population	m	17.9	18.2	18.4

Source: MNE, EIU © *Reproduced with permission of the Economist Intelligence Unit.*

Kazakhstan's large internet audience and growing mobile penetration

The wide usage of internet and mobile services in Kazakhstan provides attractive opportunities for Kaspi.kz as a leading Payments, Marketplace and Fintech Ecosystem. Kazakhstan is one of the most connected emerging markets globally: according to the World Bank, 76.4% of the total population regularly used the internet in 2017 (at least once in the last 3 months), which was broadly in line with the USA and significantly above countries such as China, Turkey and Brazil. Over the last 10 years, internet penetration in Kazakhstan soared from 11.0% in 2008 to 76.4% in 2017 based on World Bank data. Internet penetration development is supported by a high share of adult working population living in urban areas as described in the previous section.

Individuals using the internet (% of population)

		2014	2015	2016	2017
UK	%	91.6	92.0	94.8	N/A
USA	%	73.0	74.6	76.2	N/A
Russia	%	70.5	70.1	73.1	76.0
Poland	%	66.6	68.0	73.3	76.0
Kazakhstan	**%**	**66.0**	**70.8**	**74.6**	**76.4**
Brazil	%	54.6	58.3	60.9	N/A
Turkey	%	51.0	53.7	58.3	64.7
China	%	47.9	50.3	53.2	54.3

Source: World Bank

At the same time, smartphone usage in Kazakhstan has been increasing constantly with further growth envisaged, allowing for significant growth of mobile application services. According to Ovum (World Cellular Information Service), the total number of smartphone connections in Kazakhstan increased from 8.6 million in 2014 to 17.0 million in 2018, and is expected to reach 21.5 million by 2022, with the share of smartphones in total connections expected to increase from 65.3% in 2018 to 75.2% in 2022.

Smartphones connections in Kazakhstan

		2014	2015	2016	2017	2022F
Total number of smartphone connections	ths	8,551	11,275	12,710	15,528	21,527
Smartphones as % of total mobile connections	%	31.0	41.0	51.0	62.2	75.2

Source: Ovum (World Cellular Information Service)

Kazakhstan retail market

Total retail market

According to the MNE, Kazakhstan's total retail market amounted to KZT10,070 billion (U.S.$29.2 billion) in 2018, which comprised 66% non-food retail and 34% food retail. The total retail market demonstrated a 2016-18 CAGR of 14.6%, with food and non-food retail markets growing at a 2016-18 CAGR of 11.1% and 16.6%, respectively, which is substantially above average inflation rate of 6.2% over the same period.

Kazakhstan retail market

		2016	2017	2018	CAGR 2016-2018		2018
Food retail market................	KZTbn	2,735	3,243	3,375	11.1%	U.S.$bn	9.8
Non-food retail market..........	KZTbn	4,927	5,604	6,695	16.6%	U.S.$bn	19.4
Total retail market................	KZTbn	7,662	8,847	10,070	14.6%	U.S.$bn	29.2

Source: MNE

According to GFK data, Kazakhstan's electronics retail market amounted to KZT770 billion (U.S.$2.2 billion) in 2018, making up 7.6% of total retail market and 11.5% of total non-food retail market. Electronics retail market demonstrated a 24.4% CAGR during 2016 and 2018. In 2018, Kaspi had a GMV of KZT304 billion for electronics sold through its Marketplace, which implies market shares of 39.5% based on GFK data, making Kaspi the largest electronics retailer in Kazakhstan.

Kazakhstan electronics retail market

		2016	2017	2018
Electronics retail market..............................	KZTbn	498	632	770
Kaspi GMV in electronics...........................	KZTbn	158	220	304
Kaspi market share......................................	%	*31.7%*	*34.8%*	*39.5%*

Source: GFK, Kaspi data

Overall, in 2017, the Kaspi Marketplace had a GMV of KZT266 billion, corresponding to 3.0% of total retail trade in Kazakhstan. In 2018, Kaspi generated GMV of KZT415 billion, increasing its share to 4.1%.

Online retail market opportunity

According to Euromonitor, in 2018, Kazakhstan's online retail market was estimated at KZT286.0 billion, which corresponded to 2.6% of the total retail trade in Kazakhstan estimated at KZT10,846.0 billion. Between 2014 and 2018, Kazakhstan's online retail market increased at a CAGR of 31.0% from KZT97.1 billion according to Euromonitor. Future growth potential is supported by structural underpenetration of the online retail market in Kazakhstan as compared to other developed and emerging markets. According to Euromonitor, in 2018, China's online retail market represented 22.5% of the country's total retail market in value, 16.9% in the UK, 13.7% in the USA, 6.5% in Poland, 6.8% in Brazil, 5.0% in Russia and 4.8% in Turkey, implying a 10.9% average calculated as an arithmetic mean.

We believe that robust growth of private consumption coupled with high penetration of internet and smartphones bring Kazakhstan's e-Commerce market to an inflection point, which is further corroborated by the analysis of historical dynamics of e-Commerce penetration in other markets as presented in the table below. Average share of internet retailing in total retail market for the below list of countries reached 5.8% in 4 years since levels close to Kazakhstan's level in 2018. Euromonitor forecasts Kazakhstan's total retail market at KZT15,556.4 billion in 2022 in current terms, which would imply online retail market size of KZT905.1 billion if the share of internet retailing in total retail market in Kazakhstan reaches 5.8% in 2022 based on our estimates.

Share of internet retailing in total retail market

Year	#	Year 0	Year 0	+1 year	+2 years	+3 years	+4 years
China.......................	%	2011	2.5	4.3	6.4	9.6	13.3
Poland	%	2011	2.7	3.0	3.4	3.9	4.6
Russia......................	%	2013	2.8	3.3	3.4	4.0	4.4
Brazil.......................	%	2008	2.6	2.7	2.9	3.1	3.4
USA.........................	%	2004	2.6	3.1	3.7	4.3	4.6

Year	#	Year 0	Year 0	+1 year	+2 years	+3 years	+4 years
Turkey	%	2014	2.4	2.8	3.4	4.1	4.8
UK	%	2004	2.5	3.2	3.9	4.8	5.6
Average	**%**		**2.6**	**3.2**	**3.9**	**4.8**	**5.8**

Source: Euromonitor International Limited (Retailing 2019 edition, retail value RSP incl. VAT, current prices). Average is Company's own estimate calculated as arithmetic mean

According to Euromonitor data, Kaspi.kz was the largest online retailer in Kazakhstan by value sales in 2017 and 2018. According to our data, Kaspi.kz marketplace generated Online GMV of KZT24 billion in 2016, KZT54 billion in 2017 and KZT117 billion in 2018. Based on Euromonitor data, online retail market in Kazakhstan amounted to KZT171 billion in 2016, KZT232 billion in 2017 and KZT286 billion in 2018. The resulting share of Kaspi.kz Online GMV in the total market was 14.1% in 2016, 23.3% in 2017 and 40.9% in 2018, based on our estimates.

Based on Euromonitor data, the second largest online retailer in Kazakhstan is AliExpress with online sales of KZT46 billion in 2018. AliExpress is mainly focused on cross-border orders from China with smaller average check compared to Kazpi.kz. According to Euromonitor, the third to fifth largest online retailers are apparel specialists with combined 2018 online sales of KZT45 billion. The sixth to tenth largest online retailers are electronics specialists with combined 2018 online sales of KZT40 billion based on Euromonitor data, each of these retailers generate part of their sales through Kaspi.kz Marketplace. Overall, the online retail market is highly fragmented with other retailers operating in various segments, including, amongst others, apparel, cosmetics and electronics. Each retailer with a market position below the top-10 by 2018 online sales had online sales below KZT6 billion in 2018.

Overall, according to Forbes.kz, in 2017 Kaspi.kz was the largest internet platform in Kazakhstan not only among internet retailers but also among classifieds, online travel and ticket booking services and other internet businesses ranked by 2017 revenue.

Kazakhstan consumer banking market

Kazakhstan's banking sector is represented by 28 commercial banks. As of 1 January 2019, total banking sector loans amounted to KZT13,091 billion, of which KZT7,789 billion were corporate loans and KZT5,302 billion were retail loans, of which KZT3,317 billion were Consumer Loans and KZT1,425 billion were mortgage loans based on NBK data.

Kazakhstan's consumer banking sector has been developing dynamically: Consumer Loans grew by 15.3% and 13.5% year-over-year in 2017 and 2018, respectively, while retail deposits grew by 4.0% and 6.6% in 2017 and 2018, respectively. As of 1 January 2019, Consumer Loans amounted to KZT3,318 billion (U.S.$8.6 billion) and retail deposits to KZT8,771 billion (U.S.$22.8 billion).

Kazakhstan's consumer banking sector has significant growth potential driven by low penetration of consumer financial services and positive macroeconomic outlook on consumer income and consumption levels. Consumer Loans in Kazakhstan amounted to only 5.4% of GDP as at 1 January 2019 based on MNE data, compared to 31.1% in South Africa, 22.9% in China, 11.3% in Turkey, 9.8% in Czech Republic, 9.4% in Argentina and 7.4% in Russia according to Euromonitor, as well as 8.2% in Poland according to National Bank of Poland.

Average share of Consumer Loans in GDP for the below list of countries reached 10.4% in 4 years since levels close to Kazakhstan's level in 2018. The IMF forecasts Kazakhstan's GDP at U.S.$206.0 billion in 2022 or KZT78,404.8 billion converted at KZT/U.S.$ exchange rate of 380.5 as of 30 June 2019, which would imply consumer finance market size of KZT8,148.5 billion if the share of Consumer Loans in GDP in Kazakhstan reaches 10.4% in 2022 based on our estimates.

Share of Consumer Loans in GDP

Year	#	Year 0	Year 0	+1 year	+2 years	+3 years	+4 years
China	%	2012	6.4	8.4	9.6	11.3	13.4

Year	#	Year 0	Year 0	+1 year	+2 years	+3 years	+4 years
Poland	%	2004	5.0	6.0	6.7	8.0	9.8
Russia	%	2010	5.6	6.6	7.8	9.5	9.3
Argentina	%	2005	5.7	7.4	8.9	8.8	9.1
Czech Republic	%	2004	5.9	7.4	8.1	9.5	10.4
Average	**%**		**5.7**	**7.1**	**8.2**	**9.4**	**10.4**

Source: Euromonitor International Limited (Consumer Finance 2019 edition, consumer credit data, outstanding balances). Average is Company's own estimate calculated as arithmetic mean

According to the NBK and our data, Kaspi had a market share of 23.8% in Consumer Loans in Kazakhstan as at 31 December 2016, 27.5% as of December 2017 and 31.2% as at 31 December 2018. The key banks most active in consumer lending other than Kaspi in Kazakhstan are Halyk Bank (including the former Kazkommertsbank, which was merged into Halyk Bank on 30 July 2018), Eurasian Bank, Home Credit and Finance Bank as well as Sberbank of Russia. Based on consolidated IFRS financial statements, among the mentioned banks Kaspi had the largest amount of gross Consumer Loans of KZT1,036 billion as at 31 December 2018, which is 45% larger than the next bank by the amount of gross Consumer Loans – Halyk Bank with KZT715 billion.

According to the NBK data, Kaspi had a market share of 9.3% in retail deposits in Kazakhstan as at 31 December 2016, 10.5% as at 31 December 2017 and 12.9% as at 31 December 2018. Key banks active in attracting retail deposits other than Kaspi in Kazakhstan are Halyk Bank, Sberbank of Russia, House Construction Savings Bank and Bank CentreCredit. Based on NBK data, among the mentioned banks Kaspi had the second largest volume of retail deposits of KZT1,136 billion as of 1 January 2019, which is 49% larger than the next bank by the amount of retail deposits – Sberbank of Russia – with KZT764 billion.

Kazakhstan payments market

The payments market of Kazakhstan is still at an early stage of development, as measured by number of card transactions per capita, number of cards per capita and total payment transaction value per capita (after adjustment for purchasing power across geographies) relative to the metrics in other geographies globally, which represents significant potential for growth in the future as the Kazakh market continues to develop.

According to data from the NBK and Euromonitor, the number of card transactions per capita and the number of cards per capita in Kazakhstan was 44 and 1.3 in 2018, respectively, lower than those of other emerging economies such as Poland, Russia, Brazil, Turkey and China, and also lower than those of the more developed economies such as the UK and the USA at the same time point.

Card transactions per capita

		2018
USA	No.	418
UK	No.	333
China	No.	327
Turkey	No.	314
Brazil	No.	215
Russia	No.	176
Poland	No.	140
Kazakhstan	**No.**	**44**

Source: Data on Kazakhstan – NBK, MNE; Data on other countries excluding Kazakhstan – Euromonitor International Limited (Consumer Finance 2019 edition, number of total cards transactions), IMF.

Cards per capita

		2018
USA	No.	14.2
China	No.	12.5

		2018
UK	No.	6.6
Turkey	No.	3.8
Brazil	No.	3.0
Russia	No.	2.3
Poland	No.	1.3
Kazakhstan	**No.**	**1.3**

Source: Data on Kazakhstan – NBK, MNE; Data on all countries excluding Kazakhstan – Euromonitor International Limited (Consumer Finance 2019 edition, number of financial cards in circulation), IMF.

Similarly, the total payment transaction value (TPV) per capita at PPP (Purchasing Power Parity) in Kazakhstan was $9,394 in 2018, lower than those of other emerging economies such as China, Turkey, Russia and Poland according to data from the NBK and Euromonitor.

Card transaction value per capita at PPP

		2018
USA	$	23,222
China	$	22,101
UK	$	21,104
Turkey	$	12,986
Russia	$	11,709
Poland	$	10,425
Kazakhstan	**$**	**9,394**
Brazil	$	5,154

Source: Data on Kazakhstan – NBK, MNE, World Bank; Data on all countries excluding Kazakhstan – Euromonitor International Limited (Consumer Finance 2019 edition, total cards transactions, retail value RSP, current prices), IMF, World Bank.

The high underpenetration of payments market in Kazakhstan as measured by TPV per capita at PPP has been accompanied by one of the highest growth rates globally with the market growing at a 25.0% CAGR from 2013 to 2018 according to data from the NBK and Euromonitor.

Total card payments transaction value CAGR (local currency)

		2013-17
Kazakhstan	**%**	**25.0%**
China	%	15.6%
Turkey	%	12.2%
Russia	%	10.5%
Poland	%	8.3%
USA	%	7.2%
Brazil	%	7.1%
UK	%	4.7%

Source: Data on Kazakhstan – NBK; Data on all countries excluding Kazakhstan – Euromonitor International Limited (Consumer Finance 2019 edition, total cards transactions, retail value RSP, current prices).

The number of card payments and P2P payments (excluding cash withdrawals) in Kazakhstan has grown from 91.4 million in 2016 to 464.5 million in 2018, representing a CAGR of 125%. This translated into our TPV growing from KZT1,123 billion in 2016 to KZT 5,196 billion in 2018, representing a CAGR of 115%, according to NBK data. Kaspi.kz is a market leader with a 35.4% market share by number of transfers and 29.0% by combined value of transfers in 2018 in Kazakhstan, according to the NBK.

Card payments in Kazakhstan

		2016	2017	2018
Card and P2P payment transactions	m	**91.4**	**194.5**	**464.5**
of which Kaspi.kz	*m*	**2.8**	**25.7**	**164.2**
market share	*%*	3.0%	13.2%	35.4%

		2016	2017	2018
Card and P2P payment value	KZT bn	**1,123**	**2,373**	**5,196**
of which Kaspi.kz	*KZT bn*	**14**	**187**	**1,507**
market share	*%*	1.3%	7.9%	29.0%

Source: National Bank of Kazakhstan

We believe the barriers to a successful entry in the payments market in Kazakhstan are high due to the strong competitive advantages of Kaspi.kz, including the synergetic effects of an Ecosystem, the breadth of offerings within the Payments segment, power of brand, established technology infrastructure, vast proprietary database, as well as in-depth understanding of the regional market and partners network. Payment services have been an integral part of the broader financial and commerce Ecosystem of Kaspi.kz and have been one of the most regularly used and convenient services for consumers. As such, the usage of payment services plays a key role in supporting and driving the usage of other consumer services as well as in maintaining customer stickiness.

Central Asia and Caucasus region consumer opportunity

We believe that the Central Asia and Caucasus region, defined as the region including Kazakhstan, Uzbekistan, Turkmenistan, Azerbaijan, Kyrgyz Republic, Tajikistan and Georgia, presents a sizable potential opportunity for further expansion of Kaspi operations. The Central Asia and Caucasus region is a significant consumer market with a total population of 86.0 million, a combined GDP of U.S.$358.1 billion and a combined private consumption of U.S.$186.0 billion as at 31 December 2018.

Central Asia and Caucasus region

	GDP 2018 (U.S.$bn)	Private consumption 2018 (U.S.$bn)	Population 2018 (m)
Kazakhstan	**172.9**	**89.0**	**18.4**
Turkmenistan	54.6	27.3	5.8
Uzbekistan	52.0	21.5	32.7
Azerbaijan	46.9	25.0	9.9
Kyrgyz Republic	7.7	6.5	6.4
Tajikistan	7.7	6.7	9.1
Georgia	16.2	10.0	3.7
Total Central Asia and Caucasus region	**358.1**	**186.0**	**86.0**

Source: MNE, IMF, EIU © *Reproduced with permission of the Economist Intelligence Unit.*

REGULATION

We are subject to a number of laws and regulations in Kazakhstan that regulate, among other matters, payment services, anti-money laundering, data protection and information security. Kaspi Bank is also subject to numerous laws and regulations governing banking activities in Kazakhstan. Kaspi Insurance is subject to laws and regulations governing insurance activities.

Regulation of Payment Services

The Payment Systems Law

The Law of the Republic of Kazakhstan No. 11-VI ZRK "On Payments and Payment Systems", dated 26 July 2016 (as amended) (the "**Payment Systems Law**"), is the main law establishing the legal framework for payment services in Kazakhstan. It sets forth the list of payment instruments, payments processing procedures and requirements with respect to payment services providers. Under the Payment Systems Law, it is prohibited to provide payment services in Kazakhstan in the absence of a corresponding license from the NBK or without record registration with the NBK. A bank may provide payment services under the Payment Systems Law provided that it holds a license from the NBK in respect of opening and maintaining clients' bank accounts and performing transfer operations.

Kaspi Bank holds a licence for conducting banking and other operations and activity on the securities market (Licence No. 1.2.245/61 dated 30 June 2009 for performing banking operations), including, *inter alia*, opening and maintaining clients' bank accounts and performing transfer operations (the "**Banking Licence**"). The Banking Licence allows Kaspi Bank to perform payment services under the Payment Systems Law.

Kaspi Bank was included into the Register of Significant Payment Services Providers as of 1 May 2018 and remains included therein as at the date of this Registration Document. Pursuant to the Payment Systems Law, a significant payment service provider, *inter alia*, shall determine a risk management system with respect to the risks attributable to the activities of a significant payment service provider and the procedure for resolving conflicts of interest between a significant payment service provider and interested parties. The risk management system shall establish procedures for identifying, measuring, monitoring and managing risks, procedures for ensuring continuity of payment service activities and a plan for the restoration of its activities. The Payment Systems Law stipulates an obligation of a significant payment service provider to submit to the NBK information on the provided payment services and make an assessment of the quality of the provided payment services and present the results of such assessment to the NBK in accordance with the procedure established by the NBK.

Accounts and Payment Processing

Under the Payment Systems Law, the NBK determines rules and procedures for maintaining bank accounts, forms of payment documents, terms and conditions for payments processing. In particular, the Rules for opening, maintaining and closing of clients' bank accounts (approved by the Decree of the Management Board of the NBK No. 207 dated 31 August 2016 (as amended)) set forth, *inter alia*, know your client procedures, the legal framework for bank account agreements to be concluded with clients, and a unified bank account number structure. The Rules for making non-cash payments and (or) money transfers in the Republic of Kazakhstan (approved by the Decree of the Management Board of the NBK No. 208, dated 31 August 2016 (as amended)) set forth requirements with respect to payment documents and terms and conditions of payment processing.

The NBK

The NBK monitors and supervises the payment services market and to this end:

- analyses the market for payment services;

- analyses the use of payment instruments;
- analyses and evaluates the services provided by payment service providers;
- receives information from relevant payment service providers;
- carries out accounting registration of payment organisations and maintains a register of payment organisations;
- exercises control over the observance by payment service providers of the requirements of the legislation of the Republic of Kazakhstan;
- conducts audits of the activities of payment service providers, including any other person authorised under an agreement with them to carry out the functions of providing payment services; and
- applies restricted response measures and sanctions in case of incompliance with legislation requirements.

According to a new law adopted on 3 July 2019, the NBK will from 1 January 2020 cease to perform the functions of the state authority responsible for regulation, control and supervision of the financial market and financial organisations. These functions will be performed by a new governmental agency under the name of the Agency of the Republic of Kazakhstan for Regulation and Development of Financial Markets, which is currently being established. The NBK will continue to be a central bank focusing on monetary credit policy, currency control and development of payment systems. The Agency of the Republic of Kazakhstan for Regulation and Development of Financial Markets will within its competence control and supervise compliance of banks with the payments and payment system regulation.

E-money

The Payment Systems Law provides for payments using e-money. E-money is issued by the issuer in an amount equivalent to the amount of money received from individuals or agents, in accordance with the agreements concluded with them and the internal rules established in the respective e-money system. The internal rules of an e-money system shall stipulate the methods, procedure and terms for making e-payments, establish security procedures and protection of information from unauthorised access to the electronic money system ensuring adequate anti-money laundering measures.

The NBK developed the Rules for issue, use and redemption of e-money, as well as the requirements for issuers of e-money and e-money systems in the Republic of Kazakhstan, approved by the Decree of the NBK Management Board No. 202, dated 31 August 2016.

The e-money issuer is obliged to carry out the identification of a natural person in the event that they purchase e-money in an amount exceeding the equivalent of 100 MCI. The maximum amount of one transaction performed by an unidentified owner of electronic money – an individual shall not exceed an amount equal to 100 MCI. The maximum amount of e-money stored on one electronic device of an unidentified individual owner of e-money – an individual shall not exceed an amount equal to 200 MCI. MCI (Monthly Calculation Index) is set annually and is used for the calculation of benefits and other social payments, as well as the application of penalties, taxes and other payments in accordance with the legislation of the Republic of Kazakhstan. For the year ended 31 December 2018, MCI was set as KZT2,405 (approximately U.S.$6.5). Starting from 1 January 2019, MCI is set as KZT2,525 (approximately U.S.$6.8).

The Anti-Money Laundering Law

The Law of the Republic of Kazakhstan No. 191-IV ZRK "On Countering the Legalisation (Laundering) of Criminally Obtained Income and the Financing of Terrorism", dated 28 August 2009 (as amended) (the "**Anti-Money Laundering Law**"), covers a broad scope of persons (including certain types of companies, notaries, etc.) which can be designated as financial monitoring subjects and imposes a number of requirements that these persons have to comply with, including, among other things, the development of appropriate internal standards and procedures, client identification, control over client operations and the reporting of suspicious operations. In particular, payment organisations, insurance companies and banks are to be recognised as financial monitoring subjects.

Under the Anti-Money Laundering Law, one of the main obligations imposed on the financial monitoring subjects is the appropriate identification of clients and verification of certain operations, including, *inter alia*:

- cash transactions;
- certain transactions where one of the counterparties is a legal entity or an individual registered in an off-shore jurisdiction or has a bank account in such jurisdiction;
- certain operations in relation to a bank account or deposit where such bank account or deposit has been opened for an anonymous person;
- transaction conducted by a legal entity existing for less than three months; and
- certain other transactions with property subject to mandatory state registration,

in each case, exceeding KZT3 million or such higher amounts depending on type of the transaction.

Pursuant to the Anti-Money Laundering Law, suspicious transactions are to be reported to the Committee of financial monitoring of the Ministry of Finance of the Republic of Kazakhstan, such transactions must be suspended upon resolution of the Committee. The Anti-Money Laundering Law requires any suspicious transaction to be reported to the Committee immediately and in any case before the suspicious transaction has been processed. If a suspicious transaction cannot be postponed, it must be reported within three hours after it has been processed or within 24 hours following its identification.

In addition, financial monitoring subjects must carry out certain actions in the event of any operation involving an individual or organisation that is known to participate in extremist or terrorist activities. If the officer of financial monitoring subject suspects that an operation is conducted in order to legalise any funds received from illegal activities, such operations must be reported whether or not they are qualified as suspicious operations. Financial monitoring subjects must not inform their clients that transactions are being reported. They bear no liability for damages that may be caused by the suspension of the transactions or the refusal to process them.

Regulation of Banking Activities

Kazakhstan has a two-tier banking system, with the NBK comprising the first tier and all other commercial banks comprising the second tier (with the exception of the Development Bank of Kazakhstan (DBK), which as a state development bank has a special status and belongs to neither tier). Generally, all financial institutions in Kazakhstan are required to be licensed and regulated by the NBK. From 2004 to April 2011, licensing and regulation functions were carried out by the Agency of the Republic of Kazakhstan for Regulation and Supervision of the Financial Market and Financial Organisations (including its respective successors). The respective functions are carried out by the NBK from April 2011 until the end of 2019. Starting from 1 January 2020, these functions will be performed by the Agency of the Republic of Kazakhstan for Regulation and Development of Financial Markets.

The NBK

The NBK is the central bank of Kazakhstan and the state authority performing state regulation, control and supervision of the financial market and financial organisations. Although the NBK is an independent institution, it reports directly to the President of Kazakhstan. The NBK is empowered to develop and conduct monetary policy, ensure the functioning of payment systems, conduct currency regulation and control and assist in ensuring the stability of the financial system and price stability in Kazakhstan.

The NBK is vested with the majority of supervisory and regulatory functions in the financial sector. The NBK is empowered, among other things, to license financial institutions, to approve prudential standards for them, to approve the financial reporting requirements for financial institutions and to monitor the activities thereof, to apply sanctions where necessary, and to participate in the liquidation of financial institutions.

Responsibility for the supervision of compliance with anti-monopoly legislation within the banking sector in Kazakhstan lies primarily with Kazakhstan's competition agency, except for certain issues of anti-monopoly regulation that fall under the joint purview of the competition agency and the NBK, including transactions above certain asset value thresholds that require prior consent of the competition agency. Such thresholds for the purposes of regulated financial organisations are established jointly by the competition agency and the NBK.

The Law of the Republic of Kazakhstan No. 2155 "On the National Bank of the Republic of Kazakhstan", dated 30 March 1995 (as amended), sets forth the legal framework relating to the NBK's status, organisational structure and competence. Starting from 1 January 2019, the NBK is entitled to use justified judgement in the course of its controlling and supervising activities and apply appropriate supervisory response measures.

The Banking Law

The Banking Law is the main law regulating the banking sector in Kazakhstan. It establishes a framework for banking activities, registration and licensing of banks and regulation of banking activities by the NBK.

The Banking Law provides for a list of banking operations that cannot be conducted without an appropriate license from the NBK and sets forth a list of activities permitted for banks and Bank Holdings (as defined below).

Kaspi Bank holds Licence No. 1.2.245/61 dated 30 June 2009 for performing banking and other operations and conducting activity in the securities market.

Capital Adequacy, Liquidity Ratios

Starting from 2005, regulations regarding regulatory capital and risk management have entered into effect in Kazakhstan. These regulations represent a substantial step towards the implementation of the Basel II accord. The NBK sets limits and rules for calculating capital adequacy, maximum credit exposures to single borrowers, liquidity ratios and open currency positions limits.

According to the Decree of the Management Board of the NBK No. 170 dated 13 September 2017 (as amended), the main capital and Tier 1 capital are defined through an exhaustive list of different categories of debt and equity that qualify for treatment as capital and certain ratios, as applicable.

Starting from 1 January 2017, the NBK requires banks to maintain a K1 capital adequacy ratio (base capital to total assets weighted for risk) of 5.5 per cent. (prior to 1 January 2017, the minimum level of the K1 ratio stood at 5 per cent.), and a K1-2 capital adequacy ratio (Tier I capital to total assets weighted for risk) of 6.5 per cent (prior to 1 January 2017, the minimum level of the K1-2 ratio stood at 6 per cent.). The K2 capital adequacy ratio (own capital to total assets weighted for risk) requirement is 8 per cent. (prior to 1 January 2017, the minimum level of the K-2 ratio stood at 7.5 per cent.).

Furthermore, all banks, except for systemically important banks, must maintain levels of K1, K1-2 and K2 ratios, accounting for the conservation buffer and system buffer, of 7.5 per cent., 8.5 per cent. and 10 per cent., respectively, while systemically important banks shall maintain such ratios at minimum levels of 9.5 per cent., 10.5 per cent., and 12.0 per cent., respectively. As at the date of the Registration Document, Kaspi Bank does not have the status of a systemically important bank. Where K1, K1-2 and K2 ratios of a bank comply with capital adequacy requirements but at least one of them is below the capital adequacy ratios calculated together with capital buffer requirements, the NBK regulations provide for certain limitations for any such bank to pay dividends or buy back shares except as provided by the JSC Law.

Shareholders of a bank who have the status of the Bank Holding or Major Participant (as defined below) of the bank are obliged to take measures provided for by the NBK regulations to maintain the capital adequacy ratios of the bank.

As at the date of this Registration Document, the minimum charter capital for a newly-established bank was set at the level of KZT10 billion. In turn, the minimum capital base for a bank currently amounts to KZT10 billion.

Deposit Insurance

In December 1999, a self-funded domestic deposit insurance scheme was established. As at 30 August 2019, 26 banks, including Kaspi Bank, were covered by this scheme. At present, the insurance coverage is limited to personal deposits in any currency and current accounts up to a maximum amount per customer of KZT15 million for a saving deposit in KZT, KZT10 million – for other deposits in KZT, and KZT5 million for deposits in foreign currency at any given bank. Only banks participating in the deposit insurance scheme are authorised to open accounts and take deposits from private individuals. If a customer holds several deposits of different kinds and in different currencies with a bank, such customer is entitled to receive aggregate guaranteed compensation in respect of such deposits in an amount not exceeding KZT15 million.

