

**ANNUAL REPORT**  
**of the National Bank**  
**of the Republic of Kazakhstan**  
**for the Year 2011**

Almaty, 2012

### List of Abbreviations Used

President of the Republic of Kazakhstan	President
National Bank of the Republic of Kazakhstan	National Bank
Committee for the Control and Supervision of the Financial Market and Financial Organizations of the National Bank of the Republic of Kazakhstan	Committee for Financial Supervision
National Fund of the Republic of Kazakhstan	National Fund
Government of the Republic of Kazakhstan	Government
Ministry of Finance of the Republic of Kazakhstan	Ministry of Finance
Ministry of Justice of the Republic of Kazakhstan	Ministry of Justice
Joint-Stock Company "National Welfare Fund "Samruk-Kazyna"	"Samruk-Kazyna" NWF
"Financial Institutions' Association of Kazakhstan" ULE	FIAK
Commonwealth of Independent States	CIS
Eurasian Economic Community	EurAsEC
Common Economic Space	CES
Shanghai Organization of Cooperation	SOC
Organization for Economic Cooperation and Development	OECD
International Financial Organizations	IFO
International Monetary Fund	IMF
second tier bank	bank
accumulation pension fund	APF
organizations engaged in investment management of pension assets	OEIMPA
mutual investment fund	MIF
US Dollar	US\$

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## EXECUTIVE SUMMARY

1. According to the IMF, in 2011 the global GDP increased by 3.8%. The growth in the US economy is estimated at 1.8%, GDP in the Japanese economy decreased by 0.9%, and the aggregate GDP of the Euro zone countries grew by 1.6%. In the IMF's opinion, the global economic recovery is threatened by the increasing stringency in the Euro zone and vulnerability factors in other regions. Financial conditions deteriorated, development prospects faded and the downside risks increased. In this connection, in 2012 and 2013 the growth of the global economy is anticipated to be at 3.3% and 3.9%, respectively.

2. In 2011, as a result of favorable pricing environment for major items of the Kazakhstan's export and the economic effect from the government support measures to diversify the economy and expand the domestic demand, the growth rate of the gross domestic product accelerated to a certain extent, as compared to 2010. So, according to updated information, during 2011 the GDP has increased to KZT 27.3 trln. in current prices, having increased by 7.5% in real terms versus 2010 (in 2010 the growth accounted for 7.3%)

3. In 2011 the annual inflation was at 7.4%, which is fully in accordance with the National Bank's target band of 6-8% set for 2011.

The increased inflationary background in the economy in the first half of 2011 was caused by realization of external factors. In addition, a fairly low harvest of some grain cultures in the sowing season of 2010 resulted in its shortage in the consumer market and, as a consequence, in the increase in their prices. In 2011 the factors of the inflation growth were also associated with an inefficient pricing mechanism, low or non-existent competition, monopolization of certain markets of goods and services as well as a stable growth in the household income. Meantime, the inflationary processes in Kazakhstan were building up amidst the minimal impact on the part of monetary factors.

In 2012 the National Bank determined keeping the annual inflation within 6-8% as the main goal of its monetary policy.

4. In 2011 the domestic foreign exchange market was developing with a minimal involvement of the National Bank in maintaining the exchange rate of the Tenge. At end-February, the transition from the foreign currency band to the regime of managed floating exchange rate of the Tenge was accomplished.

In 2011, the average-weighted exchange rate of the Tenge was KZT 146.64 per 1 US Dollar. At the year-end the stock exchange rate was KZT 148.40 per 1 US Dollar. Over the year the Tenge has depreciated in nominal terms versus the US Dollar by 0.61%.

The total volume of gross gold and foreign currency reserves amounted to US\$ 29.3 bln. at end-2011, having increased by 3.7% as compared to 2010.

5. With a view to increase sustainability of the domestic sources when building up the funding base of banks, to ensure stability of the banking system and protect depositors' interests, in 2011 the National Bank increased the equity of the Kazakhstan Deposit Insurance Fund by KZT 12.1 billion. Now the overall Fund's equity totals KZT 133.1 billion, and the deposit payout reserve amounted to KZT 161bln. at end-2011.

During 2011 deposits of residents with depository institutions increased by 14.3%, where deposits of individuals increased by 24.1%, and corporate deposits – by 10.2%.

6. After a minor decrease in the lending volumes in 2010 (by 0.7%), in 2011 the lending activity increased significantly. In 2011 the volume of bank credits to the economy increased by 15.7% and amounted to KZT 8 781.4 bln. (US\$ 59.3 bln.). The reduced lending activity was observed in the foreign currency segment of the credit market, being caused by the Government's

actions taken in order to minimize risks in the segment that are implemented through tightening the requirements for banks providing foreign currency loans to the borrowers that do not have foreign currency proceeds or are incorporated in the off-shore zones, as well as because of the reduced interest in foreign currency credits after devaluation of the Tenge.

As a result, during 2011 foreign currency credits decreased by 3.4% to KZT 3 099.7 bln., whereas credits in the domestic currency increased by 29.6% to KZT 5 681.6 bln.

7. During 2011 the reserve money expansion accounted for 10.3%, money supply increased by 15%, and cash in circulation increased by 18.9%. In 2011, the issuing balance from the issue and withdrawal of cash was positive and amounted to KZT (+) 242.0 bln., which is by 16.5 bln. less than during 2010. The number of payments processed through the payment systems of the Republic of Kazakhstan increased by 5.9%, and the amount of payments increased by 2.5% and amounted to KZT 192.4 trln. The number of payment cards in circulation increased by 14.0% and totaled 9.6 mln. cards.

8. As part of improvements in the system of government regulation of the financial market, based on the Presidential Edict, competent government authorities in charge of regulation and supervision of the financial market and financial organizations and in charge of regulation of the activity of the regional financial center of Almaty city have been abolished. Functions and powers of the abolished government authorities have been delegated to the National Bank, which carries out unified government regulation of the financial sector. Departments which fulfill implementing and controlling functions for control and supervision of the financial market and financial organizations as well as for the development of the regional financial center of Almaty city were established with the National Bank by the Presidential Edict of April 18, 2011 No.61.

9. In 2011 positive trends were observed in all segments of the financial market. So, during 2011 bank assets increased by 6.5% (during 2010 – the growth of 4.1%) and amounted to KZT 12.8 trln. During 2011 assets of insurance companies increased by 12.9% and amounted to KZT 387.7 bln. Pension accruals increased by 17.4% and amounted to KZT 2.7 trln.

10. The total market value of the National Fund's portfolio equaled to US\$ 46 584.5 mln. at December 31, 2011. The return of the National Fund for 2011 amounted to 1.37%, return since its inception up to December 31, 2011 was 61.86%, which makes up 4.65% in annual terms.

11. The revenues of the National Bank in 2011 amounted to KZT 56 193.4 mln., expenditures amounted to KZT 18 276.5 mln., and net profits amounted to KZT 37 916.9 mln. and decreased by KZT 11 192.8 mln. as compared to 2010 (22.8%).

## I.ECONOMIC DEVELOPMENT

### 1.1. Real Sector of the Economy<sup>1</sup>

In 2011 as a result of favorable pricing environment for major items of the Kazakhstan's export and the economic effect from the government support measures to diversify the economy and expand the domestic demand, the growth rate of the gross domestic product accelerated to a certain extent, as compared to 2010.

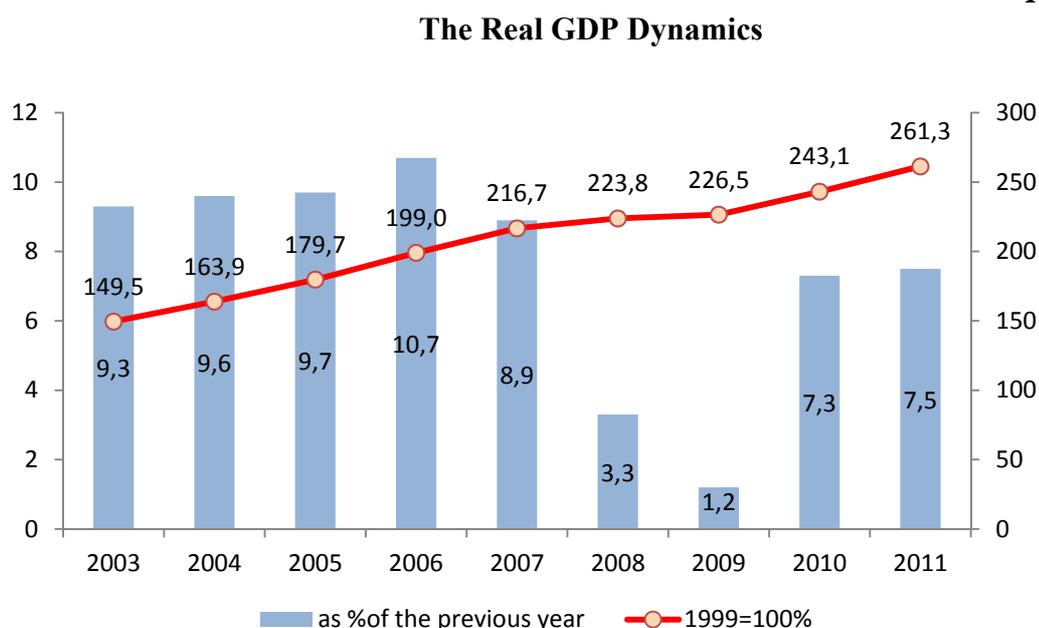
In 2011 the price of crude oil (Brent) was at US\$ 110.9 per barrel on average, whereas in 2010 it amounted to US\$ 79.6, which appeared to be a positive factor for the Kazakh economy.

The Governmental Program for Enforced Industrial and Innovation Development of the Country's Economy for 2010-2014, through the measures of financial and non-financial support, promoted stimulation of business activity in the producing and manufacturing industries of the economy, as well as in the sectors making export-oriented products.

The growth in lending as well as the 30% increase of retirement benefits and salaries and wages for the public sector employees were conducive to expansion of domestic demand in 2011.

As a result, according to the updated information, during 2011 gross domestic product in Kazakhstan in current prices increased to KZT 27.3 trln., having increased in real terms by 7.5% as compared to 2010 (in 2010 – the growth by 7.3%) (Figure 1.1.1).

*Figure 1.1.1*



The growth was noted in all sectors of the economy excluding the financial and insurance activity which demonstrated the decrease of 4.5%. Full-pledged recovery from the crisis for this sector somewhat ran over time, although the decreased depth of recession in this segment from 12.3% in 2010 to 4.5% in 2011 may be noted as a positive factor.

In the GDP composition, the highest growth rates were observed in such sectors as agriculture (the growth by 26.7%), information and communications (by 18.7%), wholesale and retail trade (by 14.5%), transport and warehousing (by 12.5%), and manufacturing industry (by 6.2%) (Figure 1.1.2).

A record-high harvest of grain cultures is fundamental for the growth in agriculture, which resulted in the increased plant production volume by 58.6% in 2011, whereas in 2010 the plant production dropped by 22.6% because of adverse weather conditions.

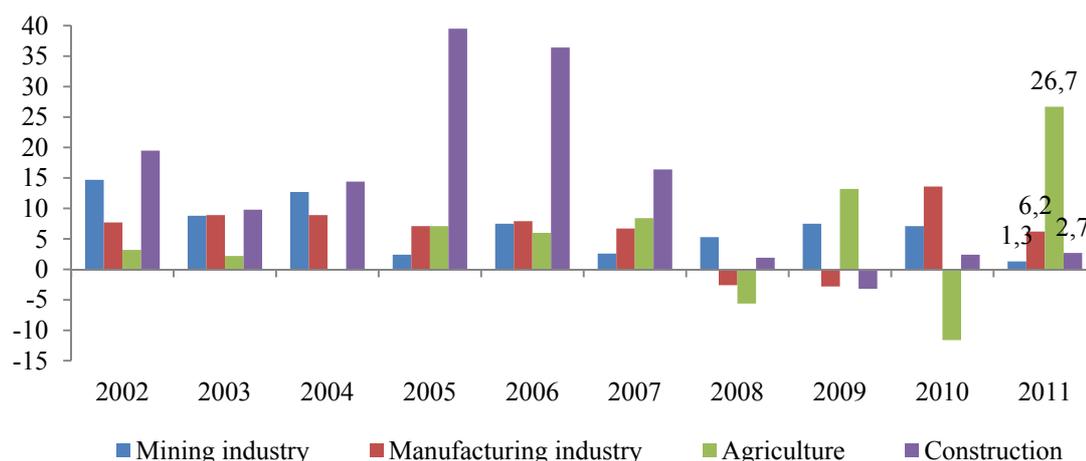
<sup>1</sup> according to the Agency of Statistics

In the GDP structure, positive changes were observed that consisted in the growth of non-oil sectors of the economy, for which reason the economic growth in 2011 was more balanced and diversified by sectors. As compared to 2010, in 2011 the share of the manufacturing industry in the total GDP volume increased from 11.3% to 11.5%, of agriculture – from 4.5% to 5.2%, of trade – from 13.0% to 14.0%, and the share of the mining industry decreased from 19.5% to 17.8%.

**Figure 1.1.2**

**Dynamics of the Index of Physical Volume of Output in Individual Sectors of the Economy**

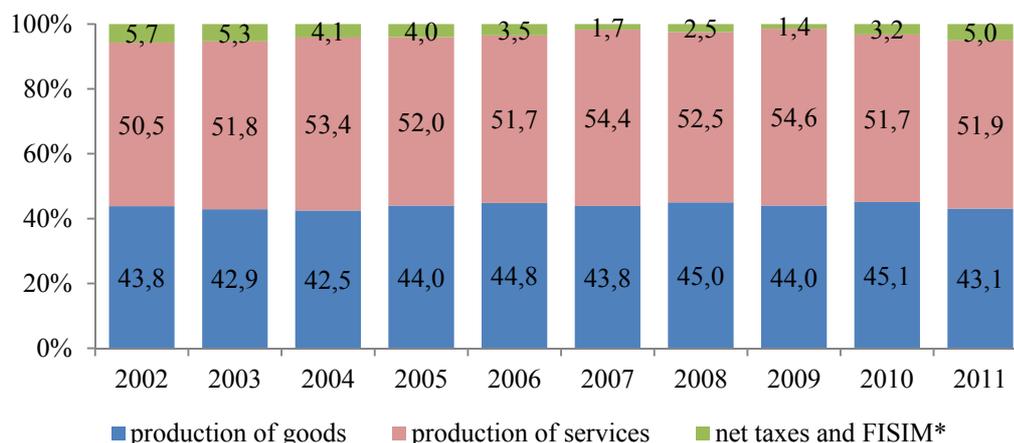
as % of the previous year



In the structure of GDP, the major portion still falls on the services (51.9%), with their share steadily exceeding a half of the GDP volume since 2002 (Figure 1.1.3).

**Figure 1.1.3**

**Structure of Gross Domestic Product**

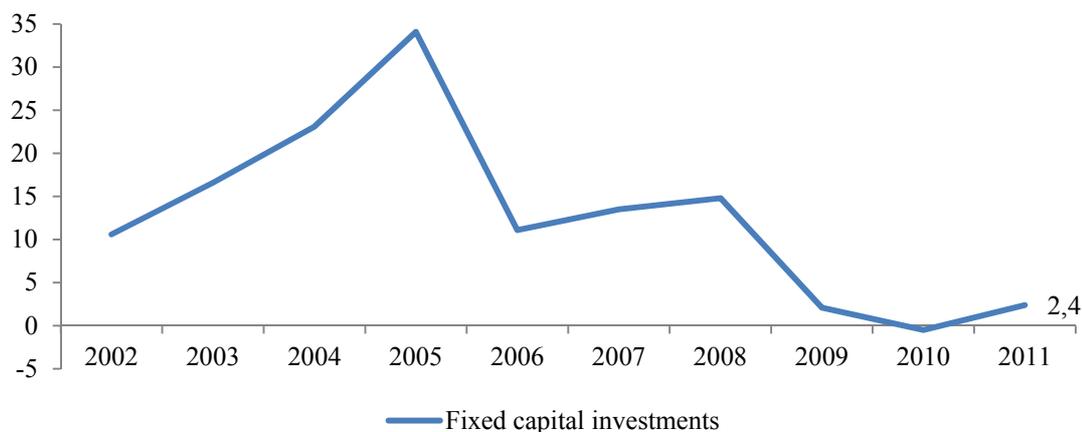


\* FISIM – financial intermediation services indirectly measured

After the decrease in fixed capital investments by 0.5% in 2010, the situation improved in 2011 and the investment volumes increased by 2.4% (Figure 1.1.4). Such growth was secured by the increased inflow of fixed capital investments to a number of sectors which lacked funding in 2010, such as agriculture, transport, information and communications, accommodation and catering services.

**Figure 1.1.4****Growth Rates of Fixed Capital Investments**

as % of the previous year



Decreased investments in 2011 were observed in the following sectors: mining industry – by 9.7%, wholesale and retail trade, auto service and repair of motorcycles – by 6.6%, financial and insurance business – by 19.6%, professional, scientific and technical activities – by 17.6%, administrative and ancillary services – by 44.0%, public healthcare and social services – by 39.6%, and arts, entertainment and recreation – by 12.7%. The percentage of these sectors in the total volume of investments accounted for 40.1%.

The most significant percentage of fixed capital investments falls on the industry (52.3%), transport and warehousing (18.0%), as well as real estate operations (9.9%). Despite decreased investments in the mining industry, it still remains one of the most attractive sector for investments comprising 31.3% (in 2010 – 36.0%) in the total volume of fixed capital investments.

In 2011 the structure of investments by sources of fixed capital funding has undergone considerable changes. So, the share of investments from equity capital increased from 40.7% to 49.0% in the total volume, whereas the share of investments from the state budget decreased from 21.8% to 19.5%, share of foreign investments – from 26.7% to 20.9%, and share of borrowed funds – from 10.8% to 10.6%.

In terms of the technological structure of investments, an increase in the share of investments intended for the purchase of machinery, equipment, instruments, and fixtures is observed. In 2011 investments in residential construction increased by 19.2%, and the total volume of construction works (services) increased by 2.7%.

The unemployment rate decreased from 5.5% in December 2010 to 5.4% in December 2011.

The 30% increase in retirements benefits, student scholarships as well as salaries and wages to the public sector employees accelerated the growth in household income which has increased in real terms over the year by 7.4%, as compared to 5.6% a year later.

## 1.2. Monitoring the Real Sector Enterprises

During 2011 the number of enterprises - participants of the monitoring process representing the key sectors of the country's economy increased from 2 171 to 2 397, where the number of medium- and large-size enterprises increased from 1 306 to 1 462. Enterprises are selected for participation in the monitoring process based on the sectoral and regional structure of the economy by selecting the representative sample of enterprises. Revenue from the sale of products (works, services) of the enterprises participating in the monitoring process amounted to KZT 4 927.9 bln. in the 3rd quarter of 2011, making over 50% of the total revenue from realization of output in the country's economy.

The results of quarterly surveys among enterprises allow making the following conclusions about the developing economic situation and the main trends in the real sector of the economy in 2011.

The demand for final products at the beginning of 2011 was lower than at end-2010, however, in the 2nd quarter of 2011 the demand increased notably due to the growth in the indicator in the manufacturing and mining industries but from the 3rd quarter the growth rates started to slow down (Appendix 1 to Section I Sub-section 1.2, Figure 1.2.1).

During the year prices for raw materials and supplies continued to grow, however, their growth rates decreased from quarter to quarter. The highest growth occurred in the 1st quarter of 2011 when 60.5% of enterprises in the sample noted the growth in prices and only 1.0% – their decrease (Appendix 1 to Section I Sub-section 1.2, Figure 1.2.2).

During 2011 the dynamics of prices for final products of enterprises were determined by the change in prices for raw materials and supplies: in the second half of the year the indicator was growing at lower rates than in the first half of the year. The highest growth in prices occurred in the 1st quarter of 2011 (Appendix 2 to Section I Sub-section 1.2, Figure 1.2.3). In the 4th quarter of 2011, the decreasing growth of prices for final products was noted in all sectors of the economy except agriculture where the price growth rates increased.

The trend where enterprises financed their working capital mainly with their own funds was noted by over 80% of enterprises.

Average-weighted profitability of sales (before tax) in the economy increased and accounted for 48% (in 2010 – 45%). Respectively, the share of low-profitable and loss-making enterprises decreased to 25.1% (in 2010 – 27.2%).

The mining industry remains more attractive for investments in comparison with other sectors: the average annual profitability of sales accounted for 66.8%. Profitability in the manufacturing industry was at 33.1%, in trade – 15%, and in the transport and communications – 28.2%, and in the production and distribution of electricity, gas and water – 24.5%.

By the end of 2011 interest rates on credits, both in the Tenge and in foreign currency, were decreasing (from 13.8% and 11.2% in the 1st quarter of 2011 to 12.9% and 10.5% in the 4th quarter of 2011, respectively). The highest decrease in interest rates was observed in such sectors as the manufacturing industry and agriculture. Besides, the number of enterprises that applied for a bank credit but didn't obtain it decreased (to 3.9%, from 4.4% in 2010 (Appendices 2, 3 to Section I Sub-section 1.2, Figure 1.2.4, 1.2.5).

During 2011 there was some growth in the investment activity of the real sector of the economy, mainly at the expense of equity capital of enterprises (the number of such enterprises increased from 55.2% in the 1st quarter of 2011 to 59.7% in the 4th quarter of 2011).

### **1.3. Public Finance<sup>2</sup>**

During 2011 various amendments to the Tax Code of the Republic of Kazakhstan were made in respect of rates of corporate income tax, mineral extraction tax and taxes on vehicles and excises.

A phased-by-phase reduction of tax rate on the corporate income tax was cancelled. The corporate income tax rate was retained at 20%, as for the value-added tax, a zero rate is applied to international airports which sell fuel and lubricants when refueling aircrafts of foreign air companies which carry out international flights or international airlift operations. Starting from 2011 and up to 2014, provisions were made for a phase-by-phase increase in the excise rates for tobacco. The rates of the vehicle tax changed.

Revenues to the state budget amounted to KZT 5 370.8 bln. or 19.7% of GDP at end-2011, having increased by 24.9% as compared to 2010.

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<sup>2</sup> According to the Ministry of Finance

Tax revenues accounting for 74.1% in the structure of the state budget revenues, amounted to KZT 3 982.3 bln. or 14.6% of GDP (in 2010– 13.4% of GDP). The changes in the system of taxation resulted in the increase in tax revenues by 35.7% as compared to 2010. Revenues from taxes on international trade and foreign operations increased by 2.2 times, revenues from the use of natural and other resource – by 28.9%, revenues from the value-added tax – by 27.8%, revenues from corporate income tax – by 25.5%, excise revenues – by 24.4%, and revenues from personal income tax – by 20.5%.

A minor growth occurred in the social tax revenues – by 16.9%, revenues from taxes on vehicles – by 14.1% and from property tax – by 8.8%. Revenues from the land tax decreased by 3.6%.

Non-tax revenues in 2011 increased by 32.8% and amounted to KZT 138.6 bln. or 0.5% of GDP. Such increase was mainly secured by the growth in cash receipts from public procurements, revenues from public property and penalties, fines, sanctions, and collections.

As compared to 2010, revenues from fixed capital sales decreased by 17.7%.

As for the receipt of transfers, the plan was implemented for 100%. During 2011, with the planned funding for development programs of KZT 1 200.0 bln., the guaranteed transfer of KZT 1 200.0 bln. was made to the national budget from the National Fund. As compared to 2010, the receipt of transfers didn't change.

