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OF THE NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN
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List of Abbreviations

President of the Republic of Kazakhstan	President
National Bank of the Republic of Kazakhstan	National Bank
Agency for Regulation and Supervision of the Financial Market and Financial Organizations of the Republic of Kazakhstan	Agency for Regulation and Supervision of the Financial Market and Financial Organizations
National Fund of the Republic of Kazakhstan	National Fund
Government of the Republic of Kazakhstan	Government
Republic of Kazakhstan Ministry of Finance	Ministry of Finance
Republic of Kazakhstan Ministry of Justice	Ministry of Justice
Republic of Kazakhstan Economic Crime and Corruption Agency	Economic Crime and Corruption Agency
Republic of Kazakhstan Agency for Civil Service Affairs	Agency for Civil Service Affairs
Republic of Kazakhstan Statistical Agency	Statistical Agency
Commonwealth of Independent States	CIS
Eurasian Economic Union	EurAsEU
Single Economic Space	SES

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INTRODUCTION

The prices of energy resources continued to increase during 2005. On the backdrop of internal macroeconomic stability this had the dominant influence on the overall results of foreign economic activity of Kazakhstani residents.

Although in 2005 physical export volume remained practically the same as in 2004, an increase in world prices of the main export goods brought about an increase in exports of goods (by 37 percent). An increase in quantitative deliveries was typical of imports of goods in the presence of a moderate price increase. As a result imports of goods grew 30.1 percent, and the positive balance of trade exceeded \$10.3 billion.

High revenues and the prevailing prospects spurred investment in the infrastructure of oil and gas deposits. During the year, the cost of imports of international services climbed by a time and a half, bringing about an increase in the negative imbalance of services to \$5.2 billion.

Further development of projects in mining industry, which are being implemented with the participation of foreign investment, is helping to maintain a high level of inflow of foreign direct investment into Kazakhstan. During 2005 the gross inflow of foreign direct investment exceeded \$6.4 billion (\$8.3 billion in 2004).

In the presence of decreasing net inflow of direct investment resources, the financing inflow was supported mainly by spurring borrowing operations of the private sector, and first and foremost the banking sector. During 2005 the volume of foreign borrowings and loans attracted by the Republic's banks increased by a factor of 1.6.

External public debt was typified by early settlement of obligations coupled with a decrease in the volume of new development: the government's external obligations fell by \$848 million during the reporting year.

External obligations of Kazakhstani residents climbed by \$8.3 billion overall in 2005 (not counting direct investments).

Attraction of foreign capital on a major scale brought about both expansion of the volume of internal lending and growth of the foreign assets of residents. During 2005 the foreign assets of residents (with the exception of the National Bank's international reserves) tripled. An increase in the assets of the National Fund and the Republic's banking sector made the main contribution.

Significant growth of the foreign assets of residents and active settlement of external obligations on the backdrop of a current-account deficit brought about a decrease in the National Bank's international reserves. Even so, the reserves are sufficient to cover 3.3 months of imports of goods and services.

And so, foreign economic conditions were generally favorable for Kazakhstan, although they did provoke certain negative consequences.

Kazakhstan's economy continued to develop dynamically in 2005 owing both to progress of the reforms and to a favorable situation in the global economy.

The real GDP growth in 2005 was 9.4 percent. Growth of real GDP was brought about by an increase in real production volume in all industries of the economy. Construction is developing at an especially robust rate -- real production grew 37.8 percent. Gross agricultural production increased 6.7 percent.

Growth of the country's economy was facilitated in many ways by the investment activity of domestic and foreign capital. Implementation of large investment projects in oil extractive industry with the participation of foreign investors, further implementation of measures under the Strategy for Development of Industry and Innovation in the Republic of Kazakhstan for 2003-2015, and execution of a number of industry-specific programs made it possible to keep the economy attracting a high volume of investments. Overall, investment in fixed capital grew by a factor of 1.2 in 2005.

Economic welfare is growing together with the economy's growth. Per-capita average nominal monetary private incomes were 26.2 percent higher in December 2005 (according to estimates) than in December of the preceding year. Real monetary incomes climbed 17.4 percent during the same period.

Enterprise monitoring showed that an upward trend in labor productivity and a downward trend in per-unit costs of production and sale of products persisted in 2005. Current assets covered current liabilities completely.

In 2005, execution of the state budget was characterized for the first time by a surplus, amounting to 0.6 percent of GDP.