Acquisition of Shares of Kazakhstan Banks

Shareholders of a Kazakhstan bank

Under the Banking Law, any individual or legal entity can be a shareholder of a Kazakhstan bank except as follows:

- a legal entity registered in a Blacklisted Jurisdiction (as defined below) cannot be a shareholder in a Kazakhstan bank, unless such Kazakhstan bank is a subsidiary of a non-resident bank and such non-resident bank has the minimum required rating of one of the rating agencies determined by the NBK; or
- an individual or a legal entity cannot own shares in a Kazakhstan bank exceeding a certain threshold established by the Banking Law without the prior written consent of the NBK (as described below).

General ownership restriction

Direct or indirect acquisition of shares in a Kazakhstan bank may require the prior written consent of the NBK if certain thresholds set out under the Banking Law are met or exceeded.

In particular, no person (whether independently or jointly with another person) can directly or indirectly:

- own, use and (or) manage 10% more of the Kazakhstan bank's placed shares (excluding preferred shares and shares redeemed by the respective Kazakhstan bank), and also
- have control or the ability to influence the decisions made by the respective Kazakhstan bank in the amount of 10% or more of the Kazakhstan bank's placed shares (excluding preferred shares and shares redeemed by the respective Kazakhstan bank),

without obtaining the prior written consent of the NBK. This requirement *inter alia* does not apply to the State or the national managing holding, an organisation specialising in improving the quality of loan portfolios of second-tier banks, subsidiaries of the NBK, and a single accumulative pension fund if it owns 10% or more of a Kazakhstan bank's placed shares (excluding preferred shares and shares redeemed by a Kazakhstan bank) at the expense of pension assets.

In case a person acquires (whether independently or jointly with another person), directly or indirectly, 10% or more of the voting shares of a bank without obtaining the prior written consent of the NBK, the NBK has the right to apply the supervisory response measures envisaged by the Banking Law, which include, *inter alia*, the requirement for the sale of shares in a bank by the respective person within a period not exceeding six months. In addition, exercising a right to vote at a general meeting of shareholders without the relevant NBK consent may entail the possibility of challenging the legality of the general meeting and decision taken at such general meeting of shareholders.

A person acquiring 10% or more of the voting shares of a Kazakhstan bank is considered its affiliate and must disclose its identity to the respective Kazakhstan bank in the manner prescribed by the law. Information about the identity of an affiliate is publicly available. The owner of 10% or more of the voting shares in a Kazakhstan bank also assumes certain obligations, including the obligation to support the respective bank in remedying any financial problems it may incur (primarily through providing equity capital or subordinated debt), an obligation to obtain a credit rating and ongoing reporting obligations.

The Banking Law also provides for such terms as "Major Participant" and "Bank Holding" (as defined below) in relation to shareholders of a Kazakhstan bank.

Major Participant status

Under the Banking Law, an individual or a legal entity (except for, *inter alia*, the State, the national managing holding, an organisation specialising in improving the quality of credit portfolios of second-tier banks and subsidiaries of the NBK), which, directly or indirectly (whether independently or jointly with another person):

(i) may own 10% or more of placed shares of a Kazakhstan bank (excluding preferred shares and shares redeemed by a Kazakhstan bank); or

(ii) will be able to vote with 10% or more of the Kazakhstan bank's voting shares; or

(iii) will have the ability to influence the decisions taken by the Kazakhstan bank by virtue of an agreement or otherwise,

will be deemed to be a major participant of a Kazakhstan bank (the "**Major Participant**") and will need to obtain the prior written consent of the NBK before acquiring such status.

Bank Holding status

Under the Banking Law, a legal entity (except for, *inter alia*, the State, the national managing holding, an organisation specialising in improving the quality of credit portfolios of second-tier banks and subsidiaries of the NBK), which, directly or indirectly (whether independently or jointly with another person):

(i) may own 25% or more of the Kazakhstan bank's placed shares (excluding preferred shares and shares redeemed by a Kazakhstan bank); or

(ii) will be able to vote with 25% or more of the Kazakhstan bank's voting shares; or

(iii) will determine the decisions taken by the Kazakhstan bank, by virtue of a contract or otherwise, or have control, will be deemed to be a bank holding of a Kazakhstan bank (the "**Bank Holding**") and will need to obtain the prior written consent of the NBK before acquiring such status.

The Banking Law sets forth a list of activities permitted for the Bank Holding. Where a foreign legal entity directly holds 25% or more of the placed shares (excluding preferred shares and shares redeemed by a Kazakhstan bank) of a Kazakhstan bank, or has the ability to vote directly with 25% or more per cent. of the Kazakhstan bank's voting shares, such foreign legal entity must be a financial organisation having a minimum required rating and subject to consolidated supervision in its country of residence.

NBK Consent

Under the Banking Law, the NBK consent for a Major Participant or a Bank Holding status is issued by the NBK within 3 months after the relevant application is submitted to the NBK subject to the provision of required documents and absence of grounds for NBK's refusal to issue the consent established by the Banking Law, which include *inter alia*:

(i) unstable financial condition of the applicant;

(ii) inefficiency of the provided recapitalisation plan for the case of deterioration of a bank's financial condition; and

(iii) lack of impeccable business reputation of an applicant who is an individual or of a business executive of an applicant which is a legal entity.

Minimum rating requirement

Non-resident legal entities may obtain the consent of the NBK to acquire the status of a Bank Holding or a Major Participant if such non-resident legal entities meet a minimum required rating determined by the NBK.

Blacklisted Jurisdictions prohibition

In accordance with Article 17(5) of the Banking Law, legal entities registered in any of the Blacklisted Jurisdictions (as listed below) cannot directly or indirectly own and (or) use, and (or) dispose of voting shares of a Kazakhstan resident bank, unless such Kazakhstan resident bank is a subsidiary of a non-resident bank and such non-resident bank has the minimum required rating of one of the rating agencies determined by the NBK.

The exact list of Blacklisted Jurisdictions is determined by the NBK. The following jurisdictions are currently included in the NBK's list of Blacklisted Jurisdictions: Principality of Andorra; State of Antigua and Barbuda; Commonwealth of the Bahamas; Barbados State; State of Belize; The state of Brunei Darussalam; Republic of Vanuatu; Republic of Guatemala; State of Grenada; Republic of Djibouti; Dominican Republic; Republic of Indonesia; Spain (only in part of the Canary Islands); Republic of Cyprus; People's Republic of China (only in part of the territories of the special administrative regions of Aomin (Macau) and Xianggang (Hong Kong); Federal Islamic Republic of Comoros; Republic of Costa Rica; Malaysia (only in part of the territory of the Labuan enclave); Republic of Liberia; Principality of Liechtenstein; Republic of Mauritius; Portugal (only in part of the territory of the Madeira Islands); Republic of Maldives; Republic of Malta; Republic of Marshall Islands; Principality of Monaco; Union of Myanmar; Republic of Nauru; Netherlands (only in part of the territory of the island of Aruba and the dependent territories of the Antilles); Federal Republic of Nigeria; New Zealand (only in part of the territory of the Cook Islands and Niue); Republic of Palau; Republic of Panama; Independent State of Samoa; Republic of Seychelles; State of Saint Vincent and the Grenadines; Federation of Saint Kitts and Nevis; State of Saint Lucia; United Kingdom of Great Britain and Northern Ireland (only in part of the following territories): Anguilla Islands, Bermuda, British Virgin Islands, Gibraltar, Cayman Islands, Montserrat Island, Turks and Caicos Islands, Isle of Man, The Channel Islands (Guernsey, Jersey, Sark, Alderney); United States of America (only in part of the territories of the U.S. Virgin Islands, Guam Island and the Commonwealth of Puerto Rico); Kingdom of Tonga; Republic of the Philippines; Democratic Republic of Sri Lanka.

Financial Stability

Under the Banking Law, in the event of (i) a breach by a bank of capital adequacy or liquidity ratios; or (ii) two or more breaches by a bank in any 12-month period of any other prudential or other mandatory requirements, the Government based on the NBK's proposal may acquire, either directly or through a national management holding company, the authorised shares of any bank in Kazakhstan to the extent necessary (but not less than 10% of the total amount of placed shares of such bank, including those to be acquired by the Government or the national management holding company) to improve such bank's financial condition and ensure compliance with prudential or other mandatory requirements. The Banking Law provides that the management and shareholders of an affected bank are not granted any right to approve any such acquisition, and any shares issued as part of any such acquisition may be issued without granting pre-emptive rights to existing shareholders. Following such an acquisition, the state body authorised to manage state property or the national management holding company is authorised to appoint no more than 30% of the members of the board of directors and the management board of the affected bank.

In the event that a bank has negative capital, the NBK may buy out shares of such bank subject to consequent sale of the shares to an investor guaranteeing improvement of the bank's financial condition.

The main objectives of the above regulations are to improve early detection mechanisms for risks in the financial system, to provide powers to the Government and the NBK to acquire shares in commercial banks that face financial problems and to improve the overall condition of financial institutions in Kazakhstan.

The Government or the national management holding company must sell the acquired shares by way of direct sale or through the stock exchange in case of improvement of financial condition of the bank.

Other Regulations

The Banking Law establishes an exhaustive list of activities allowed for a bank holding and lists the types of legal entities shares of which may be acquired by a bank or a bank holding.

Per the Banking Law, it is required to obtain the NBK consent for election (appointment) of the top management at the level of a bank and at the level of a bank holding. For consent purposes, top management of a bank includes members of the board of directors, members of the management board, chief accountant and other managers of a bank coordinating and (or) monitoring the activities of more than one structural unit of the bank and authorised to sign documents on the basis of which banking operations are conducted. Top management of a bank holding includes members of the board of directors, members of the management board, chief accountant, and other managers of a bank holding coordinating and (or) monitoring the activities of subsidiaries and (or) organisations where a bank holding holds (directly or indirectly) significant participation in the capital of such organisation (i.e., holds 20% and more of voting shares (participatory interests in the charter capital) (whether independently or jointly with another legal entity)).

Management of Distressed Assets

The Banking Law allows a bank, upon receipt of the NBK's consent, to establish or acquire a subsidiary organisation acquiring distressed assets of the parent bank. One of the Group's subsidiaries, ARK Balance LLP, was established on 20 December 2013 for the purposes of managing Kaspi Bank's distressed assets.

The procedure for a subsidiary acquiring distressed assets of the parent bank, the period during which the subsidiary manages the acquired distressed assets, as well as the requirements for such assets are established by the NBK. Such subsidiary organisation may conduct only those activities which are related to the management of distressed assets which are in line with the NBK regulations.

A subsidiary organisation acquiring distressed assets is obliged to transfer the money received from its activities to the parent bank, except for amounts of expenses related to the implementation of the activities related to acquisition and disposal of distressed assets under the Banking Law.

The NBK's Powers under the Banking Law

Under the Banking Law, the NBK may apply a number of supervisory response measures, *inter alia*, with respect to banks (second-tier banks in Kazakhstan such as Kaspi Bank), Bank Holdings, the top management of the respective bank and Bank Holding, their respective Major Participants, a bank conglomerate and (or) organisations included in a bank conglomerate in order to (i) protect the interests of depositors, creditors, clients and correspondents of banks, (ii) ensure the financial stability of banks and (iii) prevent deterioration of financial condition and increasing risks related to bank's banking activities.

Supervisory response measures

The Banking Law allows the NBK to apply the following supervisory response measures:

(i) recommended supervisory response measures;

(ii) measures for improvement of financial condition and minimisation of risks; and

(iii) compulsory measures of supervisory response.

Recommended supervisory response measures

"Recommended supervisory response measures" include (i) making a notification on discovered instances of non-compliance to a bank's bodies, Major Participants, Bank Holding and/or bank conglomerate member entity; (ii) recommendation on mitigation of revealed instances of non-compliance; and (iii) warning on implementation of other supervisory response measures.

Measures on improvement of financial condition and minimisation of risks

The Banking Law allows the NBK to apply a number of compulsory measures aimed at the improvement of financial condition and minimisation of risks of the banks, organisations engaged in certain types of banking operations, the Major Participants, the Bank Holdings, the bank conglomerate and (or) organisations included in the bank conglomerate. In particular, Article 46 of the Banking Law allows the NBK to apply, *inter alia*, the following compulsory measures aimed at the improvement of financial condition and minimisation of risks:

- requiring that the bank maintains the capital adequacy ratios and (or) liquidity ratios above the minimum levels established by the NBK;
- removing the top management of a bank;
- suspending and (or) restricting carrying out certain types of banking and other operations, carrying out certain types of transactions or establishing a special procedure for their implementation;
- restructuring of assets and (or) bank liabilities, including changes in their structure;
- reduction of expenses, including through the termination or limitation of additional hiring of employees, closure of branches and representative offices, subsidiaries, restriction of remuneration and other types of material incentives for top management;

- suspending and (or) restriction of investments in certain types of assets or the establishment of their special order of implementation;
- forming provisions (reserves) according to international financial reporting standards;
- restricting operations with persons connected with a bank by special relations; and
- suspending accrual and (or) payment of dividends on shares and (or) unlimited financial instruments.

The NBK can apply the above compulsory measures by way of:

- issuing mandatory written instructions to a bank setting out compulsory measures to be taken by the bank and (or) requiring that the bank develops an action plan to restore such bank's financial condition;
- entering into an agreement with a bank setting out measures to be taken by the bank to remedy any identified breaches.

Compulsory measures of supervisory response

The NBK applies compulsory measures of supervisory response to Major Participants and Bank Holding, as well as organisations that are part of a banking conglomerate in the following cases, *inter alia*, if (i) the use of other supervisory response measures cannot ensure the protection of the interests of depositors and creditors, the financial stability of a bank, and the minimisation of risks associated with the activities of a bank; (ii) if the actions (inaction) of a Bank Holding and (or) a Major Participant can lead to a further deterioration in the financial position of the bank or Bank Holding.

Where a bank's shareholders include a Major Participant or a Bank Holding, the NBK may require such shareholders to decrease their direct or indirect ownership of the relevant bank to less than 10% of the bank's voting shares in the case of a Major Participant and less than 25% of the bank's voting shares in the case of a Bank Holding. Such measures can be applied to a bank's shareholder when, for example, the bank's shareholders which are Major Participants or Bank Holding are in an unstable financial condition, which may negatively affect the bank concerned.

Measures on improvement of financial condition and minimisation of risks and compulsory measures of supervisory response shall be applied using justified judgement.

Bank with an unstable financial situation

The NBK can classify a bank as a bank with an unstable financial situation threatening the interests of its depositors and creditors and (or) threatening the stability of the financial system if certain criteria are met by the bank. Such criteria, *inter alia*, includes situations when the bank's capital adequacy ratios become below the minimum levels; or the bank fails to fulfil monetary obligations and other claims of its creditors due to the absence or insufficiency of money in the bank. The NBK may apply any supervisory response measures to the bank with unstable financial situation. In case the bank's unstable financial situation is not remedied within the period established by the NBK, the NBK shall qualify this bank as an insolvent bank and may apply to the respective bank certain measures, such as, for example, (i) requiring the bank to carry out compulsory restructuring of its liabilities, (ii) requiring the bank to transfer all or part of its assets and liabilities to another bank(s), (iii) creating a stabilisation bank, and requiring the bank to transfer all or part of its assets and liabilities to such stabilisation bank; (iv) deprivation of a license to conduct banking and other operations with the subsequent forced liquidation of the insolvent bank.

Sanctions

The NBK has the right to apply to the bank, the Major Participant, the Bank Holding, organisations that are part of a banking conglomerate, as well as organisations carrying out certain types of banking operations, the following sanctions, *inter alia* (regardless of the supervisory response measures applied to them earlier, if any):

- suspension or deprivation of a bank's license and (or) annexes to a bank's licence for all or certain banking operations on the grounds provided for in Article 48 of the Banking Law; and
- revocation of a permission to open a bank on the grounds provided for in Article 49 of the Banking Law.

Regulation of Insurance Activities

Insurance Law

Similarly to the Kazakhstan banking sector, the Kazakhstan insurance sector is highly regulated. The Law of the Republic of Kazakhstan No. 126-II "On Insurance Activity", dated 18 December 2000 (as amended) (the "**Insurance Law**"), along with the Civil Code of the Republic of Kazakhstan (special part), dated 1 July 1999 (as amended), is the main law regulating the insurance sector in Kazakhstan. It establishes a framework for insurance activities, registration and licensing of insurance companies, and regulation of insurance activities by the NBK.

The Insurance Law provides for a list of branches, classes and types of insurance. Insurance operations may be conducted only in accordance with an appropriate license from the NBK for certain types of insurance within life insurance or general insurance branches. An insurance company may not simultaneously operate in both the life insurance and general insurance sectors.

Kaspi Insurance holds a license for the right to carry out insurance (reinsurance) activities in the class of "general insurance" (License No. 2.1.5 dated 7 November 2013 issued by the NBK) (the "**Insurance License**").

Capital Adequacy, Liquidity Ratios

The Insurance Law provides for the following prudential standards for insurance (reinsurance) organisations: (i) minimum charter capital; (ii) margin of solvency margin adequacy; (iii) the ratio of sufficiency of highly liquid assets; and (iv) asset diversification standards.

According to the Decree of the Management Board of the NBK No. 304, dated 26 December 2016 (as amended), the minimum charter capital for a newly-established insurance company varies from 1,500,00 up to 10,500,000 MCI depending on the contemplated types of insurance activities.

The NBK sets forth standards, formulas and ratios for calculation of liquidity adequacy.

Acquisition of Shares of a Kazakhstan Insurance Company

Shareholders of a Kazakhstan insurance company

Under the Insurance Law, any individual or legal entity can be a shareholder of a Kazakhstan insurance company except that:

- a legal entity registered in the Blacklisted Jurisdiction cannot be a shareholder in the Kazakhstan insurance company, unless such Kazakhstan insurance company is a subsidiary of a non-resident insurance company and such non-resident insurance company has the minimum required rating of one of the rating agencies determined by the NBK; or
- an individual or a legal entity cannot own shares in a Kazakhstan insurance company exceeding a certain threshold established by the Insurance Law without the prior written consent of the NBK (as described below, see – "*Major Participant of the Kazakhstan Insurance Company and Insurance Holding status*").

Major Participant of the Kazakhstan Insurance Company

Under the Insurance Law, an individual or a legal entity (except for *inter alia* the State or the national managing holding), which, directly or indirectly:

(i) may own 10% or more of placed shares of a Kazakhstan insurance company (excluding preferred shares and shares redeemed by a Kazakhstan insurance company); or

(ii) will be able to vote with 10% or more of the Kazakhstan insurance company's voting shares; or

(iii) will have the ability to influence the decisions taken by the Kazakhstan insurance company by virtue of an agreement or otherwise,

will be deemed to be a major participant of a Kazakhstan insurance company (the "**Major Participant of the Kazakhstan Insurance Company**") and will need to obtain the prior written consent of the NBK before acquiring such status.

In case a person acquires (whether independently or jointly with another person), directly or indirectly, 10% or more of the voting shares of a Kazakhstan insurance company without obtaining the prior written consent of the NBK, the NBK has the right to apply the supervisory response measures envisaged by the Insurance Law, which include, *inter alia*, the requirement for the sale of shares in the insurance company by the respective person within a period not exceeding six months. In addition, exercising a right to vote at a general meeting of shareholders without the relevant NBK consent may entail the possibility of challenging the legality of the general meeting and decision taken at such general meeting of shareholders.

A person acquiring 10% or more of the voting shares of a Kazakhstan insurance company is considered its affiliate and must disclose its identity to the respective Kazakhstan insurance company in the manner prescribed by the law. Information about the identity of an affiliate is publicly available. The owner of 10% or more of the voting shares in a Kazakhstan insurance company also assumes certain obligations, including the obligation to support the respective insurance company in remedying any financial problems it may incur, an obligation to obtain a credit rating and ongoing reporting obligations.

Insurance Holding status

Under the Insurance Law, a legal entity (except for *inter alia* the State or the national managing holding), which, directly or indirectly,

(i) may own 25% or more of a Kazakhstan insurance company's placed shares (excluding preferred shares and shares redeemed by a Kazakhstan insurance company); or

(ii) will be able to vote with 25% or more of a Kazakhstan insurance company's voting shares; or

(iii) will determine the decisions taken by a Kazakhstan insurance company, by virtue of a contract or otherwise, or have control,

will be deemed to be an insurance holding of a Kazakhstan insurance company (the "**Insurance Holding**") and will need to obtain the prior written consent of the NBK.

Where a foreign legal entity directly holds 25% or more of the placed shares (excluding preferred shares and shares redeemed by a Kazakhstan insurance company) of a Kazakhstan insurance company, or has the ability to vote directly with 25% or more of the Kazakhstan insurance company's voting shares, such foreign legal entity must be a financial organisation having a minimum required rating and being subject to consolidated supervision in its home country.

NBK Consent

Under the Insurance Law, the NBK consent for a Major Participant of the Kazakhstan Insurance Company or an Insurance Holding status is issued by the NBK within 3 months after the relevant application is submitted to the NBK, subject to provision of required documents and absence of grounds for the NBK's refusal to issue the consent established by the Banking Law, which include *inter alia*:

(i) unstable financial condition of the applicant;

(ii) inefficiency of the provided recapitalisation plan for the case of deterioration of a bank's financial condition; and

(iii) lack of impeccable business reputation of an applicant who is an individual or of a business executive of an applicant which is a legal entity.

Minimum rating requirement

Non-resident legal entities may obtain the consent of the NBK to acquire the status of a Major Participant of the Kazakhstan Insurance Company or an Insurance Holding if such non-resident legal entities meet a minimum required rating determined by the NBK.

Blacklisted Jurisdictions prohibition

In accordance with Article 21(4) of the Insurance Law, legal entities registered in any of the Blacklisted Jurisdictions cannot directly or indirectly own and (or) use, and (or) dispose of voting shares of a Kazakhstan insurance company, unless such Kazakhstan insurance company is a subsidiary of a non-resident insurance (re-insurance) company and such non-resident insurance (re-insurance) company has the minimum required rating of one of the rating agencies determined by the NBK. The list of Blacklisted Jurisdictions is provided in "*Regulation of Banking Activities—Acquisition of Shares of Kazakhstan Banks*" above.

Compulsory insurance categories

Various compulsory insurance categories are subject to separate specific laws. In particular, Kaspi Insurance activities are subject to the Law of the Republic of Kazakhstan No. 446-II "On Compulsory Insurance of Civil Liability of Vehicle Owners", dated 1 July 2003 (as amended). The law sets forth, *inter alia*, the scope of insurance coverage, insurance agreement framework, amounts of insurance premiums and payments. Under the law, the insurance premium is to be calculated on the basis of the basic premium equal to 1.9 MCI and applying appropriate ratios and coefficients (depending on vehicle type, age and driving experience of the insured person, etc.). It is prohibited to increase or decrease the insurance premium amount except based on grounds stipulated in the law.

Guarantee Fund

For the purposes of engaging in certain types of insurance activities, an insurance company shall enter into a participation agreement with the Insurance Payment Guarantee Fund (the "**Fund**"). The Law of the Republic of Kazakhstan No. 423-II "On the Insurance Payment Guarantee Fund" (the "**Law on Fund**"), dated 3 June 2003 (as amended), sets forth the general framework for ensuring insurance payments to beneficiaries (insurers, insured parties, as applicable) in the event of liquidation of an insurance company. The Law on Fund imposes obligations on insurance companies to make compulsory contributions to the Fund. The amount of contributions is calculated by the Fund in accordance with the methodology established by the NBK and is approved annually with consent of the NBK. The Law on Fund, among other things, also establishes sanctions to be applied by the NBK in case of non-compliance with set requirements.

Other Regulations

The Insurance Law establishes an exhaustive list of permitted activities for an insurance company and its major shareholder (holding 10% and more of voting shares) and types of legal entities the shares of which may be acquired by an insurance company or its major shareholder.

Pursuant to the Insurance Law, it is required to obtain the NBK approval of top management at the level of an insurance company and at the level of insurance holding (a legal entity which owns directly or indirectly 25% and more of voting shares of the insurance company or may directly or indirectly vote with 25% and more of voting shares or otherwise affect the insurance company's decisions or control the insurance company). For these purposes, top management of an insurance company includes the head and members of the Board of Directors, the head and members of the executive body, the chief accountant and other managers of the insurance company, who coordinate and (or) control the activities of the business units of the insurance company and authorised to sign documents on the basis of which insurance activities are conducted. Top management of an insurance holding includes the head and members of the Board of Directors, the executive body, the chief accountant, other managers of the insurance holding who coordinate and (or) control the activities of the subsidiary organisation and (or) organisation where an insurance holding holds (directly or indirectly) significant participation in the capital of such organisation (i.e., holds 20% and more of the voting shares (participatory interests in the charter capital) (whether held independently or jointly with another legal entity)).

Personal Data Protection

The Personal Data Law applies to the Group. Among other things, the Personal Data Law requires that an individual must consent to the processing (i.e. any action on the accumulation, storage, modification, addition, use, distribution, depersonalisation, blocking and destruction) of his/her personal data and must provide such consent prior to the personal data being processed. Consent shall be provided in writing or in the form of an electronic document or in any other way with the use of elements of protective actions that do not contradict the legislation of the Republic of Kazakhstan.

Under the Personal Data Law, the storage of personal data shall be carried out by the owners and (or) operators of personal data bases, as well as by any third party which has contractual relationships with such owners and (or) operators, in the database which is physically located and stored within the territory of the Republic of Kazakhstan.

Under the Personal Data Law, owners and operators of personal data databases shall ensure security of personal data through legal, technical and organisational measures and in accordance with requirements set forth by the Law of the Republic of Kazakhstan No. 418-V ZRK "On Informatisation", dated 24 November 2015 (as amended).

DESCRIPTION OF SHARE CAPITAL AND APPLICABLE KAZAKHSTAN LEGISLATION

Set out below is a summary of material information concerning the share capital of the Company, including a description of certain rights of the holders of common shares and related provisions of the Charter in effect on the date of this Registration Document and of relevant laws of Kazakhstan.

Share Capital

The Company was initially registered with the Department of Justice of the Ministry of the Republic of Kazakhstan as a limited liability partnership on 16 October 2008. The Company was subsequently transformed into a joint stock company on 17 October 2014. The Company can exist for an unlimited duration. As at the date of this Registration Document, the authorised share capital of the Company comprises 210,000,000 Shares. The issued and fully paid share capital of the Company comprises 199,500,000 Shares, of which 7,695,000 are treasury Shares. All shares of the Company are common and in registered form in the share register of the Company maintained by JSC "Central Securities Depository" (the "**Central Securities Depository**"). The currency of the Shares is Kazakhstan Tenge. The principal legislation under which the Company operates, and under which the common shares have been created, is the JSC Law and its LEI is 2549003YU6FARG8OAZ13.

Ownership of the Company's shares is evidenced by an extract from the shareholders register of the Company. The Central Securities Depository is the only entity authorised to maintain shareholder registers of private companies incorporated in Kazakhstan and is majority-owned by the NBK. The address of the Central Securities Depository is 050051, Republic of Kazakhstan, Almaty, 28 Samal-1 Residential Unit.

Summary of the Charter

The Charter was approved by the sole shareholder of the Company on 15 October 2014 and subsequently amended in 2017 and 2018. The Charter provides that the Company's purpose, among others, is to engage in the investment-financing activities, finance consulting, and other activities not prohibited by the laws of Kazakhstan and required for the Company. The Company's main objects and activities are set out in full in Section 3 of the Charter.

Share Rights

Subject to the provisions of the JSC Law and without prejudice to any rights attaching to any existing shares or class of shares, the Company may issue shares and other securities. Subject to the Charter and the provisions of the JSC Law, the authorised but unissued shares of the Company are at the disposal of the Board of Directors.

Rights attaching to Shares and Variation of Rights

The JSC Law provides for two types of shares: common and preference. Each type has attached to it the rights set out in the JSC Law. These rights may be extended by a company's charter (although the Company's Charter does not purport to extend such rights), but these rights cannot be restricted.

A holder of common shares has the right:

- to participate in the management of a joint stock company in the manner provided for under the JSC Law and/or the charter of the joint stock company;
- to receive dividends;
- to familiarise him or herself with the financial statements of the joint stock company and to receive information on its activities using the procedure established at the general meeting of shareholders or in the charter of the joint stock company;

- to receive extracts from the joint stock company's registrar (the Central Securities Depository) or, if appropriate, a nominal holder confirming the shareholder's ownership right to the securities;

- to propose to a general meeting of shareholders candidates for election to the board of directors;

- to contest in court the resolutions adopted by the bodies of the joint stock company;

- to file with the joint stock company written requests for information regarding its activities and to receive a response from the joint stock company within 30 calendar days of the date of the filing of such request;

- to receive part of the joint stock company's property in the event of the joint stock company's liquidation;

- of pre-emption in relation to the purchase of shares or other securities convertible into shares of the joint stock company in the manner established under the JSC Law;

- to participate in adoption of resolution by the general meeting of shareholders in respect of change of the amount or type of the shares in the manner established under the JSC Law; and

- if such shareholder or a group of shareholders holds 5% or more of the voting shares of the joint stock company to:
  - file a claim with a court seeking compensation in favour of the joint stock company for losses caused by the joint stock company's officials, as well as a return to the joint stock company, by the officials and/or their affiliates, of the profit (income) received by them as a result of adopting a resolution that proposes the conclusion of major transactions and/or interested party transactions;
  - propose to the board of directors of the joint stock company to include additional matters to the agenda of the general meeting of shareholders; and
  - receive information on the amount of remuneration as the result of the year of each member of the board of directors and/or the management board, in the manner established under the JSC Law provided that the following conditions are simultaneously met: (i) determination by the court of the fact of deliberately misleading the joint stock company's shareholders by the respective member of the board of directors and/or the executive body of the joint stock company in order to obtain profit (income) by him (them) or his affiliated persons; (ii) if it is proved that unfair actions and/or inaction of the respective member of the board of directors and/or the executive body of the joint stock company resulted in loss being incurred by the joint stock company.