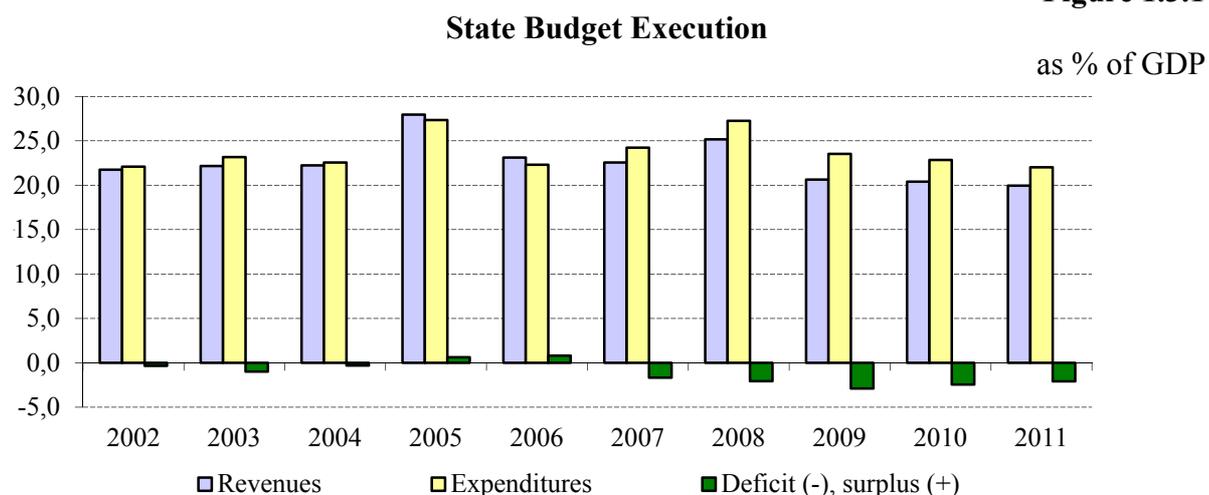
During 2011 the state budget spending amounted to KZT 5 423.2 bln. or 19.9% of GDP (in 2010 – 20.4% of GDP). As compared to 2010, expenditures increased by 21.7%. The highest increase in the total expenditure volume occurred in expenditures for welfare and social security – by 35.1%, education – by 18.2%, and public healthcare – by 11.5%.

In 2011 provided public budget loans increased by 27.4%, and proceeds in repayment of earlier loans decreased by 18.6%. As a result, the volume of net budget lending increased by 3.1 times to 0.3% of GDP.

The state budget spending for the acquisition of financial assets increased by 28.9%, and proceeds from their sale – by 64.1%. Thus, the balance of such operations increased by 28.8% to 1.6% of GDP.

In 2011 the state budget was executed with the deficit of KZT 568.6 bln. (2.1% of GDP), in 2010 the deficit totaled KZT 527.3 bln. (Figure 1.3.1).

**Figure 1.3.1**



Revenues to the national budget in 2011 amounted to KZT 4 451.7 bln., which is by 22.8% greater than in 2010. Tax revenues to the national budget increased by 44.0%, non-tax revenues – by 52.5%. Proceeds from the sale of fixed capital decreased by 32.2%, and receipts of transfers – by 8.4%.

The growth in the national budget spending which reached KZT 4 605.1 bln. accounted for 19.3% as compared to 2010. A significant increase is observed in such items as "construction and industry" (by 97.2%), "general public services" (by 38.6%), "other" (by 37.4%), "education" (by 31.4%), as well as "debt servicing" (by 27.8%).

The volume of net budget lending to the national budget in 2011 increased by 2.4 times to KZT 84.6 bln. due to the increased volume of public budget loans by 32.9% and the decreased volume of proceeds in repayment of public budget loans by 3.0%. The balance of operations with financial assets increased by 19.0%.

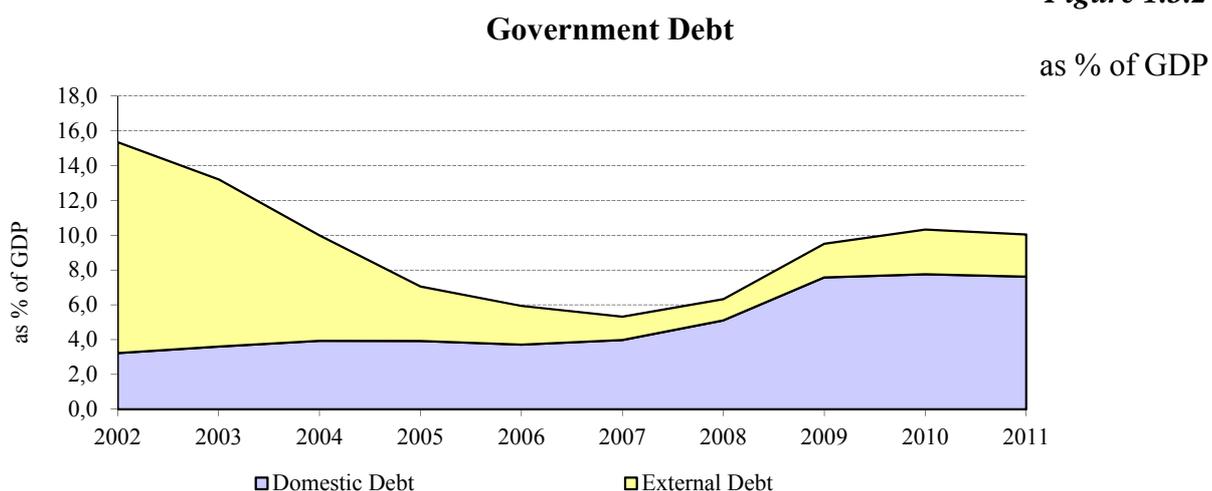
Thus, the actual national budget deficit in 2011 amounted to KZT 576.0 bln., (in 2010 – KZT 554.8 bln.), whereas according to the plan the deficit of KZT 602.5 bln. was expected.

In 2011 the local budget was executed with a deficit of KZT 10.6 bln. (in 2010 – the surplus of KZT 6.6 bln.), which ended up like this because of increase in revenues by 11.2%; expenditures increased by 10.6%, balance of operations with financial assets increased by 73.2%, and net budget lending decreased by 65.8%.

In 2011 the domestic government debt amounted to KZT 2 080.5 bln. (7.6% of GDP), having increased by 24.6% as compared to 2010 (Figure 1.3.2).

The growth in the domestic debt was secured by the issue of long-term government treasury obligations and long-term treasury savings obligations.

**Figure 1.3.2**



During 2011 the government's external debt increased by 18.8% as compared to the respective indicator for 2010 and amounted to US\$ 4.5 bln. (2.4% of GDP). The external debt guaranteed by the government increased by 42.4% to US\$ 442 mln.

#### 1.4. Balance of Payments and External Debt

The surplus of *current account balance* in 2011 increased nearly by 5.9 times as compared to the respective indicator for 2010 and amounted to US\$ 14.1 bln. or 7.6% of GDP (1.6% in 2010) (Appendix 1 to Section I Sub-section 1.4).

A significant increase in the positive current account balance was secured by the outstripping growth in the value of exports and high world energy prices. During 2011 the world oil price (Brent) was US\$ 110.9 per barrel on average, which is by 39.3% higher than its average level in 2010 (US\$ 79.6 per barrel). As a result, *export of goods*, having increased by 43.7%, amounted to US\$ 88.5 bln. whereas *import of goods* increased by 25.2%, exceeding in total US\$ 41.2 bln.

The official export of goods was at US\$ 88.3 bln., of which US\$ 55.2 bln. (62.5%) falls on exports of oil and gas condensate. The cost of exports of ferrous metals increased by 43.2%, and non-ferrous metals – by 41.4%. In this respect, if the growth in exports of ferrous metals was

mainly caused by increased volumes of physical supplies, the growth in exports of non-ferrous metals was mainly secured by the growth in contractual prices.

Import of goods recorded by the official trade statistics amounted to US\$ 37.0 bln., which is by 19% higher than the indicator in 2010. The growth was noted in all commodity groups of the major list of imports. The growth in import of investment goods which comprise the largest share in the imports (about 37.6%), accounted for 19.5%. Interim consumption products showed the increase by 12.3%, and consumer goods – by 24.9%. Total import of consumer foodstuffs increased by 23.8%, and non-food products – by 25.7%. Contrary to export operations, the increase in the cost of imports was mainly secured by the growth in quantitative supplies.

In general, *the trade balance* in 2011 was positive of KZT US\$ 47.3 bln. (the growth by 64.9% versus US\$ 28.7 bln. in 2010), compensating net outflow of resources from operations with international services and investment returns.

Deficit in the *balance of services* in 2011 amounted to US\$ 6.4 bln., having decreased by 9.4% versus 2010, which was secured by the decreased import of services by 3.6%.

Improved external pricing environment and the growth in business activity in the country promoted significant increase in revenues of foreign direct investors from equity participation in the Kazakhstani enterprises including those operating in the sector of communications, transport, electric energy and other non-export sectors. While interest payments to creditors not bound by the direct investment relations grew by 16.0% (from US\$ 2.7 bln. to US\$ 3.1 bln.), *revenues of foreign direct investors* (in the form of dividends, reinvestments and interest on inter-company loans) increased by 42.6%, amounting to US\$ 23.5 bln. As a result, the negative *balance of investment income* amounted to US\$ 24.7 bln. versus US\$ 17.4 bln. in 2010.

In 2011 *the financial account* demonstrated a net outflow of US\$ 8.0 bln.

In *direct investments abroad*, net outflow of US\$ 4.5 bln. was secured by the growth in owners' equity. Capital of foreign special purpose vehicles ("SPVs") was partially financed against the repayment of earlier loans provided by the Kazakh direct investors. There is a minor net inflow on loans obtained by foreign subsidiaries (US\$ 54 mln.), mainly secured by the syndicated loan borrowed by KazMunaiGas JSC via the SPV in the 3rd quarter of 2011, while in other quarters net repayment of their debt commitments by the Kazakh direct investors prevailed.

*Gross inflow of foreign direct investments* ("FDIs") to Kazakhstan amounted to US\$ 19.9 bln. The increase versus 2010 by US\$ 1.7 bln. was mainly secured by operations associated with the capitalization of banks with foreign participation and companies in the non-bank sector. With the growth in the shareholders' equity to US\$ 2.6 bln. in 2011 from US\$ 750 mln. in 2010 as a result of more active distribution of profit earned in the past periods, reinvestments decreased by 12.5% (US\$ 2.2 bln. in 2011 versus US\$ 2.5 bln. in 2010), and a minor decrease in proceeds in the form of inter-company loans is also observed. Less debt repayment on such loans of US\$ 6.7 bln., *net inflow of FDIs* to Kazakhstan exceeded US\$ 12.9 mln. in 2011 versus US\$ 10.8 bln. in 2010. As a result, positive *balance on direct investment operations* in 2011 amounted to US\$ 8.4 bln.

Net outflow on *portfolio investments* of US\$ 13.5 bln. was mainly secured by the growth in foreign assets of the National Fund by US\$ 12.2 bln. Exit by non-residents from the market of short-term notes of the National Bank in 2nd - 4th quarters of 2011 resulted in net outflow of resources on operations with the National Bank's notes of US\$ 0.2 bln.

In the banking sector operations, in 2011 net outflow amounted to US\$ 3.3 bln. (US\$ 11.2 bln. at end-2010). A record-high decrease in bank liabilities in 2010 by US\$ 15.6 bln. on *long-term investments* (including due to their debt restructuring) in 2011 was replaced by a moderate net repayment exceeding US\$ 2.0 bln. In total, bank foreign liabilities decreased by US\$ 2.7 bln. during the reporting period. Foreign assets of the banking system increased by US\$ 0.6 bln.

Operational growth in international reserves by US\$ 6.3 bln. in the 1st quarter of 2011 was offset by their decrease in the subsequent 9 months due to the increased demand for the US Dollars in the domestic foreign exchange market. On the whole, based on operations in 2011 *international reserves of the National Bank* increased by US\$ 0.3 bln. As a result, as of December 31, 2011,

gross international reserves were estimated at US\$ 29.3 bln., which is sufficient to finance the Kazakh import of goods and services for 6.8 months.

During 2011 gross external debt of the Republic of Kazakhstan increased by US\$ 5.6 bln. and as of December 31, 2011 amounted to US\$ 123.8 bln. In this respect, if during 2011 the external debt of the "government sector" (the RK's Government) and "Other sectors" (including inter-company debt) demonstrated the growth by US\$ 0.7 and 10.7 bln., respectively, foreign liabilities of the "Monetary authorities" (National Bank of the RK) and "Banks" (second-tier banks and the Kazakhstan Development Bank) decreased during the same period by US\$ 0.4 and 5.3 bln., respectively (Appendix 2 to Section I Sub-section 1.4).

Such growth in the liabilities of the Kazakh Government occurred mainly due to the proceeds on loans from international financial organizations.

The decrease in account balances of non-residents and the volume of notes of the National Bank of Kazakhstan held by non-residents were conducive to the decrease in the National Bank's liabilities, to the same extent.

The decreased market value of bank bonds held by non-residents (by US\$ 2.45 bln.) as well as loan repayments contributed to the decrease in foreign debt of the banking sector in 2011 to a large extent, as a result of fall in prices for such securities.

In 2011, the increase in external debt of "Other sectors" occurred primarily due to the growth in the inter-company debt (by US\$ 7.6 bln.), mainly as a result of inflow of finance to the projects implemented in Kazakhstan through the branches of foreign companies as well as due to the borrowings including via SPVs (a syndicated loan to KazMunaiGas JSC of US\$ 1 bln.).

Relative parameters of external debt linked to the exports of goods and services ("EGS") and GDP continue to improve; this fact is associated with the outstripping growth in EGS and GDP. In particular, at end-2011 GED to EGS accounted for 133.2% versus 179.6% at end-2010 and 234.3% at end-2009. The ratio of GED to GDP as of December 31, 2011, accounted for 66.6% versus 79.9% at end-2010 and 98.3% at end-2009. (Appendix 3 to Section I Sub-section 1.4).

Owing to the fact that during 2011 the growth in assets of the country exceeded the growth in its liabilities, net external debt of Kazakhstan decreased by US\$ 11.9 bln. and amounted to US\$ 31 13.6 bln. at December 31, 2011. Alongside with that, the government sector consolidated its position as a net creditor – assets exceeded debt obligations by US\$ 59.1 bln. (by US\$ 47.1 bln. at end-2010); also, since mid-2011, "Banks" moved to the position of a net creditor from the position of a net debtor.

International reserves of the National Bank represent an important component of foreign assets, especially in terms of smoothing the problems with foreign exchange liquidity. At end-2011 international reserves exceeded short-term external debt to original maturity by 3.2 times. It is worth mentioning that this indicator had been improving from year to year (1.9 – at end-2008, 2.3 – at end-2009, and 3.1 – at end-2010), which is associated with a higher growth in short-term gross external debt.

### **1.5. Ensuring Financial Stability**

At end-2011 risk that existed in the previous years remained and trends of the past years became more apparent. So, at end-2011, a low asset quality caused by the realization of credit risk during the crisis and low volumes of replacement of problem loans by new loans still represents the major problem in the banking sector. At the same time, the growth in the demand for credit resources, both on the part of households and the corporate sector predetermined by the improved economic environment, contributed to the increased growth rates of the loan portfolio.

In addition, a continued replacement of liabilities to non-residents by the domestic liabilities creates pre-requisites for increased ability of the banking sector to withstand external shocks.

In 2011 the National Bank undertook a number of actions that create essential conditions to reduce the risks for the financial system and establish the basis for a more sustainable growth of the financial system in the long run.

**Lending activity of banks.** In 2011 lending activity of banks was recovering. Thus, as of January 1, 2012, the banking sector's credit portfolio totaled KZT 10 472.8 bln., having increased by 15.5% in 2011 versus the decrease by 5.9% in 2010.

Banks were actively building up the corporate sector credit portfolio. A higher growth in the demand was achieved mainly due to the demand from the small and medium business and to a smaller extent due to large business entities. The largest demand on the part of non-financial organizations was observed in such sectors of the economy as trade and repair, construction, manufacturing industry, production and distribution of electricity, gas and water, as well as agriculture.

The retail lending market was demonstrating positive dynamics of the growth in the demand for credit resources on the part of households, even despite the fact that interest rates on consumer and mortgage loans still didn't reach their pre-crisis level. Interest in consumer lending among banks is related to the increased demand on the part of individuals that has already become a positive trend. In its turn, no visible growth is observed in the mortgage lending due to a high percentage of non-performing loans in the mortgage loan portfolio.

In 2011 banks continued to implement a more liberal lending policy in the retail segment versus the sector of corporate lending. As for their corporate clients, banks have a fairly high perception of risks related to the change in the collateral value and the change in financial condition of the large business. As a result, banks pursued a more moderate lending policy in respect of their corporate clients, as compared to individuals.

At end-2011, considerable growth in competition for good quality borrowers among banks appeared to be a special moment in the area of lending. This factor resulted in the decrease in the value and the growth in availability of credits, particularly, it resulted in lower interest rates, fees and the increased loan tenors.

**Credit Risk.** At end-2011 a high percentage of problem loans continued to affect the quality of bank loan portfolios. The resulting dynamics of the loan portfolio was caused not only by the migration of loans from higher classification categories to lower ones because of reduced borrower creditworthiness but also by a low intensity of the process of replacing non-performing loans by standard loans provided.

With a view to improve the asset quality, in 2011 banks continued performing procedures related to the problem loan restructuring. In doing so, the majority of banks note the slowdown in the restructuring process and in foreclosures on problem loans; this is related to the decreased number of problem loans that can be potentially restructured and the disposal of collateral which was recognized as the property of those banks under the court's resolution.

In 2011 banks, when dealing with problem loans, did the following: extended the total term of lending, changed the payment schedule, granted a delay in repayment of past due, reduced the amount of fine, didn't apply penalties, refinanced the debt due to bank including application to another bank by the borrower.

Thus, restructuring allowed reducing the intensity of loan migrations from higher classification categories to the lower ones, however, this hasn't helped improving the credit portfolio. At the same time, banks virtually didn't charge off loss loans due to unsolved problems of taxation of income from restored provisions and the absence of efficient mechanisms for management of non-core assets of banks.

In order to assess vulnerability of banks to external shocks, at end-2011 the National Bank performed the stress-testing of credit risk. Based on the stress-scenario, assuming that oil price would drop to US\$ 40 per barrel, potential violation of prudential ratios by 3 banks was identified. At the same time, despite possible violations of ratios by some banks in the event the stress-scenario

is realized, in order to increase financial soundness of banks the necessity to increase the tier 1 capital would not go over 10% for the sample of reviewed banks.

***Funding of the Banking Sector.*** In 2011 the process of replacement of bank foreign liabilities by the domestic liabilities that outlined in 2008, continued. The reasons for the change in the funding structure were both the global capital market environment and the assets and liabilities management policy adhered to by the Kazakh banks. Lending conservatism of banks continues to determine their limited need in borrowing of relatively "expensive" money from external sources at such rates which demonstrate significant volatility due to a number of sovereign crisis cases in Europe and problems with the US Government debt. In 2011 the volume of bank external debt was decreasing due to repayments of existing liabilities coupled with low volumes of new borrowings. Alongside with that, foreign funding was replaced by the domestic funding mainly due to attracted deposits of residents. In 2011 the deposit base of the Kazakh banks made up 2/3 of the total funding volume. A high growth rate of the volume of domestic deposits was caused by two key factors: remaining confidence in banks as a result of measures taken to support the banking sector and lack of alternative for deposits as the means of placement of available cash because of the undeveloped stock market and the reduced speculative attractiveness of the real estate market. Besides, in 2011 resources allocated as part of the support for top-priority sectors were gradually repaid. As a whole, amidst recovery of the economy and financial sector after the period of instability in 2008-2010, the share of deposits of subsidiaries and associates of the National Welfare Fund "Samruk-Kazyna" placed with banks in their total assets decreased from 10.3% to 7.6%.

***Measures Taken by the Government and the National Bank to Enhance Financial Soundness.*** For the purpose of enhancing financial soundness, in 2011 the government took a number of measures:

- amendments to the tax code were made suggesting that income from restoration of provisions shall be deducted from taxable income when charging off loss loans.

- the Concept for Improvement of the Bank Assets Quality was designed that suggests using centralized and decentralized approaches in the course of bank balance sheet rehabilitation. So, as part of its implementation, the National Bank established a specialized subsidiary – Problem Loans Fund that would repurchase bank problem loans and take actions to restore their quality. The Concept also involves the establishment of special purpose vehicles with a view to repurchase poor quality assets and to make efforts to restore their value by the banks themselves (decentralized approach). Due to implementation of such measures, one may expect that in 2012 the quality of the credit portfolio of the majority of large and medium-size banks will improve.

In 2011 18 meetings of the Council for Financial Stability and Financial Market Development of the Republic of Kazakhstan were held, where the most current aspects in the development of the Kazakh financial system were discussed. As part of such meetings, the following topics were addressed: the transition to the Basel III by the Kazakh banking sector as it pertains to the regulation of liquidity and provisioning, changes in prudential regulation of the insurance sector and implementation of the Solvency II, fine-tuning the requirements to engaging in reinsurance with non-residents, improving the accumulation pension system and the securities market including prevention of manipulations in the securities market and improvement of its infrastructure.

## II. MONETARY POLICY, GOLD AND FOREIGN CURRENCY RESERVES MANAGEMENT AND CURRENCY EXCHANGE REGULATION.

### 2.1. Monetary Policy

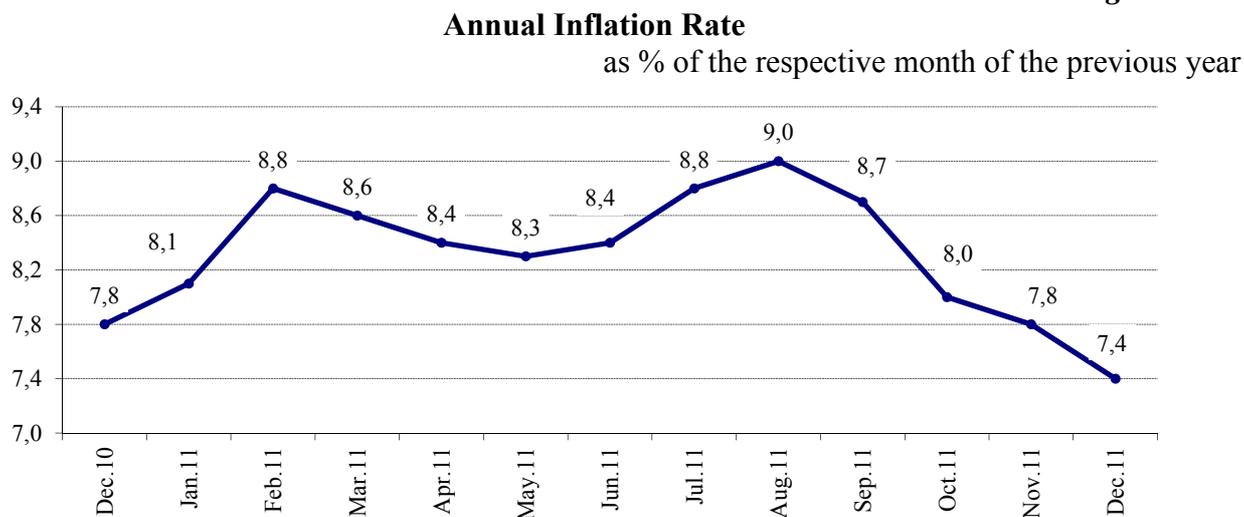
In the first half of 2011, the inflation background in the economy remained, and it started to decrease in the second half of 2011. The reason for increased inflationary background in the economy in the first half of 2011 was the realization of a number of external factors. The growth in world prices in the commodity markets, including oil prices, disparity in price levels within Kazakhstan and its trading partners in the Customs Union also had an upward effect on the buildup of inflationary processes in Kazakhstan. Moreover, a fairly low harvest of certain grain cultures in the sowing season of 2010 resulted in its shortage in the consumer market and, as a consequence, in the increase in their prices.

In 2011 the factors of inflation growth were also associated with an inefficient pricing mechanism, low or non-existent competition, monopolization of certain markets of goods and services as well as a stable growth in the household income.

Meantime, the inflationary processes in Kazakhstan were building up amidst the minimal impact on the part of monetary factors. So, the growth in the money supply in 2011 accounted for 15.0%, and the reserve money expanded by 10.3%.