In addition to the above, a major shareholder, being any shareholder or group of shareholders representing not less than 10% of the voting shares (individually or collectively, as applicable) (a "**Major Shareholder**") has the right:

- to request the convening of an extraordinary general meeting of shareholders, or to file a claim with the court seeking the same where the board of directors refuse to convene a general meeting of shareholders;

- to request to call a meeting of the board of directors of the joint stock company; and

- to request that an audit of the joint stock company be performed at the expense of the relevant Major Shareholder.

Voting Rights

Subject to any rights or restrictions attached to any class of shares by or in accordance with the Charter or the JSC Law, each holder of voting shares present at the meeting of shareholders, whether in person or by proxy, shall have:

- one vote on all procedural issues decided by the meeting of shareholders; and
- one vote per each fully paid share of which he is the holder, on all substantive issues decided by the meeting of shareholders (except in the case of electing the directors, where the number of votes such holder has shall be equal to the number of fully paid shares of which he is the holder multiplied by the number of directors being elected at such a meeting) (see "*—Board of Directors*").

A resolution of shareholders in writing shall not be effective without a quorum, which requires the attendance of persons holding 50% or more of the voting share capital of the Company or, for a repeated meeting called due to the absence of the 50% quorum, persons holding 40% or more of the voting share capital of the Company. No holder of Shares has voting rights that differ from those of any other holder of Shares.

Dividends and Other Distributions

The JSC Law and the Charter set out the general procedure for determining the dividends that the Company distributes to its shareholders. The net income of the Company shall be distributed in accordance with the procedure provided for by the laws of the Republic of Kazakhstan, the Charter and the Corporate Governance Code. See "*Dividend Policy*".

Distributions to Shareholders on Liquidation

In the event of liquidation, the property of a joint stock company which is left after the satisfaction of the creditors' claims is distributed among the shareholders in the following order of priority:

- *first* – payments for shares which must be repurchased pursuant to the JSC Law;
- *second* – payments of accrued and outstanding dividends on preferred shares; and
- *third* – payments of accrued and outstanding dividends on common shares.

If the property of the liquidated joint stock company is insufficient to pay the accrued and outstanding dividends on preferred shares, such property is distributed among the holders of preferred shares in proportion to the number of shares held by them. The remaining property of the joint stock company is distributed among the holders of shares in proportion to the number of shares held by them subject to the JSC Law's requirement that holders of preferred shares have a priority right to receive dividends and a share in the joint stock company's property in the event of its liquidation.

Exchange of Shares

The JSC Law and the Charter permit the Company to issue common and preferred shares. The Company may exchange its placed shares of one type to shares of another type. A decision on shares exchange falls within the exclusive competence of the general meeting of shareholders. The terms, timing and procedure of such exchange shall be determined by a decision of the general meeting of shareholders.

Unpaid Shares and Repurchased Shares

The JSC Law states that, until a share has been paid in full, such share cannot be placed, and the respective company must refrain from instructing that the share be credited to the personal account of the would-be acquirer. Instead, the share is credited to the personal account of the company with the

Central Securities Depository. Shares which have been repurchased by a company are credited to another special account of the company with the Central Securities Depository. No dividends accrue or are payable on unplaced shares or shares repurchased by the Company, and such shares are not counted for the purposes of determining a quorum and do not carry the right to vote.

Transfer of Shares

To transfer a share, the shareholder (or its representative) must sign a written order and submit it to the Central Securities Depository or nominee for execution or, in the alternative, give suitable electronic instructions as permitted by law. The Central Securities Depository or nominee will execute a sell order by pairing it with a buy order signed by the buyer (or its representative), and vice versa. All dealings with the shares must be registered by making entries in the relevant personal accounts in the registry system or the nominee's books. Legal title to a share passes at the moment when the transaction is so registered (unless each party to the transaction has a different nominee, in which case legal title passes at the moment when the transaction is registered in the personal accounts of each nominee with the Kazakhstan Central Depositary). An extract from the personal account of a shareholder in the registry system or a nominee's books is evidence of that holder's legal right to a share. The Central Securities Depository or a nominee can refuse to register a transaction if the documents submitted do not conform to legislative requirements. Additionally, the National Bank has the right (by notifying the relevant issuer, the Central Securities Depository and the Kazakhstan Central Depositary) to suspend trading in securities by blocking all or certain personal accounts in the registry or nominee systems if legal requirements establishing the following have been violated: (i) the rights and interests of investors when acquiring securities; or (ii) the terms and procedures for trading securities.

A fee will ordinarily be payable to the Central Securities Depository or nominee for registering the transfer, under contractual terms.

Alteration of Share Capital

The Company may from time to time, by a three-quarters majority of the total number of voting shares, increase its authorised share capital. The Board of Directors may place the shares within the permitted authorised number of shares. Any decision to place shares must state the number, the price and the manner of placement of the shares.

Buy-back/Repurchase of own Shares

Subject to the JSC Law and Law of the Republic of Kazakhstan No. 461-II "On Securities Market" dated 2 July 2003 (as amended) (the "**Securities Market Law**"), and without prejudice to any relevant special rights attached to any class of shares, the Company may purchase any of its own shares of any class in any way and at any price (whether at par or otherwise). Such shares will be credited to the Company's account with the Central Securities Depository.

The Company cannot purchase any of its shares which are being placed in a primary offering. Any purchase by the Company must be effected with the consent of the relevant shareholder using a valuation method that has been approved in advance by a foundation meeting or amended by a general meeting of shareholders (save for any purchase which is effected through a stock exchange by way of an open trade). In certain circumstances provided for by the JSC Law, and subject to certain conditions set out in the JSC Law, the Company must repurchase shares belonging to a shareholder within 30 days of receiving a duly formalised request from such shareholder.

In both cases, shares being repurchased by the Company cannot exceed 25% of the total number of placed shares of the Company, and the purchase price for such shares cannot exceed 10% of the size of the Company's own capital. There is no guarantee that the National Bank will take the position that this limit shall apply in a case of buy-back of securities by the Company.

Pre-Emptive Rights

Under the JSC Law, a shareholder of the Company has a pre-emptive right to acquire newly placed shares of the Company (including newly issued shares or shares previously repurchased by the Company). Holders of shares have pre-emptive rights for shares or for securities convertible into shares and holders of preferred shares have pre-emptive rights for preferred shares.

Within 10 calendar days of the date on which the Company adopts a decision to place a specified number of shares, it must make an offer to each existing shareholder (either by written notification or by way of publication in the mass media) for the shareholder to acquire the shares pro rata to its shareholding at the placement price established by the Company. Each shareholder then has 30 calendar days from the date of such notification or publication to submit an application to acquire shares (i.e. to exercise its pre-emptive right). Upon the expiry of such period, the right to submit an application will lapse. Where a shareholder submits an application to acquire shares, the shareholder then has 30 calendar days from the date of the application to pay for the shares being acquired, unless provided otherwise in the Charter. If no payment is made upon the expiry of such period, the application is deemed to be void.

General Meetings

The Board of Directors must convene and the Company must hold general meetings (including annual and extraordinary general meetings) in accordance with the requirements of the JSC Law. The Board of Directors may call general meetings at such times as it determines. In addition, an extraordinary general meeting may be convened on the written request of a Major Shareholder.

The Board of Directors cannot of its own initiative introduce any changes to the agenda or propose a procedure for the conduct of a general meeting pursuant to a request of the Major Shareholder. However, the Board of Directors may include additional items onto the agenda at its own discretion. Shareholders are entitled to receive not less than 30 (or, in the event of a meeting in absence and in mixed voting cases, 45) days' notice of the holding of any general meeting.

The general meeting of shareholders shall have exclusive competence to determine certain matters, including the following:

- the introduction of amendments and supplements to, or the approval of new version of the Charter and the Corporate Governance Code;
- the voluntary reorganisation (including in relation to the Company's status as a joint stock company) or liquidation of the Company;
- any increase in the amount of authorised shares of the Company or any change in the type of any authorised shares of the Company which have not been placed;
- the amendment of the valuation method for determining the price for the repurchase of shares by the Company;
- the appointment of auditors to undertake the audit of the Company;
- the determination of the scope and the expiry dates of the powers of the Board of Directors, the selection of members of the Board of Directors and early termination of their powers, as well as the determination of the amount and payment terms of remuneration to members of the Board of Directors;
- approval of annual financial statements and the amount of dividends paid on shares, if any; and

- if such decision may not be taken by the Board of Directors, decisions for the Company to conclude any related party transaction.

On issues related to the internal organisation of the Company, a general meeting of shareholders has the right to cancel any decision made by any other management body of the Company.

Board of Directors

The Charter provides that the Board of Directors must be comprised of at least three (3) persons. The exact number of members of the Board of Directors shall be established by the decision of the General Meeting of Shareholders. Under the JSC Law, not less than 30% of members of the Board of Directors must be independent directors. The “independent director” criteria are set out in the JSC Law.

Directors are elected by the general meeting of shareholders by way of cumulative voting (whereby the number of votes a shareholder has is equal to the number of fully paid shares of which he is the holder multiplied by the number of directors being elected at a meeting of shareholders) and a shareholder has a right to give all such votes fully for one candidate or to distribute votes among several candidates for membership of the Board of Directors. Candidates who receive a majority of votes are considered to be elected to the Board of Directors. If two or more candidates gain an equal number of votes then additional cumulative voting is carried out with regard to such candidates.

The quorum required for a duly convened meeting of the Board of Directors shall comprise not less than 50% of the total number of the members of the Board of Directors.

Each member of the Board of Directors has one vote. The decisions of the Board of Directors are made by a simple majority of those members present at the meeting of the Board of Directors. In case of equal number of votes, the vote of the Chairman of the Board of Directors shall prevail.

The General Meeting of Shareholders has the right of early termination with respect to the powers of any or all members of the Board of Directors and to remove any member of the Board of Directors from office.

The Board of Directors shall have exclusive competence to determine certain matters, including the following:

- the placement of shares, including the price, number and the manner of placement of such shares;

- in relation to the Chairman of the Management Board, the appointment, the term of appointment and the dismissal ahead of the expiry of the term of appointment of such Chairman of the Management Board;

- preliminary approval of the annual financial statements of the Company;

- the remuneration and incentive plan for the members of the management board and other officers;

- the increase of the Company’s liabilities by an amount equal to or exceeding 10% of the Company’s own capital;

- the conclusion by the Company of any major transaction (being, *inter alia*, a transaction or combination of interrelated transactions which result or may result in the purchase or disposal by the Company of assets representing 25% or more of the total balance sheet value of the Company’s assets) and any related party transaction;

- the determination of the scope and the expiry dates of the powers of the internal audit service of the Company.

According to the banking regulations it is required to obtain the National Bank's consent for election (appointment) of the Chairman and a member of the Board of Directors. Such consent should be obtained within sixty (60) calendar days from the date of election (appointment).

The Management Board and Chairman of the Management Board

The members of the Management Board and its Chairman are appointed by the Board of Directors for a term established thereby. The Management Board runs the day-to-day operations of the Company. The Management Board is entitled to make decisions on any matters relating to the activity of the Company that are not, under the JSC Law, other legislative acts of Kazakhstan or the Charter, within the competence of other bodies or officers of the Company.

The Chairman of the Management Board is entitled to, amongst other things, hire personnel and represent the Company before third parties and arrange for the performance of actions contemplated by decisions of the General Meeting of Shareholders and the Board of Directors. The Chairman of the Management Board is entitled to enter on behalf of the Company into the following transactions subject to preliminary approval of the Board of Directors:

- any transaction or linked transactions in respect of disposal, pledge or other lien or granting any rights with respect to the securities held by the Company;

- any transaction or linked transactions in respect to borrowing or lending by the Company irrespective of a loan amount; and

- granting to the Company's employees any option rights in respect of the Company's securities.

According to the banking regulations it is required to obtain the NBK's consent for election (appointment) of the Chairman and a member of the Management Board. Such consent should be obtained within sixty (60) calendar days from the date of election (appointment).

Remuneration of Directors

The remuneration of members of the Board of Directors is determined by the General Meeting of Shareholders.

Permitted Interests of Directors

A director of the Company cannot participate in voting on any related party transaction proposed to be entered into by the Company if:

- such director is a party to the transaction or he participates in the transaction as a representative or intermediary; or

- such director is an affiliate of a legal entity that is a party to the transaction or such legal entity participates in the transaction as a representative or intermediary.

Disclosure of Interests in Shares

A list of shareholders that have the right to participate in a meeting of shareholders and vote at the meeting will be prepared by the Central Securities Depository on the basis of information recorded in the register of shareholders of the Company. However, any shareholder holding shares through a nominee and whose identity is not disclosed to the Central Securities Depository shall not be entitled to vote at a meeting of shareholders.

In addition, any person acquiring 10% or more of the voting shares of the Company, or otherwise falling within the definition of an affiliate as provided for in article 64 of the JSC Law, is considered an affiliate of the Company and must disclose to the Company its identity and information about its affiliated persons. Information about the identity of such person and its affiliates is not confidential.

Related Party Transactions

Under the JSC Law, a related party transaction is a transaction in which (a) an affiliate of the company either (i) is a party to such transaction or (ii) participates in the transaction as a representative or an intermediary or (b) an affiliate of the company is an affiliate of the legal entity which either (i) is a party to such transaction or (ii) participates in the transaction as a representative or an intermediary. The JSC Law excludes certain types of transactions from the definition of a related party transaction (such as, for instance, an acquisition of the company's shares or other securities by its shareholder or a repurchase by the company of the placed shares of the company).

Under the JSC Law, related party transactions must be approved by the majority of dis-interested members of the Board of Directors or, if all members of the Board of Directors are interested, by the decision of a meeting of shareholders made by: (a) the majority of dis-interested shareholders; or (b) a simple majority of the total number of voting shares of the Company if all shareholders are interested. The JSC Law permits the Company to establish in its Charter a different procedure for entry into certain types of related party transactions. The Charter does not provide for any specific procedure for the approval of the related party transaction.

Under the Charter, it is necessary to have at least one vote of a member of the board of directors dis-interested in the transaction. If two out of the three members of the board of directors have interest in the related party transaction, such related party transaction shall be concluded on the basis of the decision of the board of directors taken by at least one vote of a dis-interested member of the board of directors.

Major Transactions

Under the JSC Law, a major transaction is (a) a transaction or a set of inter-related transactions, as a result of which the company acquires or alienates (or will acquire or alienate) property whose value equals twenty-five or more percent of the total book value of the company's assets; (b) a transaction or an aggregate of inter-related transactions, as a result of which the company may buy its placed securities or sell the securities bought by the company in the amount of twenty-five or more percent of the total number of placed securities of the same type; (c) another transaction recognised by the company's charter as a major transaction.

Under the JSC Law, major transactions shall be approved by the board of directors. In the event when the company enters into a major transaction, as a result of which the company acquires or alienates (may be acquired or alienated) property whose value equals fifty or more percent of the total book value of the company's assets (as of the date of adoption of the decision on entering into such transaction), such transaction shall be approved by the general meeting of shareholders.

The decision on entering into a major transaction in which the company is interested shall be approved by the general meeting of shareholders by a simple majority of votes of the total number of voting shares in the company.

Mandatory Offers

Under the JSC Law, a person who, acting either alone or jointly with its affiliated persons, is acquiring:

- 30% or more of the voting shares of the Company; or

- any other number of voting shares of the Company where such acquisition would result in such person alone or jointly with its affiliated persons holding 30% or more of the voting shares of the Company,

is required to make an offer to the remaining shareholders to buy out their shares at the market price which shall be determined by the acquirer on the basis of the guidelines provided for in the JSC Law (the "**Mandatory Offer**"). Any failure by the acquirer to make such an offer would result in the acquirer being obliged to reduce its shareholding to not more than 29%. Under the Entrepreneurship Code, any person, acting either alone or jointly with its affiliates, wishing to acquire more than 50% of the voting shares of the Company, must obtain prior consent from the Competition Committee.

Squeeze-out Rules

Squeeze-out rules were introduced into the JSC Law in July 2018, and will become effective from 1 January 2019, except for the provision in respect of unclaimed money transferred to the special account opened with the Kazakhstan Central Depositary which will come into force on 1 July 2019 (the "**Squeeze-Out**").

Under the JSC Law, a person who, acting either solely or jointly with its affiliated persons, is acquiring:

- 95% or more of the voting shares of the company; or

- other number of voting shares in aggregate constituting not less than 10% of the voting shares of the company, as a result of which this person acquired, independently or jointly with its affiliates, 95% or more of the voting shares of the company,

have the right to demand from the other shareholders of the company to sell their voting shares. The offer price shall be the market value of voting shares at the stock exchange (if such shares are traded at the stock exchange) or determined by the independent appraisal. The remaining shareholders are obliged to sell their voting shares within sixty calendar days after the date of publication of the request on the internet resource of the depository of financial statements. It is prohibited for such remaining shareholders to enter into any other transactions with the company's voting shares within such 60-day period.

The Squeeze-Out mechanism will not apply to legal entities belonging to the group of the national managing holding in accordance with the Law of the Republic of Kazakhstan "On the National Welfare Fund".

The requirements of the JSC Law regarding the Mandatory Offer will not apply to an acquirer who exercises his right to initiate a Squeeze-Out.

MATERIAL CONTRACTS

The following is a summary of each contract (not being a contract entered into in the ordinary course of business) which has been entered into by any member of the Group: (i) within the two years immediately preceding the date of this Registration Document and which is, or may be, material; or (ii) which contains any provision under which any member of the Group has any obligation or entitlement which is material to the Company as at the date of this Registration Document.

Material Financings

In the ordinary course of business, the Group attracts funding to finance its operations in the form of senior and subordinated tenge-denominated bonds listed on KASE.

The terms and conditions of the Group's senior debt instruments include a number of general covenants such as non-change of business, non-change of legal form and compliance with applicable reporting requirements, which are customary to KASE-listed bonds. As at the date of this Registration Document, the Company believes that the Group is in compliance with such covenants.

The following table sets forth the breakdown of the Group's debt securities issued as at the date indicated:

	As at 30 June		
	Maturity date	**Nominal interest rate**	**2019**
	Month/ year	**%**	
Recorded at amortised cost			
Third bond programme – first issue	January 2025	9.90%	51,041
Third bond programme – second issue	January 2024	9.80%	48,409
Third bond programme – second issue	January 2023	9.70%	38,877
Total debt securities issued			**138,327**

The terms and conditions of the Group's subordinated debt instruments do not contain any covenants prohibiting the Group from incurring additional debt or issuing equity securities. The instruments qualify as part of regulatory capital of the Group and are included in Tier II component of regulatory capital.

The following table sets forth the breakdown of the Group's subordinated debt as at the date indicated:

	As at 30 June		
	Maturity date	**Nominal interest rate**	**2019**
	Month/ year	**%**	
Recorded at amortised cost			
First bond programme – fourth issue	July 2019	2% plus inflation rate	6,188
First bond programme – fifth issue	July 2019	2% plus inflation rate	5,594
Second bond programme – first issue	July 2021	1% plus inflation rate	9,994
Second bond programme – third issue	February 2023	2% plus inflation rate	5,511
Third bond programme – fourth issue	June 2025	10.7%	62,260
Debt component of preference shares	N/A	N/A	58
Total subordinated debt			**89,605**

INDEPENDENT AUDITORS

The Financial Statements have been audited by Deloitte, LLP, independent auditors, as stated in their audit report appearing herein (the "**Independent Auditor's Report**"). The address of Deloitte, LLP is 36 Al Farabi Avenue, Almaty 050059, Republic of Kazakhstan. Deloitte, LLP operates under a state license on auditing in the Republic of Kazakhstan, Number 0000015, type MFU-2, issued by the Ministry of Finance of the Republic of Kazakhstan dated 13 September 2006. Deloitte, LLP is a member of the Chamber of Auditors of the Republic of Kazakhstan. Deloitte, LLP does not have a material interest in the Company.

GENERAL INFORMATION

1. Copies of this Registration Document will be available for inspection for 12 months following the date of this Registration Document at www.kaspi.kz.

2. The registered office of the Company is 154a Nauryzbai Batyr Street, Almaty 050013, Republic of Kazakhstan, and its telephone number is +7 727 3563419.

3. There has been no significant change in either the financial performance or the financial position of the Group since 30 June 2019, the end of the last financial period for which financial information has been published, other than as described in the section entitled "Capitalisation".

4. In the opinion of the Company, the working capital available to the Group is sufficient for the Group's present requirements, that is, for at least the next 12 months following the date of this Registration Document.

5. The following table sets forth certain information regarding the Group's significant subsidiaries as at the date of this Registration Document:

Name	Country of Incorporation	Beneficial ownership/ voting rights	Registered Office
Kaspi Bank Joint Stock Company	Kazakhstan	98.95%	154a Nauryzbai Batyr Street, Almaty 050013, Republic of Kazakhstan

GLOSSARY OF TERMS AND DEFINITIONS

In this Registration Document, unless the context otherwise requires, the following words and expressions have the following meanings.

"**Active Customers**"	an operating metric calculated for any period as the total number of customers which have used any of the Group's products or services at least once during the respective 12 months, expressed in thousands of customers as of the end of any such period
"**Anti-Money Laundering Law**"	Law of the Republic of Kazakhstan No. 191-IV ZRK "On Countering the Legalisation (Laundering) of Criminally Obtained Income and the Financing of Terrorism", dated 28 August 2009 (as amended)
"**Bank Holding**"	a bank holding of a Kazakhstan bank as defined under the Banking Law
"**Banking Law**"	Law of the Republic of Kazakhstan No. 2444 "On Banks and Banking Activity in the Republic of Kazakhstan", dated 31 August 1995 (as amended)
"**Banking Licence**"	Licence No. 1.2.245/61 for performing of banking operations granted to Kaspi Bank by the NBK, dated 30 June 2009
"**Board of Directors**"	the board of directors of the Company
"**Central Securities Depository**"	JSC "Central Securities Depository"
"**Charter**"	the charter of the Company dated 15 October 2014 (as amended)
"**Company**"	JSC "Kaspi.kz"
"**Consumer Loans**"	for the purposes of industry review and analysis of the Company's market position, consumer finance loans issued to retail customers (excluding mortgage loans)
"**Deloitte**"	Deloitte, LLP, an independent auditor to the Company

"**Director(s)**"	the director(s) of the Company
"**EUR**" or "**euro**"	the lawful currency for the time being of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended
"**European Union**" or "**E.U.**"	a political and economic union of 28 member states that are located primarily in Europe
"**FCA**"	the Financial Conduct Authority of the U.K.
"**Financial Statements**"	the audited consolidated financial statements of the Group as at and for the years ended 31 December 2018, 2017 and 2016
"**FSMA**"	the Financial Services and Markets Act 2000 of the U.K.
"**General Meeting of Shareholders**"	the general meeting of shareholders of the Company
"**GMV**" or "**Gross Merchandise Value**"	a financial metric calculated for any period as the total value of goods and services sold across our Marketplace Platform, expressed in millions of tenge
"**Group**"	the Company and its consolidated subsidiaries
"**IFRS**"	International Financial Reporting Standards as issued by the International Accounting Standards Board
"**IMF**"	the International Monetary Fund
"**Independent Auditor's Report**"	the audit report prepared by Deloitte, LLP in respect of the Financial Statements
"**Insurance Holding**"	an insurance holding of a Kazakhstan insurance company as defined under the Insurance Law
"**Insurance Law**"	Law of the Republic of Kazakhstan No. 126-II "On Insurance Activity", dated 18 December 2000 (as amended)
"**JSC Law**"	Law of the Republic of Kazakhstan No. 415-II "On Joint Stock Companies" dated 13 May 2003, as amended
"**Kaspi Bank**""	JSC "Kaspi Bank"
"**Kazakhstan**" or "**Republic of Kazakhstan**"	the Republic of Kazakhstan
"**KZT**" or "**tenge**"	the lawful currency for the time being of the Republic of Kazakhstan
"**Major Participant**"	a major participant of a Kazakhstan bank as defined under the Banking Law
"**Management Board**"	the management board of the Company
"**MAU**" or "**Monthly Active Users**"	an operating metric calculated as the monthly number of users with at least one discrete session (visit) in excess of 10 seconds on the Mobile App in the respective calendar month, expressed in thousands of users

"**MNE**"	Ministry of National Economy of the Republic of Kazakhstan Committee on Statistics
"**Mobile App**"	Kaspi.kz consumer Mobile Application
"**NBK**"	the National Bank of the Republic of Kazakhstan
"**NPS**" or "**Net Promoter Score**"	a consumer satisfaction metric, based on regular polls conducted by the Group, wherein customers are asked how likely they are to recommend the Group's services to friends and relatives on a scale from 0 to 5. NPS is then calculated by subtracting the share of customers giving 1,2,3 from the share of customers giving 5
"**Payment Systems Law**"	Law of the Republic of Kazakhstan No. 11-VI ZRK "On Payments and Payment Systems", dated 26 July 2016 (as amended)
"**Pension Centre**"	the Kazakhstan State Pension Payment Centre
"**Personal Data Law**"	Law of the Republic of Kazakhstan "On Personal Data and the Protection Thereof" No. 94-V ZRK, dated 21 May 2013 (as amended)
"**POS**"	points of sale
"**Prospectus Regulation**"	Regulation (EU) 2017/1129 (and any amendments thereto)
"**Prospectus Regulation Rules**"	the Prospectus Regulation Rules of the FCA made under section 73A of the FSMA
"**Senior Management**"	the senior management of the Group as at the date of this Registration Document
"**Shareholders**"	means, unless specified otherwise, holder(s) of Share(s)
"**Shares**"	common shares of the Company
"**TFV**" or "**Total Finance Volume**"	a financial metric calculated for any period as the total value of loans to customers issued within the Fintech platform, expressed in millions of tenge
"**TNP**" or "**Total Number of Payments**"	an operating metric calculated for any period as the total number of payment transactions processed across all of the Group's Platforms, expressed in thousands of transactions
"**TPV**" or "**Total Payment Volume**"	a financial metric calculated for any period as the total value of revenue-generating transactions made by Active Customers within the Payments Platform, including bill payments, transactions with Kaspi Gold debit card, payment via payment terminals and P2P payments, expressed in millions of tenge
"**U.K.**"	the United Kingdom
"**U.S.$**", "**U.S. Dollar**" or "**dollar**"	the lawful currency for the time being of the United States
"**United States**" or "**U.S.**"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

KASPI.KZ
JOINT STOCK COMPANY

Interim Condensed Consolidated
Financial Information
For the six months ended
30 June 2019 (Unaudited)

Kaspi.kz Joint Stock Company

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Kaspi.kz Joint Stock Company

Statement of Management's Responsibilities
For the Preparation and Approval of the Interim Condensed Consolidated Financial Information
For the Six Months Ended 30 June 2019 (Unaudited)

Management is responsible for the preparation of the interim condensed consolidated financial information that presents fairly the interim condensed consolidated financial position of Kaspi.kz Joint Stock Company and its subsidiaries ("the Group") as at 30 June 2019, and the results of its operations for the three and six months then ended, cash flows and changes in equity for the six months then ended, in compliance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34").

In preparing the interim condensed consolidated financial information, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IAS 34 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's interim condensed consolidated financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the interim condensed consolidated financial position of the Group, and which enable them to ensure that the interim condensed consolidated financial information of the Group complies with IAS 34;
- Maintaining accounting records in compliance with the legislation of the Republic of Kazakhstan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2019 was authorized for issue on 12 August 2019 by the Chairman of the Management Board and the Chief Accountant.

On behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

12 August 2019
Almaty, Kazakhstan

Deloitte.

Deloitte LLP
36 Al Farabi Ave.,
Almaty, 050059,
Republic of Kazakhstan
Tel: +7 (727) 258 13 40
Fax: +7 (727) 258 13 41
deloitte.kz

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

To the Shareholders of Kaspi.kz Joint Stock Company

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Kaspi.kz Joint Stock Company and its subsidiaries ("the Group") as at 30 June 2019 and the related interim condensed consolidated statements of profit or loss, other comprehensive income for the three and six months then ended, changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim condensed consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

Deloitte, LLP

12 August 2019
Almaty, Kazakhstan

Kaspi.kz Joint Stock Company

Interim Condensed Consolidated Statement of Profit or Loss
For the Three and Six Months Ended 30 June 2019 (Unaudited)
(in millions of KZT, except for earnings per share which are in KZT)

	Notes	Six Months Ended 30 June 2019 (unaudited)	Six Months Ended 30 June 2018 (unaudited)	Three Months Ended 30 June 2019 (unaudited)	Three Months Ended 30 June 2018 (unaudited)
REVENUE	4,5,6	**226,862**	**169,132**	**122,504**	**89,880**
Interest Revenue		118,563	91,845	62,473	47,060
Fees & Commissions		77,986	65,490	40,779	33,783
Seller Fees		15,761	7,941	9,140	4,627
Transaction & Membership Revenue		20,170	6,391	11,645	3,952
Other gains/(losses)		(5,618)	(2,535)	(1,533)	458
COST OF REVENUE	7	**(85,324)**	**(70,542)**	**(43,393)**	**(34,890)**
Interest Expenses		(58,841)	(51,244)	(29,992)	(25,216)
Transaction Expenses		(6,213)	(2,749)	(2,896)	(1,414)
Operating Expenses		(20,270)	(16,549)	(10,505)	(8,260)
TOTAL NET REVENUE		**141,538**	**98,590**	**79,111**	**54,990**
TECHNOLOGY & PRODUCT DEVELOPMENT		(9,453)	(7,388)	(4,729)	(3,719)
SALES & MARKETING		(11,494)	(6,811)	(5,978)	(3,499)
GENERAL & ADMINISTRATIVE EXPENSES		(5,703)	(4,331)	(2,797)	(2,820)
PROVISION EXPENSE	8	(23,212)	(19,597)	(12,110)	(12,890)
OPERATING INCOME		**91,676**	**60,463**	**53,497**	**32,062**
INCOME TAX	9	(14,675)	(10,409)	(9,007)	(5,532)
NET INCOME		**77,001**	**50,054**	**44,490**	**26,530**
Attributable to:					
Shareholders of the Company		74,766	47,289	43,919	25,061
Non-controlling Interests		2,235	2,765	571	1,469
NET INCOME		**77,001**	**50,054**	**44,490**	**26,530**
Earnings per share					
Basic and diluted (KZT)		**403**	**300**	**235**	**159**

On behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

Oksana Avdeyeva
Chief Accountant

The notes on pages 8-28 form an integral part of this interim condensed consolidated financial information.

Kaspi.kz Joint Stock Company

Interim Condensed Consolidated Statement of Other Comprehensive Income
For the Three and Six Months Ended 30 June 2019 (Unaudited)
(in millions of KZT)

	Six Months Ended		Three Months Ended	
	30 June 2019 (unaudited)	**30 June 2018 (unaudited)**	**30 June 2019 (unaudited)**	**30 June 2018 (unaudited)**
NET INCOME	**77,001**	**50,054**	**44,490**	**26,530**
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Movement in investment revaluation reserve for equity instruments at fair value through other comprehensive income	(83)	122	(24)	65
Items that may be reclassified subsequently to profit or loss:				
Movement in investment revaluation reserve for debt instruments at fair value through other comprehensive income:				
(Losses)/gains arising during the period	(1,918)	(430)	43	(257)
Reclassification of (losses)/gains included in profit or loss	(609)	(7)	(48)	163
Other comprehensive loss for the period	(2,610)	(315)	(29)	(29)
TOTAL COMPREHENSIVE INCOME	**74,391**	**49,739**	**44,461**	**26,501**
Attributable to:				
Shareholders of the Company	72,246	47,035	43,835	25,077
Non-controlling Interests	2,145	2,704	626	1,424
TOTAL COMPREHENSIVE INCOME	**74,391**	**49,739**	**44,461**	**26,501**

On behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

Oksana Avdeyeva
Chief Accountant

The notes on pages 8-28 form an integral part of this interim condensed consolidated financial information.

Kaspi.kz Joint Stock Company

Interim Condensed Consolidated Statement of Financial Position
As at 30 June 2019 (Unaudited)
(in millions of KZT)

	Notes	30 June 2019 (unaudited)	31 December 2018
ASSETS:			
Cash and cash equivalents	10	211,935	168,471
Mandatory cash balances with National Bank of the Republic of Kazakhstan		20,786	17,215
Due from banks		28,933	22,872
Investment securities and derivatives	11	436,360	366,631
Loans to customers	12	1,130,868	1,067,002
Property, equipment and intangible assets		56,566	36,688
Other assets		41,862	20,773
TOTAL ASSETS		**1,927,310**	**1,699,652**
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks	13	1,257	49
Customer accounts	14	1,404,554	1,232,920
Debt securities issued		138,327	138,094
Insurance reserves		4,193	4,615
Other liabilities		34,718	20,453
Subordinated debt		89,605	89,603
TOTAL LIABILITIES		**1,672,654**	**1,485,734**
EQUITY:			
Share capital		95,826	54,857
Additional paid-in-capital		506	506
Revaluation reserve of financial assets		787	3,307
Retained earnings		155,090	142,822
Total equity attributable to Shareholders of the Company		252,209	201,492
Non-controlling interests		2,447	12,426
TOTAL EQUITY		**254,656**	**213,918**
TOTAL LIABILITIES AND EQUITY		**1,927,310**	**1,699,652**

On behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

Oksana Avdeyeva
Chief Accountant

The notes on pages 8-28 form an integral part of this interim condensed consolidated financial information.

Kaspi.kz Joint Stock Company

Interim Condensed Consolidated Statement Of Changes in Equity
For the Six Months Ended 30 June 2019 (Unaudited)
(in millions of KZT)

	Issued capital	Treasury shares	Additional paid-in-capital	Revaluation reserve of financial assets	Retained earnings	Total equity attributable to Shareholders of the Company	Non-controlling interests	Total equity
Balance at 1 January 2018	**130,144**	**-**	**506**	**3,275**	**37,282**	**171,207**	**9,574**	**180,781**
Net Income	-	-	-	-	47,289	47,289	2,765	50,054
Other comprehensive loss	-	-	-	(254)	-	(254)	(61)	(315)
Total comprehensive (loss)/income	**-**	**-**	**-**	**(254)**	**47,289**	**47,035**	**2,704**	**49,739**
Balance at 30 June 2018 (unaudited)	**130,144**	**-**	**506**	**3,021**	**84,571**	**218,242**	**12,278**	**230,520**
Balance at 31 December 2018	**130,144**	**(75,287)**	**506**	**3,307**	**142,822**	**201,492**	**12,426**	**213,918**
Net Income	-	-	-	-	74,766	74,766	2,235	77,001
Other comprehensive loss	-	-	-	(2,520)	-	(2,520)	(90)	(2,610)
Total comprehensive (loss)/income	**-**	**-**	**-**	**(2,520)**	**74,766**	**72,246**	**2,145**	**74,391**
Change in non-controlling interest due to exchange of treasury shares with Kaspi Bank JSC subsidiary shares	-	40,969	-	-	(31,358)	9,611	(9,611)	-
Dividends declared by subsidiary Kaspi Bank JSC	-	-	-	-	-	-	(2,513)	(2,513)
Dividends declared	-	-	-	-	(31,140)	(31,140)	-	(31,140)
Balance at 30 June 2019 (unaudited)	**130,144**	**(34,318)**	**506**	**787**	**155,090**	**252,209**	**2,447**	**254,656**

On behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

Oksana Avdeyeva
Chief Accountant

The notes on pages 8-28 form an integral part of this interim condensed consolidated financial information.

Kaspi.kz Joint Stock Company

Interim Condensed Consolidated Statement of Cash Flows
For the Six Months Ended 30 June 2019 (Unaudited)
(in millions of KZT)

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received	109,470	77,944
Interest paid	(54,961)	(51,342)
Expenses paid on obligatory insurance of individual deposits	(2,042)	(1,485)
Fee & commissions received	112,484	72,381
Fee & commissions paid	(15,481)	(5,986)
Other income received	2,843	4,722
Other expenses paid	(32,851)	(22,379)
Cash flows from operating activities before changes in operating assets and liabilities	119,462	73,855
Changes in operating assets and liabilities		
(Increase)/decrease in operating assets:		
Mandatory cash balances with NBRK	(3,571)	(1,618)
Financial assets at FVTPL	661	(4,201)
Due from banks	(6,351)	(8,256)
Loans to customers	(96,446)	(110,928)
Other assets	(23,333)	276
Increase/(decrease) in operating liabilities:		
Due to banks	1,201	(56,332)
Customer accounts	176,331	26,078
Financial liabilities at FVTPL	3,183	(1,279)
Other liabilities	(16,310)	(6,538)
Cash inflow/(outflow) from operating activities before income tax	**154,827**	**(88,943)**
Income tax paid	(6,921)	(4,813)
Net cash inflow/(outflow) from operating activities	**147,906**	**(93,756)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, equipment and intangible assets	(3,389)	(5,245)
Proceeds on sale of property and equipment	219	26
Proceeds on sale of financial assets at FVTOCI	478,280	126,738
Purchase of financial assets at FVTOCI	(545,504)	(205,549)
Net cash outflow from investing activities	**(70,394)**	**(84,030)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt securities issued	-	(11,570)
Repayment of subordinated debt	-	(3,924)
Dividends paid by subsidiary to non-controlling interests	(2,513)	-
Dividends paid	(30,664)	(923)
Net cash outflow from financing activities	**(33,177)**	**(16,417)**
Effect of changes in foreign exchange rate on cash and cash equivalents	(871)	2,626
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	43,464	(191,577)
CASH AND CASH EQUIVALENTS, beginning of period	168,471	304,839
CASH AND CASH EQUIVALENTS, end of period	**211,935**	**113,262**

During the six months ended 30 June 2019, the Group made non-cash transfer in the amount of KZT 18,171 million. These non-cash transfers were excluded from the interim condensed consolidated statement of cash flows.

On behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

Oksana Avdeyeva
Chief Accountant

The notes on pages 8-28 form an integral part of this interim condensed consolidated financial information.

1. Corporate information

General information

Description of Business

Kaspi.kz is guided by its mission "To Improve People's Lives" and thrives to transform, through innovation, the way our customers shop, pay and manage their personal finances. Kaspi.kz is built around three platforms, which form its Ecosystem and includes Marketplace Platform, Payments Platform and Fintech Platform. Collectively, we refer to it as "our Ecosystem" or "Kaspi Ecosystem".

Kaspi.kz Ecosystem

We have developed an integrated consumer-focused Ecosystem of diversified products and services around our three revenue-generating Platforms. Our Ecosystem includes customers, merchants, various service providers and strategic partners. Our Platforms enable the participants to interconnect and interact, thus, creating value for each participant by being a part of the Kaspi Ecosystem. Our Ecosystem has a powerful network effect, which means that the growth and development of one service is contributing to the growth and development of other services.

Kaspi.kz Strategy

We aim to expand Kaspi Ecosystem by developing seamless customer experiences and increasing our share of wallet through innovation and development of new services and categories, as well as by leveraging our big data capabilities and advanced technologies to better identify, analyse and serve the needs of our customers across our platforms.

We are investing into scale and design of our platforms to enable our customers, merchants, various service providers and strategic alliance partners to leverage our economies of scale and capital investment in technology, sales & marketing, mobile, customer acquisition and customer service.

Our Mobile App is at the centre of our strategy and serves as a single window into our entire Ecosystem integrating all our products and services into one convenient and readily available interface. It eliminates the conventional offline/online boundaries in shopping, payments and personal finances, allowing our customers to shop online and in-store, make and receive payments, manage all aspects of their personal finances, including their bank account and debit card, use location services and manage the bonus programme.

Kaspi.kz Segments

Our Ecosystem is built around three Platforms, which are Marketplace, Payments, and Fintech.

Marketplace Platform

Our Marketplace Platform is positioned as the starting point and destination for customer shopping journeys via our Mobile App, website and in-store. Customers come to our Marketplace to buy a broad selection of products from various merchants. We have developed and continue developing mobile, online and QR technology for our customers. Our merchants in turn access a large number of our customers. Through the Marketplace Platform we generate seller fees from merchants.

Payments Platform

The Payments Platform enables our customers to pay for regular household needs, as well as to make online and in-store purchases, and enables seamless online P2P money transfers within and outside the Ecosystem in Kazakhstan and globally to any MasterCard or Visa card. Through the Payments Platform the Company generates transaction fees from merchants and customers, annual fees from customers, as well as interest revenue from interest-free cash balances (current accounts).

Fintech Platform

Our Fintech Platform enables customers to manage their personal finance online and access consumer finance and deposit products and services mainly through the Kaspi Mobile App, and allows the Company to generate interest, fee revenue and membership fees from customers who are members of the Kaspi Red Shopping Club.

Information about the group of companies

Kaspi.kz Joint Stock Company ("the Company") was incorporated in the Republic of Kazakhstan in 2008. The Company is regulated by the National Bank of the Republic of Kazakhstan ("NBRK"). The registered address of the Company is 154A, Nauryzbai Batyr street, Almaty, 050013, the Republic of Kazakhstan.

During the reporting period, there were no changes to the Group structure, except for the acquisition of a 100% share in Kaspi Office LLP (former – Bona Trade LLP) on 7 February 2019 for KZT 258 thousands. This transaction was accounted as an asset acquisition as the Group didn't acquire any significant employees, processes or activities that would constitute a "business" in addition to the real estate and other insignificant assets acquired. Substantially all of the consideration paid has been allocated to the cost of real estate acquired and liabilities assumed.

In June 2019, Kaspi.kz acquired 4.55% of Kaspi Bank JSC shares through the shares exchange of Kaspi.kz repurchased shares for shares of Kaspi Bank JSC.

(in millions of KZT)

As at 30 June 2019 and 31 December 2018, the ultimate shareholders' structure of the Company was as follows:

	30 June 2019 %	**31 December 2018 %**
Ultimate shareholders:		
Baring Vostok Funds	35.23	35.11
Kim Vyacheslav	31.77	33.27
Mikheil Lomtadze	29.00	31.62
Goldman Sachs	4.00	-
Total	**100.00**	**100.00**

This interim condensed consolidated financial information was approved by the Chairman of the Management Board and the Chief Accountant on 12 August 2019.

2. Basis of presentation

This interim condensed consolidated financial information has been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

This financial information does not include all the information and disclosures required in the annual financial statements. The Group omitted disclosures, which would substantially duplicate the information contained in its audited annual consolidated financial statements for 2018 prepared in accordance with International Financial Reporting Standards ("IFRS"), such as accounting policies and details of accounts, which have not changed significantly in amount or composition.

The exchange rates at the period-end used by the Group in the preparation of the interim condensed consolidated financial information are as follows:

	30 June 2019	**31 December 2018**
KZT/USD	380.53	384.20
KZT/EUR	433.08	439.37

3. Significant accounting policies

This interim condensed consolidated financial information has been prepared under the historical cost convention, except for the revaluation of certain properties and financial instruments.

The same accounting policies, presentation and methods of computation have been followed in this interim condensed consolidated financial information as were applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2018, except for the changes as set out below:

- IFRS 16, Leases

Effective from 1 January 2019, IFRS 16, *Leases* ("IFRS 16") has replaced IAS 17, *Leases* ("IAS 17"). The Group has applied new standard on a modified retrospective basis without restating prior periods. The new standard introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted under IAS 17.

The Group as lessee

The Group as lessee recognizes a right-of-use asset and a corresponding liability to pay future rentals on the consolidated statement of financial position. The asset will be amortised over the shorter of the length of the lease and the useful economic life, subject to review for impairment, and the liability is measured at the present value of future lease payments discounted at the applicable incremental borrowing rate.

The Group recognises lease payments for short-term leases or leases in which the base asset has a low value as an expense during the lease period. In a long-term lease, assets are recognised at the lease start date as right-of-use and a lease liability.

A right-of-use asset is recognised in accounting at initial value inclusive of value added tax – the initial measurement of lease liabilities and lease payments as at the lease start date or before that date less lease facilitating payments received and any initial direct lease costs.

On 1 January 2019 there was no material impact on the Group's consolidated statement of financial position on implementation of IFRS 16.

4. Revenue by Segments

The Group reports its business in three operating segments as described in Note 1 under Kaspi.kz Segments.

(in millions of KZT)

Revenue by segments for the six months ended 30 June 2019 and 2018 is presented below:

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
REVENUE	**226,862**	**169,132**
Marketplace	**15,761**	**7,941**
Seller fees	15,761	7,941
Payments	**25,330**	**9,123**
Interest Revenue	6,838	3,161
Transaction & Membership Revenue	18,492	5,962
Fintech	**185,771**	**152,068**
Interest Revenue	111,725	88,684
Fees & Commissions	77,986	65,490
Transaction & Membership Revenue	1,678	429
Other gains/(losses)	(5,618)	(2,535)

Revenue classification and distribution among segments is performed in accordance with the following guidelines:

Marketplace revenue includes seller fees paid by merchants and other partners when a sale is closed within the Marketplace Platform.

Payments revenue includes transaction fees originated from processing payments for regular household needs, payments for purchases both online and in-store, other debit card transactions, online money wire transfers within the Kaspi Ecosystem, both inside the country and globally, and transactions by SME and corporate customers. It also includes membership and annual fees paid by individual customers, SME and corporate customers for engagement in Kaspi Ecosystem. The Payments Platform segment also derives treasury revenue from cash balances.

Fintech revenue includes interest income from financing customers which is mainly originated online through the Mobile App or to finance purchases on the Marketplace Platform, third party merchant sites and third-party mobile apps.

It also includes banking fees and commissions, membership and other fees paid by customers of Shopping Club, income/loss from foreign exchange revaluation, securities, interbank and derivatives, and fees/commissions from other banking services.

5. Segment Reporting

The Group reports its business in three operating segments as described in Note 1 to the interim condensed consolidated financial information of the Group. The Group decided to combine two platforms Consumer Financial Services Platform and e-Finance Platform into one platform Fintech. The reason for combination is that migration from offline to online & mobile operations is developing rapidly resulting in about 70% of transactions executed in online & mobile. The historical comparative information has been revised to conform to the current presentation.

(in millions of KZT)

The following tables present the summary of each segments revenue, net revenue and net income for the six months ended 30 June 2019 and 2018:

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
REVENUE	**226,862**	**169,132**
Marketplace	15,761	7,941
Payments	25,330	9,123
Fintech	185,771	152,068
NET REVENUE	**141,538**	**98,590**
Marketplace	14,951	7,451
Payments	18,053	5,659
Fintech	108,534	85,480
NET INCOME	**77,001**	**50,054**
Marketplace	9,668	3,776
Payments	9,160	1,643
Fintech	58,173	44,635

6. Revenue

Revenue includes interest revenue, fees, commissions, seller fees, transaction & membership revenue and other gains/(losses).

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
REVENUE	**226,862**	**169,132**
Interest Revenue	118,563	91,845
Fees & Commissions	77,986	65,490
Seller Fees	15,761	7,941
Transaction & Membership Revenue	20,170	6,391
Other gains/(losses)	(5,618)	(2,535)

Interest revenue includes interest originated on loans to customers, securities and deposits placed with banks, only.

Fees & commissions revenue mainly includes banking service fees and commissions.

Banking service fees are charged on a monthly basis, and include the following services of Kaspi Ecosystem, such as access to wide network of Kaspi ATMs with free cash withdrawals up to certain limits, 24-hour service line support, charge-free transfers between Kaspi clients' accounts and bill payments for services via the kaspi.kz website and mobile application, SMS and mobile push notification services.

Seller fees includes fees paid by merchants from shopping transaction originated during both online and in store shopping. The Group earns seller fees when transactions are completed on the Marketplace Platform and are generally determined as a percentage based on the value of merchandise and services being sold by merchants.

(in millions of KZT)

The Group earns transaction and membership revenues when processing payments and engaging customers in the Kaspi Ecosystem. This includes transaction fees paid by merchants when the Group enables various payment and purchase transactions. It also includes membership fees paid by customers and merchants for accessing various Kaspi Ecosystem services.

Other gains/(losses) are mainly due to net gains/(losses) on foreign exchange operations and financial assets and liabilities at fair value through profit or loss. For the six months ended 30 June 2019 and 2018, the net loss on financial assets and liabilities at fair value through profit or loss amounted to KZT 9,281 million and KZT 1,351 million, respectively. For the six months ended 30 June 2019 and 2018, the net gain/(loss) on foreign exchange operations amounted to KZT 4,922 million and KZT 1,190 million, respectively.

7. Cost of revenue

Cost of revenue includes interest expense, transaction expenses and operating expenses which are directly attributable for the Group's everyday operating activities.

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
COST OF REVENUE	**(85,324)**	**(70,542)**
Interest Expenses	(58,841)	(51,244)
Transaction Expenses	(6,213)	(2,749)
Operating Expenses	(20,270)	(16,549)

Interest expenses include interest expenses on customer accounts, mandatory insurance of retails deposits and debt securities, including subordinated debt.

Transaction expenses are mainly composed of the costs associated with accepting, processing and otherwise enabling payment transactions. Those costs include fees paid to payment processors, payment networks and various service providers.

Operating expenses include costs incurred to operate retail network, 24-hour call support and communication with customers, product packaging, loan origination and risk assessment, customer deposit acquisition and other expenses which can be attributed to the Group's operating activities related to the origination and delivery of the products and services.

(in millions of KZT)

Employee benefits, depreciation and amortisation expenses and operating lease expenses for the six months ended 30 June 2019 and 2018 are presented as follows:

	Six months ended 30 June 2019 (unaudited)			Six months ended 30 June 2018 (unaudited)		
	Employee benefits	**Deprecia-tion & amortisa-tion**	**Operating lease**	**Employee benefits**	**Deprecia-tion & amortisa-tion**	**Opera-ting lease**
Cost of Revenue	(8,786)	(221)	(736)	(7,634)	(208)	(732)
Sales & Marketing	(150)	-	(12)	(178)	-	(17)
Technology & Product Development	(4,249)	(2,086)	(680)	(3,529)	(1,560)	(407)
General & Administrative expenses	(2,700)	(710)	(1,068)	(1,083)	(730)	(1,485)
Total	**(15,885)**	**(3,017)**	**(2,496)**	**(12,424)**	**(2,498)**	**(2,641)**

(in millions of KZT)

8. Provision expense

The movements in loss allowance for the six months ended 30 June 2019 were as follows:

	Loans to customers			Due from banks	Financial assets at fair value through other comprehensive income		Cash and cash equiva-lents	Other assets	Contin-gencies	Total
	Stage 1	Stage 2	Stage 3 and POCI	Stage 1	Stage 1	Stage 3	Stage 1	Stage 3	Stage 1	
Loss allowance for ECL as at 31 December 2018	**21,193**	**7,028**	**92,574**	**13**	**409**	**1,940**	**4**	**2,063**	**42**	**125,266**
Changes in provisions										
-Transfer to Stage 1	6,597	(376)	(6,221)	-	-	-	-	-	-	-
-Transfer to Stage 2	(440)	1,415	(975)	-	-	-	-	-	-	-
-Transfer to Stage 3	(2,465)	(5,975)	8,440	-	-	-	-	-	-	-
Net changes, resulting from changes in credit risk parameters	(7,744)	4,290	26,347	(7)	(14)	(1,940)	8	327	7	21,274
Write off, net of recoveries	-	-	(48,793)	-	-	-	-	(8)	-	(48,801)
New assets issued or acquired	12,953	-	-	4	-	-	-	-	-	12,957
Matured or derecognized assets (except for write off)	(5,815)	(448)	(4,756)	-	-	-	-	-	-	(11,019)
Foreign exchange difference	-	-	519	-	-	-	-	(1)	-	518
As at 30 June 2019 (unaudited)	**24,279**	**5,934**	**67,135**	**10**	**395**	-	**12**	**2,381**	**49**	**100,195**

(in millions of KZT)

The movements in loss allowance for the six months ended 30 June 2018 were as follows:

	Loans to customers			Due from banks	Financial assets at fair value through other comprehen-sive income	Cash and cash equivalents	Other assets	Contin-gencies	Total
	Stage 1	**Stage 2**	**Stage 3 and POCI**	**Stage 1**	**Stage 1**	**Stage 1**	**Stage 3**	**Stage 1**	
Loss allowance for ECL as at 1 January 2018	**11,154**	**3,351**	**88,009**	**3**	**209**	**14**	**1,741**	**17**	**104,498**
Changes in provisions									
-Transfer to Stage 1	293	(226)	(67)	-	-	-	-	-	-
-Transfer to Stage 2	(476)	482	(6)	-	-	-	-	-	-
-Transfer to Stage 3	(624)	(1,919)	2,543	-	-	-	-	-	-
Net changes, resulting from changes in credit risk parameters	1,601	4,021	12,546	-	-	-	-	-	18,168
Write off, net of recoveries	-	-	(8,109)	-	-	-	(1)	-	(8,110)
New assets issued or acquired	6,943	-	-	3	10	-	56	7	7,019
Matured or derecognized assets (except for write off)	(3,560)	(784)	(1,244)	-	-	(2)	-	-	(5,590)
Foreign exchange difference	-	-	(326)	-	-	1	1	-	(324)
As at 30 June 2018 (unaudited)	**15,331**	**4,925**	**93,346**	**6**	**219**	**13**	**1,797**	**24**	**115,661**

(in millions of KZT)

9. Income tax

The Group provides for taxes for the current period based on the tax accounts maintained and prepared in accordance with the tax regulations of the Republic of Kazakhstan, where the Company and its subsidiaries operate and which may differ from IFRS.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 30 June 2019 and 31 December 2018 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Deferred income tax liabilities as at 30 June 2019 and 31 December 2018 comprise:

	30 June 2019 (unaudited)	**31 December 2018**
Vacation reserve and accrued bonuses	495	510
Property, equipment and intangible assets	(2,383)	(2,343)
Other	3	-
Net deferred tax liability	**(1,885)**	**(1,833)**

Relationships between tax expenses and accounting profit for the six months ended 30 June 2019 and 2018 are explained as follows:

	Six months ended 30 June 2019 (unaudited)	**Six months ended 30 June 2018 (unaudited)**
Net income before income tax	**91,676**	**60,463**
Tax at the statutory tax rate of 20%	18,335	12,092
Non-taxable income	(3,907)	(2,298)
Non-deductible expense	247	615
Income tax expense	**14,675**	**10,409**
Current income tax expense	14,617	10,186
Deferred tax expense	58	223
Income tax expense	**14,675**	**10,409**

During the six months ended 30 June 2019 and 2018, non-taxable income was represented by interest income on governmental and other qualified securities in accordance with the tax legislation.

(in millions of KZT)

	30 June 2019 (unaudited)	31 December 2018
Net deferred tax liability:		
At the beginning of the period	**1,833**	**424**
Change in deferred income tax balances recognized in consolidated equity	(6)	(10)
Change in deferred income tax balances recognized in consolidated profit or loss	58	1,419
At the end of the period	**1,885**	**1,833**

10. Cash and cash equivalents

	30 June 2019 (unaudited)	31 December 2018
Cash on hand	77,324	88,374
Current accounts with other banks	27,385	13,613
Short-term deposits with other banks	71,838	64,013
Reverse repurchase agreements	35,388	2,471
Total cash and cash equivalents	**211,935**	**168,471**

As at 30 June 2019 and 31 December 2018, the fair value of collateral of reverse repurchase agreements, which were classified as cash and cash equivalents, amounted to KZT 36,867 million and KZT 3,336 million, respectively.

11. Investment securities and derivatives

	30 June 2019 (unaudited)	31 December 2018
Total financial assets at FVTOCI	436,360	356,689
Total financial assets at FVTPL	-	9,942
Total investment securities and derivatives	**436,360**	**366,631**

	30 June 2019 (unaudited)	31 December 2018
Debt securities	436,064	356,311
Equity investments	296	378
Total financial assets at FVTOCI	**436,360**	**356,689**

(in millions of KZT)

	A- and higher	BBB+ to BBB-	BB+ to B-	Total
Investment securities and derivatives as at 30 June 2019 (unaudited)	2,491	400,908	32,961	436,360
Investment securities and derivatives as at 31 December 2018	1,799	322,683	42,149	366,631

As at 30 June 2019, all investment debt securities at FVTOCI of the Group are classified in Stage 1 according to IFRS 9.

As at 30 June 2019, financial assets at FVTOCI increased in comparison to 31 December 2018 due to purchases of discount notes of the NBRK at the notional amount of KZT 345,436 million and repayments at the notional amount of KZT 251,450 million.

As at 30 June 2019, financial liabilities at FVTPL included swap and spot instruments in the amount of KZT 13 million with a notional amount of KZT 60,788 million and forwards in the amount of KZT 3,170 million with a notional amount of KZT 191,100 million. These financial liabilities at FVTPL are disclosed within other liabilities in the interim condensed consolidated statement of financial position as at 30 June 2019. As at 31 December 2018, financial assets at fair value through profit or loss included swap and spot instruments in the amount of KZT 98 million with a notional amount of KZT 63,408 million and forwards in the amount of KZT 9,844 million with a notional amount of KZT 135,513 million.

As at 30 June 2019 and 31 December 2018, restricted deposits included in due from banks with high credit ratings in favour of international payments systems amounted to KZT 14,497 million and KZT 6,754 million, respectively and in favour of non-deliverable forwards amounted to KZT 13,714 million and KZT 11,568 million, respectively.

12. Loans to customers

	30 June 2019 (unaudited)	31 December 2018
Fintech	1,228,216	1,187,797
Less: allowance for impairment losses (Note 8)	(97,348)	(120,795)
Total loans to customers	**1,130,868**	**1,067,002**

Movements in allowances for impairment losses on loans to customers for the six months ended 30 June 2019 and 2018 are disclosed in Note 8.

As at 30 June 2019 and 31 December 2018, accrued interest of KZT 16,366 million and KZT 31,883 million, respectively, was included in loans to customers.

(in millions of KZT)

The following tables set forth the Group's outstanding NPLs as at the dates indicated:

	Gross NPLs	Allowance for impairment	Allowance for impairment to gross NPLs
Fintech	109,917	97,348	89%
Total non-performing loans to customers as at 30 June 2019 (unaudited)	**109,917**	**97,348**	**89%**

	Gross NPLs	Allowance for impairment	Allowance for impairment to gross NPLs
Fintech	106,886	120,795	113%
Total non-performing loans to customers as at 31 December 2018	**106,886**	**120,795**	**113%**

Provision expense on loans to customers for the six months ended 30 June 2019 and 2018:

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
Provision expense on loans to customers:		
Fintech	(24,827)	(19,597)
	(24,827)	**(19,597)**

As at 30 June 2019 and 31 December 2018, the Group did not provide loans which individually exceeded 10% of the Group's equity.

As at 30 June 2019 and 31 December 2018, the gross carrying amount and related loss allowance on loans to customers by stage were as follows:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount	1,039,579	21,343	167,294	1,228,216
Loss allowance	(24,279)	(5,934)	(67,135)	(97,348)
Carrying amount as at 30 June 2019 (unaudited)	**1,015,300**	**15,409**	**100,159**	**1,130,868**

(in millions of KZT)

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
Gross carrying amount	954,160	24,481	195,371	13,785	1,187,797
Loss allowance	(21,193)	(7,028)	(81,611)	(10,963)	(120,795)
Carrying amount as at 31 December 2018	**932,967**	**17,453**	**113,760**	**2,822**	**1,067,002**

During the six months ended 30 June 2019 the write off, net of recoveries includes KZT 31,587 million of non-retail loans of which KZT 13,781 million and KZT 17,806 million belongs to POCI and non-POCI loans respectively.