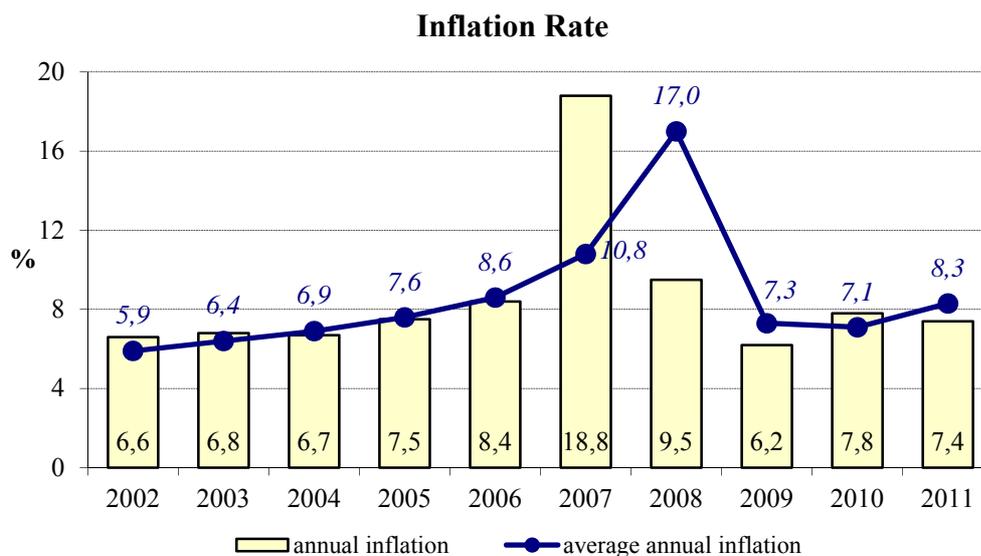
Nonetheless, coordinated and balanced efforts of the Government and the National Bank in ensuring the price stability allowed slowing down the inflation rates significantly. As a result, at end-2011 the annual inflation was within the target band of 6-8% and accounted for 7.4% (Figure 2.1.1).

*Figure 2.1.1*



In 2011 the annual inflation was lower by 0.4 percentage points than in 2010 (Figure 2.1.2). Average annual inflation accounted for 8.3%, versus 7.1% in 2010.

Figure 2.1.2



In 2011 the growth rates of prices for non-food products and paid services remained virtually unchanged versus 2010. At the same time, the growth rates of foodstuff prices somewhat slowed down. The price of foodstuffs increased by 9.1% (in 2010 – by 10.1%), the price of non-food products – by 5.3% (by 5.5%), and the price of paid services to the population – by 7.3% (by 6.8%).

The highest growth was demonstrated by prices for cereals – by 43.3%, for gasoline – by 24.0%, for diesel fuel – by 26.2%, for meat and meat products – by 23.2%, for education services – by 12.4%, for dairy products – by 8.9%, and for utility services – by 6.5%.

A gradual growth in the world prices resulted in the increased cost of the industrial output of the Kazakh producers in 2011. In 2011 as a whole, the price of industrial output increased by 20.3% (in 2010 – the growth by 12.9%).

At the same time, the cost of output increased by 21.3%, where the cost of interim consumption products increased by 23.2%, of production means – by 11.6% and the cost of consumer goods – by 9.2%. Production services increased in price by 8.1%.

**Monetary Policy Instruments.** In 2011 the main goal of the National Bank was to ensure the price stability in the country and maintain the annual inflation rate within 6-8%.

In 2011 the National Bank moved to the managed floating exchange rate regime. The National Bank was pursuing the policy aimed at ensuring the stability of the domestic currency and at retaining a favorable competitive environment for the domestic producers.

Throughout 2011, the situation in the domestic foreign exchange market remained stable. At the same time, unstable situation in the global financial markets had influence on the foreign exchange market participants in Kazakhstan. This was accompanied by some volatility of the exchange rate of the Tenge versus the US Dollar. In the first half of 2011, the Tenge has slightly appreciated versus the US Dollar and in the second half it slightly depreciated. Meantime, fluctuations of the exchange rate of the Tenge versus the US Dollar were insignificant.

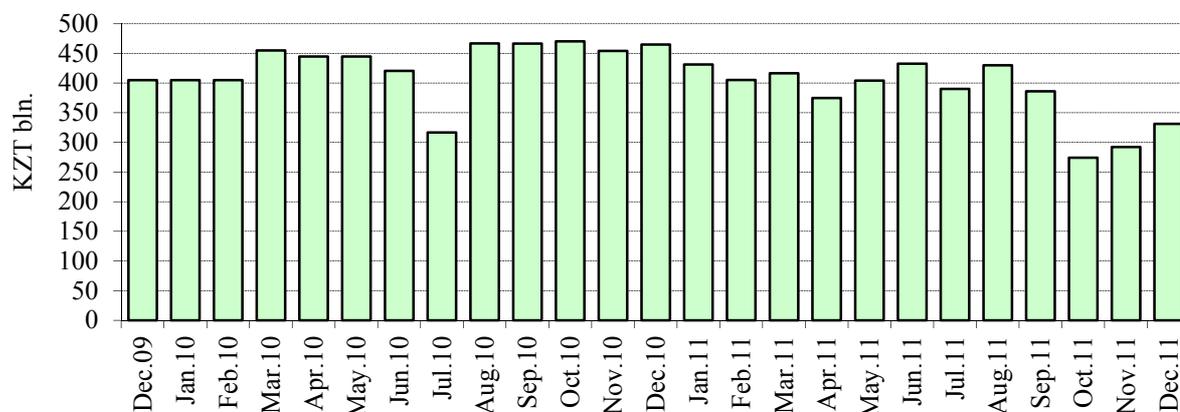
In order to avoid significant surges in the exchange rate and maintain stability in the foreign exchange market, the National Bank participated in the stock exchange market and off-exchange markets both as a buyer and as a seller of foreign exchange, depending on the situation in the market. Also, in 2011 the National Bank performed currency exchange transactions for the Ministry of Finance.

In 2011 the National Bank provided refinancing loans to banks through reverse REPO operations. During 2011 the total volume of refinancing loans amounted to KZT 5.5 trln. Maturities of such operations didn't exceed 1 month.

As of the end of 2011, the volume of outstanding liabilities of banks to the National Bank on reverse REPO operations amounted to KZT 331.1bln. (Figure 2.1.3).

*Figure 2.1.3*

**Volume of outstanding liabilities on the refinancing loans to banks (at end-period)**

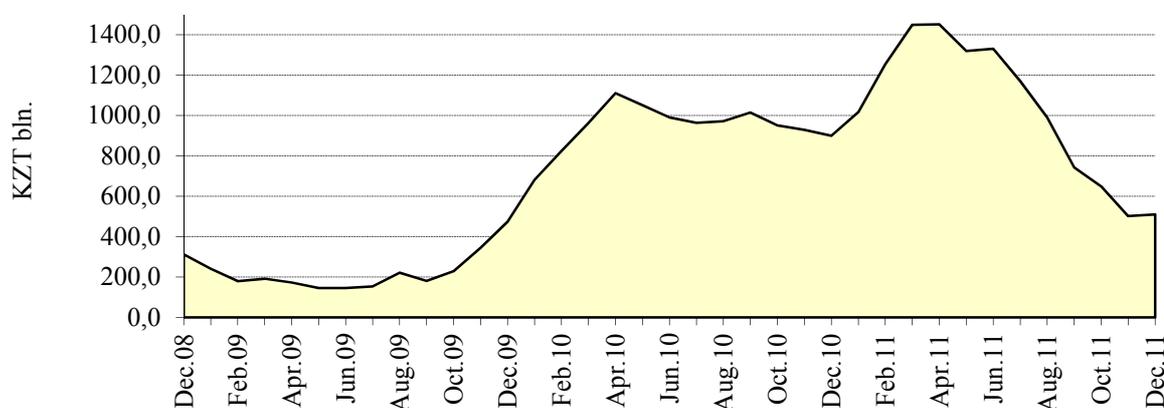


The National Bank regulated short-term liquidity in the money market by issuing short-term notes and taking deposits from banks. Despite decrease in interest rates to minimal level, the demand for these instruments on the part of banks remained rather high throughout the year. However, at end-2011 the demand for these instruments on the part of banks somewhat decreased.

During January-December 2011 as compared to the respective period of 2010, the volume of issued short-term notes decreased by 10.0% and amounted to KZT 3.0 trln. The volume of notes in circulation in December 2011 as compared to December 2010 decreased by 43.3% to KZT 509.8 bln. (Figure 2.1.4).

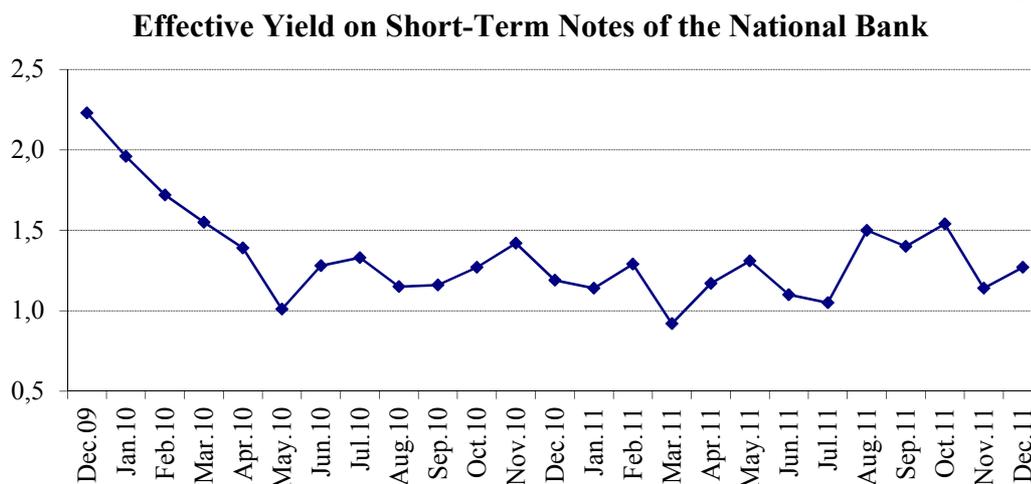
*Figure 2.1.4*

**Short-term Notes in Circulation (at end-period)**



The average-weighted yield on notes increased from 1.19% in December 2010 to 1.27% in December 2011 (Figure 2.1.5). In 2011 the National Bank issued short-term notes with maturities of 3, 6 and 9 months.

Figure 2.1.5

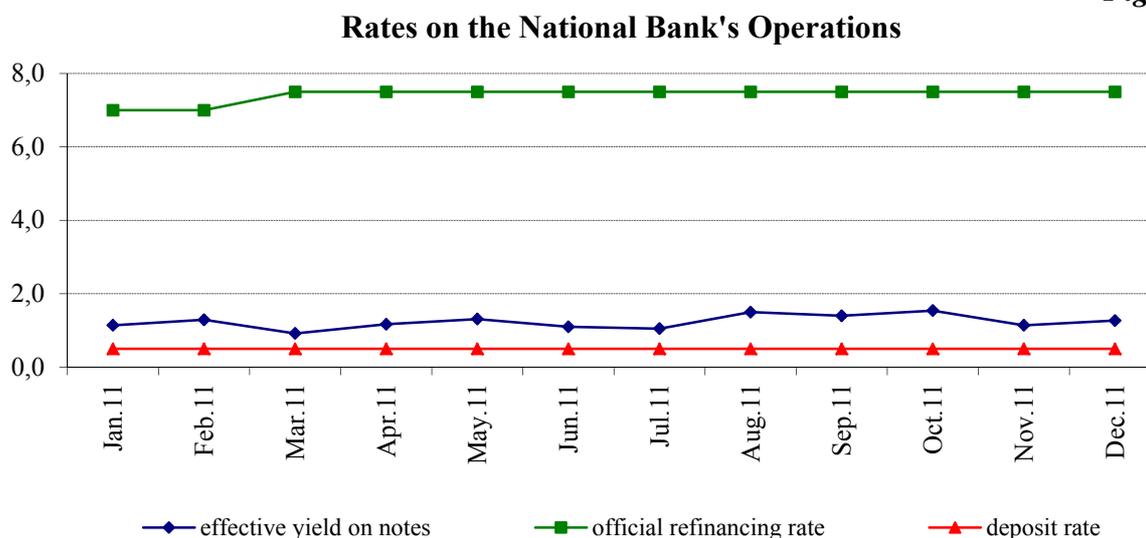


In 2011, KZT 13.3 trln. of deposits was attracted from banks, which is by 22.0% less than in 2010. As compared to December 2010, balances of bank deposits with the National Bank decreased by 4.6 times and amounted to KZT 94.1 bln. as of end-December 2011.

The result of the National Bank's operations with banks in the domestic market in 2011 was the liquidity withdrawal of KZT 56.5 bln.

In 2011 the interest rate band of the National Bank was expanded. Due to some acceleration in inflation processes at the beginning of 2011, as well as with a view to influence inflation expectations, the National Bank decided to increase the official refinancing rate from 7.0% to 7.5% since March 9, 2011. Further, during 2011 the official refinancing rate as well as interest rates on bank deposits with the National Bank remained unchanged and were 0.5% on 7-day deposits and 1.0% – on 1-month deposits (Figure 2.1.6).

Figure 2.1.6



**Minimum Reserve Requirements.** In the environment of persisting inflation pressure, in order to tighten the monetary policy, the MRR ratio on the domestic liabilities was set at 2.5%, and on other liabilities – at 4.5%. Under the current legislation, new MRR ratios were brought into effect since May 31, 2011.

**Monetary Aggregates.** In 2011 monetary indicators demonstrated positive growth dynamics. In 2011 international reserves of the National Bank increased. Gross international reserves of the National Bank increased by 3.7% to US\$ 29.3 bln. Net international reserves of the National

Bank increased by 3.8% and amounted to US\$ 28.8 bln. The growth in foreign currency balances of bank correspondent accounts with the National Bank and foreign currency receipts to the Government's accounts with the National Bank were partly neutralized by the sale of foreign exchange in the domestic foreign exchange market, by operations for servicing the Government's external debt and replenishment of the National Fund's assets from accounts of gold and foreign currency reserves. In doing so, assets denominated in gold increased by 36.0% as a result of performed transactions and its price growth in the global markets.

During 2011, total international reserves of the country including foreign currency assets of the National Fund (US\$ 43.7 bln.) increased by 23.2% to US\$ 73.0 bln.

During 2011 the reserve money expanded by 10.3% and amounted to KZT 2 836.1 bln. (in 2010 – the expansion by 5.0%). The main reason for the reserve money expansion was the growth of both net domestic assets and net foreign assets of the National Bank.

The narrow reserve money, i.e. the reserve money excluding time deposits of banks with the National Bank, expanded by 27.8% to KZT 2 739.3 bln.

During 2011 net domestic assets of the National Bank increased mainly due to significant decrease in liabilities of the National Bank to banks on short-term notes.

In 2011 the maximum contraction in the reserve money (by 9.7%) was observed in August and the maximum expansion in the reserve money occurred in July (by 10.6%).

During 2011 money supply increased by 15.0% and amounted to KZT 9 751.1 bln. as a result of the growth in net domestic and foreign assets of the banking system.

In the structure of net foreign assets of the banking system in 2011, net foreign assets of the National Bank and banks increased. The growth in net foreign assets of banks was caused both by the decrease in bank liabilities to non-residents and the growth in claims on non-residents.

The level of monetization of the economy decreased from 38.9% at end-2010 to 35.7% at end-2011 as a result of outstripping growth in the nominal GDP (by 25.2%) versus the growth rates of money supply (by 15.0%).

The money multiplier increased from 3.30 in December 2010 to 3.44 in December 2011 as a result of outstripping growth rates of money supply versus the rates of expansion in the reserve money.

In the structure of money supply, during 2011 cash in circulation (M0) increased by 18.9% to KZT 1 365.7 bln., and deposits of residents – by 14.3% to KZT 8 385.4 bln. Thus, in the structure of the main components of the money supply the outstripping growth rates of cash in circulation versus the growth rates of deposits of residents in the banking system were observed. As a result, the share of deposits of residents in the structure of money supply decreased from 86.5% in December 2010 to 86.0% at end-December 2011.

## **2.2. Gold and Foreign Currency Assets of the National Bank and Their Management**

***Trends in the Gold and Foreign Currency Assets.*** The total volume of gross gold and foreign currency assets of the National Bank at end-2011 amounted to US\$ 29 323.2 mln., which exceeds the respective indicator at end-2010 by US\$ 5 1 048.2 mln. The change in the amount of gross gold and foreign currency assets was affected by the decrease in assets denominated in freely convertible currency by US\$ 50.4 mln.; assets denominated in precious metals increased by US\$ 1 098.6 mln.

The change in the foreign currency portion of assets in 2011 was caused by the following factors.

In 2011 the volume of net sale by the National Bank at the Kazakhstan Stock Exchange (KASE) and the off-exchange market amounted to US\$ 2 046 mln. At the same time, the trends have been multi-directional throughout the year. So, from January through May 2011 the supply of freely convertible currency was in excess of its demand, whereas in June-December 2011 the

demand was dominating. During 2011, net foreign exchange purchase on the transactions with the Ministry of Finance amounted to US\$ 2 040.5 mln.

Foreign exchange proceeds to the Ministry of Finance totaled US\$ 13 577.2 mln. as a payment of taxes by companies in the oil and gas sector and other payments. Funds in the amount of US\$ 12 910.8 mln. have been converted into the National Fund's stabilization portfolio. During 2011 the monies of the National Fund had been converted and reconverted, which resulted in net sale of gold and foreign currency assets of the National Bank for the Tenge amounting to US\$ 1.5 bln.

In 2011 the National Bank executed payments of the Ministry of Finance on the external debt in the total amount of US\$ 155 mln.

At the same time, world prices for gold increased from US\$ 1 410.3 per a Troy ounce at January 1, 2011 to US\$ 1 547.5 per a Troy ounce at January 1, 2012 or by 9.7%.

Thus, based on transactions performed by the National Bank, net gold and foreign currency assets increased as compared to end-2010 by US\$ 1 052.4 mln. and amounted to US\$ 28 763.6 mln.

**Management of Gold and Foreign Currency Assets of the National Bank.** Control over compliance with the requirements set forth in the Investment Strategy for Gold and Foreign Currency Assets Management approved by the Resolution of the National Bank's Managing Board of October 27, 2006 No.105 is exercised on a daily basis.

Return on gold and foreign currency assets is calculated on a daily basis.

Pursuant to the Implementing Order No.10 of January 17, 2011 issued by the National Bank's Governor, assets worth about US\$ 2 bln. were transferred within the gold and foreign currency assets from the liquidity portfolio to the investment portfolio.

Also, with a view to refine the strategy for gold and foreign currency assets management, to increase returns in the long run and for further foreign currency diversification of the investment portfolio in the gold and foreign currency assets, the Resolution of the National Bank's Managing Board No.51 of May 30, 2011 approved amendments to the existing Investment Strategy for Gold and Foreign Currency Assets Management. So, the Strategic Portfolio was established on the basis of the Absolute Yield Portfolio. Foreign currency structure of the investment portfolio of gold and foreign currency assets was supplemented with the Canadian Dollars and South Korean Wons.

Due to the growing risk of deterioration in the financial market environment in the Euro zone countries, the Resolution of the National Bank's Managing Board No.119 of September 30, 2011 approved the adoption of a new benchmark portfolio for the Euro sub-portfolio within the investment portfolio of gold and foreign currency reserves that only includes securities of the Euro zone countries with the highest credit rating.

Consistent with the Implementing Order No.93 of October 11, 2011 issued by the National Bank's Governor, in order to maintain an adequate level of own funds in the liquidity portfolio, assets worth US\$ 2 bln. were transferred within the gold and foreign currency assets to the liquidity portfolio from the investment portfolio.

Also, to increase the efficiency in managing gold and foreign currency assets of the National Bank, the regulation on the procedure and terms and conditions for the transfer of a part of gold and foreign currency assets to the external management (Asset Management) was adopted, and the regulation on the fundamentals of gold and foreign currency asset management was updated. Two new global custodians were approved in respect of gold and foreign currency assets as well as a number of external managers for the following mandates: Global Inactive Stock, Global Corporate Investment-Grade Securities, Global Bonds of Developing Countries, and Corporate Convertible Bonds. The regulation concerning the enforcement by the Government of its right to buy refined gold in bullions to replenish gold and foreign currency assets was approved. Amendment to the Statute of the Investment Committee of the National Bank was approved.

**Performance of the National Bank's Gold and Foreign Currency Assets Management. Investment Portfolio of Gold and Foreign Currency Assets.** The market value of the investment portfolio of gold and foreign currency assets was US\$ 19 733.6 mln. at the beginning of 2011, and

at end-2011 the market value of the investment portfolio amounted to US\$ 20 006.8 mln. During 2011 an investment return (realized and unrealized) of US\$ 277.1 mln. was accumulated in the investment portfolio of gold and foreign currency assets.

Return on the investment portfolio of gold and foreign currency assets for 2011 denominated in the currency basket was 2.36%. Given the return on the benchmark portfolio of 2.22%, excess returns comprised 14 basis points.

Return on the investment portfolio of gold and foreign currency assets for 2011 denominated in the US Dollars was 0.82%. Given the return on the benchmark portfolio of 0.68%, excess returns comprised 14 basis points.

At end-2011 the distribution of assets in the investment portfolio by instruments had the following structure: cash and cash equivalents – 0.86%, government securities – 91.05%, agency securities – 2.10%, securities of IFOs – 3.43%, and corporate securities – 2.56%. The distribution of assets in the investment portfolio on the yield curve had the following structure: less than 1 year – 35.21%, 1-2 years – 41.74%, 2-3 years – 22.70%, 3-4 years – 0.00%, 4-5 years – 0.35%.

**Strategic Portfolio.** At the beginning of 2011, the market value of the strategic portfolio of gold and foreign currency assets was US\$ 393.3 mln. and at end-2011 it amounted to US\$ 398.5 mln.

Return on the strategic portfolio of gold and foreign currency assets for 2011 accounted for 1.33%. Given the return on the benchmark portfolio of 0.34% excess returns comprised 99 basis points. The investment return (realized and unrealized) amounted to US\$ 5.2 mln.

**Liquidity Portfolio of Gold and Foreign Currency Assets.** The market value of the liquidity portfolio of gold and foreign currency assets was US\$ 4 535.5 mln. at the beginning of 2011 and it amounted to US\$ 4 830.2 mln. at end-2011.

The liquidity portfolio of gold and foreign currency assets is intended for the monetary policy implementation and all flows and various payments are also made through this portfolio. This portfolio is not included in the evaluation of returns on portfolios of gold and foreign currency assets and doesn't have a benchmark portfolio.

**Gold Portfolio.** According to the market assessment, the volume of the gold portfolio amounted to US\$ 3 042.02 mln. at the beginning of 2011, and at end-2011 it amounted to US\$ 4 036.3 mln.

### 2.3.Currency Exchange Regulation and Control

**Regimes of Currency Exchange Regulation.** The establishment of a reliable information database on foreign currency transactions and capital flows and analytical monitoring of foreign currency transactions on its basis remains a top-priority objective of foreign currency regulation. The existing regimes of foreign currency exchange regulation (registration and notification) do not restrict foreign currency transactions and are intended for the statistical monitoring of operations with the capital movement.

Within the framework of registration of foreign currency transactions, regional branches of the National Bank issued 1477 registration certificates, including on the following types of transactions:

- credits to non-residents by residents – 335;
- credits to residents by non-residents – 823;
- direct investments in Kazakhstan by non-residents – 222;
- direct investments abroad by residents – 86;
- other capital movements – 11.

Within the framework of notification about foreign currency transactions, regional branches and the head-office of the National Bank issued 314 certificates of notification, including:

- credits by non-residents to banks – 63;
- direct and portfolio investments in Kazakhstan by non-residents – 40;

direct and portfolio investments abroad by residents – 29;  
 transactions with financial derivatives – 4;  
 other capital movements – 15;  
 opening account abroad by residents – 163.

**Regulation of the Exchange Office Operations.** As part of its licensing activity related to the use of foreign currency values, during 2011 and as of January 1, 2012 the National Bank issued 23 licenses for engaging in foreign currency exchange transactions.

The operation of foreign exchange offices is analyzed on an on-going basis and the statistics of violations in the area of currency exchange transactions is maintained.

As of January 1, 2012 2 981 exchange offices were operating in the Republic of Kazakhstan, including 2015 exchange offices of banks (including 1 automated exchange office), 923 exchange offices of authorized organizations (non-bank legal entities) and 43 exchange offices of the KazPost.

As compared to the beginning of 2011, the number of exchange offices of authorized organizations reduced by 55, at the same time, the number of exchange offices of authorized banks and KazPost increased by 37 and 4 respectively.

In 2011, 351 registration certificates were issued to the bank exchange offices and authorized organizations, and 377 registration certificates of exchange offices were revoked.

Authorized organizations returned 24 licenses on a voluntary basis.

**Export and Import Currency Control.**

With a view to ensure compliance by residents with the requirement to repatriate foreign and domestic currency on export and import transactions, the National Bank exercises export and import currency control (EICC).

Activities in the area of EICC were aimed at further implementation of an updated version of EICC.

In 2011 efforts for implementation of a refined EICC mechanism were continued. Thus, the National Bank drafted the Law of the Republic of Kazakhstan No. 530-IV "On Amendments to Some Legislation of the Republic of Kazakhstan on Currency Exchange Regulation and Currency Control" ("the Law") providing for the replacement of the procedure for formalization of the deal ticket with the procedure of record registration of a foreign trade contract.

The Law was signed by the President of the Republic of Kazakhstan on January 6, 2012.

With a view to execute the Law, the regulation on Export and Import Currency Control in the Republic of Kazakhstan was adopted in a new version (passed by the Resolution of the Managing Board of the National Bank of the Republic of Kazakhstan of 24.02.2012 No.42, and became effective as of July 1, 2012).

**Administrative Proceedings in Relation to Violations of the Foreign Currency Legislation.** In 2011 efforts to detect and preclude administrative violations of the foreign currency legislation were continued.

During 2011, the National Bank initiated 1 231 proceedings of administrative violations in the area of foreign currency legislation and primary statistics:

- 1) in respect of 1165 proceedings, sanctions were imposed, most of which were in the form of warnings – 969, while in respect of 196 proceedings the penalty amounted to KZT 486.7 mln.;
- 2) 66 proceedings were terminated.

**Examination of Matters Related to Currency Control.** During 2011 the National Bank (according to the data from AIS "EICC" as of 16.01.2012) conducted **1301** examinations for compliance with the foreign currency legislation, including:

- 1) 988 unscheduled examinations, of which:
  - authorized organizations – 3;
  - authorized banks (branches) – 6;
  - other legal entities – 888;
  - individuals – 91;

- 2) 313 scheduled examinations, of which:  
 - 229 authorized organizations (branches);  
 - 84 authorized banks (branches);

As part of scheduled examinations, 236 entities were examined:

- 227 authorized organizations (including 2 organizations with one branch being examined);  
 - 9 authorized banks (including their 74 branches<sup>3</sup>).

During the reporting period, based on the violations detected in the course of examinations, in addition to 70 warnings, administrative sanctions were imposed in the form of penalties exceeding KZT 10 mln.

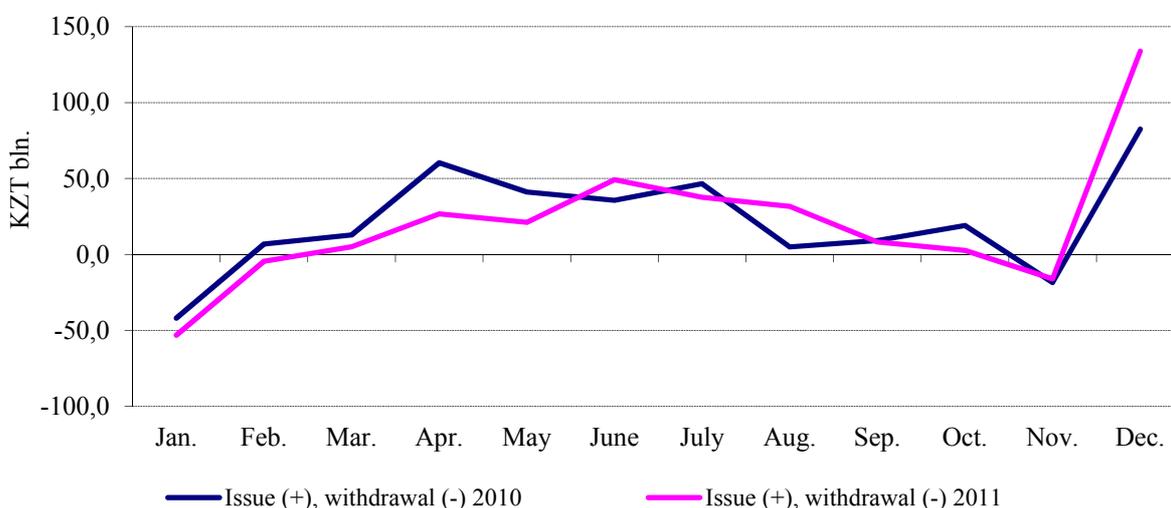
Besides, based on examinations, 85 enforcement measures were taken (including in the form of a written warning - 1, requesting the letter of commitment - 75 and passing a written mandate – 9), as well as 7 registration certificates of authorized organizations were suspended.

### III.ISSUING OPERATIONS AND CASH CIRCULATION

2011 was characterized by the decreased demand in cash by economic entities, as compared to the previous year.

During 2011, KZT 2 262.0 bln. was issued into circulation from the National Bank's reserve funds, which is by KZT 448.9 bln. (24.8%) greater than the issue of cash into circulation during 2010 (KZT 1 813.1 bln.). The volume of cash withdrawn from circulation in 2011 increased as compared to the volume in the respective period of the previous year (KZT 1 554.7 bln.) by KZT 465.3 bln. (29.9%) and amounted to KZT 2020.0 bln. Thus, there was a positive issuing balance of (+) KZT 242.0 bln., which is by KZT 16.5 bln. less than in 2010 (KZT 258.5 bln.).

**Figure 1. Dynamics of the Change in Issuing Balance for 2010 – 2011  
(in KZT bln.)**



In 2011, the issuing balance was lower than the respective indicator for the prior year as a result of significant growth in the amount of cash withdrawn from circulation in January and the decreased issue of cash in circulation during February-May and in July, September and October.

<sup>3</sup>The data provided exclude the examination at a branch of an authorized bank conducted in December 2011, since the examination of the head office was scheduled for January 2012.

#### IV. PAYMENT SYSTEMS

In 2011 the National Bank continued its effort to further develop the payment systems of Kazakhstan and to fine-tune its regulations in the area of payments and money transfers.

As part of transition of the payment systems to the use of unified identification numbers of individuals and legal entities, a set of measures was implemented under the Interdepartmental Plan for Transition to the Use of National Identification Numbers (IIN/BIN) approved by the Implementing Order of the Prime Minister of the Republic of Kazakhstan dated September 6, 2011 No.123-P, and the Resolution of the National Bank's Managing Board of November 29, 2010 No. 101 "On Preliminaries Related to the Transition to the Use of Identification Numbers". Also, the National Bank initiated and conducted comprehensive tests of automated information systems of the payment systems users, of the National Bank and the payments systems operator – "Kazakhstan Interbank Settlements Center" RSE - for transition to the use of IIN/BIN.

With a view to develop the interbank infrastructure of retail electronic payments, the National Bank made effort to analyze and address the implementation of new payment mechanisms aimed to ensure effective passage of mass electronic payments and to manage interbank settlements of such payments.

Also, in June 2011 a joint project of the National Bank, World Bank and the VISA international payment system was launched in Kazakhstan with a view to perform the analysis and identify barriers hampering the efficient development of the retail payment systems; in addition, they jointly started to design and implement the Plan for a further of development of retail electronic payments in Kazakhstan on the basis of best international practices. As part of the project, a trilateral Working Group was established represented by the National Bank, World Bank and the VISA.

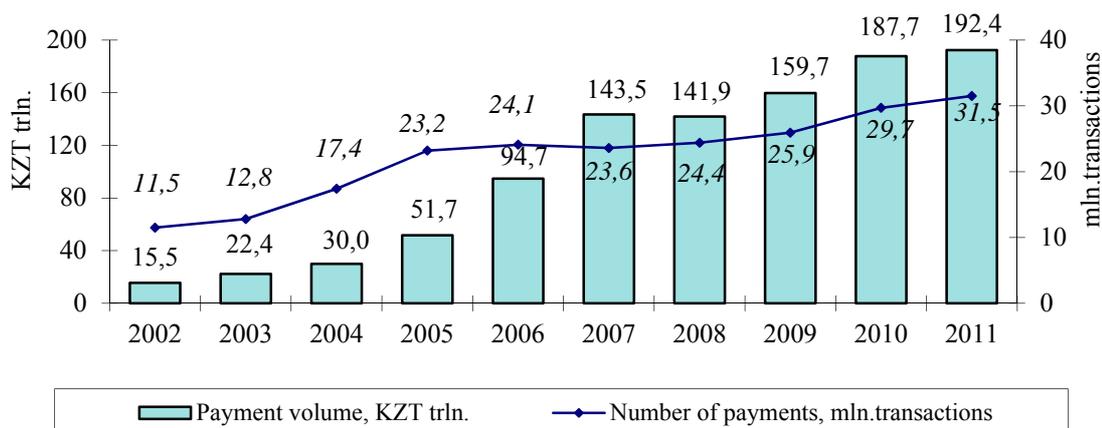
For the purposes of a broad discussion of problems identified in the course of the evaluation phase and proposed recommendations as well as for the joint elaboration of a further Strategic Plan for the development of retail electronic payments envisaged by the next project phase, the Kazakhstan's Forum of Non-Cash Electronic Payments was established with participation of the banking community. On December 6, 2011 the first session of the Forum was held where the results of the valuation phase were presented for their discussion by banks as well as the draft recommendations were provided on how to improve the development of the market of non-cash retail payments in Kazakhstan.

As part of cooperation with the Interstate Bank, in 2011 the National Bank took part in a regular session of the expert group held in Moccra to finalize the draft of fundamental documents for establishing a common payment and settlement system of the member states.

In 2011 as a whole, 31.5 mln. transactions amounting to KZT 192 391.1bln. (or US\$ 1 312.2 bln.) were made through the payment systems of Kazakhstan (Figure 4.1.). As compared to 2010, the number of payments in the payment systems increased by 5.9% (by 1.8 mln. transactions, the payment amount increased by 2.5% (by KZT 4 686.7 bln.).

Figure 4.1.

## Dynamics of Payment Flows in the Payment System of Kazakhstan



The largest in volume and the most urgent payments on the financial sector operations are effected mainly through the Interbank System of Money Transfer (ISMT), which is a systemically important payment system of the country. Payments which are not of high priority and non-urgent small-amount retail payments are forwarded by the users to the Interbank Clearing System (ICS).

In 2011 11.8 mln. transactions amounting to KZT 188 666.4 bln. (or US\$ 1 286.8 bln.) were passed through the ISMT. As compared to 2010, the number of payments increased by 3.2% (by 369,800 transactions), the amount of payments increased by 2.3% (by KZT 4 215.5 bln.). 19.6 mln. of payment documents amounting to KZT 3 724.7 bln. (or US\$ 25.4 bln.) were transferred through the ICS. As compared to 2010, the number of documents in the clearing system increased by 7.6% (by 1.4 mln. documents), and the payment amount increased by 14.5% (by KZT 471.2 bln.).

During 2011 banks and the KazPost JSC performed 258.4 mln. transactions amounting to KZT 129 925.7 bln. (or US\$ 886.1 bln.) with the use of payment instruments<sup>4</sup> (Table 4.3.1).

Table 4.3.1

## Information About the Use of Payment Instruments

(in thousands of transactions and KZT bln.)

Payment Instrument		2010		2011		Change (as %/times)
		Absolute value	As % of the total volume	Absolute value	As % of the total volume	
Payment instructions <sup>5</sup>	Quantity	46 656.1	24.8%	101 162.0	39.2%	by 2.2 times
	Amount	114 604.7	94.1%	119 776.6	92.2%	4.5%
Payment orders - instructions	Quantity	207.9	0.1%	53.2	0.02%	-74.4%
	Amount	820.4	0.7%	39.7	0.03%	-95.2%
Collection orders	Quantity	861.9	0.5%	253.7	0.1%	-70.6%
	Amount	523.2	0.4%	327.3	0.3%	-37.4%
Payment cards	Quantity	136 277.4	72.5%	155 671.6	60.3%	14.2%

<sup>4</sup>Payment documents on passed intra-bank and interbank customer payments and on own transactions of banks and KazPost, excluding GSVP (State Center on Pension and Benefit Payments), Treasury Committee of the Ministry of Finance, National Bank, Custodian Bank of the State Accumulation Pension Fund, Central Depository of Securities, Kazakhstan Stock Exchange, Interstate Bank, Eurasian Development Bank, and Kazakhstan Mortgage Company, are taken into account. Since April 2011, due to changes in the reporting form for payment instruments entitled "Payment Information Broken-Down by the SCPP Codes", the information on payments made by banks and KazPost via ISMT, ICS, correspondent accounts with the National Bank, nostro and loro accounts, and money transfer systems within the Republic of Kazakhstan.

<sup>5</sup> Payment instructions of clients of banks and the KazPost as well as payment instructions of banks and the KazPost on their own operations are taken into account.

	Amount	3 346.2	2.7%	4 347.5	3.3%	29.9%
Other instruments <sup>6</sup>	Quantity	3 923.2	2.1%	1 235.3	0.5%	-68.5%
	Amount	2 475.7	2.0%	5 434.6	4.2%	в 2.2 раза
Gross total	Quantity	<b>187 926.5</b>	<b>100.0%</b>	<b>258 375.9</b>	<b>100.0%</b>	<b>37.5%</b>
	Amount	<b>121 770.2</b>	<b>100.0%</b>	<b>129 925.7</b>	<b>100.0%</b>	<b>6.7%</b>

Among the above payment instruments used in Kazakhstan, payment cards represent the an instrument which is developing in the most dynamic way. At January 1, 2012, the total number of payment cards issued and distributed by the Kazakh banks and the KazPost JSC amounted to 9.6 mln., exceeding the respective indicator for 2011 by 14.0%. Alongside with that, the number of card holders totaled 8.9 mln. individuals, having increased by 13.3% during 2011.

The payment card service network in Kazakhstan is represented as follows as of January 1, 2012: 8 110 ATMs (as compared to the statistics as of January 1, 2011, the growth accounts for 6.6% or 505 units), 28 597 Pos-terminals (the growth by 10.4% or 2 683 units) and 613 imprinters (the decrease by 13.8% or by 98 units) (Figure 4.3.2).

During 2011, 155.7 mln. transactions with the use of payment cards of the Kazakh issuers amounting to KZT 4 347.5 bln. (US\$ 29.7 bln.) were performed. As compared to 2010, the number of transactions increased by 14.2% (by 19.4 mln. transactions), and the amount – by 29.9% (by KZT 1 001.3 bln.).

## V. FINANCIAL MARKET

### 5.1. Foreign Exchange Market

In 2011 the domestic foreign exchange market was developing with minimal involvement of the National Bank in maintaining the exchange rate of the Tenge. At end-February 2011, the transition from the foreign currency band to the regime of managed floating exchange rate of the Tenge was accomplished.

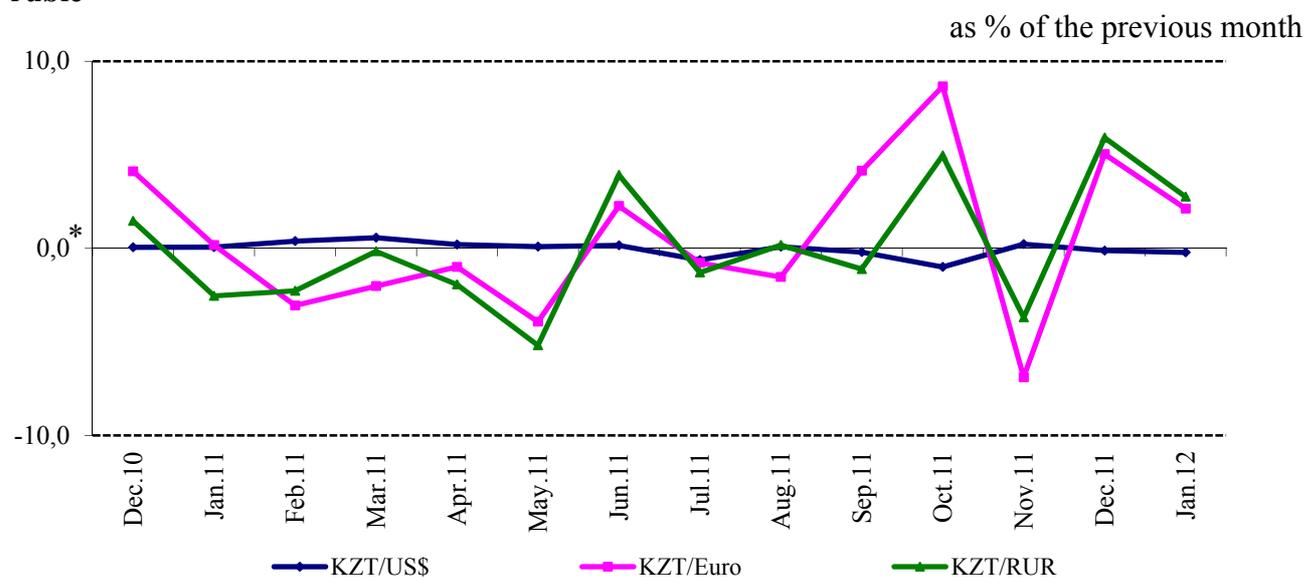
In the first half of 2011 the situation in the domestic foreign exchange market was developing in the environment of excessive supply of foreign exchange over its demand. Mid-year was an exception to this trend. The main reason for the excessive supply of foreign exchange were the increased proceeds from export of goods because of the growing world prices for major items of the Kazakhstan's exports and the growth in foreign capital inflow. In the first half of 2011 there was a trend for appreciation of the domestic currency.

In the second half of 2011, the situation in the domestic foreign exchange market was developing in the environment of excessive demand for foreign exchange over its supply. In this connection there was a downward pressure on the exchange rate and the exchange rate of the Tenge started to depreciate gradually.

The average-weighted exchange rate of the Tenge in 2011 was KZT 146.64 per 1 US Dollar. The stock exchange rate amounted to KZT 148.40 per 1 US Dollar at the year-end. Over the year the Tenge has depreciated in nominal terms versus the US Dollar by 0.61%.

During 2011 the official exchange rate of the Tenge versus the Euro appreciated by 1.98%, and versus the Russian ruble – by 4.75% (Figure 4.1.1).

<sup>6</sup> Other payment instruments include check payments for goods and services, executed letters of credits and direct bank account debiting.

**Figure 4.1.1****Dynamics of the Exchange Rate of the Tenge versus the US Dollar, Euro and Russian ruble**

\* - «+» appreciation of the Tenge versus a foreign currency, «-» - depreciation of the Tenge versus a foreign currency.

In 2011 the increased volumes of foreign currency transactions were observed at the Kazakhstan Stock Exchange whereas in the interbank markets their volume decreased. Thus, the volume of stock exchange trading in the US Dollar position amounted to US\$ 70.7 bln., having increased by 16.5% as compared to 2010. In the off-exchange forex market the volume of transactions performed by resident banks decreased by 25.3% as compared to 2010 and amounted to US\$ 39.0 bln.

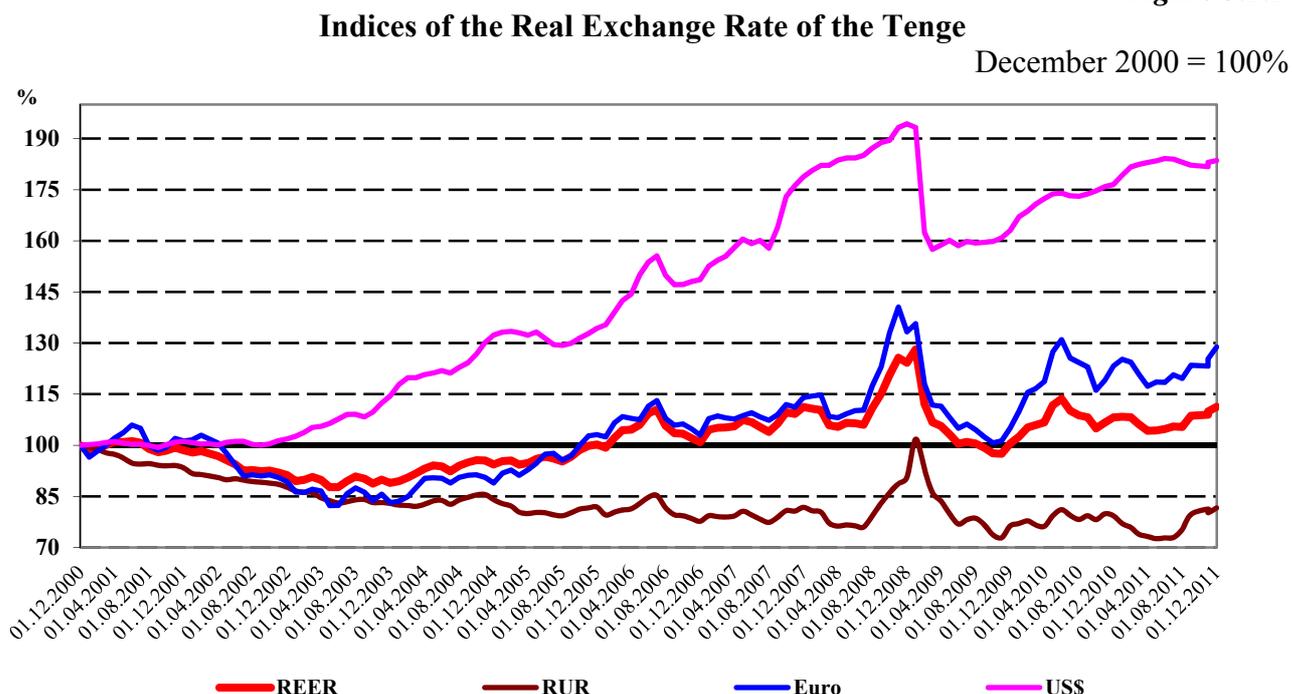
The shares of transactions with the Russian ruble and the Euro were insignificant in the turnover of the stock exchange and off-exchange segments of the foreign exchange market. In the stock exchange market the volume of transactions with the Russian ruble decreased by 8.4% to RUR 5.2 bln., and the volume of transactions with the Euro increased by 55.2% to €299 mln. In the off-exchange forex market the volumes of conversions of the Russian ruble increased by 25.6% to RUR 5.8 bln., and the volumes of conversions of the Euro increased by 3.9% to €579.5 mln.

Just as in the past years, the preference in the foreign cash market was made to the US Dollar. In 2011 the volumes of net sales by exchange offices amounted to US\$ 12.4 bln., having increased by 20.7%. The volumes of net sales of the Russian ruble by exchange offices increased by 38.4% to RUR 14.0 bln. The volumes of the Euro increased by 78.8% to €0.8 bln.

Since the beginning of 2011, the dynamics of the index of the real effective exchange rate was multi-directional and was developing mainly under the influence of the environment in the global commodity markets and sizable fluctuations in the exchange rates of the domestic currencies of the partner countries. As a result, at end-2011 the REER index was by 13.3% higher than the baseline level of competition in December 2000. Versus December 2010, the appreciation accounted for 2.8% and versus December 2009 - 10.9%

During 2011 the appreciation of the REER index versus the currency basket of the CIS accounted for 3.8%, while the Tenge has appreciated by 2.5% versus the currencies of other countries.

Figure 5.1.2



The REER index calculated on the basis of shares of trading partners excluding oil trading was by 7.8% higher than the baseline level and by 2.5% higher than in December 2010. Such index is calculated for analytical purposes for a more adequate evaluation of the impact made by the changes in the exchange rate on the volumes and structure of foreign trade, since in respect of oil and gas condensate the impact of exchange rates on the competitive advantages of exporters or importers is insignificant.

## 5.2. Interbank Money Market

In 2011 the total volume of placed interbank deposits decreased by 24.8% as compared to 2010 and amounted to KZT 31.2 trln. in the equivalent.

The volume of placed interbank deposits in the Tenge decreased by 21.8%, amounting to KZT 13.9 trln. (44.4% of the total volume of deposits placed in 2011). The average-weighted interest rate on placed interbank Tenge deposits in December 2011 as compared to December 2010 remained unchanged and accounted for 0.57%.

The volume of deposits attracted from banks by the National Bank in 2011 decreased by 21.9% and amounted to KZT 13.4 trln.

In 2011 the volume of placed Dollar deposits amounted to US\$ 101.1 bln., having decreased by 20.0% (47.4% of the total volume of deposits placed in 2011). The average weighted interest rate on placed US Dollar deposits in December 2011 was 0.26%, whereas in December 2010 it accounted for 0.28%.

The volume of placed Euro deposits decreased by 62.0% as compared to 2010 and amounted to €9.2 bln. (6.0% of the total volume of deposits placed in 2011). The average weighted interest rate on placed Euro deposits increased from 0.46% in December 2010 to 2.46% in December 2011.

The placements in the Ruble deposits remain insignificant – 2.2% of the total volume of placed deposits.

As a whole, the share of interbank deposits in foreign currency remains high – 55.6% of the total volume of deposits placed, although a steady downward trend was observed in 2011. The major share of foreign currency deposits (55.0%) was placed with non-resident banks.