As at 30 June 2019 and 31 December 2018, commitments on loans and unused credit lines represented by revocable loans amounted to KZT 72,117 million and KZT 61,320 million, respectively.

13. Due to banks

	30 June 2019 (unaudited)	31 December 2018
Repurchase agreements	1,257	49
Total due to banks	**1,257**	**49**

As at 30 June 2019 and 31 December 2018, accrued interest of KZT 7 million and KZT Nil, respectively, was included in due to banks.

Fair value of collateral of repurchase agreements, which were classified as due to banks as at 30 June 2019 and 31 December 2018, amounted to KZT 1,296 million and KZT 51 million, respectively.

14. Customer accounts

	30 June 2019 (unaudited)	31 December 2018
Individuals		
Time deposits	1,163,269	1,025,099
Current accounts	165,983	124,971
Total due to individuals	**1,329,252**	**1,150,070**
Corporate customers		
Time deposits	47,531	41,684
Current accounts	27,771	41,166
Total due to corporate customers	**75,302**	**82,850**
Total customer accounts	**1,404,554**	**1,232,920**

As at 30 June 2019 and 31 December 2018, accrued interest of KZT 9,170 million and KZT 7,573 million, respectively, was included in customer accounts.

As at 30 June 2019 and 31 December 2018, customer accounts of KZT 9,178 million and KZT 7,997 million respectively, were held as security against loans, letters of credit, guarantees issued by the Group and other transactions related to contingent obligations.

As at 30 June 2019 and 31 December 2018, customer accounts of KZT 105,990 million (7.6%) and KZT 78,531 million (6.4%), respectively, were due to the top twenty customers.

15. Fair value of financial instruments

a. Fair value of financial instruments

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

b. Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

(in millions of KZT)

Financial assets/financial liabilities	Fair value as at 30 June 2019 (unaudited)	Fair value as at 31 December 2018	Fair value hierarchy	Valuation technique(s) and key input(s)
Non-derivative financial assets at FVTOCI (Note 11)	435,979	353,201	Level 1	Quoted bid prices in an active market.
Non-derivative financial assets at FVTOCI (Note 11)	311	310	Level 2	Quoted prices in markets that are not active or DCF method. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Non-derivative financial assets at FVTOCI	-	3,108	Level 2	DCF method. Discounted cash flows based on observable market yield for similar quoted debt instruments.
Unlisted Equity investments classified as financial assets at FVTOCI (Note 11)	70	70	Level 3	Adjusted net assets based on most recent published financial statements of unlisted companies with discount for marketability and liquidity. Discount ratios varies from 10% to 30%.
Derivative financial assets (Note 11)	-	9,942	Level 2	DCF method. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Derivative financial liabilities (Note 11)	3,183	-	Level 2	DCF method. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

(in millions of KZT)

c. Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).

Except as detailed in the following table, management of the Group considers that the carrying amount of financial assets and financial liabilities recognised in the interim condensed consolidated financial information approximate their fair values.

	30 June 2019 (unaudited)		
	Carrying amount	**Fair value**	**Fair value hierarchy**
Loans to customers	1,130,868	1,138,981	Level 3
Due from banks	28,933	28,855	Level 2
Customer accounts	1,404,554	1,388,914	Level 2
Debt securities issued	138,327	134,246	Level 1
Subordinated debt	89,605	83,720	Level 1,2*

	31 December 2018		
	Carrying amount	**Fair value**	**Fair value hierarchy**
Loans to customers	1,067,002	1,090,414	Level 3
Due from banks	22,872	22,500	Level 2
Customer accounts	1,232,920	1,205,660	Level 2
Debt securities issued	138,094	133,085	Level 1
Subordinated debt	89,603	83,320	Level 1,2*

*As at 30 June 2019 and 31 December 2018, fair value of subordinated debt that was measured using Level 2 valuation technique amounted to KZT 58 million and KZT 11 million, respectively.

Loans to customers

Loans to individual customers are made at fixed rates. The fair value of fixed rate loans has been estimated by reference to market rates available at the reporting date for loans with a similar maturity profile.

Debt securities issued, subordinated debt

Debt securities issued and subordinated debt are valued using quoted prices.

Customer accounts

The estimated fair value of term deposits is determined by discounting contractual cash flows using interest rates currently offered for deposits with similar terms. For current accounts, the Group considers fair value to equal carrying value, which is equivalent to the amount payable on the balance sheet date.

Due from banks

The estimated fair value of term due from banks is determined by discounting the contractual cash flows using interest rates currently offered for due from banks with similar terms.

(in millions of KZT)

Due to banks

The estimated fair value of due to banks is determined by discounting the contractual cash flows using interest rates currently offered for due to banks with similar terms.

Assets and liabilities for which fair value approximates carrying value

For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.

16. Transactions with related parties

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. In the ordinary course of business, the Group provides normal financial services and enters into transactions with its related parties on terms similar to those offered to non-related parties. The Group had the following transactions outstanding as at 30 June 2019 and 31 December 2018 with related parties:

	As at 30 June 2019 (unaudited)		As at 31 December 2018	
	Transactions with related parties	**Total category as per financial statements captions**	**Transactions with related parties**	**Total category as per financial statements captions**
Interim condensed consolidated statement of financial position				
Loans to customers	1,445	1,228,216	1,529	1,187,797
- key management personnel of the Group	1,445		1,518	
- other related parties	-		11	
Allowance for impairment losses on loans to customers	-	(97,348)	(1)	(120,795)
- key management personnel of the Group	-		-	
- other related parties	-		(1)	
Customer accounts	23,797	1,404,554	11,603	1,232,920
- key management personnel of the Group	13,160		4,103	
- other related parties	10,637		7,500	

(in millions of KZT)

Compensation to directors and other members of key management is presented as follows:

	Six months ended 30 June 2019 (unaudited)		Six months ended 30 June 2018 (unaudited)	
	Transactions with related parties	**Total category as per financial statements caption**	**Transactions with related parties**	**Total category as per financial statements caption**
Compensation to key management personnel:				
Employee benefits	(568)	(15,885)	(554)	(12,424)

During the six months ended 30 June 2019 and 2018, interest income from transactions with key management personnel amounted to KZT 81 million and KZT 52 million, respectively. During the six months ended 30 June 2019 and 2018, interest expense from transactions with key management personnel amounted to KZT 38 million and KZT 20 million, respectively, and other related parties amounted to KZT 66 million and KZT 163 million, respectively. During the six months ended 30 June 2019 and 2018, transaction costs attributable to loans to customers and paid to other related parties on an arm's length basis, amounted KZT 4,921 million and KZT 1,802 million, respectively.

17. Regulatory matters

The management of JSC Kaspi Bank (subsidiary of the Company) monitor capital adequacy ratio based on requirements of standardized approach of Basel Committee of Banking Supervision "Basel III: A global regulatory framework for more resilient banks and banking systems" (December 2010, updated in June 2011). The capital adequacy ratios calculated on the basis of JSC Kaspi Bank's consolidated financial statements under Basel III are presented in the following table:

	30 June 2019 (unaudited)	31 December 2018
Capital adequacy ratios:		
Tier 1 capital	17.2%	16.8%
Total capital	22.9%	23.0%

As at 30 June 2019 and 31 December 2018, JSC Kaspi Bank had complied with NBRK's capital requirements. The following table presents the Bank's capital adequacy ratios in accordance with the NBRK requirements:

	30 June 2019 (unaudited)	31 December 2018
Capital adequacy ratios:		
Ratio k1	11.5%	11.4%
Ratio k1.2	11.5%	11.4%
Ratio k.2	15.3%	15.7%

18. Subsequent events

The management is not aware of any material events subsequent to the reporting date.

KASPI.KZ
JOINT STOCK COMPANY

Consolidated Financial Statements
For the years ended 31 December 2018, 2017
and 2016

Kaspi.kz Joint Stock Company

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Kaspi.kz Joint Stock Company

Statement of Management's Responsibilities
For the Preparation and Approval of the Consolidated Financial Statements
For the Years Ended 31 December 2018, 2017 and 2016

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Kaspi.kz Joint Stock Company and its subsidiaries ("the Group") as at 31 December 2018, 2017 and 2016 and the results of its operations, cash flows and changes in equity for the years then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group 's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining accounting records in compliance with the Republic of Kazakhstan legislation;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

These consolidated financial statements were approved by the Chairman of the Management Board and the Chief Accountant on 20 February 2019 and will be provided to the shareholders for approval in accordance with the requirements of the legislation of the Republic of Kazakhstan.

On behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

Kaspi.kz

Oksana Avdeyeva
Chief Accountant

20 February 2019
Almaty, Kazakhstan

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Kaspi.kz Joint Stock Company

Opinion

We have audited the consolidated financial statements of Kaspi.kz Joint Stock Company and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as at 31 December 2018, 2017 and 2016 and the consolidated statements of profit or loss, consolidated statements of other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, 2017 and 2016 and its consolidated financial performance and its consolidated cash flows for the each of the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 3 to the consolidated financial statements which describes the changes of presentation in respect of the comparative information presented in the statements of financial position as at 31 December 2017 and 2016 and consolidated statement of profit and loss for the years then ended. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Impairment of loans to customers under IFRS 9 Financial instruments ("IFRS 9") As described in Note 3 and Note 13 to the consolidated financial statements, the Group made a transition to IFRS 9 on 1 January 2018. The standard introduced expected credit losses model for impairment on financial instruments, including loans measured at amortised cost. The loans to customers amounted to KZT 1,067,002 million, net of the related allowance for impairment losses of KZT 120,795 million as at 31 December 2018. The assessment of the significant increase in credit risk and measurement of expected credit losses require considerable judgment in analyzing all reasonable and supportable information at the reporting date. Key areas of judgement included: • The identification of loans with a significant increase in credit risk or credit impaired loans and allocation of loans to the appropriate stage of impairment; • Measuring the amount of expected credit losses by assessing the probability of a loan falling into default and amount of recoveries expected from defaulted loans, including the valuation of collateral to determine the loss given default for individually assessed impaired loans. Due to the significance of the loans' balances, magnitude of estimation uncertainties and the complexity of judgements applied by management in measuring expected credit losses, we identified impairment of loans as a key audit matter.	We obtained an understanding of the loan loss provisioning process, particularly over the capture of loans in terms of the stage allocation, measurement and recognition of allowances for expected credit losses. The audit procedures performed in this area, included: • Assessment of the provisioning methodology developed for calculation of impairment losses in accordance with the requirements outlined in IFRS 9; • Assessment of design and implementation of relevant controls over the expected credit loss model, including model governance and mathematical accuracy; • Assessment of the reasonableness of management's assumptions and input data used in the model, including staging of loans, the probability of a loan falling into default and assessment of any recoveries expected from defaulted loans with the involvement of our internal specialists against requirements of the accounting standards; • Independent assessment of collateral valuation used in calculation of impairment losses for individually assessed impaired loans by challenging assumptions around future cash flows and valuation of collateral held, agreeing key assumptions to supporting documents. • Consideration of the adequacy and completeness of the Group's disclosures in respect of credit risk, structure and quality of loan portfolio and impairment allowance in accordance with IFRS 9. We found no material exceptions in these tests.

Other Information – Annual Report

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Nurlan Bekenov
General Director
Deloitte, LLP
State license on auditing in the
Republic of Kazakhstan
№ 0000015, type MFU-2, issued by the
Ministry of Finance of the
Republic of Kazakhstan dated
13 September 2006

Zhangir Zhilysbayev
Team Leader
Qualified auditor
of the Republic of Kazakhstan
Qualification certificate
No.MF-0000116
dated 22 November 2012

20 February 2019
Almaty, Kazakhstan

Kaspi.kz Joint Stock Company

Consolidated Statements of Profit or Loss
For the Years Ended 31 December 2018, 2017 and 2016
(in millions of KZT, except for earnings per share which are in KZT)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017*	Year ended 31 December 2016*
REVENUE	4,5,6	**375,331**	**275,753**	**223,303**
Interest Revenue		195,066	157,971	129,024
Fees & Commissions		140,259	106,841	89,528
Seller Fees		25,020	12,174	6,469
Transaction & Membership Revenue		19,255	5,748	2,769
Other gains/(losses)		(4,269)	(6,981)	(4,487)
COST OF REVENUE	7	**(144,682)**	**(130,046)**	**(111,932)**
Interest Expenses		(102,685)	(97,126)	(85,944)
Transaction Expenses		(6,709)	(3,288)	(2,259)
Operating Expenses		(35,288)	(29,632)	(23,729)
TOTAL NET REVENUE		**230,649**	**145,707**	**111,371**
TECHNOLOGY & PRODUCT DEVELOPMENT		(15,721)	(13,465)	(12,032)
SALES & MARKETING		(17,167)	(7,258)	(3,886)
GENERAL & ADMINISTRATIVE EXPENSES		(9,945)	(12,462)	(10,369)
PROVISION EXPENSE	8	(52,579)	(27,743)	(76,201)
OPERATING INCOME		**135,237**	**84,779**	**8,883**
INCOME TAX	9	(24,118)	(13,485)	(3,141)
NET INCOME		**111,119**	**71,294**	**5,742**
Attributable to:				
Shareholders of the Company		105,540	65,278	5,269
Non-controlling Interests		5,579	6,016	473
NET INCOME		**111,119**	**71,294**	**5,742**
Earnings per share				
Basic and diluted (KZT)	10	**676**	**311**	**26**

*as reclassified, please see Note 3.

On behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

Oksana Avdeyeva
Chief Accountant

The notes on pages 12-76 form an integral part of these consolidated financial statements.

Kaspi.kz Joint Stock Company

Consolidated Statements of Other Comprehensive Income
For the Years Ended 31 December 2018, 2017 and 2016
(in millions of KZT)

	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
NET INCOME	**111,119**	**71,294**	**5,742**
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss:			
Movement in investment revaluation reserve for equity instruments at FVTOCI	(126)	-	-
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	-	-	(39)
Difference between carrying amount and fair value of investments held-to-maturity at the reclassification date, net of income tax KZT nil	-	-	(2,672)
Movement in investment revaluation reserve for debt instruments at FVTOCI (2017, 2016: equity and debt instruments classified as investments available for sale):			
Gains arising during the period, net of tax KZT nil	152	4,374	3,338
Reclassification of (gains)/losses included in profit or loss , net of tax KZT nil	8	(170)	(142)
Other comprehensive income for the year	34	4,204	485
TOTAL COMPREHENSIVE INCOME	**111,153**	**75,498**	**6,227**
Attributable to:			
Shareholders of the Company	105,572	69,240	5,710
Non-controlling Interests	5,581	6,258	517
TOTAL COMPREHENSIVE INCOME	**111,153**	**75,498**	**6,227**

On Behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

Oksana Avdeyeva
Chief Accountant

The notes on pages 12-76 form an integral part of these consolidated financial statements.

Consolidated Statements of Financial Position
As at 31 December 2018, 2017 and 2016
(in millions of KZT)

	Notes	31 December 2018	31 December 2017*	31 December 2016*
ASSETS:				
Cash and cash equivalents	11	168,471	304,839	157,389
Mandatory cash balances with National Bank of the Republic of Kazakhstan		17,215	10,870	7,684
Due from banks		22,872	8,334	1,554
Investment securities and derivatives	12	366,631	212,535	291,940
Loans to customers	13	1,067,002	891,323	715,053
Property, equipment and intangible assets	14	36,688	32,175	33,389
Other assets	15	20,773	12,766	12,358
TOTAL ASSETS		**1,699,652**	**1,472,842**	**1,219,367**
LIABILITIES AND EQUITY				
LIABILITIES:				
Due to banks	16	49	63,200	40,272
Customer accounts	17	1,232,920	979,639	814,127
Debt securities issued	18	138,094	111,335	111,330
Insurance reserves		4,615	4,947	7,689
Other liabilities	19	20,453	29,290	14,829
Subordinated debt	20	89,603	93,579	93,905
TOTAL LIABILITIES		**1,485,734**	**1,281,990**	**1,082,152**
EQUITY:				
Share capital	21	54,857	130,144	130,144
Additional paid-in-capital		506	506	506
Revaluation reserve of financial assets		3,307	3,275	(687)
Other reserves		-	-	(48)
Retained earnings/(Accumulated deficit)		142,822	47,207	(2,863)
Total equity attributable to Shareholders of the Company		201,492	181,132	127,052
Non-controlling interests		12,426	9,720	10,163
TOTAL EQUITY		213,918	190,852	137,215
TOTAL LIABILITIES AND EQUITY		**1,699,652**	**1,472,842**	**1,219,367**

*as reclassified, please see Note 3.

On behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

Oksana Avdeyeva
Chief Accountant

The notes on pages 12-76 form an integral part of these consolidated financial statements.

Kaspi.kz Joint Stock Company

Consolidated Statements Of Changes in Equity
For the Years Ended 31 December 2018, 2017 and 2016
(in millions of KZT)

	Share capital	Additional paid-in capital	Revaluation reserve of financial assets	Property revaluation reserve	Cumulative translation reserve	Retained earnings/ (Accumulated deficit)	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Balance at 31 December 2015	**130,144**	**386**	**(1,166)**	**(7)**	**6**	**(8,145)**	**121,218**	**13,445**	**134,663**
Net Income	-	-	-	-	-	5,269	5,269	473	5,742
Other comprehensive income/(loss)	-	-	479	-	(6)	(32)	441	44	485
Total comprehensive income/(loss)	-	-	479	-	(6)	5,237	5,710	517	6,227
Business acquisition under common control of Kaspi Magazin LLP	-	120	-	-	-	-	120	-	120
Release of property revaluation reserve	-	-	-	(41)	-	45	4	(4)	-
Decrease in non-controlling interest due to buy-back by subsidiary Kaspi Bank JSC	-	-	-	-	-	-	-	(3,795)	(3,795)
Balance at 31 December 2016	**130,144**	**506**	**(687)**	**(48)**	**-**	**(2,863)**	**127,052**	**10,163**	**137,215**
Net Income	-	-	-	-	-	65,278	65,278	6,016	71,294
Other comprehensive income	-	-	3,962	-	-	-	3,962	242	4,204
Total comprehensive income	-	-	3,962	-	-	65,278	69,240	6,258	75,498
Release of property revaluation reserve	-	-	-	48	-	(46)	2	(2)	-
Dividends declared	-	-	-	-	-	(15,162)	(15,162)	-	(15,162)
Dividends declared by subsidiary Kaspi Bank JSC	-	-	-	-	-	-	-	(2,021)	(2,021)
Decrease in non-controlling interest due to buy-back by subsidiary Kaspi Bank JSC	-	-	-	-	-	-	-	(4,678)	(4,678)
Balance at 31 December 2017	**130,144**	**506**	**3,275**	**-**	**-**	**47,207**	**181,132**	**9,720**	**190,852**

Kaspi.kz Joint Stock Company

Consolidated Statements Of Changes in Equity
For the Years Ended 31 December 2018, 2017 and 2016
(in millions of KZT)

	Share capital	Additional paid-in capital	Revaluation reserve of financial assets	(Accumulated deficit)/ Retained earnings	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
1 January 2018 (as previously reported)	**130,144**	**506**	**3,275**	**47,207**	**181,132**	**9,720**	**190,852**
Effect of IFRS 9 adoption on 1 January 2018	-	-	-	(9,925)	(9,925)	(146)	(10,071)
Balance at 1 January 2018 (as restated)	**130,144**	**506**	**3,275**	**37,282**	**171,207**	**9,574**	**180,781**
Net Income	-	-	-	105,540	105,540	5,579	111,119
Other comprehensive income	-	-	32	-	32	2	34
Total comprehensive income	-	-	32	105,540	105,572	5,581	111,153
Dividends declared by subsidiary Kaspi Bank JSC	-	-	-	-	-	(2,729)	(2,729)
Purchase of treasury shares	(75,287)	-	-	-	(75,287)	-	(75,287)
Balance at 31 December 2018	**54,857**	**506**	**3,307**	**142,822**	**201,492**	**12,426**	**213,918**

On behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

Oksana Avdeyeva
Chief Accountant

The notes on pages 12-76 form an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows
For the Years Ended 31 December 2018, 2017 and 2016
(in millions of KZT)

	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received	182,349	132,706	106,777
Interest paid	(101,409)	(95,315)	(83,605)
Expenses paid on obligatory insurance of individual deposits	(3,215)	(2,832)	(2,534)
Fee & commission received	176,337	123,747	97,931
Fee & commission paid	(13,141)	(6,267)	(3,623)
Other income received	3,414	2,119	3,429
Other expenses paid	(63,491)	(53,241)	(43,301)
Cash flows from operating activities before changes in operating assets and liabilities	180,844	100,917	75,074
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Mandatory cash balances with NBRK	(6,345)	(3,186)	744
Financial assets at fair value through profit or loss	(1,482)	60,812	7,532
Due from banks	(13,147)	(6,625)	(788)
Loans to customers	(242,319)	(198,286)	(5,683)
Other assets	(2,425)	(4,058)	(2,079)
Increase/(decrease) in operating liabilities:			
Due to banks	(62,858)	23,028	(6,495)
Customer accounts	211,058	165,012	4,739
Financial liabilities at FVTPL	(1,312)	1,312	-
Other liabilities	(4,289)	11,033	3,401
Cash inflow from operating activities before income tax	**57,725**	**149,959**	**76,445**
Income tax paid	(22,068)	(8,370)	(90)
Net cash inflow from operating activities	**35,657**	**141,589**	**76,355**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets	(10,991)	(5,241)	(6,916)
Proceeds on sale of property and equipment	436	681	311
Proceeds on sale of financial assets at FVTOCI (2017, 2016: investments available-for-sale)	149,691	186,077	23,969
Purchase of financial assets at FVTOCI (2017, 2016: investments available-for-sale)	(268,422)	(155,269)	(157,189)
Proceeds on maturity of investments held-to-maturity	-	-	678
Net cash (outflow)/inflow from investing activities	**(129,286)**	**26,248**	**(139,147)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of debt securities issued	(12,715)	-	(58,023)
Issue of debt securities issued	38,108	-	-
Repayment of subordinated debt securities	(3,924)	(10)	(14)
Issue of subordinated bonds	-	-	2
Dividends paid	-	(15,156)	-
Dividends paid by subsidiary to non-controlling interest	(3,261)	(589)	-
Purchase of non-controlling interest by subsidiaries	-	(4,679)	(3,796)
Purchase of treasury shares	(75,287)	-	-
Net cash outflow from financing activities	**(57,079)**	**(20,434)**	**(61,831)**
Effect of changes in foreign exchange rate on cash and cash equivalents	14,340	47	(2,381)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(136,368)	147,450	(127,004)
CASH AND CASH EQUIVALENTS, beginning of period	304,839	157,389	284,393
CASH AND CASH EQUIVALENTS, end of period	**168,471**	**304,839**	**157,389**

On behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

Oksana Avdeyeva
Chief Accountant

The notes on pages 12-76 form an integral part of these consolidated financial statements.

1. Corporate information

General information

Description of Business

Kaspi.kz is guided by its mission "To Improve People's Lives" and thrives to transform, through innovation, the way our customers shop, pay and manage their personal finances. Kaspi.kz is built around four core platforms, which form its Ecosystem and includes Marketplace Platform, Payments Platform, e-Finance Platform and Consumer Financial Services Platform. Collectively, we refer to it as "our Ecosystem" or "Kaspi Ecosystem".

Kaspi.kz Ecosystem

We have developed an integrated consumer-focused Ecosystem of diversified products and services around our four core revenue-generating Platforms. Our Ecosystem includes customers, merchants, various service providers and strategic partners. Our Platforms enable the participants to interconnect and interact, thus, creating value for each participant by being a part of the Kaspi Ecosystem. Our Ecosystem has a powerful network effect, which means that the growth and development of one service is contributing to the growth and development of other services.

Kaspi.kz Strategy

We aim to expand Kaspi Ecosystem by developing seamless customer experiences and increasing our share of wallet through innovation and development of new services and categories, as well as by leveraging our big data capabilities and advanced technologies to better identify, analyse and serve the needs of our customers across our platforms.

We are investing into scale and design of our platforms to enable our customers, merchants, various service providers and strategic alliance partners to leverage our economies of scale and capital investment in technology, sales & marketing, mobile, customer acquisition and customer service.

Our Mobile App is at the centre of our strategy and serves as a single window into our entire Ecosystem integrating all our products and services into one convenient and readily available interface. It eliminates the conventional offline/online boundaries in shopping, payments and personal finances, allowing our customers to shop online and in-store, make and receive payments, manage all aspects of their personal finances, including their bank account and debit card, use location services and manage the bonus programme.

Kaspi.kz Segments

Our Ecosystem is built around four core Platforms, which are Marketplace, Payments, e-Finance and Consumer Financial Services.

Marketplace Platform

Our Marketplace Platform is positioned as the starting point and destination for customer shopping journeys via our Mobile App, website and in-store. Customers come to our Marketplace to buy a broad selection of products from various merchants. We have developed and continue developing mobile, online and QR technology for our customers.Our merchants in turn access a large number of our customers.

Payments Platform

The Payments Platform enables our customers to pay for regular household needs and for purchases, both online and in-store, as well as to make seamless online P2P money wire transfers both within and outside the Kaspi Ecosystem, inside Kazakhstan and globally.

e-Finance Platform

Through the e-Finance Platform, we enable our customers to access financing seamlessly online through our Mobile App and website, and to finance purchases on our Marketplace Platform or third-party merchant websites and mobile applications. The e-Finance Platform is also strategically built around the product selection, which means that customers are able to first select the goods they would like to buy, and then access available solutions to finance the purchase. Our infrastructure was built to make a credit decision in real time for our customers' online applications.

Consumer Financial Services Platform

The Consumer Financial Services Platform enables our customers to mainly access retail financial products through our network of Kaspi.kz outlets and point of sales, strategically located in the leading retail chains and shopping centers. This segment of the Kaspi Ecosystem mainly includes consumer finance and retail deposits. After an initial visit to our outlets, an increasing number of our customers continue managing their retail financial products through our Mobile App.

Information about the group of companies

Kaspi.kz Joint Stock Company was incorporated in the Republic of Kazakhstan on 16 October 2008 and registered as a Legal Company Asian Advisers Limited Liability Partnership. On 24 October 2012, the Group was re-registered due to a change in the composition of participants. On 15 October 2014, the Group changed its status from Limited Liability Partnership to Kaspi Joint Stock Company. By resolution of the board of the National Bank of the Republic of Kazakhstan ("NBRK") #166 dated 16 September 2015, Kaspi.kz Joint Stock Company was granted the status of a bank holding Group of Kaspi Bank Joint Stock Company. The registered address of the Group is 154A, Nauryzbai Batyr street, Almaty, 050013, the Republic of Kazakhstan.

(in millions of KZT)

Kaspi.kz Joint Stock Company is the parent Group of the following directly and indirectly held subsidiaries:

Subsidiary	**Type of operation**	**Country of operation**	**Ownership as at 31 December 2018**	**Ownership as at 31 December 2017**	**Ownership as at 31 December 2016**
Kaspi Group JSC	Holding Company	Kazakhstan	Directly (100%)	Directly (100%)	Directly (100%)
Kaspi Magazin LLP	E-commerce	Kazakhstan	Directly (100%)	Directly (100%)	Directly (100%)
Kaspi Bank JSC	Banking	Kazakhstan	Indirectly (94.40%)	Indirectly (94.07%)	Indirectly (91.17%)
Kaspi Insurance JSC	Insurance	Kazakhstan	Indirectly (94.40%)	Indirectly (94.07%)	Indirectly (91.17%)
ARK Balance LLP	Distressed asset management	Kazakhstan	Indirectly (94.40%)	Indirectly (94.07%)	Indirectly (91.17%)

In March 2016, the board of directors of the Group decided to voluntarily liquidate its dormant subsidiary Caspian Capital B.V., located and registered in the Netherlands. In July 2016, Caspian Capital B.V. was removed from the register of the Chamber of Commerce of Netherlands. Liquidation of that subsidiary had no material impact on the Group's consolidated financial statements.

In April 2016, the Group acquired Kaspi Magazin LLP for KZT 6 million. The acquisition of Kaspi Magazin LLP was accounted as business combination under common control and the difference between the net assets acquired (KZT 126 million) and consideration paid (KZT 6 million) was recognized as an additional paid-in capital in the amount of KZT 120 million.

As at 31 December 2018, 2017 and 2016, the shareholders' structure of shares was as follows:

	31 December 2018 %	**31 December 2017 %**	**31 December 2016 %**
Ultimate shareholders:			
Baring Vostok Funds	35.11	38.57	38.57
Kim Vyacheslav	33.27	21.45	21.45
Mikheil Lomtadze	31.62	9.98	9.98
Satybaldyuly Kairat	-	30.00	30.00
Total	**100.00**	**100.00**	**100.00**

These consolidated financial statements were approved by the Chairman of the Management Board and the Chief Accountant on 20 February 2019 and will be provided to the shareholders for approval in accordance with the requirements of the legislation of the Republic of Kazakhstan.

(in millions of KZT)

2. Basis of presentation

Foreign currency translation

In preparing the financial statements of each individual entity, monetary assets and liabilities denominated in currencies other than the entity's functional currency (foreign currencies) are translated at the appropriate spot rates or exchange rates prevailing at the reporting date. Transactions in foreign currencies are initially recorded at their spot rates at the date of the transaction.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Rates of exchange

The exchange rates at the period-end used by the Group in the preparation of the consolidated financial information are as follows:

	31 December 2018	31 December 2017	31 December 2016
KZT/USD	384.20	332.33	333.29
KZT/EUR	439.37	398.23	352.42

Going concern

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

3. Significant accounting policies

Basis of accounting

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (hereinafter "IFRS").

The Group and its subsidiaries maintain their accounting records in accordance with IFRS. The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. The Group presents its statement of financial position in order of liquidity.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of profit and loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Kaspi.kz Joint Stock Company ("the Company") and entities controlled by the Company (its subsidiaries). Control is achieved when the Company has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary.

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Company Non-controlling interests are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash balances with the NBRK, reverse repurchase agreements and unrestricted balances on correspondent accounts and deposits with other banks with original maturities within three months and are free from contractual encumbrances. Cash and cash equivalents are measured at amortised cost.

Mandatory cash balances with NBRK

Mandatory cash balances with NBRK represent funds in correspondent accounts with the NBRK and cash which are not available to finance the Group's day to day operations and, hence, are not considered as part of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Due from banks

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks initially are recognized at fair value. Due from banks are subsequently measured at amortized cost using the effective interest method, and are carried net of allowance for impairment losses.

Property, equipment and intangible assets

Property, equipment and intangible assets, except land and buildings, are carried at historical cost less accumulated depreciation and any recognised impairment loss, if any. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of property, equipment and amortization of intangible assets is charged on the carrying value of property, equipment and intangible assets and is designed to write off assets over their useful economic lives. Depreciation has been calculated on a straight-line basis at 2% per annum for buildings and construction and 10-33.3% for furniture and computers and intangible assets.

Leasehold improvements are amortized over the shorter of the life of the related leased asset or the lease term. Expenses related to repairs and renewals are charged when incurred and included in operating expenses in the consolidated statement of profit or loss, unless they qualify for capitalization.

Buildings and constructions held for use in the supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation defined on the basis of market data by qualified independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on the revaluation of property is recognised and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to the consolidated profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in the consolidated profit or loss to the extent that it exceeds the balance, if any, held in the property revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is recognised in profit or loss. Depreciation of property revaluation reserve is transferred from property revaluation reserve to retained earnings on an annual basis. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property revaluation reserve is transferred directly to retained earnings.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated statements of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the consolidated statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

The Group records a provision for uncertain tax positions if it is probable that the Group will have to make a payment to tax authorities upon their examination of a tax position. This provision is measured at the Group's best estimate of the amount expected to be paid. Provisions are reversed to income in provision for (recovery of) income taxes in the period in which management determines they are no longer required or as determined by statute.

Operating taxes

The Republic of Kazakhstan also has various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably. The expense relating to a provision is presented in the Consolidated Statement of Profit or Loss net of any reimbursement.

Contingencies

Contingent liabilities are not recognized in the consolidated statement of the financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Financial instruments

In the current year, the Group has applied IFRS 9 (as revised in July 2014) and the related consequential amendments to other IFRS that are effective for an annual period that begins on or after 1 January 2018. According to the transition provisions of IFRS 9, the Group elected not to restate comparatives. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018 and details of new IFRS 9 requirements are described in each relevant accounting policy.

The Group recognizes financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

In 2017 and 2016, financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments ("HTM"), 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

From 1 January 2018 due to the adoption of IFRS 9, all recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVTPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", are measured at FVTPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model under which these instruments are managed:

- Financial assets, other than equity investments, that are managed on a "hold to collect" basis are measured at amortised cost;
- Financial assets, other than equity investments, that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVTOCI);
- Financial assets, including equity investments, that are managed on another basis, including trading financial assets, will be measured at FVTPL.

Equity financial assets are required to be classified at initial recognition as FVTPL unless an irrevocable designation is made to classify an instrument as FVTOCI. For equity investments classified as FVTOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

Financial assets, other than equity investments, that are measured subsequently at amortised cost or at FVTOCI are subject to impairment.

After initial measurement, amortised cost financial assets are measured using the effective interest rate method, less any impairment losses. The fair value of FVTPL and AFS/FVTOCI financial assets is determined under IFRS 13, Fair Value Measurement ("IFRS 13"). The fair value gains or losses for FVTPL are recognized in the statement of profit or loss and for AFS/FVTOCI are recognized in the other comprehensive income, until these instruments are disposed of. During 2016 and 2017, unrealized gains/losses on equity investments were reclassified to the statement of profit or loss upon a sale. This treatment ceased with the adoption of IFRS 9 as described above.

During 2016 and 2017, loans to customers, accounts receivable and other financial assets that have fixed or determinable payments that are not quoted in an active market (including balances with the NBRK, due from banks) are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate. These instruments continue to be accounted for at amortized cost after the adoption of IFRS 9.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period. These instruments are accounted for at fair value under IFRS 9. The Group has designated these investments as equity instruments at FVTOCI as the Group plans to hold them in the long term for strategic reasons.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. All derivative financial instruments are classified as held for trading and measured at fair value through profit or loss and not designated for hedge accounting.

Impairment of financial assets prior to 1 January 2018

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. During the years ended 31 December 2016 and 2017, financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant (more than 25%) or prolonged (more than two quarters) decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of revaluation reserve of financial assets.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss through the use of an allowance account. When the financial assets are considered uncollectible, they are written off against the allowance account.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognised.

If an AFS asset is impaired, a consolidated amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognised in the consolidated statements of profit or loss is transferred from equity to the consolidated statement of profit or loss.

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Impairment of financial assets since 1 January 2018

Expected credit loss (ECL) measurement - definitions

ECL is a probability-weighted measurement of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and should be determined by evaluating a range of possible outcomes.

An ECL measurement is based on four components used by the Group:

- *Exposure at Default (EAD)* - an estimate of exposure at a future default date, taking into account expected changes in exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.
- *Probability of Default (PD) -* an estimate of the likelihood of default to occur over a given time period.
- *Loss Given Default (LGD)* - an estimate of a loss arising on default. It is based on the difference between contractual cash flows due and those that the lender would expect to receive, including from any collateral. It usually expressed as a percentage of EAD.
- *Discount Rate* - a tool to discount an expected loss from the present value at the reporting date. The discount rate represents the effective interest rate (EIR) for the financial instrument or an approximation thereof.

Default and credit-impaired assets

The financial asset is considered to be in default, or credit impaired, when it meets one or more of the following criteria:

For individually significant loans (except interbank exposures):

- the borrower is more than 60 days past due on its contractual payments (regulatory definition of default for individually significant loans)
- significant deterioration of the borrower's operating results
- the bank has sold the borrower's debt with losses
- the loan had experienced a forced restructuring due to deterioration in the borrower's creditworthiness
- the misuse of borrowed funds
- the borrower is deceased (retail loans)
- the borrower is insolvent (bankruptcy) for corporate customers
- the borrower's debt was partially or fully written off due to a significant increase in credit risk

For homogeneous loans:

- the borrower is more than 90 days past due on its contractual payments
- the bank has sold the borrower's debt with losses
- the loan had experienced a forced restructuring due to a deterioration in borrower creditworthiness
- the borrower is deceased (retail loans)
- the borrower's debt was partially or fully written off due to a significant increase in credit risk

For other financial assets, debt securities and due from banks:

- the counterparty or issuer rated at C or less
- the counterparty or issuer is more than 30 days past due
- the counterparty or issuer has significant deterioration of operating results

Significant increase in credit risk (SICR)

The SICR assessment is performed on an individual basis and on a portfolio basis. SICR for individually significant loans is assessed on an individual basis by monitoring the triggers stated below. The criteria used to identify a SICR are monitored and reviewed periodically for appropriateness by the Group 's risk department.

The Group considers a financial instrument to have experienced a SICR when one or more of the following quantitative, qualitative or subsidiary criteria have been met:

For individually significant loans:

- Increase in lifetime probability of default over defined thresholds;
- The number of days past due is higher than 31 days but lower than 60
- The increase in credit risk, expressed in the relative threshold based on internal ratings is significant. SICR is determined based on the comparison date and credit risk rating as of the reporting date for each financial asset individually.

For homogeneous loans:

- increase in lifetime probability of default over defined thresholds;
- The number of days past due is more than 31 but less than 90
- External factors affect the solvency of individual groups of individuals (such as natural disasters, closure of the city-forming enterprise in the region, etc.)

For other financial assets, debt securities and due from banks:

- deterioration of the counterparty’s or issuer’s rating by 4 notch
- deterioration of the counterparty’s or issuer’s rating up to CCC+
- deterioration of operating results of the counterparty or issuer

ECL measurement - description of estimation techniques

General principle

For financial assets that are not purchased or originated credit impaired ("POCI") assets ECLs are generally measured based on the risk of default over one of two different time periods, depending on whether the borrower's credit risk has increased significantly in a three-stage model for ECL measurement:

Stage 1: a group of financial instruments for which no significant increase in the credit risk level has been recorded since initial recognition and provisions for this group are created as 12-month ECL, and interest income is calculated based on the gross book value.

Stage 2: a group of financial instruments for which a significant increase in the credit risk level has been recorded since the initial recognition and provisions for which equal ECL for the instrument's lifetime, and interest income is calculated based on the gross carrying amount of the financial asset.

Stage 3: a group of credit-impaired financial instruments, for which provisions equal the ECL amount for the instrument's lifetime, and interest income is accrued based on the carrying amount of the asset, net of the loss allowance.

ECL for POCI financial assets is always measured on a lifetime basis (Stage 3), and at the reporting date, the Group only recognizes the cumulative changes in lifetime expected credit losses since initial recognition.

The Group performs individual assessments for credit-impaired loans.

The Group performs assessments on a portfolio basis for retail loans and loans issued to small and medium entities ("SMEs"). This approach incorporates aggregating the portfolio into homogeneous segments based on borrower-specific information, such as delinquency, historical data on losses and forward-looking macroeconomic information.

Macroeconomic overlay and macroeconomic scenarios

The Group incorporates forward looking information in its impairment calculations via macroeconomic models, which leads to a direct adjustment of default probabilities. Since the Group cannot predict the future realisation of these macroeconomic parameters, it uses three scenarios - a base scenario, an optimistic scenario and a pessimistic scenario. The latter two scenarios are linked to a weight of 23%. The base scenario has an attached weight of 54% in the calculation. For each scenario a set of values for the relevant macroeconomic variables is used as an input for the macroeconomic model, which subsequently is applied to adjust the relevant input parameter.

The List of Macro-Economic Indicators

- Real GDP growth
- Unemployment

ECL measurement - description of estimation techniques

Principles of individual assessment - ECL assessments on an individual basis are done by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Group defines three possible outcomes for each loan.

Principles of portfolio assessments - to assess the staging of exposure and to measure a loss allowance on a collective basis, the Group combines its exposures into segments on the basis of shared credit risk characteristics, so that exposure to risk within a group are homogeneous.

Examples of shared characteristics include product type and the amount of debt.

Two types of PDs are used to calculate ECLs: 12- month and lifetime PD:

- 12-month PDs - the estimated probability of a default occurring within the next 12 months (or over the remaining life of a financial instrument if less than 12 months). This parameter is used to calculate 12-month ECLs. An assessment of a 12-month PD is based on the latest available historical default data and adjusted for forward-looking information.
- Lifetime PDs - the estimated probability of a default occurring over the remaining life of a financial instrument. This parameter is used to calculate lifetime ECLs. An assessment of a lifetime PD is based on the latest available historic default data and adjusted for forward looking information.

To calculate Lifetime PD, the Group uses different statistical approaches depending on the segment and product type, such as the extrapolation of 12-month PDs based on migration matrixes, developing lifetime PD curves based on the historical default data, hazard rate approach or other.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure and assessed on a collective basis based on the latest available recovery statistics.

For loans secured by real estate, cash and liquid securities, the Group calculates LGD based on specific collateral characteristics, such as projected collateral values, historical sales discounts and other factors.

Modification of loans to customers

The Group modifies loans to customers in temporary financial difficulty in order to allow a borrower to recover solvency. Modification of loans is provided in the form of short-term revision of loan terms and may include the reduction of interest rate, reduction of monthly payment amount, extension of the loan term, or a combination of these measures that do not lead to derecognition of the financial asset. After the recovery period, ordinary contractual terms are to be applied. The recovery period is agreed in the modification terms, but in most cases is set for 6 months.

Modification of loan is provided only once and to the borrowers with overdue less than 90 days on a modification date, where sufficient grounds exist to support its recoverability.

During the recovery period, such modified loans are classified to Stage 3, with corresponding increase in loss allowance. After the recovery period, such modified loans are allocated to the relevant impairment category, based on its days past due and impairment methodology.

Write off of loans to customers

Loans are written off against the allowance for impairment losses. Decision for the write off is taken by the Credit Committee and commonly at overdue more than one year. However write off of loans does not indicate that no other actions will be undertaken to collect the loans. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated statement of profit or loss in the period of recovery.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognize a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecogntion of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of the transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer.

The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities

Financial liabilities, such as due to banks, customer accounts, debt securities issued, subordinated debt and other financial liabilities are initially recognised at fair value. Subsequently amounts due are stated at amortized cost and any difference between carrying and redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method as a component of interest expense.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled, or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated statement of profit or loss.

Recognition of income and expense

Recognition of interest income and expense

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income and expense are recognised on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument or, (where appropriate) a shorter period to the gross carrying amount.

Interest earned on assets at fair value is classified within interest income.

Revenue recognition prior to 1 January 2018

Fee &commission income and expense include fees other than those that are an integral part of effective interest rate. The fees included in this part of the Group's consolidated statement of profit or loss include among other things fees charged for servicing a loan. Fee & commission income and expenses with regards to services are accounted for as the services are received. These fees include seller fees, transaction and membership fees. Seller fees includes fees paid by merchants from shopping transaction originated during both online and in store shopping. The Group earns seller fees when transactions are completed on the Marketplace Platform and are generally determined as a percentage based on the value of merchandise and services being sold by merchants. The Group earns transaction and membership revenues when processing payments and engaging customers in Kaspi Ecosystem. This includes transaction fees paid by merchants when the Group enables various payment and purchase transactions. It also includes membership fees paid by customers and merchants for accessing various Kaspi Ecosystem services.

Revenue recognition since 1 January 2018

The Group recognized revenue from the following major sources:

Fees & commissions revenue mainly includes banking service fees and commissions. Banking service fees are recognized over a period in which the related service is provided, typically monthly, and include the following services of Kaspi Ecosystem, such as access to wide network of Kaspi ATMs with free cash withdrawals up to certain limits, 24-hour service line support, charge-free transfers between Kaspi clients' accounts and bill payments for services via kaspi.kz website and mobile application, SMS and mobile push notification services.

Seller fees includes fees paid by merchants from shopping transaction originated during both online and in store shopping. The Group earns seller fees when transactions are completed on the Marketplace Platform and are generally determined as a percentage based on the value of merchandise and services being sold by merchants. Seller fees are recognized when the services are rendered, which generally occurs upon delivery of the related products and services to the customer.

The Group earns transaction and membership revenues when processing payments/transactions and engaging customers in Kaspi Ecosystem. This includes transaction fees paid by merchants when the Group enables various payment and purchase transactions. Transaction fees charged to customers for processing services such as cash withdrawals over certain limits and P2P (pear to pear) money transfers to other banks' cards and wordlwide. Such fees are recognized when the associated service is satisfied, which normally occurs at the point in time the service is requested by client and provided by the Group.

Membership fee revenue is deferred and recognized over the terms of the applicable memberships, typically for one year, on a straight-line basis. Membership fees are paid on a monthly/quarterly basis or paid up front at the beginning of the applicable membership period by customers and merchants for accessing various Kaspi Ecosystem services. Generally, memberships are cancellable and non-refundable.

Share capital and share premium

Contributions to share capital are recognized at cost. Non-cash contributions are not included into the share capital until realized in cash.

Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Treasury shares repurchased from shareholders are recognized at cost of acquisition. When such repurchased treasury shares are further sold, any difference between their selling price and the cost of acquisition is charged to share capital (if positive) or to retained earnings (if negative). Where repurchased treasury shares are retired, the carrying value thereof is reduced by the amount paid by the Group at repurchase thereof, with the share capital respectively reduced by the par value of such retired shares restated, where applicable, for inflation, and the resulting difference is charged to retained earnings.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 "Events after the Reporting Period" ("IAS 10") and disclosed accordingly.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Group's consolidated statement of financial position include:

- Revaluation reserve of financial assets, which comprises changes in fair value of financial assets at fair value through other comprehensive income investments (2017: investments available for sale) and allowance for impairment losses for debt instruments measured at fair value through other comprehensive income;
- Property revaluation reserve, which includes the amount of revaluation of property and construction.

Retirement and other benefit obligations

In accordance with the requirements of the Republic of Kazakhstan in which the Group operates, certain percentages of pension payments are withheld from total disbursements to staff to be transferred to pension funds, such that a portion of salary expense is withheld from the employee and instead paid to a pension fund on behalf of the employee. This expense is charged to the consolidated statement of profit or loss in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension funds selected by employees. The Group does not have any pension arrangements separate from the pension system of the Republic of Kazakhstan. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Areas of significant management judgment and sources of estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make estimates, judgments and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The critical judgments, apart from those involving estimations (see below), that the Group management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements. Significant judgments have been made in the business model assessment, significant increase in credit risk, models and assumptions used which are discussed in section Adoption of IFRS 9 Financial Instruments of Note 3 below.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Significant increase of credit risk

As explained in note 2, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to note 26 for more details.

Incorporation of forward looking information

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to note 26 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward looking information.

Models and assumptions used

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 26 for more details on ECL and note 24 for more details on fair value measurement.

Impairment of loans and receivables under IAS 39

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to the allowance for impairment of loans and receivables a key source of estimation uncertainty because (a) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (b) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its consolidated financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties (for individually significant loans) and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses management's judgment to adjust observable data for a group of loans or receivables to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Republic of Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Fair value measurement and valuation process

In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Group uses valuation models to determine the fair value of its financial instruments. Refer to note 24 for more details on fair value measurement.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported on its consolidated statement of financial position as well as its profit or loss could be material.

Had the management used different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available, would have resulted that could have had a material impact on the Group's reported net income.

Change in presentation of consolidated statement of profit and loss

In 2018, Management made a decision to revise the presentation of certain line items on its consolidated statement of profit or loss to enhance its format and provide reliable and more relevant information. The historical comparative information has been revised to conform to the current presentation. This revised presentation does not have an effect on the Group's net income for comparative periods, nor does it have any impact on its consolidated statement of financial position, statement of other comprehensive income, statement of changes in equity or statements of cash flows. Consequently, the Group has introduced several items in the consolidated statement of profit and loss, which are discussed below.

Revenue includes interest revenue, fees, commission revenue, seller fees, transaction and membership revenue and other gains/(losses).

Cost of revenue includes interest expense, transaction expenses and operating expenses which are directly attributable for the Group's everyday operating activities. Operating expenses include costs incurred to operate retail network, 24-hour call support and communication with customers, product packaging, loan origination and risk assessment, customer deposit acquisition and other expenses, which can be attributed to the Group's operating activities related to the origination and delivery of the products and services.

Technology & product development expenses consist of staff and contractor costs that are incurred in connection with the research and development of new and existing products and services, development, design, data science and maintenance of our products and services, and infrastructure costs. Infrastructure costs include servers, networking equipment, data center and payment equipment related depreciation, rent, utilities, and other expenses necessary to support our technologies and platforms. Collectively, these costs reflect the investments we make in order to offer a wide variety of products and services to our customers within Kaspi Ecosystem.

Sales & marketing expenses consist primarily of online and offline advertising expenses, promotion expenses, staff costs and other expenses that are incurred directly to attract or retain consumers and merchants for Kaspi Ecosystem.

(in millions of KZT)

General & administrative expenses consist primarily of costs incurred to provide support to our business, including legal, human resources, finance, risk, compliance, executive, professional services fees, office facilities and other support functions.

The following tables show previous presentation of consolidated statements of profit or loss for the years ended 31 December 2017 and 2016:

	2017 year (as previously presented)	Adjustment		2017 year (restated)
Interest revenue	157,947	24	(A)	157,971
Interest expense	(98,219)	1,093	(B)	(97,126)
Net loss on financial assets and liabilities at FVTPL	(14,586)	14,586	(C2)	-
Net gain on foreign exchange operations	7,436	(7,436)	(C2)	-
Fee & commission income	123,666	(123,666)	(C1), (C3), (C4)	-
Fee & commission expense	(6,259)	6,259	(D1), (D2), (D3)	-
Net gain from derecognition of investments available-for-sale	170	(170)	(C2)	-
Insurance premium, net of claims paid	(32)	32	(C1)	-
Other income	430	(430)	(C1)	-
Operating expenses	(58,031)	58,031	(E1), (E2), (E3), (E4)	-
Fees & Commissions	-	106,841	(C1)	106,841
Other gains/(losses)	-	(6,981)	(C2)	(6,981)
Seller Fees	-	12,174	(C3)	12,174
Transaction & Membership Revenue	-	5,748	(C4)	5,748
Transaction Expenses	-	(3,288)	(A), (D1)	(3,288)
Cost of revenue - Operating Expenses	-	(29,632)	(E1), (D2)	(29,632)
Technology & Product Development	-	(13,465)	(E2)	(13,465)
Sales & Marketing	-	(7,258)	(B), (E3), (D3)	(7,258)
General & Administrative expenses		(12,462)	(E4)	(12,462)

(A) Represents reclassification from "Transaction Expenses " to "Interest revenue"
(B) Represents reclassification of incentive fees related to Kaspi bonuses program from "Interest expense" to "Sales and marketing"
(C1) Represents reclassification from "Fee & commission income" to "Fees & Commissions"
(C1) Represents reclassification from "Insurance premium, net of claims paid" to "Fees & Commissions"
(C1) Represents reclassification from "Other income" to "Fees & Commissions"
(C2) Represents reclassification from "Net gain on derecognition of investments available-for-sale" to "Other gains/(losses)"
(C2) Represents reclassification from "Net loss on financial assets and liabilities at fair value through profit or loss" to "Other gains/(losses)"
(C2) Represents reclassification from "Net gain on foreign exchange operations" to "Other gains/(losses)"
(C3) Represents reclassification from "Fee & commission income" to "Seller Fees"
(C4) Represents reclassification from "Fee & commission income" to "Transaction & Membership Revenue"
(D1) Represents reclassification from "Fee & commission expense" to "Transaction Expenses ",
(D2) Represents reclassification from "Fee & commission expense" to "Cost of Revenue – Operating expenses"
(D3) Represents reclassification from "Fee & commission expense" to "Sales & Marketing"
(E1) Represents reclassification from "Operating expenses" to "Cost of revenue - Operating expenses"
(E2) Represents reclassification from "Operating expenses" to "Technology & Product Development"
(E3) Represents reclassification from "Operating expenses" to "Sales & Marketing"
(E4) Represents reclassification from "Operating expenses" to "General & Administrative expenses"

(in millions of KZT)

	2016 year (as previously presented)	Adjustment		2016 year (restated)
Interest revenue	129,018	6	(A)	129,024
Interest expense	(86,186)	242	(B)	(85,944)
Net loss on financial assets and liabilities at fair value through profit or loss	(9,211)	9,211	(C2)	-
Net (loss)/gain on foreign exchange operations	4,582	(4,582)	(C2)	-
Fee & commission income	98,663	(98,663)	(C1), (C3), (C4)	-
Fee & commission expense	(3,653)	3,653	(D1), (D2), (D3)	-
Net gain from derecognition of investments available-for-sale	141	(141)	(C2)	- -
Insurance premium, net of claims paid	(147)	147	(C1)	-
Other income	159	(159)	(C1)	-
Operating expenses	(48,282)	48,282	(E1), (E2), (E3), (E4)	-
Fees & Commissions	-	89,528	(C1)	89,528
Other gains/(losses)	-	(4,487)	(C2)	(4,487)
Seller Fees	-	6,469	(C3)	6,469
Transaction & Membership Revenue	-	2,769	(C4)	2,769
Transaction Expenses	-	(2,259)	(A), (D1)	(2,259)
Operating Expenses	-	(23,729)	(E1), (D2)	(23,729)
Technology & Product Development	-	(12,032)	(E2)	(12,032)
Sales & Marketing	-	(3,886)	(B), (E3), (D3)	(3,886)
General & Administrative expenses	-	(10,369)	(E4)	(10,369)

(A) Represents reclassification from "Transaction Expenses " to "Interest revenue"
(B) Represents reclassification of incentive fees related to Kaspi bonuses program from "Interest expense" to "Sales and marketing"
(C1) Represents reclassification from "Fee & commission income" to "Fees & Commissions"
(C1) Represents reclassification from "Insurance premium, net of claims paid" to "Fees & Commissions"
(C1) Represents reclassification from "Other income" to "Fees & Commissions"
(C2) Represents reclassification from "Net gain on derecognition of investments available-for-sale" to "Other gains/(losses)"
(C2) Represents reclassification from "Net loss on financial assets and liabilities at fair value through profit or loss" to "Other gains/(losses)"
(C2) Represents reclassification from "Net gain on foreign exchange operations" to "Other gains/(losses)"
(C3) Represents reclassification from "Fee & commission income" to "Seller Fees"
(C4) Represents reclassification from "Fee & commission income" to "Transaction & Membership Revenue"
(D1) Represents reclassification from "Fee & commission expense" to "Transaction Expenses ",
(D2) Represents reclassification from "Fee & commission expense" to "Cost of Revenue – Operating expenses"
(D3) Represents reclassification from "Fee & commission expense" to "Sales & Marketing"
(E1) Represents reclassification from "Operating expenses" to "Cost of revenue - Operating expenses"
(E2) Represents reclassification from "Operating expenses" to "Technology & Product Development"
(E3) Represents reclassification from "Operating expenses" to "Sales & Marketing"
(E4) Represents reclassification from "Operating expenses" to "General & Administrative expenses"

(in millions of KZT)

Change in presentation of consolidated statement of financial position

As a result of adoption of IFRS 9, Financial Instruments ("IFRS 9"), the management of the Group decided to change the presentation of certain line items in the consolidated statement of financial position, as provided below.

	31 December 2017 (as previously presented)	Adjustment	31 December 2017 (restated)
Financial assets at fair value through profit or loss	27	(27)	-
Investments available-for-sale	212,508	(212,508)	-
Investments securities and derivatives	-	212,535	212,535

	31 December 2016 (as previously presented)	Adjustment	31 December 2016 (restated)
Financial assets at fair value through profit or loss	75,426	(75,426)	-
Investments available-for-sale	216,514	(216,514)	-
Investments securities and derivatives	-	291,940	291,940

In addition, certain immaterial balances of current and deferred income tax assets and liabilities were reclassified to 'Other assets' or 'Other liabilities' line items in the consolidated statement of financial position as at 31 December 2017 and 2016, respectively.

Application of new and revised International Financial Reporting Standards (IFRSs)

In the current year, the following accounting standards have been adopted and have affected the amounts reported in these consolidated financial statements:

Adoption of IFRS 9 Financial instruments

In the current year, the Group has applied IFRS 9 (as revised in July 2014) and the related consequential amendments to other IFRS that are effective for an annual period that begins on or after 1 January 2018. According to the transition provisions of IFRS 9, the Group elected not to restate comparatives. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018 and details of new IFRS 9 requirements are described in the relevant accounting policies above.

The table below represents the impact of adopting IFRS 9 standard on the allowances for impairment and reconciliation of the aggregated amount of opening balances of the estimated amounts of allowances for impairment for financial assets, accrued in accordance with the IAS 39, and loss allowances for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets with the expected credit losses in accordance with IFRS 9.

(in millions of KZT)

	IAS 39 as at 31 December 2017	Remeasu-rement	IFRS 9 as at 1 January 2018
Allowance for impairment losses			
Cash and cash equivalents	-	15	15
Due from banks	-	3	3
Loans to customers	90,148	12,366	102,514
Financial assets at fair value through other comprehensive income (2017: investments available for sale)	65	144	209
Other financial assets	1,741	-	1,741
Commitments and contingencies	-	17	17

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows:

	Classification category in accordance with IAS 39	Classification category in accordance with IFRS 9	Carrying amount in accordance with IAS 39 as at 31 December 2017	Remeasu-rement	Carrying amount in accordance with IFRS 9 as at 1 January 2018
Cash and cash equivalents	Loans and receivables	Amortized cost	304,839	(15)	304,824
Mandatory cash balances with National Bank of the Republic of Kazakhstan	Loans and receivables	Amortized cost	10,870	-	10,870
Due from banks	Loans and receivables	Amortized cost	8,334	(3)	8,331
Loans to customers	Loans and receivables	Amortized cost	891,323	(12,366)	878,957
Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss	27	-	27
Financial assets at fair value through other comprehensive income	Available for sale	Fair value through other comprehensive income	212,508	(144)	212,364
Other financial assets	Loans and receivables	Amortized cost	8,784	-	8,784
Other financial liabilities			-	(17)	17
Tax impact related to adoption of IFRS 9				2,474	
Total impact on equity of IFRS 9 adoption at 1 January 2018				**(10,071)**	

There were no changes to the measurement basis of other financial liabilities categories.

Adoption of IFRS 15 Revenue from Contracts with Customers

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers ("IFRS 15") which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 supersedes the current revenue recognition guidance including IAS 18, Revenue ("IAS 18"), IAS 11, Construction Contracts ("IAS 11") and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

The Group adopted IFRS 15 using the modified retrospective method, with the effect of initial application recognised on 1 January 2018 and without restatement of the comparative periods. Apart from providing more extensive disclosures for the Group's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group. The Group's accounting policies for its revenue streams are disclosed in detail in note 2.

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 "Leases" ("IFRS 16"), effective from 1 January 2019, which will replace IAS 17 "Leases" ("IAS 17"). The new standard introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted under IAS 17. Lessees will recognize a right-of-use asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost. In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. The date of initial application of IFRS 16 for the Group will be 1 January 2019.

On initial application of IFRS 16, for all leases (except as noted below), the Group will:

a) Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

The management of the Group is currently assessing a potential impact of IFRS 16 adoption on the consolidated financial statements. It is not practicable to provide a reasonable estimate of the financial effect until management completes their review.

- IFRS 17 Insurance Contracts.