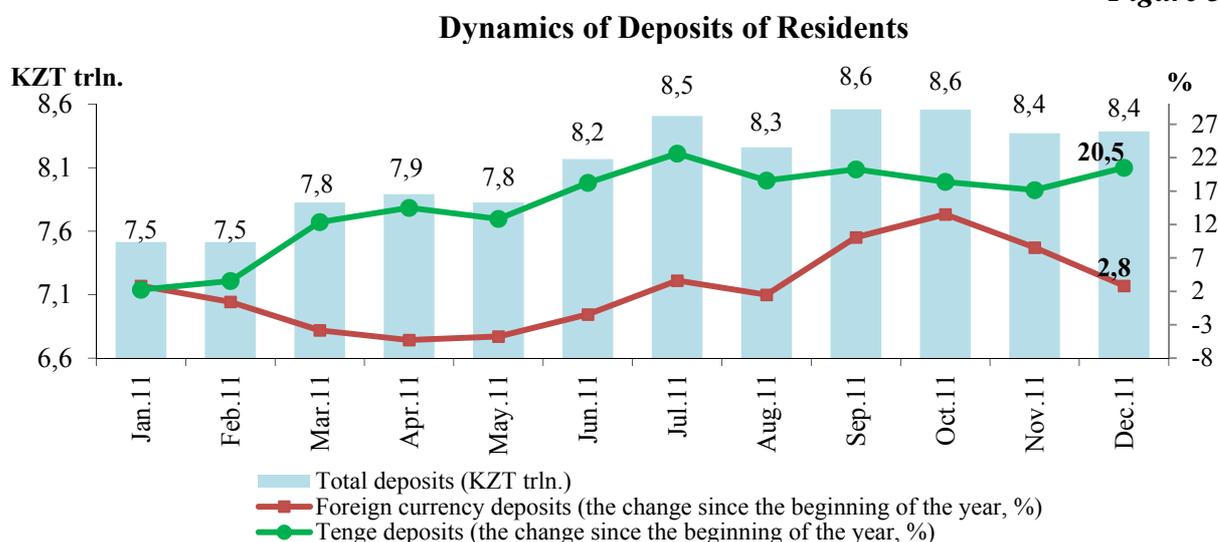
### 5.3. Deposit Market

In 2011 the growth rate of deposits of residents with depository institutions<sup>7</sup> accelerated to 14.3% as compared to 11.6% a year before, and the volume of savings reached KZT 8 385.4 bln. or US\$ 56.6 bln. in the foreign currency equivalent. Because of high growth rates of the gross domestic product in nominal terms, the volume of deposits to GDP decreased by 33.6% to 30.7%.

In 2011 there was an active growth in deposits, both of the population and of legal entities. At the same time, the rate of growth in holdings of the population exceeded the growth in deposits of legal entities by nearly 2.5 times. In 2011 deposits of non-bank legal entities increased by 10.2% to KZT 5 661.2 bln., and deposits of individuals increased by 24.1% to KZT 2 724.2 bln.

The structure of deposits by types of currencies had undergone changes caused by a higher growth in the Tenge deposits as compared to an insignificant increase in foreign currency deposits, resulting in the growth of the percentage of the Tenge deposits in the total deposit volume from 65.1% to 68.6%. During 2011, deposits in the domestic currency increased by 20.5% to KZT 5 755.7 bln., and foreign currency deposits increased by 2.8% to KZT 2 629.7 bln. (Figure 5.3.1).

**Figure 5.3.1**



During 2011 deposits of the population with the banks (including accounts of non-residents) increased by 22.6% to KZT 2 758.6 bln.<sup>8</sup>. Deposits of the population in the Tenge increased by 27.9% to KZT 1 598.0 bln., and foreign currency deposits increased by 16.0% to KZT 1 160.6 bln., resulting in the decreased level of dollarization of personal savings. As a result, the percentage of deposits of the population in the Tenge increased from 55.5% to 57.9%.

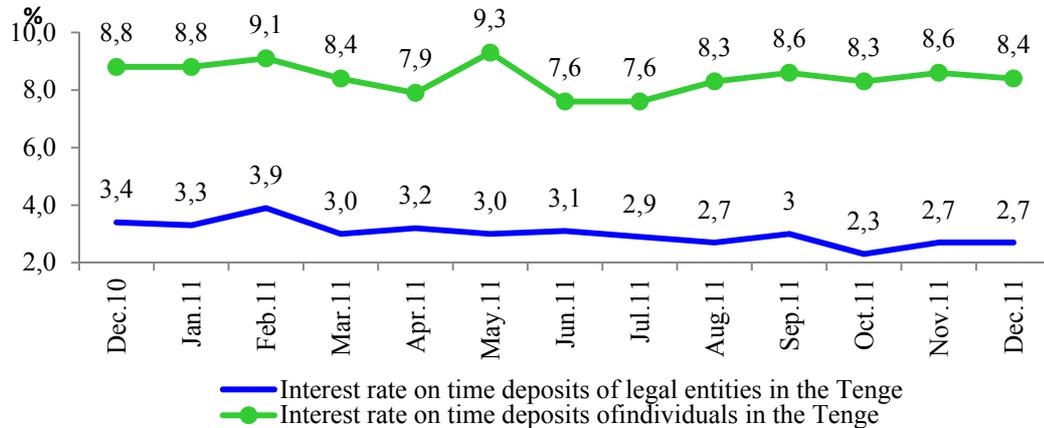
In December 2011, the average-weighted interest rate on the Tenge time deposits of non-bank legal entities accounted for 2.7% (in December 2010 – 3.4%), and on deposits of individuals – 8.4% (8.8%) (Figure 5.3.2).

<sup>7</sup> Incl. deposits with the National Bank

<sup>8</sup> Excl. metal accounts of clients

Figure 5.3.2

### Dynamics of Interest Rates on the Time Deposits in the Tenge



## 5.4. Credit Market

After a minor decrease in the lending volume in 2010 (by 0.7%), in 2011 lending activity increased significantly. In 2011 the volume of bank credits to the economy increased by 15.7% and amounted to KZT 8 781.4 bln. (US\$ 59.3 bln). The ratio of credits to GDP in 2011 as compared to 2010 decreased from 34.8% to 32.2%.

Over the year credits to legal entities have increased by 17.5%, amounting to KZT 6 434.9 bln., and credits to individuals increased by 10.9% to KZT 2 346.4 bln. The percentage of credits to individuals decreased from 27.9% to 26.7%.

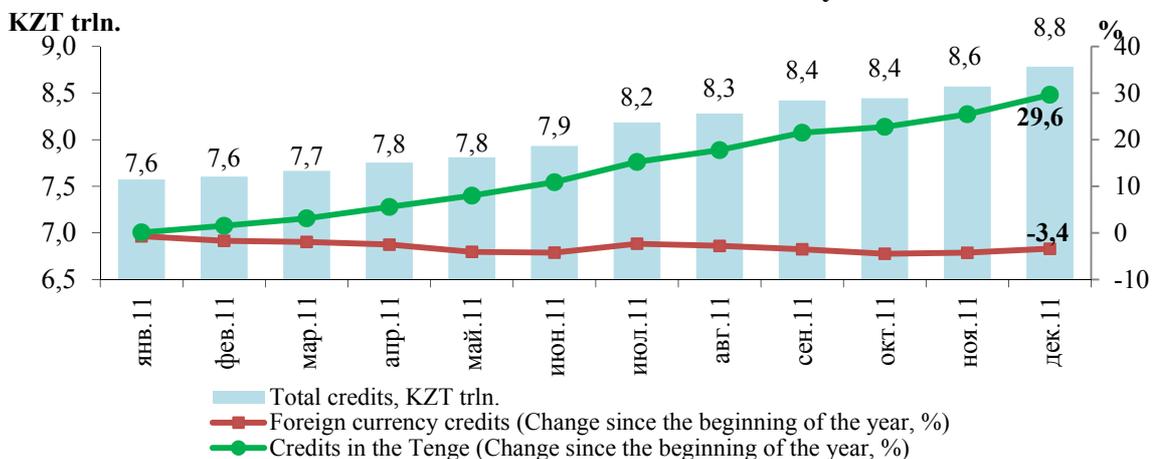
The decreased lending activity was only observed in the FX segment of the credit market; this, in its turn, ensured the growth in the percentage of the Tenge credits in the total volume from 57.7% to 64.7%.

The decreased foreign currency lending that lasts two years in a row was caused by the actions taken by the government to minimize risks in the segment that are realized through tightened requirements too banks which provide foreign currency loans to those borrowers that do not have foreign currency proceeds or incorporated in off-shore zones, as well as by reduced interest in foreign currency loans after the devaluation of the Tenge.

As a result, during 2011 foreign currency credits decreased by 3.4% to KZT 3 099.7 bln., whereas credits in the domestic currency increased by 29.6% to KZT 5 681.6 bln. (Figure 5.4.1).

Figure 5.4.1

### Bank Credits to the Economy



Long-term lending in 2011 increased by 11.6% to KZT 7 086.9 bln., short-term lending increased by 36.5% to KZT 1 694.5 bln. Respectively, the percentage of long-term credits decreased from 83.6% to 80.7% during the year.

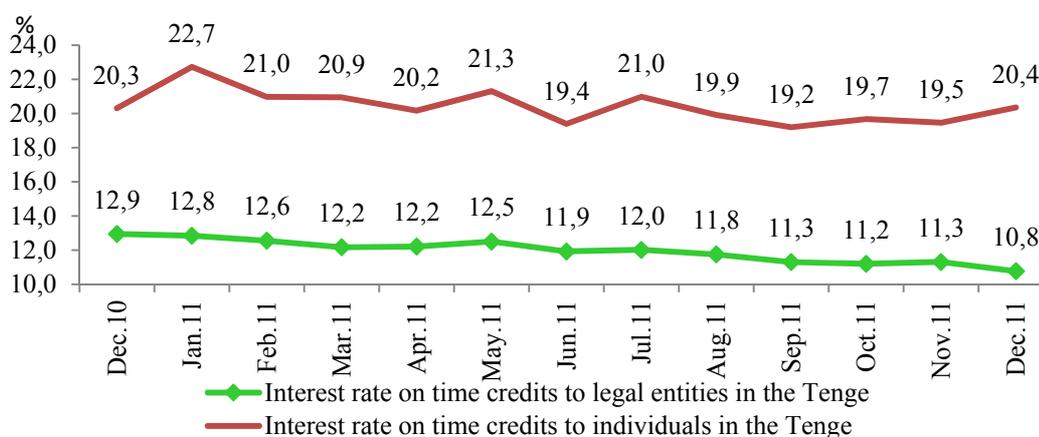
Credits to small businesses in 2011 decreased by 3.1% to KZT 1 341.4 bln., accounting for 15.3% of the total volume of credits to the economy.

In the sectoral breakdown, the largest amount of credits to the economy falls on the trade – 20.8%, construction – 14.9%, industry – 12.0%, and agriculture – 3.8%.

The average weighted interest rate on credits to individuals in the domestic currency in December 2011 as compared to December 2010 increased from 20.3% to 20.4%, and on credits to legal entities – decreased from 12.9% to 10.8% (Figure 5.4.2).

**Figure 5.4.2**

#### Average-weighted Interest Rates on Credits Provided in the Tenge



The revival of lending in 2011 was accompanied by positive structural transformation in the form of decreased dollarization and the downward trend in interest rate on credits.

Rates in the retail lending market slightly increased as a result of the growth in consumer credits where high interest rates affected the general parameters of the cost of lending.

In their turn, the cost of borrowing for the corporate sector was influenced by the government support measures to the real sector of the economy that were implemented by subsidizing a part of the interest rate and providing guarantees on credits provided to enterprises participating in the programs of industrial and innovation development and manufacturing export-oriented products.

### 5.5. Government Securities Market

During 2011, 56 auctions were held on government securities issued by the Ministry of Finance. As compared to 2010, the emission volume increased by 2.1% and amounted to KZT 673.9 bln., including short-term securities – KZT 95.4 bln., medium-term – KZT 134.5 bln., and long-term – KZT 444.1 bln.

As of January 1, 2012, the volume of outstanding government securities of the Ministry of Finance denominated in the domestic currency amounted to KZT 2 080.2 bln. at a discounted price, having increased by 24.7% during 2011, including: short-term securities – KZT 95.4 bln., medium-term – KZT 501.7 bln., and long-term – KZT 1 483.1 bln.

During 2011 the volume of placed short-term notes decreased by 10.0% and amounted to KZT 2 967.8 bln. The average-weighted yield of short-term notes of the National Bank issued during 2011 was at 1.21% pa (in 2010 – 1.38%), with the average-weighted maturity of 121.43 days (in 2010 – 116.36 days). As of January 1, 2012, there were short-term notes in circulation of KZT 509.8 bln. (at a discounted price).

**National Bank's Operations in the Secondary Government Securities Market.** During 2011 the National Bank didn't perform any operations on the purchase and sale of government securities. In 2011 the National Bank didn't perform any operations on early repurchase of short-term notes or direct REPO operations.

Reverse REPO operations amounted to KZT 5 458.1 bln., their maturity was 24.93 days and their yield – 7.39% pa.

During 2011 the following government securities from the National Bank's portfolio were redeemed: MEOKAM-84 in the amount of KZT 3 034.7 mln. and MEKOAM-96 in the amount of KZT 362.0 mln.

At January 4, 2012, the government securities portfolio of the National Bank amounted to KZT 411.3 mln.

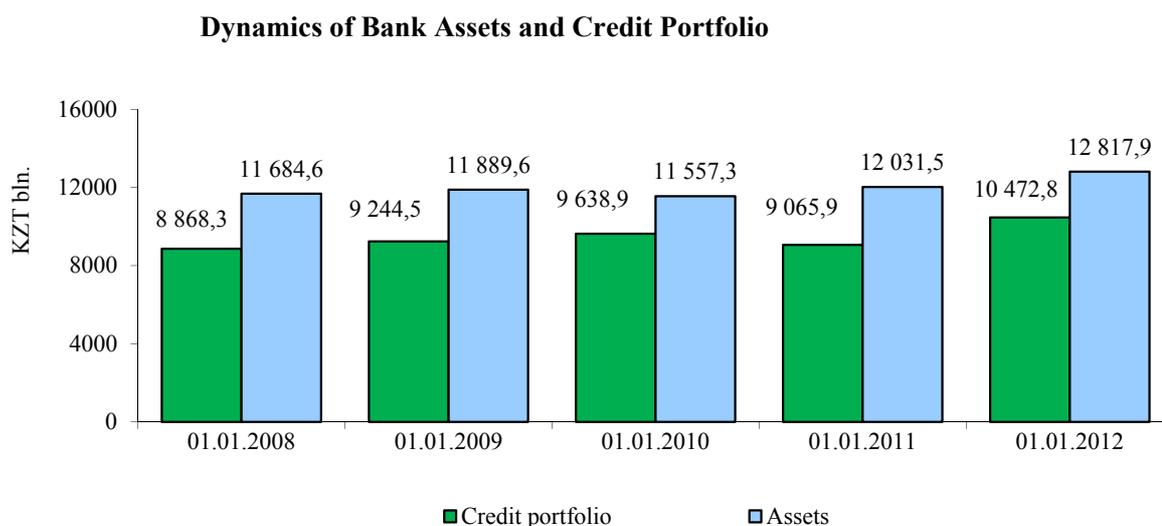
## VI. ENTITIES OF THE FINANCIAL MARKET: POSITION AND SUPERVISION

### 6.1. Banking and Non-Bank Sector

As of January 1, 2012, 38 banks and 14 organizations licensed to engage in certain types of banking operations, including 4 mortgage companies, were functioning.

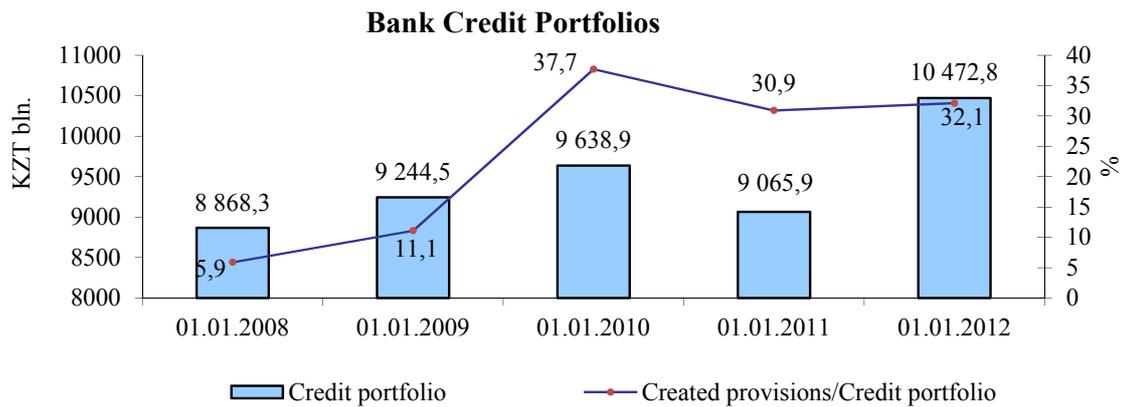
During 2011, assets of the banking sector increased by KZT 786.4 bln. or by 6.5% and amounted to KZT 12 817.9 bln. as of January 1, 2012. (Figure 6.1.1).

*Figure 6.1.1*



As of January 1, 2012, credit portfolio of the banking sector amounted to KZT 10 472.8 bln., having increased by 15.5% or by KZT 1 406.8 bln. since the beginning of 2011. (Figure 6.1.2). At the same time, it should be noted that the increase in the credit portfolio is of a nominal nature and is related to the fact that the accounting system and the General ledger in the subsidiary accounting records were brought in conformity with the IFRS requirements, including in relation to provisioning (reserving). Thus, loans which were written off against the provisions created earlier at the request of the Committee for Financial Supervision but which are kept in the financial statements prepared under IFRS, were brought back to their book value in the accounting system.

Figure 6.1.2



As of January 1, 2012, provisions created at the request of the Committee for Financial Supervision amounted to KZT 3 365.7 bln. or 32.1% of the total credit portfolio, in the credit portfolio of the banking sector.

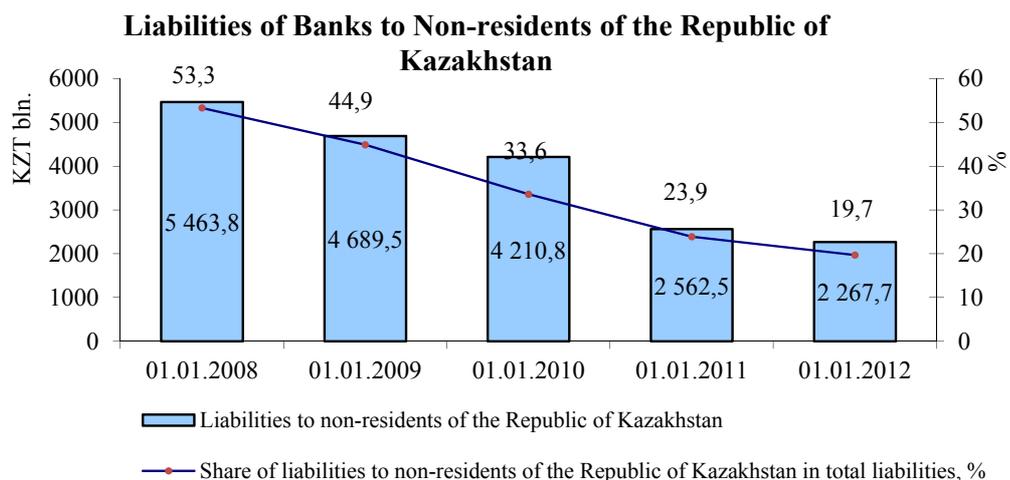
The share of doubtful loans in the credit portfolio decreased from 53.6% to 52.3%, the share of loss loans increased by 2 percentage points and accounted for 22.0% at end-2011. The share of standard loans decreased from 26.4% to 25.7%.

During 2011 non-performing loans<sup>9</sup> increased by KZT 716.5 bln. or by 24.3%, amounting to KZT 3 670.9 bln. (35.1% the total credit portfolio of banks versus 32.6% at the beginning of 2011) as of January 1, 2012. Loans which are past due on their principal amount and/or accrued interest over 90 days, as of January 1, 2012 amounted to KZT 3 225.6 bln., and their share in the total credit portfolio of banks amounted to KZT 30.8% versus 23.8% at the beginning of 2011.

During 2011 bank liabilities increased by KZT 799.5 bln. or by 7.5% and amounted to KZT 11 514.6 bln. as of January 1, 2012.

During 2011 foreign liabilities decreased by KZT 294.7 bln. or by 11.5% and amounted to KZT 2 267.7 bln. as of January 1, 2012, and their share in total liabilities has decreased over the year from 23.9% to 19.7% (Figure 6.1.3).

Figure 6.1.3



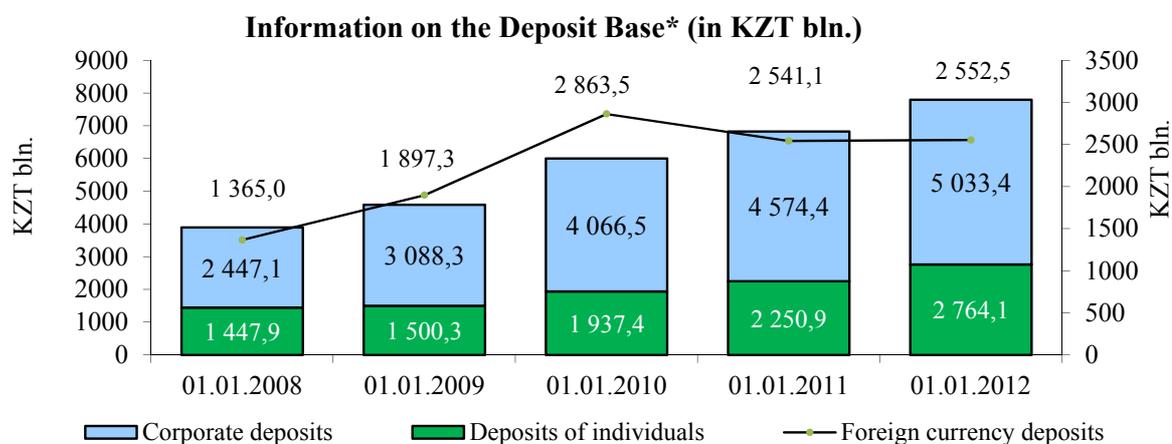
During 2011, deposits of bank clients<sup>10</sup> increased by KZT 972.2 bln. or by 14.2% and amounted to KZT 7 797.5 bln. The major percentage of deposits was represented by corporate

<sup>9</sup> Loans, doubtful of Category 5 and loss loans, only created provisions are taken into account on the loans assessed individually

<sup>10</sup> Including accounts of non-residents

deposits (64.6% of the total amount of customer deposits). Corporate deposits increased by 10.0%, and deposits of individuals – by 22.8% (Figure 6.1.4).

**Figure 6.1.4**

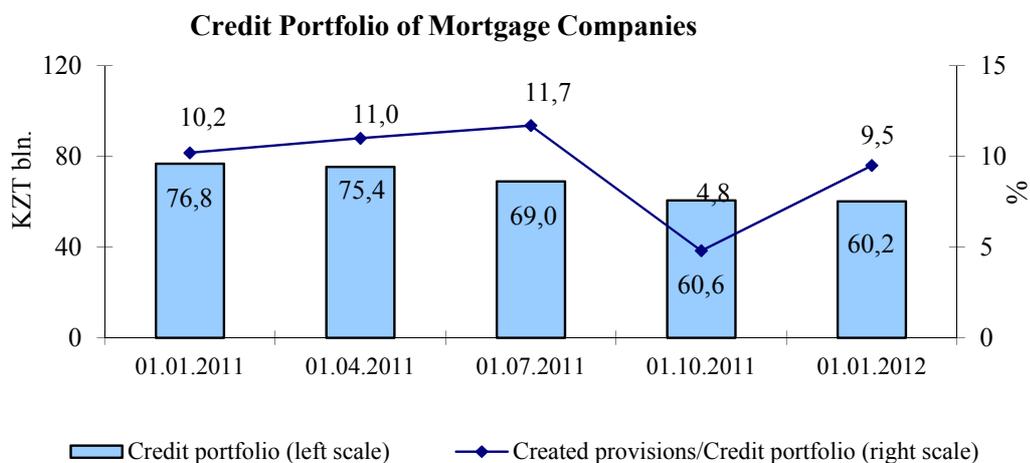


\*excl. deposits of special purpose vehicles

**Mortgage Companies.** As of January 1, 2012, the total assets of mortgage companies amounted to KZT 98.4 bln., which is by KZT 24.4 bln. or by 19.9% less than at the beginning of 2011.

As of January 1, 2012, the total credit portfolio of mortgage companies amounted to KZT 60.2 bln., having decreased by KZT 16.6 bln. or by 1.6% during 2011 (Figure 6.1.5).

**Figure 6.1.5**



In the structure of credit portfolio of mortgage companies, the increase in the share of standard loans is observed. The share of standard loans accounted for 85.9% versus 82.7% at the beginning of 2011, and the share of doubtful and loss loans decreased from 8.8% to 6.8% and from 8.5% to 7.3%, respectively. In absolute terms, the amount of loss loans decreased by KZT 2.1 bln. as compared to the beginning of 2011

**Other Organizations Engaged in Certain Types of Banking Operations.** As of January 1, 2012, the total assets of organizations engaged in certain types of banking operations, other than organizations engaged in investment portfolio management and combining their activity with the broker and/or dealer business and certain types of banking operations, amounted to KZT 525.5 bln., having increased by 30.9% during 2011.

As of January 1, 2012, in the structure of the total credit portfolio, the share of standard credits accounted for 57.5%, doubtful credits – 30%, and loss credits – 12.5%, while as of January 1, 2011 the share of standard credits accounted for 58.1%, doubtful credits – 30.4%, and loss credits – 11.5%.

As of January 1, 2012, the total volume of owners' equity of organizations engaged in certain types of banking operations amounted to KZT 235.8 bln., having increased by 49.9 bln. or by 26.8% during 2011.

**Licensing.** In 2011 the Committee for Financial Supervision issued licenses to 2 banks for banking and other operations including 1 additional operation, and to 1 bank in connection with the exclusion of a banking operation.

Licenses of 2 banks for banking and other operations were re-registered due to the change in their names.

Licenses of 2 mortgage companies for certain types of banking operations were terminated.

**Off-site Supervision.** Based on the review of regulatory reports from banks as part of the off-site supervision, 77 status reports and 204 status outlooks were prepared.

Based on the review of regulatory reports from large participants of banks and bank holding companies, 26 status reports were prepared.

Based on the review of regulatory reports from non-banks as part of the off-site supervision, 21 status reports and 28 status outlooks were prepared.

Given the current trends and risks in the banking sector, the Committee for Financial Supervision, as part of its off-site supervision process, paid special attention to monitoring those factors that cause deterioration in the financial condition of banks as part of its early warning measures; to the analysis of the structure of bank shareholders and owners; to dynamics of the change in assets, credit portfolio, past due, liabilities, deposits, credit portfolio quality; the situation with bank liquidity; exposure of banks to various risks; and the monitoring of foreign loan repayments.

Scenarios and the results of stress-testing, bank contingency plans were reviewed and analyzed, output reporting forms were designed for a comprehensive analysis of operations of mortgage companies (BOSS – Bank Off-site Supervision System).

**Inspection.** In 2011 the Committee for Financial Supervision conducted scheduled inspections of 7 banks, including 59 branches as well as 1 organization engaged in certain types of banking operations and in its 13 representative offices.

The key aspects covered during scheduled examinations were the quality assessments of assets and contingent liabilities, capital adequacy, structure of liabilities, and assessment of liquidity and risk management system of banks. Also, in the course of inspections special focus was made on such issues as the structure of owners' equity, lending activity of banks (including the practice of lending, quality of loans provided, and provisioning), profitability ratios, creditworthiness, assessment of managerial staff, risk management, and off-balance sheet assets and liabilities.

In addition, 30 unscheduled examinations of banks were conducted, of which 23 – at requests from law enforcement agencies.

**Supervisory Response.** The Committee for Financial Supervision, based on the off-site supervision of violations of the laws of the Republic of Kazakhstan, took the following actions in respect of:

- 30 banks (including 11 banks within bank conglomerates) - limited enforcement actions were taken in respect of 63 facts of violation of the legislation, where 22 letters of commitment were requested, written warnings were made in 20 cases, written mandates passed – in 20 cases, and written agreement was concluded in 1 case;

- in respect of large participants of banks/bank holding companies 1 written mandate was passed and 6 written warnings were made.

During 2011 limited enforcement actions were taken in respect of 5 organizations engaged in certain types of banking operations with regard to 10 facts of violations of legislation, including letters of commitment were requested in 4 cases and written mandates passed in 6 cases.

In addition, in 2011 the following measures were taken:

- 3 sanctions in the form of penalty imposition and enforcement;

- 6 sanctions in the form of suspension of the banking license in respect of deposit-taking from individuals/legal entities;

- 1 sanction in the form of the banking license revocation.

As a result of examinations conducted during 2011, 10 limited enforcement actions were taken against banks and organizations engaged in certain types of banking operations, including: 9 letters of commitment were requested and 1 written mandate was passed, as well as 23 administrative penalties were imposed totaling KZT 3.2 mln.

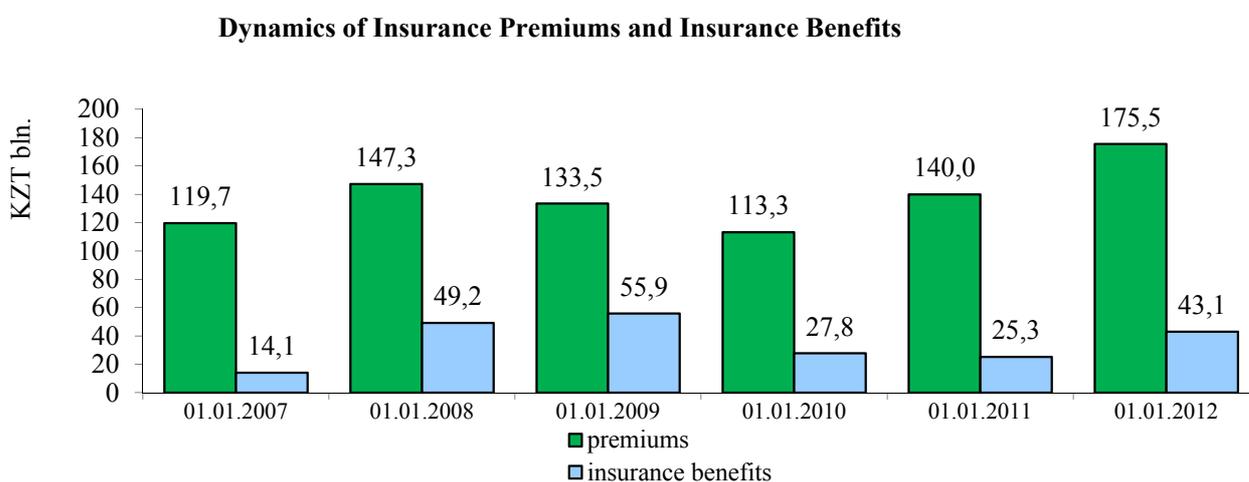
## 6.2. Insurance Sector

As of January 1, 2012, the insurance sector was represented by 38 insurance organizations and 14 insurance brokers.

The total assets of insurance organizations at January 1, 2012 amounted to KZT 387.7 bln., which is by 12.9% greater than the same indicator at the beginning of 2011.

In 2011 the total volume of insurance premiums written by insurance (reinsurance) organizations under the direct insurance contracts amounted to KZT 175.5<sup>11</sup> bln., which is by 25.4% greater than the volume collected during 2010. (Figure 6.2.1).

*Figure 6.2.1*



The total volume of insurance benefit payments made during 2011 was KZT 43.1 bln., having increased by 70.8% as compared to 2010.

The structure of insurance benefit payments by lines of insurance: voluntary personal insurance – 53.1%, mandatory insurance – 27.2%, and voluntary property insurance – 19.7%.

The volume of insurance premiums ceded to reinsurance amounted to KZT 64.8 bln. or 36.9% of total insurance premiums. Alongside with that, 28.8% of total insurance premiums were ceded to reinsurance to non-residents of the Republic of Kazakhstan.

As of January 1, 2012, liabilities of insurance organizations amounted to KZT 156.5 bln., which is by 16.3% greater than at the respective date of 2011.

**Licensing.** The Committee for Financial Supervision issued insurance (reinsurance) licenses to 12 insurance organizations adding additional classes of insurance and a reinsurance license to 1 insurance organization.

Licenses were issued to 6 individuals allowing them to engage in actuarial business in the insurance market.

**Off-site Supervision.** In 2011 the Committee for Financial Supervision performed an off-site monitoring of operations of insurance (reinsurance) organizations, insurance brokers, and actuaries with regard to identification of factors that cause deterioration in financial condition of insurance organizations as part of the early warning measures, compliance with prudential ratios, the impact

<sup>11</sup> excl. insurance premiums underwritten under reinsurance contracts

of negative factors on the financial soundness and solvency of insurance organizations, appropriateness of insurance reserve formation based on actuarial opinions, and assessing the extent of financial soundness of insurance organizations.

**Inspection.** In 2011, 4 scheduled examinations of insurance organizations and 4 examinations of insurance brokers were conducted.

The major issues covered in the course of scheduled full-scope examinations were the procedure for entering into and executing the terms and conditions of mandatory and voluntary insurance contracts, procedure for calculation of prudential ratios, activity of insurance agents, reinsurance business, assessment of efficiency of a risk management system, investment activity, appropriate calculation of insurance reserves, and accuracy of the accounting records.

**Supervisory Response.** Based on the off-site supervision of the Committee for Financial Supervision, in 2011 the following limited enforcement actions were taken in respect of the following entities:

- insurance organizations - 28 letters of commitment were requested, 23 written mandates were passed and 1 written warning was made;

- insurance brokers - 5 written mandates were passed and 1 letter of commitment was requested;

- actuaries - 7 written mandates were passed and 1 letter of commitment was requested.

In addition, a sanction in the form of administrative penalty totaling KZT 7.9 mln. was imposed on 6 insurance organizations.

Based on inspections, the following actions were taken in respect of 6 insurance organizations and 4 insurance brokers:

- 8 binding written mandates were passed with the deadlines by which plans of financial rehabilitation should be presented, and 1 written warning was made;

- 6 letters of commitment were requested.

3 insurance organizations and 1 insurance broker were held administratively liable for violations of the legislation revealed in the course of examinations.

The Committee for Financial Supervision imposed 15 administrative penalties totaling KZT 10.3 mln. for administrative violations committed by the insurance market players.

The license of 1 insurance broker was suspended for 6 months based on the findings of full-scope examination.

### **6.3. Entities of the Securities Market**

At January 1, 2012, the number of brokers-dealers was 73, registrars – 10, custodians – 10, investment managers of APFs – 14, investment portfolio managers – 33, self-regulated entities – 2, transfer agents – 3, and organizers of securities auctions – 1.

As of January 1, 2012, the total number of joint-stock companies with the effective issue of shares was 2 148.

As of January 1, 2012, the total number of the effective issue of bonds was 363 with the total nominal value of KZT 5 309.7 bln.

As of January 1, 2012 32 issuers didn't repay their debt on the coupon payment and principal repayment on bonds.

There is a trend that the effective issues of equity units are decreasing, with their number amounting to 152 as of January 1, 2012 (at January 1, 2011 – 162).

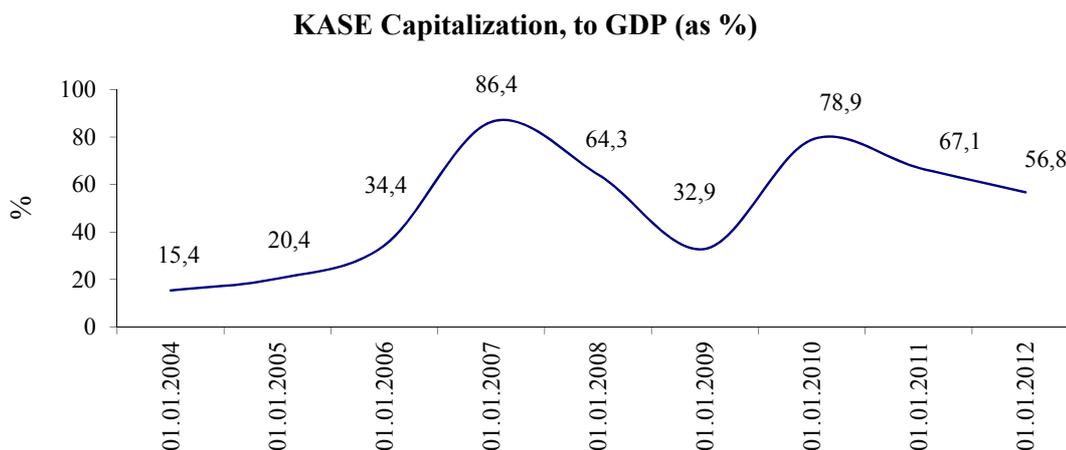
As of January 1, 2012, 152 mutual funds were operating in the securities market, of which 117 are close-end funds (assets – KZT 453.9 bln.), 12 – open-end funds (assets – KZT 0.6 bln.) and 23 – interval funds (assets – KZT 1.7 bln.), as well as 32 incorporated investment funds of speculative investing (assets – KZT 28.8 bln.).

**Stock Market.** The key indicator of the status of the Kazakh stock market is the organized market represented by the KASE.

The major share of securities eligible to be negotiable at the KASE falls on debt securities – 43.8% (217 issues). In the government securities sector – 37.5% (186 issues), in the stock sector – 18.1% (90 issues), in the sectors of securities of investment funds and IFOs – 0.4% (2 issues) and 0.2% (1 issue), respectively.

As of January 1, 2012, overall capitalization of the market of non-government securities included in the KASE's official listing amounted to KZT 12 364.3 bln., demonstrating the increase in respect of bonds by 92.3% during 2011 (from KZT 3 087.2 bln. at the beginning of 2011 to KZT 5 936.5 bln. at the beginning of 2012), whereas in respect of shares it decreased by 28.3% (from KZT 8 959.4 bln. at the beginning of 2011 to KZT 6 425.9 bln. at the beginning of 2012.) (Figure 6.3.1).

**Figure 6.3.1**



During 2011 the volume of transactions with non-government securities decreased by 28.8%. Alongside with that, the volume of REPO transactions decreased significantly – by 55.8%. The volume of transactions with shares (placement and circulation) decreased by 43.5%, transactions with debt securities – increased by 8.9%.

**Licensing.** The Committee for Financial Supervision annulled licenses of 4 entities of the securities market in connection with their voluntary surrender.

One license was issued to a securities market entity for broker/dealer business in the securities market with the right to maintain customer accounts in the capacity of a nominal holder.

**Off-site Supervision.** As part of the off-site supervision, the Committee for Financial Supervision monitored financial soundness of the professional players in the securities market that included the analysis of their financial statements and regulatory reports for compliance with prudential ratios, requirements to the amount of authorized capital, the procedure of transactions in the trading system of the stock exchange and in the non-organized securities market, as well as compliance with other ratios and limits.

Where the facts of non-compliance of their activities with the requirements of the existing laws were identified, plan of actions were requested that provide for corrective actions to correct such violations, prevent from deterioration in the financial condition and from increasing risks associated with the activities in the securities market, and control over their execution was exercised.

Actions were taken to examine whether the professional players in the securities market complied with requirements in respect of having risk management and internal control systems in place in their organizations.

Based on the review of independent auditor opinions presented as the result of audits of financial and economic activity of the professional players in the securities market, major risks pertinent to their activity were identified and measures for their mitigations were elaborated.

Control was exercised over the transfer of the system of securities holder registers from 3 registrars that were voluntarily giving back their licenses for maintaining the securities holder registers to other registrars indicated in the written notices to issuers.

**Inspection.** In 2011, the Committee for Financial Supervision conducted 5 scheduled examinations of professional players in the securities market, including 3 organizations combining their broker/dealer business with the right to maintain customer accounts in the capacity of a nominal holder and with the investment portfolio management, of 1 asset management company and 1 organization engaged in depository activity.

The key aspects in examinations of the securities market entities were as follows: the procedure of investment management of investment funds' assets and investment portfolio of clients, securities transactions as well as nominal holding of securities, accounting and custody of assets of investment funds and clients, registration of securities operations, buildup, storage and maintenance of the register system, disclosures about affiliated persons of an entity, presentation of regular reports and their accuracy, compliance of the software used with the requirements of the existing legislation, etc.

Alongside with that, 3 unscheduled examinations of the securities market entities were conducted in 2011 based upon inquiries from the law enforcement agencies.

**Supervisory Response.** In 2011 the Committee for Financial Supervision, based on the results of its off-site supervision of the securities market entities, applied limited enforcement actions and sanctions, including 17 written mandates passed, 38 letters of commitment requested, 4 written agreements signed and 3 addenda to the existing agreements made.

Besides, 4 written mandates were sent to audit firms in connection with the failure to submit auditor's reports on financial statements of 4 financial organizations to the Committee for Financial Supervision.

Apart from that, 9 administrative penalties were imposed on 6 professional securities market participants totaling KZT 1.5 mln.

In 2011 decisions were prepared and made about revoking licenses from 2 organizations operating in the securities market.

Based on the off-site supervision, the decision was made that 2 managerial staff from 2 financial organizations should be dismissed and the approval for their appointment (election) for a managerial position was rescinded.

Based on the results of inspections, limited enforcement actions were taken and sanctions were imposed in respect of licensees of the securities market, including 1 binding written mandate, 8 requests for letters of commitment, 3 written agreements signed, 12 administrative penalties imposed on 5 securities market entities totaling KZT 2.4 mln.

Also, based on the inspection findings, one organization was deprived of its license for broker-dealer operations in the securities market with the right to maintain client accounts as a nominal holder and investment portfolio management. In addition, the consent for the discharge of duties of the Chairman of the Managing Board of one securities market entity was rescinded.

#### **6.4. Pension Funds**

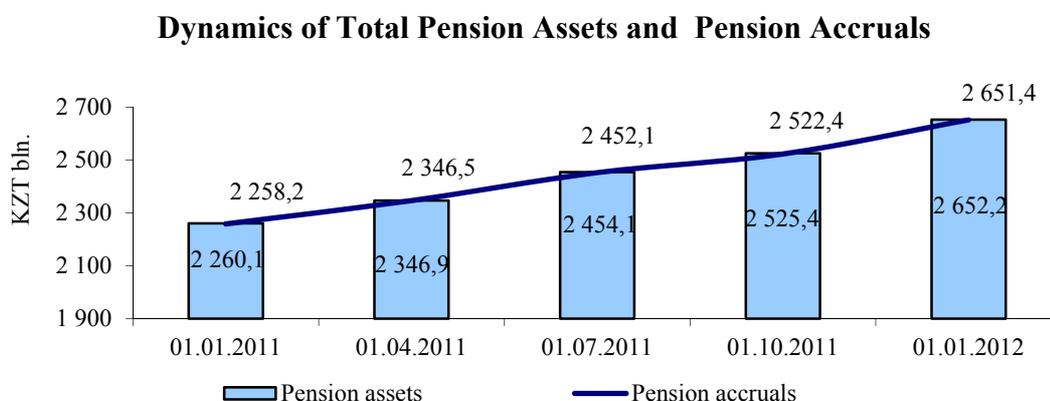
At January 1, 2012, 11 APFs were in operation. The number of individual pension accounts of contributors (beneficiaries) on mandatory pension contributions as of January 1, 2012 was 8 137 395, having increased by 147 613 units (1.9%) during 2011. At January 1, 2012, the total pension contributions to APFs amounted to KZT 2 003.7 bln., having increased by KZT 182.0 bln. (10.0%) during 2011.

During 2011, "net" return (less commissions) from investment of pension assets decreased by 2.9% or by 16.3 bln., amounting to KZT 555.1 bln. at January 1, 2012.

As of January 1, 2012, pension accruals of contributors (beneficiaries) amounted to KZT 2 651.4 bln., having increased by KZT 393.2 bln. or 17.4% during 2011.

*The Structure of Pensions Assets of APFs.* As of January 1, 2012, the total volume of pension assets in investment management at the investment managers of pension assets ("OEIMPA") amounted to KZT 2 652.2 bln., having increased by KZT 392.1 bln. or by 17.3%. The average monthly increase in pension assets during 2011 amounted to KZT 32.7 bln. (Figure 6.4.1).

**Figure 6.4.1**



As of January 1, 2012, the total investment portfolio of APFs amounted to KZT 2 546.1 bln., having increased by KZT 322.3 bln. or 14.5% as compared to January 1, 2011.

It should be noted that at January 1, 2012 the percentage of securities whose issuers defaulted on the securities issues accounted for 0.6% of the total volume of pension assets or KZT 17.1 bln. in absolute terms.

At January 1, 2012, the total owners' equity of APFs amounted to KZT 85.5 bln. During 2011, the total authorized capital of APFs increased by KZT 5.6 bln. or by 12.6% (from KZT 44.2 bln. to KZT 49.7 bln.). The share of the authorized capital in the owners' equity of APFs as of January 1, 2012 accounted for 58.2% (at January 1, 2011 – 52.4%).

As of January 1, 2012, total assets of APFs amounted to KZT 93.6 bln., having increased by KZT 5.4 bln. (6.1%) as compared to the beginning of 2011.

**Licensing.** In 2011 the Committee for Financial Supervision terminated the license of 1 APF authorizing it to engage in taking pension contributions and paying retirement benefits and engage in the activity in the securities market, in connection with reorganization by way of merger.

Due to the change in the name of 1 APF, its license to engage in taking pension contributions and paying retirement benefits and engage in the activity in the securities market was re-registered.

**Off-site Supervision.** During 2011, the Committee for Financial Supervision as part of the off-site supervision of the activity of APFs and asset management companies performed a weekly monitoring of the status of investment portfolios of the above entities, which were created on the basis of both pension assets and own assets, as well as monitored compliance with prudential ratios and other ratios and limits.

On a monthly basis, financial position of APFs was monitored by assessing the change in the components of performance benchmarks in dynamics with the use of the CALPAC methodology of risk-focused supervision providing for a comprehensive analysis and assessment of financial condition of APFs in such areas as capital adequacy, asset quality, liquidity, gains/losses, asset and liabilities management, and corporate governance.

Transactions conducted at the expense of pension assets of APFs were analyzed for their compliance with the requirements of the laws of the Republic of Kazakhstan. In doing so, special focus was made on the difference between the acquisition (realizable) value of financial instruments which represent the subject matter of transactions at the expense of pension assets and their market value.

A report (CHECK-LIST) is prepared to assess how APFs comply with the legal requirements, particularly those that deal with investment limits, compliance with prudential

requirements, early warning measures, investment activity in respect of pension assets, assessment of adequacy of created provisions against potential losses from pension asset impairments, dynamics of the change in key financial and regulatory ratios for APFs as well as compliance with the deadlines for regulatory reporting.

In addition, APFs were monitored for compliance with the requirements for having an adequate risk management system in place, for factors which cause deterioration in the financial condition of APFs and asset management companies as part of the early warning measures, and the analysis of the shareholder structure of APFs and asset management companies.

**Inspection.** In 2011 the Committee for Financial Supervision conducted 2 scheduled examinations of APFs which hold licenses to engage in taking pension contributions and paying retirement benefits.

With a view to exercise control and supervision of accumulation pensions funds' activities, examinations were conducted to check whether APFs comply with the requirements of the existing legislation related to collection of pension contributions and retirement benefit payments as well as to the investment management of pension assets, particularly, with regard to the procedure of entering into pension contracts, opening and maintaining individual pension accounts, operations on retirement benefit payments and transfers, calculation of ratios in line with prudential requirements, analyzing returns on pension assets, and keeping accounting records and preparing financial statements.

In addition, 2 unscheduled examinations of APFs were conducted at the request of law enforcement agencies in respect of application of the pension legislation.

**Supervisory Response.** During 2011, based on findings from the off-site supervision of APFs and OEIMPAs, 71 limited enforcement actions were taken: 34 written mandates were passed, 25 letters of commitment were requested, 11 written agreements were signed, and the issue regarding the dismissal of an official was brought before the APF's shareholders. Administrative penalties against 3 APFs and 1 OEIMPA were imposed, amounting to KZT 680,000.

Based on the results of inspections, limited enforcement actions were taken in respect of 3 APFs, namely:

- 3 letters of commitments were requested from APFs about non-admission of violations that were identified in the course of examination of their activities;
- 1 written agreement was signed.

Besides, in 2011 4 sanctions were imposed in the form of administrative penalty totaling KZT 529,000.