IFRS 17, Insurance Contracts ("IFRS 17") was issued in May 2017 and supersedes IFRS 4, Insurance Contracts ("IFRS 4") as at 1 January 2021. IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. It is not practicable to provide a reasonable estimate of the effect of IFRS 17 until a detailed review has been completed by management.

Amendments to IFRSs

The IASB has published a number of amendments to IFRSs, which are effective from 1 January 2019. The management expects they will have an insignificant effect on the consolidated financial statements of the Group. The Group has not early adopted any of the amendments effective after 31 December 2018.

(in millions of KZT)

4. Revenue by Segments

The Group reports its business in four operating segments as described in Note 1 under Kaspi.kz Segments.

Revenue by segments as at and for years ended 31 December 2018, 2017 and 2016 is presented below:

	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
REVENUE	**375,331**	**275,753**	**223,303**
Marketplace	**25,020**	**12,174**	**6,469**
Seller fees	25,020	12,174	6,469
Payments	**26,471**	**9,571**	**5,053**
Interest revenue	8,595	4,042	2,289
Transaction and Membership Revenue	17,876	5,529	2,764
e-Finance	**22,099**	**9,757**	**5,273**
Interest Revenue	21,940	9,736	5,228
Fees & Commissions	159	21	45
Consumer Financial Services	**301,741**	**244,251**	**206,508**
Interest Revenue	164,531	144,193	121,507
Fees & Commissions	140,100	106,820	89,483
Transaction & Membership Revenue	1,379	219	5
Other gains/(losses)	(4,269)	(6,981)	(4,487)

Revenue classification and distribution among segments is performed in accordance with the following guidelines:

Marketplace revenue includes seller fees paid by merchants and other partners when sale is closed within Marketplace Platform.

Payments revenue includes transaction fees originated from processing payments for regular household needs, payments for purchases both online and in-store, other debit card transactions, online money wire transfers within Kaspi Ecosystem, both inside the country and globally, and transactions by SME and corporate customers. It also includes membership and annual fees paid by individual customers, SME and corporate customers for engagement in Kaspi Ecosystem. The Payments Platform segment also derives treasury revenue from cash balances.

E-Finance revenue includes interest income from financing customers which is originated online through Mobile App or to finance purchases on Marketplace Platform, third party merchant sites and third-party mobile apps.

Consumer Financial Services revenue includes interest income from financing customers and from other financial assets. It also includes banking fees and commissions, membership and other fees paid by customers of Shopping Club, income/loss from revaluation, securities, interbank and derivatives, and fees/commissions from other banking services.

(in millions of KZT)

5. Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the management of the Group. Starting from 2018, the Group implemented changes in how the management operates the businesses of the Group to maximize efficiency in allocating resources and assessing performance. Consequently, the Group presents four operating and reportable segments as set out in Notes 4 and 5 to reflect this change and corresponding items of segment information for 2017 and 2016 years have been restated.

Previously, the Group had two operating segments, namely the (1) Mass market retail and (2) Corporate, SME and other.

The Group presents segment information after elimination of inter-Group transactions. In general, revenue, cost of revenue, technology & product development expenses, sales & marketing expenses, general & administrative expenses, provision expenses are directly attributable, or are allocated, to each segment.

The Group allocates costs and expenses that are not directly attributable to a specific segment, such as those that support general infrastructure and customer engagement across Kaspi Ecosystem, to different segments mainly on the basis of usage, revenue, headcount, active customers, depending on the nature of the relevant costs and expenses.

The following tables present the summary of each segments revenue, net revenue and net income for the years ended 31 December 2018, 2017 and 2016:

	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
REVENUE	**375,331**	**275,753**	**223,303**
Marketplace	25,020	12,174	6,469
Payments	26,471	9,571	5,053
e-Finance	22,099	9,757	5,273
Consumer Financial Services	301,741	244,251	206,508
NET REVENUE	**230,649**	**145,707**	**111,371**
Marketplace	23,801	11,316	5,964
Payments	18,103	5,679	3,482
e-Finance	8,787	2,397	1,489
Consumer Financial Services	179,958	126,315	100,436
NET INCOME	**111,119**	**71,294**	**5,742**
Marketplace	14,560	5,806	1,934
Payments	6,731	1,360	1,137
e-Finance	(878)	(463)	(428)
Consumer Financial Services	90,706	64,591	3,099

Operating segments are reported in a manner consistent with internal reports, which are reviewed and used by management and board of directors (who are identified as Chief Operating Decision Makers, "CODM").

(in millions of KZT)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in 2018, 2017 and 2016. Segment profit represents the net income earned by each segment. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

As at 31 December 2018, 2017 and 2016, no information on segment assets or liabilities is presented to the CODM.

For the years ended 31 December 2018 and 2017, 2016, 95%, 94% of 97% revenues from external customers were attributable to customers from Kazakhstan, respectively.

As at 31 December 2018, 2017 and 2016, all non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts, respectively, were located in Kazakhstan.

6. Revenue

Revenue includes interest revenue, fees, commissions, seller fees, transaction & membership revenue and other gains/(losses).

	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
REVENUE	**375,331**	**275,753**	**223,303**
Interest Revenue	195,066	157,971	129,024
Fees & Commissions	140,259	106,841	89,528
Seller Fees	25,020	12,174	6,469
Transaction & Membership Revenue	19,255	5,748	2,769
Other gains/(losses)	(4,269)	(6,981)	(4,487)

Interest revenue includes interest originated on loans to customers, securities and deposits placed with banks, only.

Fees & commissions revenue mainly includes banking service fees and commissions.

Banking service fees are charged on a monthly basis, and include the following services of Kaspi Ecosystem, such as access to wide network of Kaspi ATMs with free cash withdrawals up to certain limits, 24-hour service line support, charge-free transfers between Kaspi clients' accounts and bill payments for services via kaspi.kz website and mobile application, SMS and mobile push notification services.

Seller fees includes fees paid by merchants from shopping transaction originated during both online and in store shopping. The Group earns seller fees when transactions are completed on the Marketplace Platform and are generally determined as a percentage based on the value of merchandise and services being sold by merchants.

(in millions of KZT)

The Group earns transaction and membership revenues when processing payments and engaging customers in Kaspi Ecosystem. This includes transaction fees paid by merchants when the Group enables various payment and purchase transactions. It also includes membership fees paid by customers and merchants for accessing various Kaspi Ecosystem services.

Other gains/(losses) is mainly due to net gains/(losses) on foreign exchange operations and financial assets and liabilities at fair value through profit or loss. For the years ended 31 December 2018, 2017 and 2016, the net gain/(loss) on financial assets and liabilities at fair value through profit or loss amounted to KZT 8,425 million, KZT (14,291) million and KZT (9,210) million, respectively. For the years ended 31 December 2018, 2017 and 2016, the net (loss)/gain on foreign exchange operations amounted to KZT (12,040) million, KZT 7,436 million and KZT 4,582 million, respectively.

7. Cost of revenue

Cost of revenue includes interest expense, transaction expenses and operating expenses which are directly attributable for the Group’s everyday operating activities.

	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
COST OF REVENUE	**(144,682)**	**(130,046)**	**(111,932)**
Interest Expenses	(102,685)	(97,126)	(85,944)
Transaction Expenses	(6,709)	(3,288)	(2,259)
Operating Expenses	(35,288)	(29,632)	(23,729)

Interest expenses include interest expenses on customer accounts, mandatory insurance of retails deposits and debt securities, including subordinated debt.

Transaction expenses are mainly composed of the costs associated with accepting, processing and otherwise enabling payment transactions. Those costs include fees paid to payment processors, payment networks and various service providers.

Operating expenses include costs incurred to operate retail network, 24-hour call support and communication with customers, product packaging, loan origination and risk assessment, customer deposit acquisition and other expenses which can be attributed to the Group’s operating activities related to the origination and delivery of the products and services.

(in millions of KZT)

Employee benefits, depreciation and amortisation expenses and operating lease expenses for the years ended 31December 2018, 2017 and 2016 are presented as follows:

	Year ended 31 December 2018			Year ended 31 December 2017			Year ended 31 December 2016		
	Employee benefits	Deprecia-tion & amortisa-tion	Opera-ting lease	Employee benefits	Deprecia-tion & amortisa-tion	Opera-ting lease	Employee benefits	Deprecia-tion & Amortisa-tion	Opera-ting lease
Cost of Revenue	(15,443)	(401)	(1,287)	(13,949)	(425)	(1,241)	(12,466)	(359)	(1,186)
Sales & Marketing	(351)	-	-	(294)	-	-	(242)	-	-
Technology & Product Development	(7,396)	(3,357)	(1,002)	(6,385)	(2,803)	(962)	(5,058)	(2,125)	(912)
General & Administrative expenses	(3,079)	(1,374)	(3,157)	(5,283)	(1,505)	(3,053)	(3,680)	(2,043)	(2,410)
Total	**(26,269)**	**(5,132)**	**(5,446)**	**(25,911)**	**(4,733)**	**(5,256)**	**(21,446)**	**(4,527)**	**(4,508)**

(in millions of KZT)

8. Provision expense

The movements in loss allowance were as follows:

	Loans to customers			Due from banks	Financial assets at fair value through other comprehensive income		Cash and cash equiva-lents	Other assets	Continge ncies	
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 1	Stage 3	Stage 1	Stage 3	Stage 1	Total
Loss allowance for ECL as at 1 January 2018	**11,154**	**3,351**	**88,009**	**3**	**209**	**-**	**15**	**1,741**	**17**	**104,499**
Changes in provisions										
- Transfer to Stage 1	244	(167)	(77)	-	-	-	-	-	-	-
- Transfer to Stage 2	(189)	209	(20)	-	-	-	-	-	-	-
- Transfer to Stage 3	(1,132)	(2,092)	3,224	-	-	-	-	-	-	-
Net changes, resulting from changes in credit risk parameters	812	6,641	55,314	-	146	1,940	(10)	228	-	65,071
Write off, net of recoveries	-	-	(31,877)	-	-	-	-	83	-	(31,794)
New assets issued or acquired	16,022	-	-	7	54	-	-	-	25	16,108
Matured or derecognized assets (except for write off)	(5,718)	(914)	(21,968)	-	-	-		-	-	(28,600)
Foreign exchange difference	-	-	(31)	3	-	-	(1)	11	-	(18)
As at 31 December 2018	**21,193**	**7,028**	**92,574**	**13**	**409**	**1,940**	**4**	**2,063**	**42**	**125,266**

(in millions of KZT)

	Loans to customers (Note 13)	Investments available-for-sale	Other assets	Total
31 December 2016	**83,509**	**65**	**1,406**	**84,980**
Provision expense	27,269	-	474	27,743
Write-off of assets	(48,015)	-	(184)	(48,199)
Foreign exchange difference	150	-	(99)	51
Recoveries of assets previously written off	27,235	-	144	27,379
31 December 2017	**90,148**	**65**	**1,741**	**91,954**

	Loans to customers (Note 13)	Investments available-for-sale	Other assets	Total
31 December 2015	**64,995**	**65**	**1,139**	**66,199**
Provision expense	75,930	(14)	285	76,201
Write-off of assets	(75,507)	-	(19)	(75,526)
Foreign exchange difference	(169)	-	(1)	(170)
Recoveries of assets previously written off	18,260	14	2	18,276
31 December 2016	**83,509**	**65**	**1,406**	**84,980**

9. Income tax

The Group provides for taxes for the current period based on the tax accounts maintained and prepared in accordance with the tax regulations of the Republic of Kazakhstan, where the Group and its subsidiaries operate and which may differ from IFRS.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2018, 2017 and 31 December 2016 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

(in millions of KZT)

Deferred income tax (liabilities)/assets as at 31 December 2018, 2017 and 2016 comprise:

	31 December 2018	31 December 2017	31 December 2016
Vacation reserve and accrued bonuses	510	1,624	1,790
Property, equipment and intangible assets	(2,343)	(2,053)	(1,964)
Tax losses carried forward	-	-	3,339
Other	-	5	25
Net deferred tax (liability)/asset	**(1,833)**	**(424)**	**3,190**

Relationships between tax expenses and accounting profit for years ended 31 December 2018, 2017 and 2016 are explained as follows:

	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
Net income before income tax	**135,237**	**84,779**	**8,883**
Tax at the statutory tax rate of 20%	27,047	16,956	1,777
Non-taxable income	(4,367)	(3,909)	(151)
Non-deductible expense	1,438	438	286
Adjustments related to prior years	-	-	651
Change in unrecognized deferred tax assets and effect of unused tax losses	-	-	578
Income tax expense	24,118	13,485	3,141
Current income tax expense	22,699	9,861	2,877
Deferred income tax expense	1,419	3,624	264
Income tax expense	**24,118**	**13,485**	**3,141**

During 2018, 2017 and 2016, non-taxable income was represented by interest income on governmental and other qualified securities in accordance with the tax legislation.

	31 December 2018	31 December 2017	31 December 2016
Net deferred tax liability/(asset):			
At the beginning of the period	**424**	**(3,190)**	**(3,443)**
Change in deferred income tax balances recognized in equity	(10)	(10)	(11)
Change in deferred income tax balances recognized in profit or loss	1,419	3,624	264
At the end of the period	**1,833**	**424**	**(3,190)**

(in millions of KZT)

Tax, currency and customs legislations of the Republic of Kazakhstan are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and state authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years proceeding the year of review.

As at 31 December 2018, 2017 and 2016, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. Significant additional actual taxes, penalties and interest may be assessed following any challenges by the relevant authorities, which could have a material impact on the Group's reported net result.

10. Earnings per share

	31 December 2018	31 December 2017	31 December 2016
Net income attributable to the shareholders of the Company	105,540	65,278	5,269
Less: dividends on preference shares declared in respect of the period	-	(3,192)	-
Less: dividends on preferred shares that would be paid on full distribution of income	-	(13,071)	(1,110)
	105,540	**49,015**	**4,159**
Weighted average number of ordinary shares for basic and diluted earnings per share	156,133,699	157,500,000	157,500,000
Earnings per share – basic and diluted (KZT)	**676**	**311**	**26**

The 2017 and 2016 weighted average shares used to compute basic and diluted EPS were retroactively restated to reflect the 1:105 split made in July 2018.

11. Cash and cash equivalents

	31 December 2018	31 December 2017	31 December 2016
Cash on hand	88,374	64,468	57,719
Current accounts with other banks	13,613	165,157	29,583
Short-term deposits with other banks	64,013	74,052	41,884
Reverse repurchase agreements	2,471	1,162	28,203
Total cash and cash equivalents	**168,471**	**304,839**	**157,389**

(in millions of KZT)

Cash on hand includes cash balances with ATMs and cash in transit. As at 31 December 2018, 2017 and 2016 fair value of collateral of reverse repurchase agreements, classified as cash and cash equivalents, amounted to KZT 3,336 million, KZT 1,709 million and KZT 28,314 million, respectively.

12. Investment securities and derivatives

Investment securities and derivatives comprise:

	31 December 2018	31 December 2017	31 December 2016
Total financial assets at fair value through OCI (2017 and 2016: investments available-for-sale)	356,689	212,508	216,514
Total financial assets at fair value through profit or loss	9,942	27	75,426
Total investment securities and derivatives	**366,631**	**212,535**	**291,940**

Financial assets at fair value through OCI (2017 and 2016: Investments available-for-sale) comprise:

	31 December 2018	31 December 2017	31 December 2016
Debt securities	356,311	212,256	216,228
Equity investments	378	252	286
Total financial assets at fair value through OCI (2017 and 2016: investments available-for-sale)	**356,689**	**212,508**	**216,514**

As at 31 December 2018, 2017 and 2016, sovereign debt securities of KZT 311,604 million, KZT 176,266 million, KZT 181,414 million, respectively, was included in debt securities.

Financial assets at fair value through profit or loss comprise:

	31 December 2018	31 December 2017	31 December 2016
Financial assets held for trading:			
Derivative financial instruments	9,942	27	75,426
Total financial assets held for trading	**9,942**	**27**	**75,426**

(in millions of KZT)

As at 31 December 2016, financial assets at fair value through profit or loss included KZT/USD swap instruments with NBRK, which amounted to KZT 75,413 million with notional amount of KZT 231,306 million that were settled in 2017. As at 31 December 2017, other financial assets at fair value through profit or loss included swaps and options in the amount of KZT 27 million with notional amount of KZT 22,198 million and financial liabilities at fair value through profit or loss included forwards in the amount of KZT 1,312 million with notional amount of KZT 57,485 million. As at 31 December 2018, financial assets at fair value through profit or loss included swap and spot instruments in the amount of KZT 98 million with notional amount of KZT 63,408 million and forwards in the amount of KZT 9,844 million with notional amount of KZT 135,513 million.

13. Loans to customers

	31 December 2018	31 December 2017	31 December 2016
e-Finance	203,876	79,084	34,350
Consumer Financial Services	983,921	902,387	764,212
Total gross loans to customers	1,187,797	981,471	798,562
Less: allowance for impairment losses (Note 8)	(120,795)	(90,148)	(83,509)
Total net loans to customers	**1,067,002**	**891,323**	**715,053**

As at 31 December 2018, 2017 and 2016, accrued interest of KZT 31,883 million KZT 39,201 million, KZT 38,260 million, respectively, was included in loans to customers.

Loans with principal or accrued interest in arrears for more than 90 days are classified as "Non-performing loans" ("NPL"). Allowance for impairment to gross NPLs reflects the Group's ability to absorb potential losses from non-performing loans. Considering the ratio represents impairment loan loss allowances for the specific pool as a percentage of NPLs, the ratio can be more than 100%. With the adoption of IFRS 9, these loans were classified in stage 3. The following tables set forth the Group's outstanding NPLs as at the dates indicated:

	Gross NPLs	Allowance for impairment	Allowance for impairment to gross NPLs
e-Finance	6,687	7,547	113%
Consumer Financial Services	100,199	113,248	113%
Total non-performing loans to customers as at 31 December 2018	**106,886**	**120,795**	**113%**

(in millions of KZT)

	Gross NPLs	Allowance for impairment	Allowance for impairment to gross NPLs
e-Finance	2,117	1,597	75%
Consumer Financial Services	79,344	88,551	112%
Total non-performing loans to customers as at 31 December 2017	**81,461**	**90,148**	**111%**

	Gross NPLs	Allowance for impairment	Allowance for impairment to gross NPLs
e-Finance	2,266	1,541	68%
Consumer Financial Services	71,984	81,968	114%
Total non-performing loans to customers as at 31 December 2016	**74,250**	**83,509**	**112%**

Provision expense for the years ended 31 December 2018, 2017 and 2016:

	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
Provision expense:			
e-Finance	(6,019)	(682)	(904)
Consumer financial services	(46,560)	(27,061)	(75,297)
Total provision expenses	**(52,579)**	**(27,743)**	**(76,201)**

As 31 December 2018, 2017 and 2016, the Group did not provide loans, which individually exceeded 10% of the Group's equity.

During 2016, the Group implemented significant changes to its overdue loan collection procedures. This has resulted in substantially improved collection results for such loans. To reflect these improvements, changes have been introduced to the loan loss provision methodology. Previously, any collection of loan amounts past due over 360 days was considered insignificant and for provision calculation purposes was not considered in the calculation. However, actual collection amounts past due over 360 days became material in 2017, and accordingly collections are now considered for loan loss provision calculation purposes for amounts up to 1,080 days past due.

(in millions of KZT)

14. Property, equipment and intangible assets

	Buildings and construction	Furniture and equipment	Intangible assets	Construction in progress	Total
At initial/revalued cost					
31 December 2015	20,539	20,300	5,744	-	46,583
Acquisition of subsidiary	-	1	489	-	490
Additions	568	3,592	2,729	27	6,916
Disposals	(553)	(515)	(37)	-	(1,105)
31 December 2016	20,554	23,378	8,925	27	52,884
Additions	750	2,072	2,260	-	5,082
Transferred to investment property	(852)	-	-	-	(852)
Disposals	(751)	(217)	(79)	(27)	(1,074)
31 December 2017	19,701	25,233	11,106	-	56,040
Additions	218	7,267	2,358	172	10,015
Disposals	(347)	(459)	(41)	-	(847)
31 December 2018	19,572	32,041	13,423	172	65,208
Accumulated depreciation and impairment					
31 December 2015	4,646	8,754	2,355	-	15,755
Acquisition of subsidiary	-	-	20	-	20
Charge for the year	893	2,650	964	-	4,507
Eliminated on disposals	(306)	(466)	(15)	-	(787)
31 December 2016	5,233	10,938	3,324	-	19,495
Charge for the year	777	2,923	1,033	-	4,733
Transferred to investment property	(31)	-	-	-	(31)
Eliminated on disposals	(143)	(189)	-	-	(332)
31 December 2017	5,836	13,672	4,357	-	23,865
Charge for the year	618	3,187	1,327	-	5,132
Eliminated on disposals	(82)	(395)	-	-	(477)
31 December 2018	6,372	16,464	5,684	-	28,520
Net book value					
31 December 2018	**13,200**	**15,577**	**7,739**	**172**	**36,688**
31 December 2017	**13,865**	**11,561**	**6,749**	**-**	**32,175**
31 December 2016	**15,321**	**12,440**	**5,601**	**27**	**33,389**

As at 31 December 2018, 2017 and 2016, property and equipment included fully depreciated property and equipment of KZT 6,544 million, KZT 5,408 million and KZT 4,087 million respectively.

(in millions of KZT)

The fair value of buildings and construction was determined based on the market comparable approach that reflects recent transaction prices for similar properties and was carried out by independent valuers not related to the Group. There has been no change to the valuation technique during the year. In measuring fair value of Group's buildings and construction, the measurements categorized into Level 3. During the years 2018, 2017 and 2016, there were no movements between Level 3 and other levels.

Items included in buildings and construction are stated at revalued amounts. As at 31 December 2018, 2017 and 2016, the net book value of those items, that would have been recognised had the assets been carried under the cost model totaled KZT 13,200 million, KZT 13,865 million and KZT 15,321 million, respectively.

In 2018, 2017 and 2016, management of the Group performed analysis of the property market and concluded that there were no significant changes in the fair value since the latest property revaluation date.

15. Other assets

	31 December 2018	31 December 2017	31 December 2016
Other financial assets:			
Prepayments for customers online transactions	4,468	5,713	4,037
Receivables from VISA and Master Card transactions	2,893	1,937	399
Other	8,192	2,322	2,232
	15,553	**9,972**	**6,668**
Less: allowance for impairment losses	(1,342)	(1,188)	(1,277)
Total other financial assets	14,211	8,784	5,391
Other non-financial assets:	**7,282**	**4,535**	**7,096**
Less: allowance for impairment losses	(720)	(553)	(129)
Total other non-financial assets	6,562	3,982	6,967
Total other assets	**20,773**	**12,766**	**12,358**

Movements in allowances for impairment of other assets for the years ended 31 December 2018, 2017 and 2016 are disclosed in Note 8.

(in millions of KZT)

16. Due to banks

	31 December 2018	31 December 2017	31 December 2016
Recorded at amortized cost:			
Repurchase agreements	49	23,044	-
Time deposits of banks and other financial institutions	-	40,156	40,272
Total due to banks	**49**	**63,200**	**40,272**

As at 31 December 2018, 2017 and 31 December 2016, accrued interest of KZT 0 million KZT 294 million and KZT 277 million, respectively, was included in due to banks.

Fair value of collateral of repurchase agreements, which were classified as due to banks as at 31 December 2018, 2017 and 31 December 2016, amounted to KZT 51 million, KZT 23,744 million and nil.

17. Customer accounts

	31 December 2018	31 December 2017	31 December 2016
Individuals			
Term deposits	1,025,099	828,734	712,891
Current accounts	124,971	50,806	30,947
Total due to individuals	**1,150,070**	**879,540**	**743,838**
Corporate customers			
Term deposits	41,684	71,857	39,652
Current accounts	41,166	28,242	30,637
Total due to corporate customers	**82,850**	**100,099**	**70,289**
Total customer accounts	**1,232,920**	**979,639**	**814,127**

As at 31 December 2018, 2017 and 2016, accrued interest of KZT 7,573 million, KZT 6,038 million and KZT 5,652 million, respectively, was included in customer accounts.

As at 31 December 2018, 2017 and 2016, customer accounts of KZT 7,997 million, KZT 6,418 million and KZT 655 million, respectively, were held as security against loans, letters of credit, guarantees issued by the Group and other transactions related to contingent obligations.

As at 31 December 2018, 2017 and 2016, customer accounts of KZT 78,531 million (6.4%), KZT 103,651 million (10.6%) and KZT 85,675 million (10.5%), respectively, were due to top twenty customers.

(in millions of KZT)

18. Debt securities issued

	Currency	Maturity date month/ year	Nominal interest rate %	31 December 2018	31 December 2017	31 December 2016
Second bond program – fourth issue	KZT	February 2018	8.00	-	10,285	10,283
Second bond program – fifth issue	KZT	June 2018	8.00	-	1,603	1,603
Third bond program – first issue	KZT	January 2025	9.90	51,041	51,040	51,039
Third bond program – second issue	KZT	January 2024	9.80	48,408	48,407	48,405
Third bond program – third issue	KZT	January 2023	9.70	38,645	-	-
Total debt securities issued				**138,094**	**111,335**	**111,330**

As at 31 December 2018, 2017 and 2016, accrued interest of KZT 5,620 million, KZT 4,318 million and KZT 4,318 million, respectively, was included in debt securities issued. All debt securities issued are recorded at amortised cost as at 31 December 2017 and 2016. The Group did not have any defaults or other breaches with respect to its debt securities during the years ended 31 December 2018, 2017 and 2016.

19. Other liabilities

	31 December 2018	31 December 2017	31 December 2016
Other financial liabilities:			
Payables for customers' online transactions	5,536	8,372	2,900
Payables for Visa and Master Card transactions	3,004	6,544	1,306
Accrued expenses	1,255	1,162	831
Accrued dividends payable to non-controlling interest	900	1,432	-
Derivative financial liabilities	-	1,312	-
Other	89	55	49
Total financial liabilities	**10,784**	**18,877**	**5,086**
Other non-financial liabilities:			
Accumulated employee benefits	1,268	6,895	7,801
Employee Vacation reserves	1,315	1,250	1,173
Current income tax payable	1,618	965	110
Other taxes payable	784	176	146
Deferred tax liabilities	1,833	424	60
Other	2,851	703	453
Total non-financial liabilities	**9,669**	**10,413**	**9,743**
Total other liabilities	**20,453**	**29,290**	**14,829**

(in millions of KZT)

20. Subordinated debt

	Currency	Maturity date month/ year	Nominal interest rate, %	31 December 2018	31 December 2017	31 December 2016
First bond program – third issue	KZT	June 2018	2.5% plus inflation rate	-	3,912	3,843
First bond program – fourth issue	KZT	July 2019	2% plus inflation rate	6,221	6,273	6,448
First bond program – fifth issue	KZT	July 2019	2% plus inflation rate	5,563	5,499	5,561
Second bond program - first issue	KZT	July 2021	1% plus inflation rate	9,981	9,941	9,975
Second bond program – third issue	KZT	February 2023	2% plus inflation rate	5,569	5,686	5,812
Third bond program – fourth issue	KZT	June 2025	10.7	62,259	62,257	62,255
Debt component of preference shares	KZT	n/a	n/a	10	11	11
Total subordinated debt				**89,603**	**93,579**	**93,905**

Debt component of preference shares relates to subsidiary Kaspi bank JSC, and held by non-controlling interest. As at 31 December 2018, 2017 and 2016, accrued interest of KZT 4,120 million, KZT 4,310 million and KZT 4,803 million, respectively, was included in subordinated debt. All subordinated debt are recorded at amortised cost as at 31 December 2018, 2017 and 2016. The above liabilities are subordinated to the claims of depositors and other creditors of the issuer in the event of liquidation. The Group did not have any defaults or other breaches with respect to its subordinated debt during the years ended 31 December 2018, 2017 and 2016.

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

			Non-cash changes		
	1 January 2018	Financing cash flows	Foreign exchange movement	Changes in amortised cost	31 December 2018
Debt securities issued	111,335	25,393	-	1,366	138,094
Subordinated debt	93,579	(3,924)	-	(52)	89,603

			Non-cash changes		
	1 January 2017	Financing cash flows	Foreign exchange movement	Changes in amortised cost	31 December 2017
Debt securities issued	111,330	-	-	5	111,335
Subordinated debt	93,905	(10)	-	(316)	93,579

(in millions of KZT)

21. Share capital

The table below provides a reconciliation of the change in the number of authorized shares, shares issued and fully paid, treasury shares and shares outstanding as at 31 December 2018, 2017 and 2016:

	Authorised shares	Issued and fully paid shares	Treasury shares	Shares outstanding
Ordinary shares				
1 January 2016	1,500,000	1,500,000	-	1,500,000
Movement	-	-	-	-
31 December 2016	**1,500,000**	**1,500,000**	**-**	**1,500,000**
Movement	-	-	-	-
31 December 2017	**1,500,000**	**1,500,000**	**-**	**1,500,000**
Share split (1:105)	157,500,000	157,500,000	-	157,500,000
Purchase of treasury shares	-	-	16,320,000	(16,320,000)
Conversion of preference shares into ordinary shares (1:1)	52,500,000	42,000,000	-	42,000,000
31 December 2018	**210,000,000**	**199,500,000**	**16,320,000**	**183,180,000**
Preference shares				
1 January 2016	500,000	400,000	-	400,000
Movement	-	-	-	-
31 December 2016	**500,000**	**400,000**	**-**	**400,000**
Movement	-	-	-	-
31 December 2017	**500,000**	**400,000**	**-**	**400,000**
Share split (1:105)	52,500,000	42,000,000	-	42,000,000
Conversion of preference shares into ordinary shares (1:1)	(52,500,000)	(42,000,000)	-	(42,000,000)
31 December 2018	**-**	**-**	**-**	**-**

On 9 July 2018, the Group completed a stock split of one pre-split ordinary and preference share for 105 post-split ordinary and preference shares, respectively.

During the year ended 31 December 2018, the Group repurchased 16,320,000 ordinary shares at a market price for the total amount of KZT 72,287 million.