## 6.5. Liquidation Process

As of January 1, 2012, 2 banks, 2 insurance organizations and 1 APF were undergoing forced liquidation. 1 insurance organization was undergoing a voluntary liquidation.

In 2011 the forced liquidation process in one APF was all over completed.

As of January 1, 2012, one bank was under a provisional administration.

The information about settlements with creditors and shareholders of financial organizations under liquidation is presented in Table 6.5.1.

**Table 6.5.1**

No.	Financial Organizations Under Liquidation	Percentage of Payouts Under the List of Creditor's Claims, as of January 1, 2012
1.	Valut-Transit Bank JSC	35.9% of the total debt under the 3rd order of priority in the List of creditor's claims
2.	Nauryz Bank Kazakhstan JSC	88% of the total debt under the 3rd order of priority in the List of creditor's claims
3.	"Altyn Policy" Insurance Company	settlements with 140 creditors included into the category of extraordinary payouts

4.	"Premier Insurance" JSC	settlements with 7 creditors included into the category of extraordinary payouts are in progress
5.	APF "Korgau"	22% of the total debt under the 2nd order of priority in the List of creditor's claims
6.	"Temir At" Insurance Company	Creditors are unavailable

## 6.6. Protection of Rights of the Financial Service Consumers

During the period from May 18 to December 31, 2011, the Committee for Financial Supervision received 3 567 applications (including collective applications - 4 098) from individuals and legal entities regarding various aspects of activities of financial organizations. Their major share falls on the banking and non-bank sector (64.5%), 7.3% – on the insurance sector, 2.4% – on the securities market, 8.8% – on the pension service sector, 16.1% – interpretations of provisions of the laws of the Republic of Kazakhstan and information about entities of the financial market or financial services and 0.9% – on the matters beyond the scope of the Committee for Financial Supervision.

**Banking and Non-Bank Sector.** In respect of the activity of banks and organizations engaged in certain types of banking operations, during 2011 the Committee for Financial Supervision received 2 302 applications (including collective applications - 2833), which accounted for 64.5% (69.1%) of the total number of applications received.

The following issues represent the most important problems for the population:

- assistance in waiver of debt to banks, including from the state budget;
- loan restructuring including by extending the loan tenor, rescheduling, decreasing interest rate or cancelation of a fine;
- prohibition for collateral (mortgage) disposals by banks, unlawful collateral disposals in a judicial and extra-judicial procedure;
- proper calculation by banks of a monthly payment on a loan as well as accrued interest under loan and bank deposit agreements;
- excess interest rates on loans and excess fees for bank services as well as their increase by banks in a unilateral fashion;
- unlawful credits or debits of customer account without his/her will;
- using an indexation rate;
- a failure to specify or improper specification of an annual effective interest rate in the loan agreements or bank deposit agreements;
- a failure by banks to meet their commitments in relation to regular disbursements as part of credit lines;
- disclosure by banks of the information constituting a bank secrecy;
- payments and money transfers with the help of payment cards as well as other plastic card transactions;
- service and return of bank deposits.

The ratio of justified/unjustified applications (complaints) of their total number in the banking sector accounted for 0.3%.

In 2011 there were 6 identified violations committed by banks in respect of the laws of the Republic of Kazakhstan and contractual terms and conditions based on applications (complaints) filed by individuals and legal entities; to this end the Committee for Financial Supervision took the following limited enforcement actions:

- 4 written mandates were passed;
- 2 written warnings were made.

With a view to resolve the problems of mortgage borrowers that had suffered from the consequences of the financial crisis as well as to mitigate social tension in the country among

insolvent borrowers, the Committee for Financial Supervision was in direct cooperation with the members of public associations. So, during 2011 there were multiple meetings with the members of such public associations as "Let leave housing to the people", "Let protect the people's housing", "Arman", "Human Rights Mission"; during the meetings explanations were provided on the provisions of the banking legislation and recommendations were given regarding further actions on the part of the borrowers.

In addition, in 2011 the Committee for Financial Supervision, jointly with the FIAK, arranged 50 meetings of borrowers with the representatives of banks in order to find possible ways of loan debt repayments.

Alongside with that, the Committee for Financial Supervision arranged 55 consultations for individuals and representatives of legal entities regarding claims against financial organizations which were resolved through advice and explanations. Besides, the Committee took part in consultations of 8 individuals arranged by the Almaty office of the "NurOtan" political party.

In association with the Committee for Financial Supervision, loan debts of over 250 borrowers were restructured.

The staff of the Committee for Financial Supervision took part in the three stages of the country-wide tour "My Kazakhstan" dedicated to the 20th anniversary of independence of the Republic of Kazakhstan. During the tour consultations were provided to 157 individuals who applied for explanations and requests for facilitation in resolving the arising problems with financial organizations.

Alongside with that, the Committee for Financial Supervision, jointly with the FIAK, made practical arrangements to establish and stand-up the institute of bank ombudsman.

With a view to improve the quality of services provided by banks, make coordinated and concerted actions in dealing with the borrowers that face problems in meeting their obligations to banks, and to increase financial awareness among the general public, the reporting forms for banks have been designed.

**Insurance Sector.** Throughout 2011, the Committee for Financial Supervision reviewed 260 applications of individuals and legal entities regarding the operation of insurance (reinsurance) organizations (7.3% of the total number of applications received).

The major part of applications concerned the following problems:

- a failure to pay insurance benefits, untimely or incomplete payments of insurance benefits under mandatory and voluntary lines of insurance;
- a failure to discharge obligations on insurance benefit payments under annuity contracts.

The ratio of justified/ unjustified applications (complaints) of their total number in the insurance sector accounted for 1.5%.

In 2011 there were 4 identified violations committed by insurance organizations in respect of the laws of the Republic of Kazakhstan and contractual terms and conditions based on applications (complaints) filed by individuals and legal entities; to this end the Committee for Financial Supervision took the following limited enforcement actions:

- 1 written mandate was passed;
- 2 letters of commitment were requested.

**Securities Market.** During 2011 the Committee for Financial Supervision received 84 applications in relation to the activity of the securities market entities (which accounted for 2.4% of the total number of applications received).

The major part of applications was concerning such problems as violations of the procedure for holding and convening the general shareholders meetings, provision of information affecting the interest of the company shareholders as well as a failure to pay out dividends.

The ratio of justified/ unjustified applications (complaints) of their total number in the securities market accounted for 1.2%.

In 2011 there was 1 identified violation committed by the securities market entities in respect of the laws of the Republic of Kazakhstan based on applications (complaints) filed by

individuals and legal entities; to this end the Committee for Financial Supervision passed 1 written mandate.

***Sector of Pension Services.*** The total number of applications received in relation to problems in the pension market was 312 (8.8% of the total number of applications received).

The major part of complaints and applications in respect of APFs was about the following problems: the transfer of mandatory pension contributions to APFs, where no pension contracts were entered into; the amount of pension accruals was reduced and investment loss accrued; contributors were denied to transfer their pension accruals on an unjustified ground; untimely transfer of pension accruals of contributors (beneficiaries).

The ratio of justified/unjustified applications (complaints) of their total number in the sector of pension services accounted for 0.3%.

In 2011 there was 1 identified violation committed by APFs in respect of the laws of the Republic of Kazakhstan, based on applications (complaints) filed by individuals and legal entities; to this end the Committee for Financial Supervision requested 1 letter of commitment.

## **VII. IMPROVING ACCOUNTING AND FIANNCIAL REPORTING**

In 2011 the National Bank continued to further improve regulations and recommended practices in the area of accounting and financial reporting for financial organizations and special financial companies in line with the International Financial Reporting Standards (IFRS).

With a view to implement the requirements of the Law of the Republic of Kazakhstan "On Accounting and Financial Reporting" as well as to ensure that banks maintain their accounting records in the automated bank information system while complying with all of the IFRS requirements, the National Bank introduced account No. 3300 "Adjustment of allowances (provisions)" intended to report the difference between allowances (provisions) to be created under the Rules for Classification of Assets, Contingent Liabilities and their Allowances (Provisions) approved by the Resolution of the Managing Board of the Agency of the Republic of Kazakhstan on Regulation and Supervision of the Financial Market and Financial Organizations dated December 25, 2006 No. 296, and allowances as required under the IFRS.

Appropriate explanations were prepared for banks and working meetings were conducted regarding impairment of financial assets and the use of a new suggested method to record allowances. Also, arrangements were made to resolve the taxation issues that arise in connection with the introduction of account No. 3300.

As a result of efforts made, the arising difference is recorded in the capital section so that banks create allowances in the automated accounting systems out of expenses and precisely in those amounts that comply with the IFRS requirements. Such approach was elaborated on the basis of recommendations made by experts from the IMF, IFRIC and "the Big Four" audit firms.

Amendments were made to the Standard Chart of Accounts of certain financial market entities of the Republic of Kazakhstan with a view to enhance reliability and transparency of accounting. In particular, the Standard Chart of Accounts was supplemented with new accounts intended for recording liabilities of brokers to their clients, contingency reserves of insurance organizations, and unpaid capital accounts were excluded.

In 2011 the National Bank continued to exercise control over compliance by all financial organizations with the requirements in the area of accounting, financial reporting and maintaining subsidiary ledgers and the General ledger by using automated information systems.

Throughout the year, financial organizations were examined for their compliance with the requirements to the systems that automate the record-keeping for 2011. Appropriate written mandates were passed in respect of violations identified in the course of examinations.

In order to enhance the level of professional knowledge among the staff of financial organizations and other government agencies of the Republic of Kazakhstan, the National Bank

arranged professional certification of its staff as well as of chief accountants of the National Bank's branches and subsidiaries.

## VIII. NATIONAL FUND MANAGEMENT

The total market value of the National Fund's portfolio amounted to US\$ 46 584.5 mln. at December 31, 2011, including foreign currency portfolio — US\$ 43 694.1 mln. (93.80%) and the portfolio of bonds of the National Welfare Fund "Samruk-Kazyna" and the National Management Holding "KazAgro" — US\$ 2 890.3 mln. (6.20%). The market value of the stabilization and savings portfolios in the composition of the National Fund's foreign currency portfolio – US\$ 17 223.8 mln. (39.42%) and US\$ 26 470.3 mln. (60.58%), respectively.

The market value of securities and other financial instruments comprising the National Fund's foreign currency portfolio is based on the data of the custodian bank - BNY Mellon.

According to the custodian bank BNY Mellon, in 2011 an investment return (realized and unrealized) was calculated in the baseline currency – US Dollars – which amounted to US\$ 245 490 400. Investment return adjusted to account for transaction expenses, according to the custodian bank BNY Mellon, amounted to US\$ 245,044,100 during the same period.

**Returns of the National Fund** during 2011 accounted for 1.37%. Returns of the National Fund since its inception<sup>12</sup> to December 31, 2011, accounted for 61.86%, which accounts for 4.65% in annual terms.

The return is calculated in the baseline currency of the National Fund - the US Dollars (Appendix 1 to Section VIII Sub-section, Figure 8.1.1).

**Returns on the Stabilization Portfolio.** In 2011 assets in the stabilization portfolio under the independent management were invested in the money market instruments, mainly the US Treasury securities.

Returns on the stabilization portfolio in 2011 accounted for 0.273%, and returns on the benchmark portfolio (Merrill Lynch 6-month US Treasury Bill Index) for the same period accounted for 0.268%. Thus, positive excess returns of 0.005% were received (Appendix 1 to Section XIII, Figure 8.1.2).

**Returns on the Savings Portfolio.** In 2011 returns on the savings portfolio accounted for 2.75%, and returns on the benchmark portfolio (30% – Merrill Lynch US Treasury; 35% –Merrill Lynch EMU Direct Governments AAA Rated; 10% –Merrill Lynch UK Gilts; 10% –Merrill Lynch Japan Governments; 5% – Merrill Lynch Australian Governments; 5% – Merrill Lynch Canadian Governments; 5% – Merrill Lynch South Korean Government Index) and 20% – major market stock index MSCI World) for the same period accounted for 3.72%. Thus, negative excess returns of (-)0.97% were received (Appendix 1 to Section XIII Figure 8.1.3).

**The Global Bond Mandate.** Assets in the savings portfolio for this type of mandate are managed both by the National Bank itself and by international investment managers (external managers). As of December 31, 2011, assets in the savings portfolio for this type of mandate managed by the National Bank itself amounted to 73.92%, whereas the remaining 26.08% of assets in the bond sub-portfolio were in the external management. The return from the management of the bond sub-portfolio for the "Global bonds" type of mandate accounted for 4.48% in 2011. The return on the benchmark portfolio of this sub-portfolio accounted for 4.95%. Thus, excess returns gained as a result of management of this type of mandate were negative and accounted for (-)0.47%. As of December 31, 2011, this type of mandate was managed by 8 external managers and the National Bank (Appendix 2 to Section XIII Figure 8.1.4).

**The Global Equity Mandate.** Assets in the savings portfolio for this type of mandate are managed by external managers. The return from asset management under this type of mandate was (-)4.15%, whereas the return on the benchmark portfolio was (-)3.02%. Thus, the performance in

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<sup>12</sup> From June 2001

the asset management for this type of mandate was negative versus the benchmark portfolio, and excess returns amounted to (-)1.13%. As of December 31, 2011, this type of mandate was managed by 4 external managers (Appendix 2 to Section XIII Figure 8.1.4).

**The Global Tactical Asset Allocation Mandate.** Assets in the savings portfolio for the this type of mandate were managed by external managers. The return from the savings portfolio asset management for this type of mandate was 0.82%, whereas the return on the benchmark portfolio was 3.87%. Thus, the performance in the savings portfolio asset management for this type of mandate was negative versus the benchmark portfolio, and excess returns amounted to (-)3.05% (Appendix 2 to Section XIII Figure 8.1.4).

## Appendix 1 to Section I Sub-section 1.2

Figure 1.2.1

### Market Demand for the Final Products of Enterprises

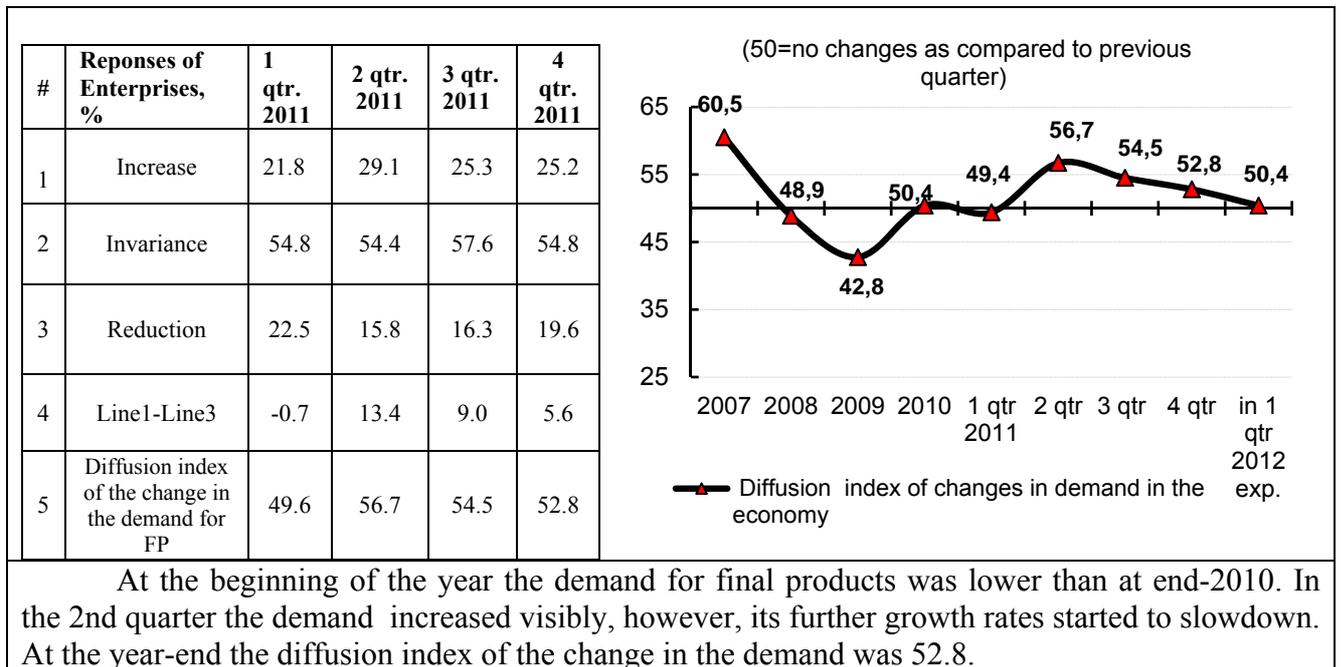
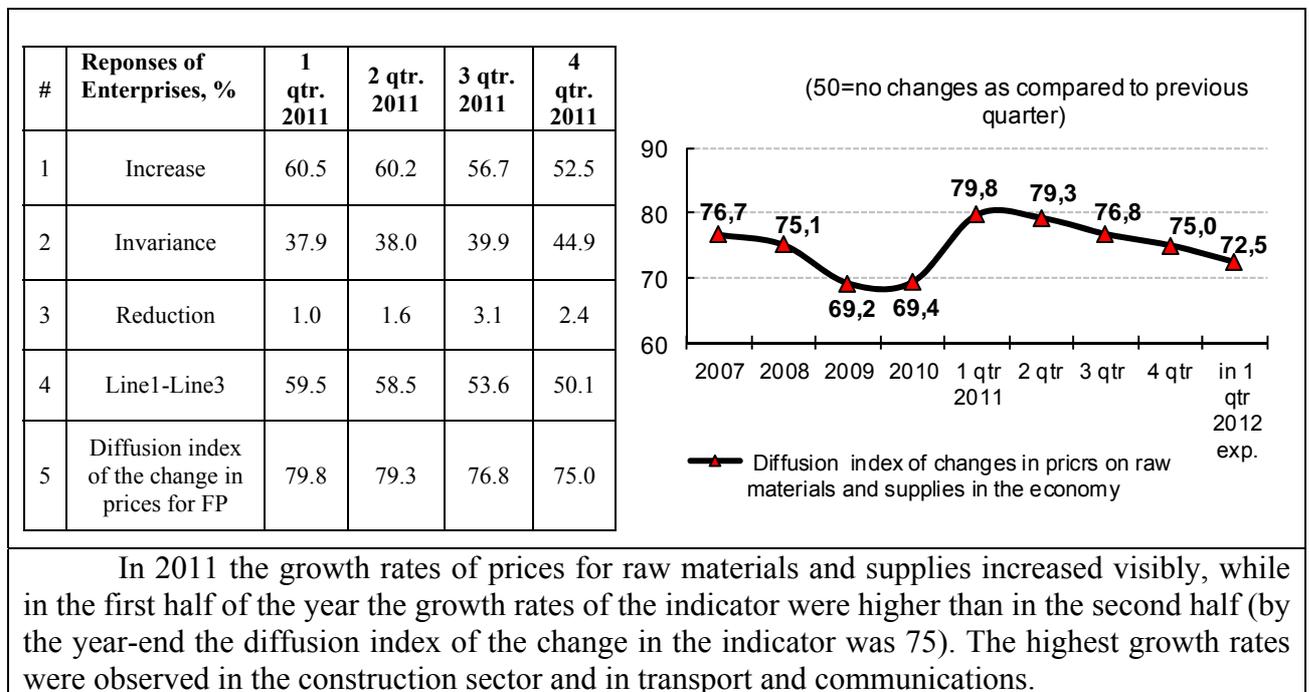


Figure 1.2.2

### Change in Prices for Raw Materials and Supplies



Appendix 2 to Section I Sub-section 1.2

Figure 1.2.3

Change in Prices of Final Products of Enterprises

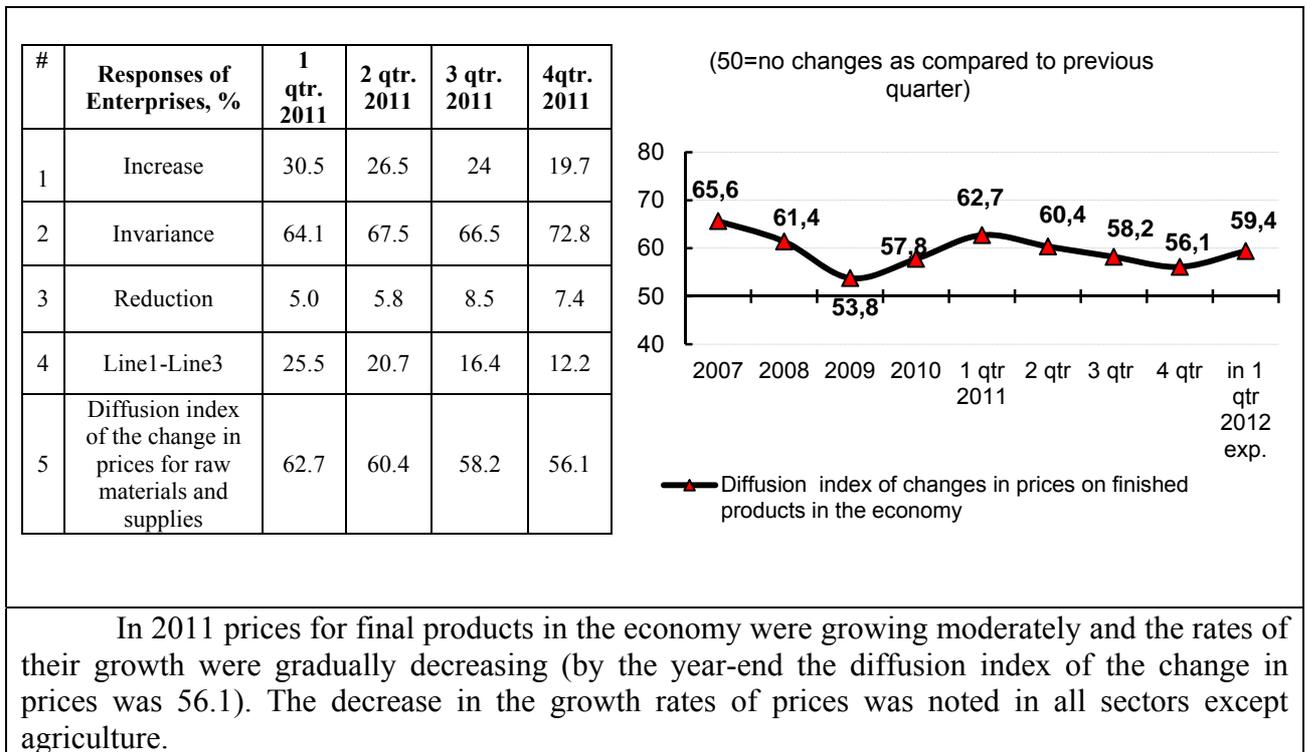
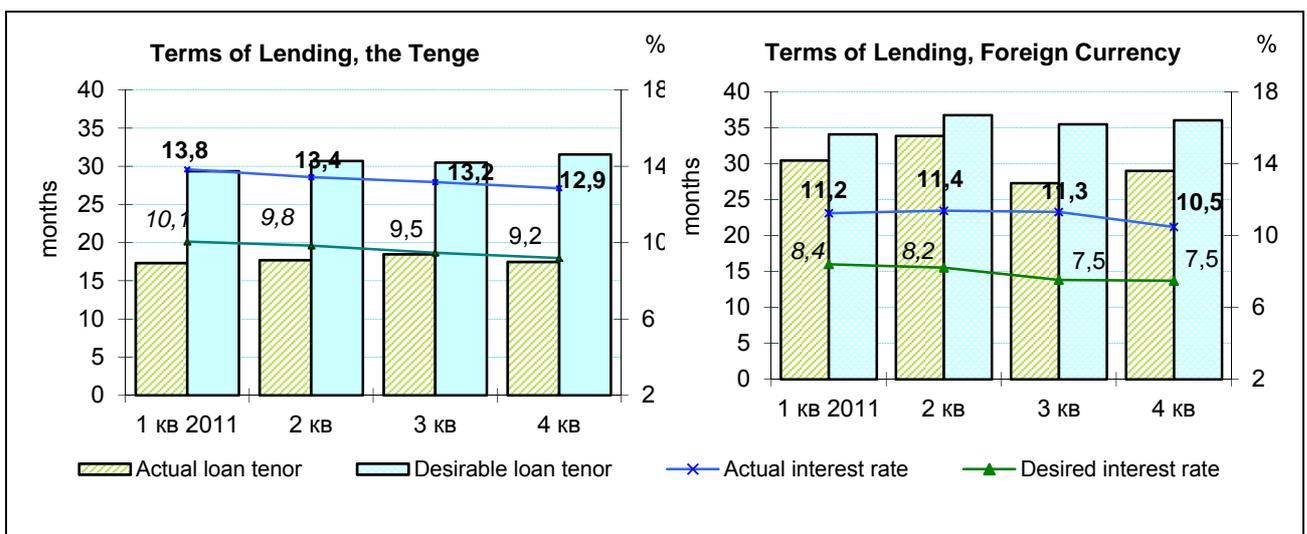


Figure 1.2.4

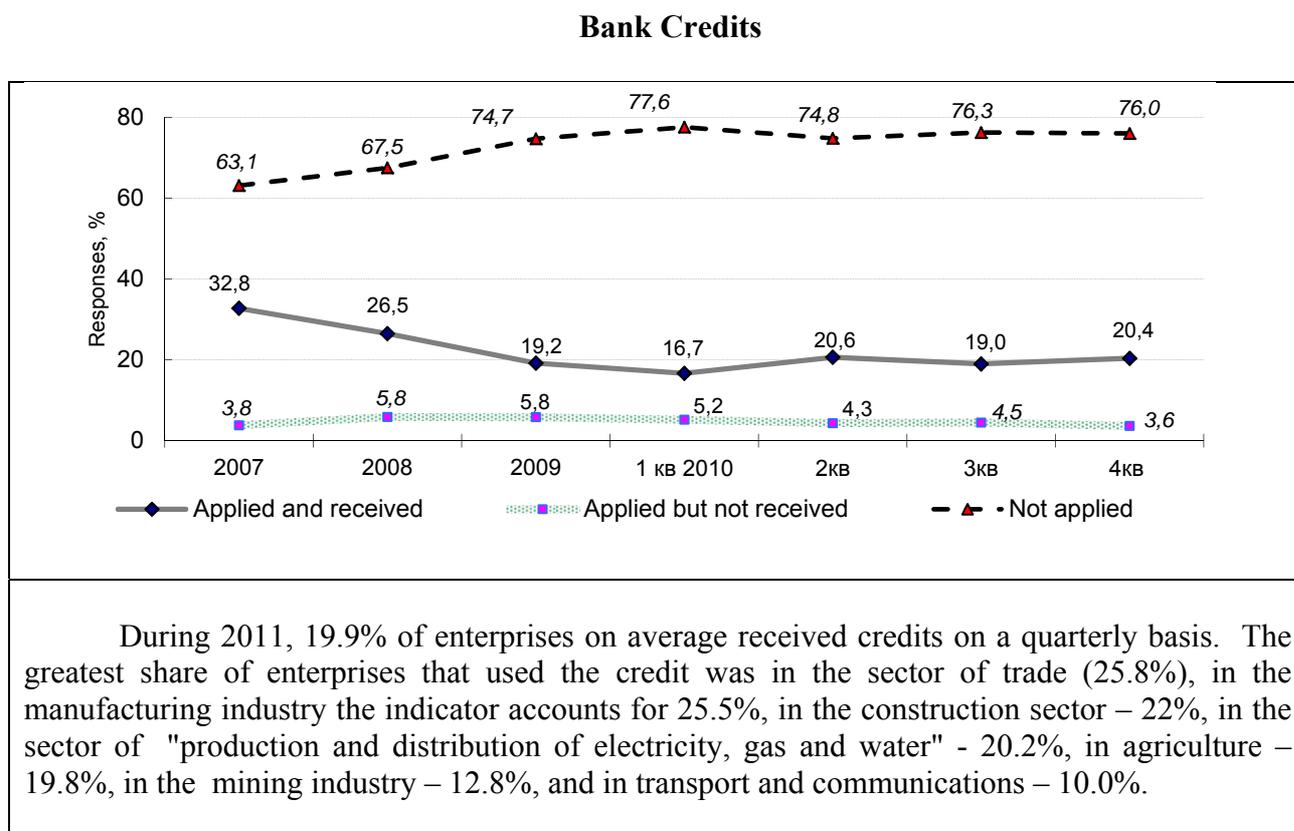
Terms of Lending



By the end of 2011 the average interest rate on credits in the Tenge and in foreign currency decreased (to 12.9% and 10.5%, respectively). Interest rates desired by enterprises, both in the Tenge and in foreign currency also decreased, accounting for 9.2% and 7.5%, respectively.

## Appendix 3 to Section I Sub-section 1.2

Figure 1.2.5



**\*Guiding Comments to Figures 1.2.1, 1.2.2, 1.2.3, 1.2.4, 1.2.5:**

Indicators in the diagrams are presented by the following estimated data: percentage ratio between the response groups of enterprises, difference between the number of positive and negative answers, etc. The diffusion index that is presented in the tables and diagrams is derived as a sum of positive answers and half of the answers are —without any changel. This index is a generalized indicator that characterizes the trend of the reviewed indicator (based on the experience of VTB Bank Europe, England). If its value is higher than 50 – this means a positive change, if less than 50, then the change is negative. The larger the deviation from 50 (lower or higher) of the diffusion index, the higher are the rates of the change (increase or reduction) in the indicator.

## Appendix 1 to Section I Sub-section 1.4

**Table 1.4.1**  
**Balance of Payments of the Republic of Kazakhstan: Analytic Presentation**

US\$ mln.

	2010	2010				2011	2011			
		I	II	III	IV		I	II	III	IV
<b>A. Current account</b>	2408.5	2652.9	1339.1	-1127.2	-456.3	14110.0	2293.8	5316.5	4072.0	2427.8
Trade balance	28669.9	7938.3	8425.4	6183.9	6122.3	47262.7	9378.2	14658.3	13051.8	10174.5
Exports f.o.b.	61584.1	13624.1	16340.5	15473.1	16146.3	88470.2	16727.0	25802.2	23775.7	22165.2
Imports f.o.b.	-32914.2	-5685.8	-7915.1	-9289.2	10024.1	-41207.4	-7348.8	-11143.9	-10724.0	-11990.7
Services	-7078.8	-1441.7	-1406.0	-1932.3	-2298.8	-6412.4	-945.1	-1313.3	-1953.9	-2200.2
Exports	4253.3	905.1	1060.9	1162.6	1124.6	4508.6	924.9	1145.4	1257.9	1180.4
Imports	-11332.0	-2346.9	-2466.9	-3094.9	-3423.4	-10921.0	-1870.0	-2458.7	-3211.8	-3380.5
Compensation of Employees Balance	-1345.1	-338.1	-331.8	-332.7	-342.5	-1780.8	-390.8	-412.3	-468.9	-508.8
Investment Income Balance	-17356.9	-3513.5	-5164.6	-4810.9	-3867.9	-24703.6	-5750.8	-7605.8	-6471.9	-4875.0
Credit	1817.4	423.3	402.9	364.3	627.0	1938.1	536.3	484.6	478.8	438.4
Interest on reserves and assets of the National Fund	827.8	179.2	209.4	211.6	227.6	1006.4	231.9	287.2	259.4	227.8
Income on direct investment abroad, net	-438.5	-141.4	-186.4	-170.8	60.1	-29.0	-31.9	-8.2	1.9	-3.9
Other investment income	1428.1	385.5	379.9	323.4	339.2	960.8	336.2	205.5	204.5	214.5
Debit	-19174.3	-3936.8	-5567.5	-5175.1	-4494.8	-26641.7	-6287.1	-8090.4	-6950.8	-5313.4
Income on direct investment in Kazakhstan, net	-16508.0	-3325.1	-4942.1	-4465.5	-3775.4	-23548.0	-5530.8	-7235.0	-6205.0	-4577.2
Income on debt (interest)	-2558.2	-611.6	-623.6	-604.5	-718.5	-2968.2	-756.1	-735.8	-744.5	-731.8
Dividends from portfolio investments	-108.1	-0.1	-1.9	-105.2	-1.0	-125.5	-0.2	-119.6	-1.2	-4.5
Current transfers balance	-480.6	7.9	-183.9	-235.2	-69.4	-255.8	2.4	-10.4	-85.1	-162.7
<b>B. Capital and Financial Account</b>	-693.2	989.6	-1101.9	-393.2	-187.7	-7992.6	2496.8	-4871.4	-1988.8	-3629.2
Capital account	7890.2	2503.5	636.4	4680.2	70.0	9.3	5.0	-6.8	-11.0	22.1
Financial account	-8583.4	-1513.9	-1738.3	-5073.4	-257.8	-8001.9	2491.9	-4864.6	-1977.8	-3651.3
Direct investment balance	2931.2	3261.4	2273.4	1039.7	-3643.4	8380.1	2251.1	2140.1	3376.8	612.1
Direct investment abroad	-7837.0	-20.1	-319.4	-2078.9	-5418.6	-4530.4	-1924.0	-1480.8	-435.2	-690.3
Assets	-3745.5	-46.5	-1735.7	-2132.1	168.8	-4585.0	-1440.6	-1162.5	-1415.6	-566.2
Liabilities	-4091.4	26.4	1416.3	53.2	-5587.4	54.5	-483.4	-318.3	980.4	-124.1
Direct investment in Kazakhstan	10768.2	3281.5	2592.8	3118.7	1775.2	12910.5	4175.2	3620.9	3812.0	1302.4
Assets	45.1	26.0	73.0	-21.7	-32.2	-262.2	-27.9	-81.7	-204.8	52.2
Liabilities	10723.1	3255.5	2519.8	3140.4	1807.4	13172.6	4203.1	3702.6	4016.8	1250.2
Portfolio investment balance	8523.1	3923.1	-2704.5	791.0	6513.5	-13469.6	106.2	-4794.0	-3470.7	-5311.2
Assets	-7193.7	-847.3	-2685.8	-2523.7	-1136.9	-13539.6	-3012.0	-4628.1	-1413.7	-4485.8
General Government and Central Bank	-7404.8	-1563.5	-1568.1	-2840.1	-1433.1	-12204.6	-2586.7	-4866.6	-913.5	-3837.8
Banks	-61.7	240.5	-482.7	67.5	113.0	-185.1	-53.9	237.4	-207.8	-160.8
Other sectors	272.8	475.7	-635.0	249.0	183.2	-1149.9	-371.5	1.1	-292.4	-487.2
Liabilities	15716.8	4770.4	-18.7	3314.7	7650.4	70.0	3118.2	-165.9	-2057.0	-825.4
General Government and Central Bank	-107.8	355.6	-262.8	-353.4	152.7	-241.6	2282.3	-550.7	-1700.0	-273.2
Banks	8072.0	4285.4	-133.6	3669.1	251.1	-306.4	221.8	242.2	-297.9	-472.4
Other sectors	7752.6	129.4	377.6	-1.0	7246.6	617.9	614.2	142.6	-59.1	-79.8
Financial derivatives (net)	8.7	65.1	162.9	-241.7	22.4	126.1	11.3	61.0	94.6	-40.8
Medium- and long-term loans and credits	-8734.6	-7026.5	-1462.2	-2136.2	1890.3	1563.2	-441.6	654.5	889.9	460.4
Assets	3862.1	243.2	600.5	2225.5	792.9	909.9	444.8	316.4	103.1	45.6
General Government and Central Bank	0.2	0.3	-0.7	0.3	0.3	1.2	0.3	0.3	0.3	0.3



## Appendix 2 to Section I Sub-section 1.4

Table 1.4.2

## Dynamics of Gross External Debt

US\$ mln.

	31.12.2007	31.12.2008	31.12.2009	31.12.2010	31.12.2011
<b>TOTAL Gross External Debt</b>	<b>96 893.0</b>	<b>107 933.4</b>	<b>112 866.9</b>	<b>118 225.5</b>	<b>123 847.8</b>
<i>Short-term</i>	11 953.1	9 976.6	10 261.0	9 112.4	9 125.1
<i>Long-term</i>	84 939.9	97 956.7	102 605.9	109 113.1	114 722.7
<b>General Government</b>	<b>1 491.5</b>	<b>1 641.9</b>	<b>2 218.1</b>	<b>3 800.3</b>	<b>4 487.3</b>
<i>Short-term</i>	<b>60.3</b>	<b>23.8</b>	<b>0.0</b>	<b>49.1</b>	<b>31.6</b>
Money market instruments*	60.3	23.8	0.0	49.1	31.6
Loans	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0	0.0
<i>Long-term</i>	<b>1 431.2</b>	<b>1 618.1</b>	<b>2 218.1</b>	<b>3 751.2</b>	<b>4 455.7</b>
Bonds and other debt securities*	0.0	0.0	0.0	0.0	0.0
Loans	1 431.2	1 618.1	2 218.1	3 751.2	4 455.7
Trade credits	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0	0.0
<b>Monetary Authorities</b>	<b>106.9</b>	<b>12.1</b>	<b>1 017.5</b>	<b>1 000.6</b>	<b>563.3</b>
<i>Short-term</i>	<b>105.0</b>	<b>10.2</b>	<b>479.7</b>	<b>470.4</b>	<b>36.3</b>
Money market instruments*	104.8	10.0	376.1	230.9	19.8
Loans	0.0	0.0	0.0	0.0	0.0
Cash and deposits	0.0	0.3	103.6	239.5	16.5
Other debt liabilities	0.2	0.0	0.0	0.0	0.0
<i>Long-term</i>	<b>1.9</b>	<b>1.9</b>	<b>537.8</b>	<b>530.2</b>	<b>526.9</b>
Bonds and other debt securities*	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0
Cash and deposits	0.0	0.0	0.0	0.0	0.0
Other liabilities	1.9	1.9	537.8	530.2	526.9
<b>Banks</b>	<b>45 946.2</b>	<b>39 221.2</b>	<b>30 190.1</b>	<b>19 947.9</b>	<b>14 600.1</b>
<i>Short-term</i>	<b>6 102.8</b>	<b>3 093.4</b>	<b>3 938.4</b>	<b>1 622.5</b>	<b>1 043.1</b>
Money market instruments*	0.0	0.0	0.0	0.0	0.0
Loans	3 747.5	2 010.9	353.1	227.7	130.8
Cash and deposits	1 863.9	702.7	837.6	1 275.4	771.9
Other debt liabilities	491.4	379.7	2 747.7	119.4	140.3
<i>Long-term</i>	<b>39 843.4</b>	<b>36 127.8</b>	<b>26 251.7</b>	<b>18 325.3</b>	<b>13 557.1</b>
Bonds and other debt securities*	3 266.2	2 518.3	2 859.6	10 695.5	7 915.2
Loans	35 875.9	33 082.0	23 102.4	7 354.7	5 379.6
Cash and deposits	701.4	527.6	289.6	275.1	262.2
Other liabilities	0.0	0.0	0.0	0.0	0.0
<b>Other sectors</b>	<b>49 348.4</b>	<b>67 058.2</b>	<b>79 441.2</b>	<b>93 476.7</b>	<b>104 197.1</b>
<i>Short-term</i>	<b>5 685.0</b>	<b>6 849.3</b>	<b>5 842.8</b>	<b>6 970.3</b>	<b>8 014.1</b>
Money market instruments*	0.3	0.1	0.1	0.0	0.0
Loans	1 437.3	2 247.2	918.4	1 293.2	1 854.9
Cash and deposits	0.0	0.0	0.0	0.0	0.0
Trade credits	3 704.2	4 001.8	3 788.3	5 296.5	5 840.9
Other liabilities	543.1	600.2	1 136.0	380.6	318.2
<i>Long-term</i>	<b>43 663.4</b>	<b>60 208.9</b>	<b>73 598.4</b>	<b>86 506.4</b>	<b>96 183.0</b>
Bonds and other debt securities*	671.4	604.6	801.8	9 055.0	9 729.1
Loans	40 156.4	56 441.4	69 767.4	74 452.9	82 583.5
Cash and deposits	0.0	0.0	0.0	0.0	0.0
Trade credits	2 835.6	3 162.8	3 029.2	2 998.4	3 870.3
Other liabilities	0.0	0.0	0.0	0.0	0.0
<b>Memo items:</b>					
<b>Direct investments: intercompany debt</b>	<b>30 080.6</b>	<b>40 198.8</b>	<b>49 632.0</b>	<b>52 342.0</b>	<b>59 918.5</b>
Liabilities to affiliated entities	2 458.8	5 337.6	6 643.6	2 553.0	2 597.8
Liabilities to direct investors	27 622.3	34 861.1	42 988.4	49 789.0	57 320.7

\* Debt securities are recorded at market value (if available)

## Appendix 3 to Section I Sub-section 1.4

Table 1.4.3

## Absolute and Relative Indicators of Gross External Debt

Items	2007	2008	2009	2010	2011
<b>A. Absolute indicators (US\$ mln.)</b>					
1. Gross external debt (at end-period )	96 893.0	107 933.4	112 866.9	118 225.5	123 847.8
<i>Of which, intercompany debt</i>	<i>30 080.6</i>	<i>40 198.8</i>	<i>49 632.0</i>	<i>52 342.0</i>	<i>59 918.5</i>
2 . Gross external debt excl. intercompany debt (at end-period)	66 812.4	67 734.6	63 234.9	65 883.6	63 929.3
3. Payments for debt extinction and servicing (including intercompany debt )*	25 445.3	31 830.5	30 463.5	21 118.0	22 496.2
4. Payments for debt extinction and servicing (excl. intercompany debt)*:	17 284.1	23 267.9	22 374.5	12 668.4	15 281.9
5. Export of goods and non-factor services for the period (EGS) *	51 906.1	76 396.4	48 166.9	65 837.3	92 978.7
<b>B. Relative Parameters</b>					
1. Gross external debt per capita (US\$, excluding intercompany debt)	4 292.3	4 293.4	3 943.3	4 007.0	3 833.8
2. Gross external debt to GDP (% , including intercompany debt)	92.4	80.9	98.3	79.9	66.6
3. Gross external debt to GDP (% ,excluding intercompany debt)	63.7	50.7	55.1	44.5	34.4
4. Gross external debt to EGS (% , including intercompany debt)	186.7	141.3	234.3	179.6	133.2
5. Gross external debt to EGS (% , excluding intercompany debt)	128.7	88.7	131.3	100.1	68.8
6. Payments for debt extinction and servicing to EGS (% , including intercompany debt)	49.0	41.7	63.2	32.1	24.2
7. Payments for debt extinction and servicing to EGS (% ,excluding intercompany debt)	33.3	30.5	46.5	19.2	16.4
8. Interest payments to EGS (%)	10.2	7.5	10.5	7.0	4.9
9. International reserves to short-term external debt to original maturity	147.5	186.9	225.0	310.3	321.3
<b>Memo items:</b>					
Population (thousand individuals) **	15 565.6	15 776.5	16 036.1	16 442.0	16 675.0
GDP (KZT bln.), for the period**	12 849.8	16 052.9	17 007.6	21 815.5	27 300.6
GDP for 12 months (US\$ bln.)	104.9	133.5	114.8	148.0	186.0

\* Balance of Payments of the Republic of Kazakhstan, estimate by the National Bank

\*\* Agency of Statistics

Appendix 1 to Section XIII

Figure 8.1.1

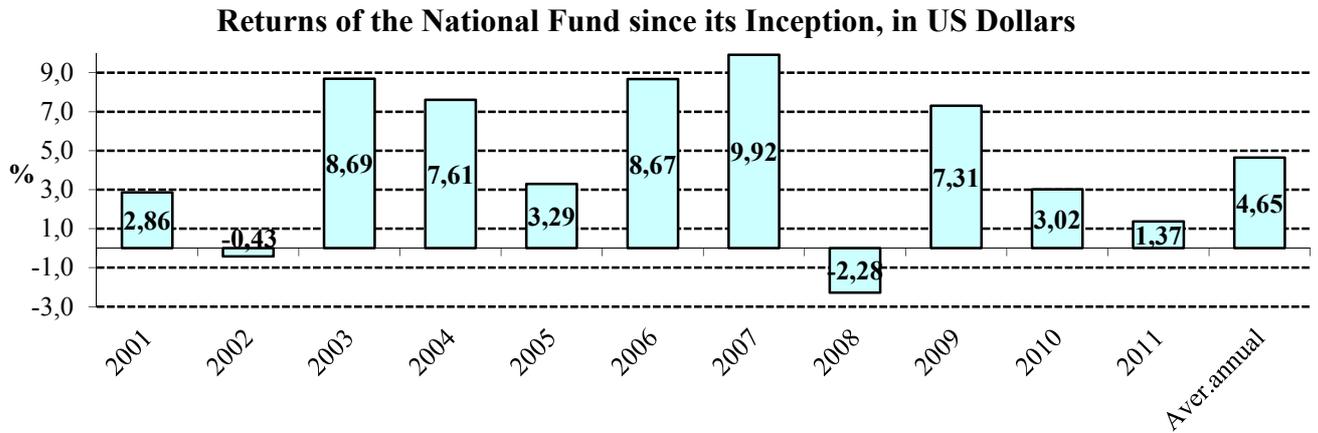


Figure 11.1.2

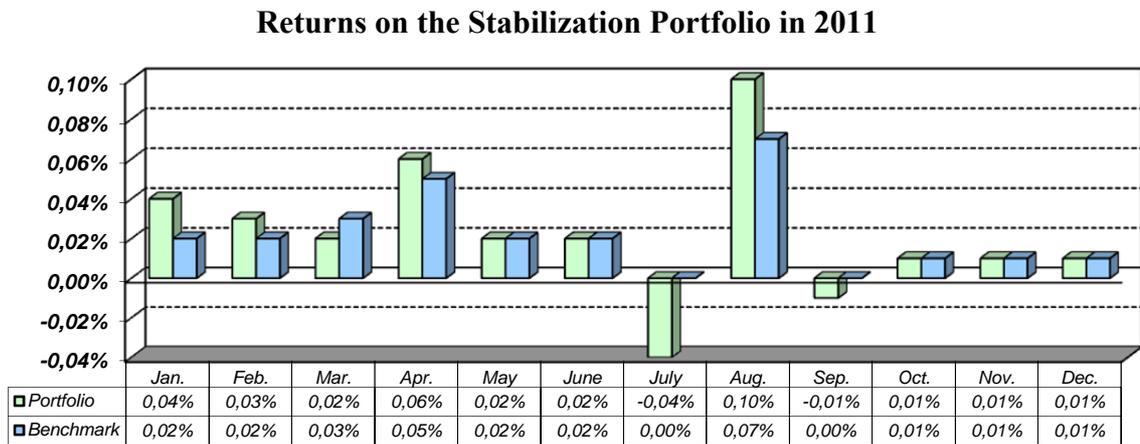
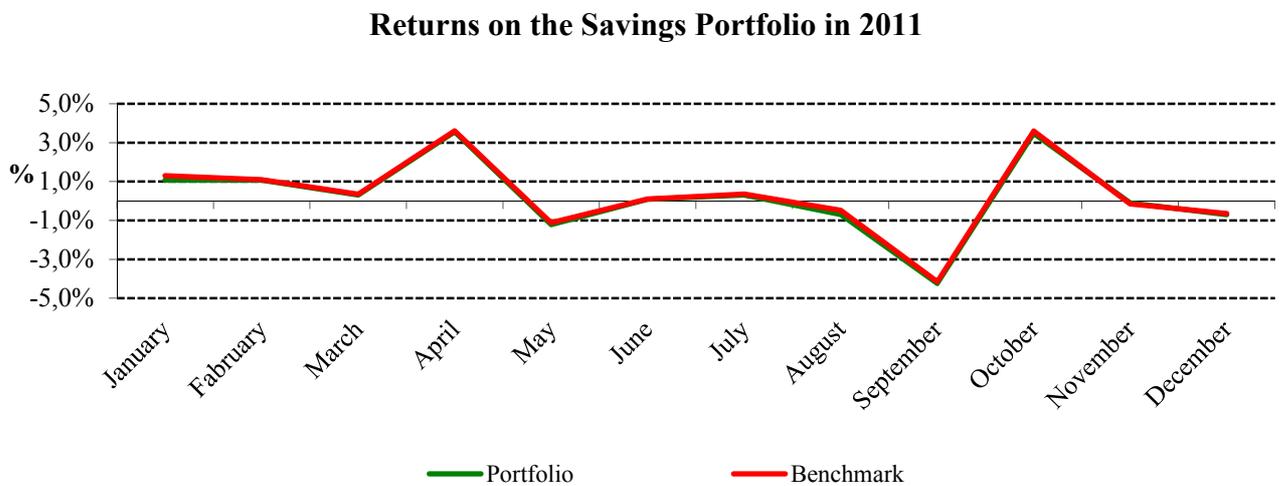


Figure 8.1.3



## Appendix 2 to Section XIII

Figure 8.1.4

## Returns on the Savings Portfolio by the Type of Mandate