In December 2018, the Group converted all preference shares into ordinary shares based on a ratio of 1-for-1.

(in millions of KZT)

The table below provides a reconciliation of the change in the amount of outstanding shares issued and fully paid as at 31 December 2018, 2017 and 31 December 2016:

	Preference shares	Ordinary shares	Total
Balance at 1 January 2016	27,400	102,744	130,144
Movements	-	-	-
31 December 2016	**27,400**	**102,744**	**130,144**
Movements	-	-	-
31 December 2017	**27,400**	**102,744**	**130,144**
Purchase of treasury shares	-	(75,287)	(75,287)
Conversion of preference shares into ordinary shares (1:1)	(27,400)	27,400	-
31 December 2018	**-**	**54,857**	**54,857**

All shares are KZT denominated. The Group has one class of ordinary shares which carry no right to fixed income. Share premium represents an excess of contributions received over the nominal value of shares issued and amounts received as a result of the resale of shares over their purchase price.

According to legislation of Kazakhstan on Joint Stock companies, dividend payments on the preference shares cannot be less than the dividends paid on ordinary shares. Preference shares are entitled to receive KZT 0.04 per share preference dividend before any dividends are declared to the ordinary shareholders.

During the years ended 31 December 2018, 2017 and 2016, the Group declared dividends of KZT 0.03, KZT 7,980.03 and KZT 0.04 per preference share, respectively.

During the years ended 31 December 2018, 2017 and 2016, the Group declared dividends of KZT nil, KZT 7,980 and KZT nil per ordinary share, respectively.

22. Commitments and contingencies

In the normal course of business the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. Guarantees issued included below represent financial guarantees, where payment is not probable as at the respective reporting date, and therefore have not been recorded in the consolidated statement of financial position.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit policy in undertaking contingent commitments as it does for on-balance operations.

(in millions of KZT)

As at 31 December 2018, 2017 and 2016, provision for losses on contingent liabilities amounted to KZT 42 million, KZT nil and KZT nil, respectively.

As at 31 December 2018, 2017 and 2016, the Group's contingent liabilities and credit commitments comprised the following:

	31 December 2018	31 December 2017	31 December 2016
	Nominal amount	Nominal amount	Nominal amount
Contingent liabilities and credit commitments			
Commitments on loans and unused credit lines: Revocable loans	61,320	55,202	42,922
Total commitments on loans and unused credit lines	61,320	55,202	42,922
Guarantees issued and similar commitments	1,409	1,793	2,068
Total contingent liabilities and credit commitments	**62,729**	**56,995**	**44,990**

As at 31 December 2018, 2017 and 2016, commitments on loans and unused credit lines represent the Group's revocable and irrevocable commitments to extend loans within unused credit line limits. Those commitments where the borrower has to apply each time it wants to draw the credit facility from unused credit lines and the Group may approve or deny the extension of the credit facility based on the borrower's financial performance, debt service and other credit risk characteristics are considered to be revocable. Those commitments where the Group is contractually obliged with no conditions to extend the loan are considered as irrevocable.

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material losses will be incurred and respectively no provision has been made in these consolidated financial statements.

Pensions and retirement plans

Employees of the Group receive pension benefits from pension funds in accordance with the laws and regulations of the Republic of Kazakhstan. As at 31 December 2018, 2017 and 2016, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

(in millions of KZT)

Operating environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

During the last quarter of 2018, the oil price decreased significantly, which led to a decrease in national export revenue. This might put some pressure towards weakening of the tenge against major foreign currencies.

Management of the Group is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future. However, the impact of further economic developments on future operations and financial position of the Group might be significant.

23. Transactions with related parties

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding as at 31 December 2018, 31 December 2017 and 31 December 2016 with related parties:

	Year ended 31 December 2018		Year ended 31 December 2017		Year ended 31 December 2016	
	Transactions with related parties	**Total category as per financial statements captions**	**Transactions with related parties**	**Total category as per financial statements captions**	**Transactions with related parties**	**Total category as per financial statements captions**
Consolidated statement of financial position						
Loans to customers	1,529	1,187,797	1,396	981,471	1,308	798,562
- key management personnel of the Group	1,518		1,396	-	1,308	-
- other related parties	11		-		-	
Allowance for losses on loans to customers	(1)	(120,795)	(181)	(90,148)	-	(83,509)
- key management personnel of the Group	-		(181)		-	
- other related parties	(1)		-		-	
Customer accounts	11,603	1,232,920	14,892	979,639	8,482	814,127
- key management personnel of the Group	4,103		1,384	-	721	-
- other related parties	7,500		13,508	-	7,761	-

(in millions of KZT)

Compensation to directors and other members of key management is presented as follows:

	Year ended 31 December 2018		Year ended 31 December 2017		Year ended 31 December 2016	
	Transactions with related parties	Total category as per financial statements caption	Transactions with related parties	Total category as per financial statements caption	Transactions with related parties	Total category as per financial statements caption
Compensation to key management personnel:						
Employee benefits	(5,177)	(26,269)	(3,034)	(25,911)	(496)	(21,446)

During the years ended 31 December 2018, 2017 and 2016 interest income from transactions with key management personnel amounted to KZT 122 million, KZT 104 million and KZT 104 million, respectively. During the years ended 31 December 2018, 2017 and 2016 interest expense from transactions with key management personnel amounted to KZT 233 million, KZT 169 million and KZT 95 million, respectively, and other related parties amounted to KZT 122 million, KZT 344 million and KZT 966 million, respectively. During the years ended 31 December 2018, 2017 and 2016 transaction costs attributable to loans to customers and paid to other related parties on a arm’s length basis, amounted KZT 4,515 million, KZT 1,132 million and KZT 82 million, respectively.

24. Fair value of financial instruments

a. Fair value of financial instruments

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

b. Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

(in millions of KZT)

Financial assets/ financial liabilities	Fair value as at 31 December 2018	Fair value as at 31 December 2017	Fair value as at 31 December 2016	Fair value hierarchy	Valuation technique(s) and key input(s)
Non-derivative financial assets at fair value through other comprehensive income (2017, 2016: investments available-for-sale)	353,201	212,284	216,302	Level 1	Quoted bid prices in an active market
Non-derivative financial assets at fair value through other comprehensive income (2017, 2016: investments available-for-sale)	310	155	143	Level 2	Qouted prices in markets that are not active or DCF method. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Non-derivative financial assets at fair value through other comprehensive income (2017: investments available-for-sale)	3,108	-	-	Level 2	DCF method. Discounted cash flows based on observable market yield for similar quoted debt instruments.
Unlisted Equity investments classified as financial assets at fair value through other comprehensive income	70	-	-	Level 3	Adjusted net assets based on most recent published financial statements of unlisted companies with discount for marketability and liquidity. Discount ratios varies from 10% to 30%.
Derivative financial assets (Note 12)	9,942	26	12	Level 2	DCF method. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Derivative financial assets (NBRK SWAPs) (Note 12)	-	-	75,413	Level 3	DCF method. Future cash flows in USD discounted using the LIBOR rate obtained from available sources. Future cash flows in KZT discounted using the internal rate of return, which was calculated based on the LIBOR and foreign exchange rates obtained from available sources. The difference between net present values of these discounted cash flows should be equal to nil at initial recognition. 3.8% p.a. KZT implied rate is significant unobservable input. The greater the KZT implied rate – the lower the fair value of derivative.
Derivative financial liabilities (Note 12)	-	1,312	-	Level 2	DCF method. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

As at 31 December 2017 and 2016, AFS investments included equity shares of KZT 70 million and KZT 69 million, which did not have a quoted market price in an active market and thus were measured at cost.

(in millions of KZT)

The reconciliation of Level 3 fair value measurements of financial assets is presented as follows:

	Financial assets (Level 3)
At 31 December 2015	**92,123**
Total gain or losses:	
- in profit or loss	(1,561)
Settlements	(15,148)
At 31 December 2016	**75,414**
Total gain or losses:	
- in profit or loss	(3,941)
Settlements	(71,473)
At 31 December 2017	**-**
1 January 2018 (restated due to IFRS 9)	70
Purchases	-
Total gain or losses:	
- in profit or loss	-
Settlements	-
At 31 December 2018	**70**

There were no transfers between Level 1 and Level 2 in the period.

c. Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).

Except as detailed in the following table, management of the Group considers that the carrying amount of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

	31 December 2018		
	Carrying amount	**Fair value**	**Fair value hierarchy**
Loans to customers	1,067,002	1,090,414	Level 3
Customer accounts	1,232,920	1,205,660	Level 2
Debt securities issued	138,094	133,085	Level 1
Due from banks	22,872	22,500	Level 2
Subordinated debt	89,603	83,320	Level 1,2*

	31 December 2017		
	Carrying amount	**Fair value**	**Fair value hierarchy**
Loans to customers	891,323	881,941	Level 3
Customer accounts	979,639	967,667	Level 2
Debt securities issued	111,335	106,283	Level 1
Subordinated debt	93,579	87,597	Level 1,2*

(in millions of KZT)

	31 December 2016		
	Carrying amount	Fair value	Fair value hierarchy
Loans to customers	715,053	709,601	Level 3
Customer accounts	814,127	752,261	Level 2
Debt securities issued	111,330	105,680	Level 1
Subordinated debt	93,905	88,167	Level 1,2*

*As at 31 December 2018, 2017 and 2016, fair value of subordinated debt that was measured using Level 2 valuation technique amounted to KZT 11 million, KZT 11 million and KZT 11 million, respectively.

Loans to customers

Loans to individual customers are made at fixed rates. Fair value of fixed rate loans has been estimated by reference to the market rates available at the reporting date for loans with similar maturity profile.

Debt securities issued, subordinated debt

Debt securities issued and subordinated debt are valued using quoted prices.

Customer accounts

The estimated fair value of term deposits is determined by discounting contractual cash flows using interest rates currently offered for deposits with similar terms. For current accounts, the Group considers fair value to equal carrying value, which is equivalent to the amount payable on the balance sheet date.

Information about measurement hierarchy of property, equipment and intangible assets is disclosed in Note 14.

Due from banks

The estimated fair value of term due from banks is determined by discounting the contractual cash flows using interest rates currently offered for due from banks with similar terms.

Due to banks

The estimated fair value of term due to banks is determined by discounting the contractual cash flows using interest rates currently offered for due to banks with similar terms.

Assets and liabilities for which fair value approximates carrying value

For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.

(in millions of KZT)

25. Regulatory matters

The management of JSC Kaspi Bank (subsidiary of the Company) monitor capital adequacy ratio based on requirements of standardized approach of Basel Committee of Banking Supervision "Basel III: A global regulatory framework for more resilient banks and banking systems" (December 2010, updated in June 2011). The capital adequacy ratios calculated on the basis of JSC Kaspi Bank's consolidated financial statements under Basel III are presented in the following table:

	31 December 2018	31 December 2017	31 December 2016
Capital adequacy ratios:			
Tier 1 capital	16.8%	13.9%	12.3%
Total capital	23.0%	20.9%	18.4%

As at 31 December 2018, 2017 and 2016, JSC Kaspi Bank had complied with NBRK's capital requirements. The following table presents the Bank's capital adequacy ratios in accordance with the NBRK requirements:

	31 December 2018	31 December 2017	31 December 2016
Capital adequacy ratios:			
Ratio k1	11.4%	11.0%	11.2%
Ratio k1.2	11.4%	11.0%	11.2%
Ratio k.2	15.7%	16.5%	13.6%

26. Risk management policy

The Group permanently advances it's risk management environment, to fit up-to-date challenges and risks the Group is exposed to. The Group is exposed to following types of risks: credit risk, liquidity risk, market risk.

Credit risk

The Group is exposed to credit risk, which is the risk that a customer will be unable to pay amounts in full when due. The Group's credit risk exposure arises primarily from our consumer finance business through the Consumer Financial Services and e-Finance Platforms. To manage credit risk during loan origination the Group centralized all processes related to decision making, verification and accounting through it's headquarters. The Group has developed an automated, centralised and big data-driven proprietary loan approval process that enables it to make instant credit decisions. The risk management block is responsible for maintaining scoring models and decision-making process. The quality of approved loans are monitored by risk management block on day-to-day basis with periodical validation of the models.

During the credit decision process, the Group uses proprietary risk algorithms and predictive scoring models for the evaluation of the risks of potential borrowers using statistical modelling based on (i) a wealth of proprietary internal data such as application, transactional, behavioural, shopping and payment history information, which is supplemented by (ii) external data such as data received from credit bureaus (LLC First Credit Bureau and LLC State Credit Bureau) and pension centre (the State Pension Payment Centre) with regard to each customer.

The additional proprietary data constantly accumulated around the Group's customers' activity within it's Ecosystem that enables it to continuously deepen it's credit decision process.

The risk management block, in terms of credit risk, consists of independent modelling, anti-fraud, monitoring and provisioning division.

Maximum Exposure

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks. For financial assets recorded on statement of financial position, the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

As at 31 December 2018, 2017 and 2016, the maximum exposure to credit risk after offset and collateral was equal to its carrying value of all financial assets except for loans to customers.

As at 31 December 2018, 2017 and 2016, the maximum exposure to credit risk after offset and collateral of loans to customers, was amounted to KZT 813,650 million, KZT 682,377 million and KZT 466,104 million, respectively.

Collateral held as security and other credit enhancements

The Group holds collateral or other credit enhancements to mitigate credit risk associated with financial assets. The main types of collateral obtained are as follows:

- For reverse repurchase transactions – securities;
- For commercial lending – charges over real estate properties and vehicles.

Although, the Group use collateral as credit enhancement to mitigate its exposure to credit risk, major part of its loan portfolio is represented by unsecured loans. Thus, as at 31 December 2018, 2017 and 2016, unsecured gross carrying amount of loans to customers amounted to KZT 877,837 million, KZT 705,790 million and KZT 504,884 million, respectively.

As at 31 December 2018, credit impaired loans with net carrying value of KZT59,172 million were either fully or partially collateralized, reflecting the extent to which collateral and other credit enhancements mitigate credit risk.

(in millions of KZT)

Credit quality of financial assets

The table below present information about the significant changes in the gross carrying amount of loans during the period that contributed to changes in the loss allowance during the year ended 31 December 2018:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loans at amortized cost				
Gross carrying amount as at 1 January 2018	**770,757**	**34,580**	**176,134**	**981,471**
Changes in the gross carrying amount				
- Transfer to stage 1	1,603	(1,135)	(468)	-
- Transfer to stage 2	(25,736)	25,791	(55)	-
- Transfer to stage 3	(77,229)	(27,028)	104,257	-
New financial assets originated or purchased	776,056	-	-	776,056
Financial assets that have been repaid	(491,291)	(7,727)	(8,804)	(507,822)
Write-offs	-	-	(61,878)	(61,878)
Other changes	-	-	(30)	(30)
Gross carrying amount as at 31 December, 2018	**954,160**	**24,481**	**209,156**	**1,187,797**

The Group uses an internal rating model to classify individually significant loans to customers in different risk categories:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
Loans to customers that individually assessed for impairment					
Grades: Low to fair risk	42,094	-	-	-	42,094
Grades: Monitoring	-	-	10,126	-	10,126
Grade: High risk	-	-	70,518	13,785	84,303
Loans to customers that collectively assessed for impairment	912,066	24,481	114,727	-	1,051,274
Total gross carrying amount	**954,160**	**24,481**	**195,371**	**13,785**	**1,187,797**
Loss allowance	**(21,193)**	**(7,028)**	**(81,611)**	**(10,963)**	**(120,795)**
Carrying amount as at 31 December, 2018	**932,967**	**17,453**	**113,760**	**2,822**	**1,067,002**

(in millions of KZT)

	31 December 2017	31 December 2016
Loans to customers that individually assessed for impairment:		
Grades: Low to fair risk	60,944	99,339
Grades: Monitoring	14,637	-
Grade: High risk	81,462	51,108
Loans to customers that collectively assessed for impairment:	824,428	648,115
Total gross carrying amount	**981,471**	**798,562**
Loss allowance	**(90,148)**	**(83,509)**
Carrying amount	**891,323**	**715,053**

	31 December 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Due from banks				
High grade (A- and higher)	18,242	-	-	18,242
Investment grade (BBB+ - BBB-)	101	-	-	101
Non-Investment grade (BB+ - B-)	4,542	-	-	4,542
Low grade (CCC+ and lower)	-	-	-	-
Total gross carrying amount	**22,885**	**-**	**-**	**22,885**
Loss allowance	**(13)**	**-**	**-**	**(13)**
Carrying amount as at 31 December 2018	**22,872**	**-**	**-**	**22,872**

	31 December 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Investment securities and derivatives				
High grade (A- and higher)	1,799	-	-	1,799
Investment grade (BBB+ - BBB-)	322,683	-	-	322,683
Non-Investment grade (BB+ - B-)	39,041	-	3,108	42,149
Low grade (CCC+ and lower)	-	-	-	-
Carrying amount as at 31 December 2018	**363,523**	-	**3,108**	**366,631**

(in millions of KZT)

Financial assets, other than loans to customers and other financial asets, are graded according to their external credit ratings issued by an international rating agencies, such as Standard and Poor's, Fitch and Moody's Investors Services. The highest possible rating is AAA.

	A- and higher	BBB+ to BBB-	BB+ to B-	Not rated	Total
Gross carrying value:					
31 December 2018					
Cash and cash equivalents, net of cash on hand	29,304	43,488	5,773	1,532	80,097
Mandatory cash balances with NBRK	-	17,215	-	-	17,215
Due from banks	18,242	101	4,542	-	22,885
Investment securities and derivatives	1,799	322,683	42,149	-	366,631
31 December 2017					
Cash and cash equivalents, net of cash on hand	27,777	203,026	7,973	1,595	240,371
Mandatory cash balances with NBRK	-	10,870	-	-	10,870
Due from banks	4,773	3,560	-	1	8,334
Investment securities and derivatives	-	196,167	16,368	-	212,535
31 December 2016					
Cash and cash equivalents, net of cash on hand	15,052	78,960	4,386	1,272	99,670
Mandatory cash balances with NBRK	-	7,684	-	-	7,684
Due from banks	733	820	-	1	1,554
Investment securities and derivatives	-	273,197	18,499	245	291,940

As at 1 January 2018 and 31 December 2018 all loan commitments and financial guarantee contracts of the Group are classified in Stage 1 (12-month ECL) and have "low to fair" risk grade.

Modified financial assets.

As a result of the Group's forbearance activities financial assets might be modified. The following tables refer to modified financial assets where modification does not result in derecognition. Financial assets (with loss allowance based on lifetime ECL) modified during the 2018 year:

Gross carrying amount before modification	17,595
Net amortised cost before modification	10,873
Net modification gain/(loss)	-
Net amortised cost after modification	10,873
Financial assets modified since initial recognition at a time when loss allowance was based on lifetime ECL	17,595
Gross carrying amount of financial assets for which loss allowance has changed in the period from lifetime to 12-month ECL cost after modification	-

Macro sensitivity

The Group has performed a sensitivity analysis on how ECL on the main portfolios will change if the key assumptions used to calculate ECL change by 1 percentage point. For the purpose of ECL estimation the Group takes growth rate of real GDP at 3.25% and 3.14% for years 2019 and 2020 respectively as the baseline scenario, 5.08% and 4.95% for years 2019 and 2020 respectively as upside scenario and 1.46% and 1.33% for years 2019 and 2020 respectively as downside scenario. Change in baseline growth rate of real GDP by +/-1 percentage point with respective correction of upside and downside scenarios lead to change in loss allowance amount by KZT -4,375/+4,336 million respectively.

a. Liquidity risk

The liquidity management framework of the Group mainly consists of following instruments:

- Assessment of sufficient level of high quality liquid assets
- Cash flow forecasting
- Diversification of funding
- Social media marketing
- Up-to-date contingent funding plan

The liquidity risk is managed considering specific aspects of Kazakhstan economy, in particular limited funding instruments and possible dollarization due to currency devaluation expectations.

The Group devote great significance to social media marketing, to support the brand of the Group and mitigate various risks such as liquidity and reputational risks. The division of social media marketing covers mass media, social networks, blogs and other sources of information, available to current or potential customers.

Major part of the Group’s obligations consists of customer accounts of individuals, with nominal maturity under 2 years. However 99.9% of deposits in 2018 were rolled over, that ensures Group with reliable and long-term funding base. Average amount of customer accounts is around KZT 908 thousand, which is another indicator of diversification and stability of the funding base.

The Group retains significant amount of high quality liquid assets, that consists mainly from cash, deposits within NBRK, short-term and mid-term notes of NBRK and bonds of Ministry of finance of Republic of Kazakhstan.

b. Market risk

Price Risk

The Group's market risk arises from fluctuations in the value of financial instruments because of changes in market prices whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. The Group has established various limits on operations with securities, including instrument specific limits, in order to balance profit and risk in the securities portfolio. The Group's portfolio is predominantly comprised of Kazakhstan government debt securities.

(in millions of KZT)

Currency risk

The Group manages it's currency risk by keeping modest open currency position. The Group does issue loans to customers only in tenge, which protects the Group from hidden currency risk in case of currency devaluation.

Interest rate risk

Contractual maturities of assets and liabilities of the Group has modest gaps, which provides possibilities of instant reactions on changes of market interest rates. The Group has significant amounts of high quality liquid assets with short maturity which helps to minimizes sensitivity to sharp increase of interest rate in case of liquidity shortfall on the market.

An analysis of the liquidity and interest rate risks is presented in the following table.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2018 Total
FINANCIAL ASSETS						
Interest bearing financial assets	399,366	224,207	465,647	264,844	141,271	1,495,335
Non-interest bearing financial assets	153,452	2,815	4,767	-	-	161,034
TOTAL FINANCIAL ASSETS	**552,818**	**227,022**	**470,414**	**264,844**	**141,271**	**1,656,369**
FINANCIAL LIABILITIES AND COMMITMENTS						
Total interest bearing financial liabilities	68,845	120,911	560,266	367,683	178,434	1,296,139
Non-interest bearing financial liabilities	175,305	5	-	-	-	175,310
Total financial liabilities	**244,150**	**120,916**	**560,266**	**367,683**	**178,434**	**1,471,449**
Guarantees issued and similar commitments	72	14	8	-	1,315	1,409
Total financial liabilities and commitments	**244,222**	**120,930**	**560,274**	**367,683**	**179,749**	**1,472,858**
Liquidity gap	308,596	106,092	(89,860)	(102,839)	(38,478)	
Cumulative liquidity gap	308,596	414,688	324,828	221,989	183,511	
Interest sensitivity gap	330,521	103,296	(94,619)	(102,839)	(37,163)	
Cumulative interest sensitivity gap	330,521	433,817	339,198	236,359	199,196	

As at 31 December 2018, 2017 and 2016, guarantee deposits in favour of international payments systems included in due from banks amounted to KZT 18,322 million, KZT 8,328 million and KZT 5,316 million, respectively.

(in millions of KZT)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2017 Total
FINANCIAL ASSETS						
Interest bearing financial assets	219,171	201,277	385,654	248,195	125,532	1,179,829
Non-interest bearing financial assets	255,328	206	1,322	-	-	256,856
TOTAL FINANCIAL ASSETS	**474,499**	**201,483**	**386,976**	**248,195**	**125,532**	**1,436,685**
FINANCIAL LIABILITIES AND COMMITMENTS						
Total interest bearing financial liabilities	105,409	268,654	523,167	92,690	184,118	1,174,038
Non-interest bearing financial liabilities	87,637	511	4,444	-	-	92,592
Total financial liabilities	**193,046**	**269,165**	**527,611**	**92,690**	**184,118**	**1,266,630**
Guarantees issued and similar commitments	315	316	5	20	1,137	1,793
Total financial liabilities and commitments	**193,361**	**269,481**	**527,616**	**92,710**	**185,255**	**1,268,423**
Liquidity gap	281,138	(67,998)	(140,640)	155,485	(59,723)	
Cumulative liquidity gap	281,138	213,140	72,500	227,985	168,262	
Interest sensitivity gap	113,762	(67,377)	(137,513)	155,505	(58,586)	
Cumulative interest sensitivity gap	113,762	46,385	(91,128)	64,377	5,791	

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2016 Total
FINANCIAL ASSETS						
Total interest bearing financial assets	222,636	129,286	272,077	196,702	126,948	947,649
Non-interest bearing financial assets	170,439	7,630	53,293	-	-	231,362
Total financial assets	**393,075**	**136,916**	**325,370**	**196,702**	**126,948**	**1,179,011**
FINANCIAL LIABILITIES AND COMMITMENTS						
Total interest bearing financial liabilities	32,438	77,919	329,999	373,983	187,148	1,001,487
Non-interest bearing financial liabilities	63,233	-	409	764	-	64,406
Total financial liabilities	**95,671**	**77,919**	**330,408**	**374,747**	**187,148**	**1,065,893**
Guarantees issued and irrevocable credit commitments	208	465	13	241	1,141	2,068
Total financial liabilities and commitments	**95,879**	**78,384**	**330,421**	**374,988**	**188,289**	**1,067,961**
Liquidity gap	297,196	58,532	(5,051)	(178,286)	(61,341)	
Cumulative liquidity gap	297,196	355,728	350,677	172,391	111,050	
Interest sensitivity gap	190,198	51,367	(57,922)	(177,281)	(60,200)	
Cumulative interest sensitivity gap	**190,198**	**241,565**	**183,643**	**6,362**	**(53,838)**	

(in millions of KZT)

Liquidity gap is negative only in long maturity periods if taken cumulative. Nevertheless, based on prior experience, the Group considers it highly unlikely that all customer accounts seek repayment on maturity. Historically the majority of such deposits are rolled over.

Interest rate sensitivity analysis

The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Risk Management Department conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in fair value interest rates and its influence on the Group's profitability.

The sensitivity analysis includes interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

As at December 2018 impact on profit before tax due to +/-3% change in interest rate amounted KZT -/+820 million (2017: KZT -/+939 million, 2016: KZT -/+906 million). Impact on equity before tax due to +/-3% change in interest rate amounted KZT -2,535/+2,800 million (2017: -7,626/+8,493 million, KZT 2016: KZT -2,124/+1,407 million).

Currency risk

The Group's exposure to foreign currency exchange rate risk is presented in the table below:

	Tenge	USD 1 USD = KZT 384.20	EUR EUR 1 = KZT 439.37	Other currency	31 December 2018 Total
Non-derivative financial assets					
Total non-derivative financial assets	**1,483,196**	**148,488**	**8,809**	**5,968**	**1,646,461**
Non-derivative financial liabilities					
Total non-derivative financial liabilities	**1,135,626**	**329,436**	**6,008**	**379**	**1,471,449**
NET POSITION ON NON-DERIVATIVE FINANCIAL INSTRUMENTS	**347,570**	**(180,948)**	**2,801**	**5,589**	**175,012**
Derivative financial instruments					
Accounts payable on spot and derivative contracts	(287,445)	(384)	(33,392)	(5,543)	(326,764)
Accounts receivable on spot and derivative contracts	141,885	168,357	33,392	-	343,634
NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	**(145,560)**	**167,973**	**-**	**(5,543)**	**16,870**
NET POSITION	**202,010**	**(12,975)**	**2,801**	**46**	**191,882**

(in millions of KZT)

	Tenge	USD 1 USD = KZT 332.33	EUR EUR 1 = KZT 398.23	Other currency	31 December 2017 Total
Non-derivative financial assets					
Total non-derivative financial assets	**1,138,400**	**290,247**	**3,910**	**4,117**	**1,436,674**
Non-derivative financial liabilities					
Total non-derivative financial liabilities	**895,827**	**360,734**	**9,810**	**267**	**1,266,638**
NET POSITION ON NON-DERIVATIVE FINANCIAL INSTRUMENTS	**242,573**	**(70,487)**	**(5,900)**	**3,850**	
Derivative financial instruments					
Accounts payable on spot and derivative contracts	(80,090)	(2,426)	-	(3,827)	(86,343)
Accounts receivable on spot and derivative contracts	2,181	72,955	5,973	-	81,109
NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	**(77,909)**	**70,529**	**5,973**	**(3,827)**	
NET POSITION	**164,664**	**42**	**73**	**23**	

	Tenge	USD 1 USD = KZT 333.29	EUR EUR 1 = KZT 352.42	Other currency	31 December 2016 Total
Non-derivative financial assets					
Total non-derivative financial assets	**950,653**	**129,622**	**19,652**	**3,658**	**1,103,585**
Non-derivative financial liabilities					
Total non-derivative financial liabilities	**684,498**	**361,431**	**19,662**	**302**	**1,065,893**
NET POSITION ON NON-DERIVATIVE FINANCIAL INSTRUMENTS	**266,155**	**(231,809)**	**(10)**	**3,356**	
Derivative financial instruments					
Accounts payable on spot and derivative contracts	(72,734)	-	-	(7,923)	(80,657)
Accounts receivable on spot and derivative contracts	-	231,306	-	-	231,306
NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	**(72,734)**	**231,306**	**-**	**(7,923)**	
NET POSITION	**193,421**	**(503)**	**(10)**	**(4,567)**	

Currency risk sensitivity

The Group analysed sensitivity to an increase and decrease in the USD and EUR against the KZT.25% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at 31 December 2018 for a 25% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

As at December 2018 impact on profit or loss and on equity due to +/-25% change in USD rate amounted to KZT +/-3,244 million (2017: KZT +/-11 million 2016: +/-126 million). As at December 2018 impact on profit or loss and on equity due to +/-25% change in EUR rate amounted to KZT +/-700 million (2017: KZT +/-18 million 2016: KZT +/-2 million).

27. Subsequent events

At the extraordinary general meeting of JSC Kaspi Bank's (subsidiary of the Company) shareholders on 18 January 2019, a decision was taken to carry out the voluntary delisting of JSC Kaspi Bank's shares from the official list of Kazakhstan Stock Exchange JSC.

On 7 February 2019, the Group acquired 100% share in a new subsidiary LLP Kaspi Office.