State budget revenues increased 63.1 percent to a figure of 28.2 percent of GDP, which included a 68.5 percent increase in tax receipts. State budget expenditures amounted to 26.1 percent of GDP. Execution of the annual budget financing plan for 2005 was 99 percent. The Republican budget's surplus allowed the government to decrease external debt 35.0 percent in 2005. Government-guaranteed external debt shrank 6.4 percent.

The state's active participation in redistribution of revenues, expenditures, and other money flows in the economy was a typical feature of budget execution. On one hand value added collected to the budget in the form of taxes is growing steadily. On the other hand the state is increasing investment into the economy and expanding the volume of state property evermore aggressively. Consequently the Ministry of Finance possesses sizable "surplus" financial resources, over and above the funding needs of the current budget programs.

And so, favorable foreign economic conditions and the political and financial stability in Kazakhstan helped to consolidate the growth trends of the Republic's economy, which have been observed for as much as 6 years. Overall GDP growth during the last 6 years was about 79.3 percent, which made it possible for Kazakhstan to become one of the world's leaders in rate of economic development.

In scoring by the World Economic Forum based on two indices -- the "growth competitive index" and the "business competitiveness index" -- Kazakhstan took 61st and 62nd place respectively. In this connection Kazakhstan has specified a new goal for itself joining the 50 most competitive countries of the world, which will require it to first meet international standards in the economy and in public administration.

Hand in hand with the challenge of enhancing competitiveness is the challenge of enhancing further the efficiency of the financial system and maximally satisfying the standards of the European Union in this area, as specified in the Conceptual Framework for Development of the Financial Sector.

Being the sole central bank in the CIS with classical functions and purpose, the National Bank has committed itself to intensify, in the medium term, measures to improve monetary policy itself and to bring it closer to international standards. Preparing for transition to the principles of inflation targeting is a promising direction of the National Bank's activity.

In keeping with its main purpose, the National Bank is concentrating its attention on pursuing monetary policy aimed at keeping inflation low. To the National Bank, inflation is the key indicator, which is why it devotes elevated attention to its inflation forecasts and to measures to control inflationary processes.

A number of factors provoked intensification of inflationary pressure in 2005, including an increase in economic activity.

In response to an increase in prices of Kazakhstan's main exported goods on global commodity markets, domestic manufacturers increased the prices of the associated goods on the internal market. While growth of expenditures of the state budget stimulated economic activity on one hand, it promoted an increase in inflationary pressure on the other. Another inflationary factor was the inflationary expectations provoked by growth of private incomes.

Under these conditions the National Bank always took the necessary steps to achieve price stability, using legislatively established monetary policy instruments and operations.

A deliberative advisory body -- the Monetary Policy Council -- was created with the participation of representatives of the National Bank and interested state agencies, Parliament, scientific circles, and the financial and real sectors of the economy for the purpose of improving the grounds and transparency of decisions.

The Monetary Policy Council is a deliberative advisory body whose decisions have the nature of recommendations. The main function of the Council is to generate proposals on issues concerned with the effectiveness of the use of monetary policy instruments, with the influence of the tenge's exchange rate on the economy, and with coordination of state bodies, the Parliament of the Republic of Kazakhstan, financial organizations, and scientific circles in solving the financial system's problems.

Steps were taken to enhance the efficiency and transparency of the National Bank's activity. Besides the regular appearances and publications of the National Bank's executives and staff in the media, a television program titled "Tenge Territory" began airing in 2005.

The National Bank is implementing measures to raise standards in other areas of its activity as well.

In the area of foreign currency regulation and foreign currency control, a policy is being pursued aimed at further liberalization of the foreign currency regime in Kazakhstan and at identification of new approaches to regulating the risks of capital movement. The goal for 2007 is to

make an effective transition from a permit-based procedure of foreign currency operations to a system of post-monitoring and selective control.

In the area of payment systems, measures are being implemented to further enhance the efficiency and safety of payment systems and to create an efficient system of risk management and payment system supervision.

Steps are being taken to ensure trouble-free and uninterrupted operation of payment systems and to increase their safety.

On the whole, the National Bank's activities are helping to keep the financial market stable and bring all of its segments it closer to international standards. This work is being coordinated with the Agency for Regulation and Supervision of the Financial Market and Financial Organizations.

This report addresses the measures stated above, as well as other measures concerned with activities of the National Bank in 2005.

I. ECONOMIC DEVELOPMENT

1.1. The Real Sector of the Economy¹

According to operational data *gross domestic product (GDP)* was T 7,453.0 billion in 2005 in current prices. The growth of real GDP over 2005 was 9.4 percent.

Real GDP growth occurred due to an increase in real production volume in all industries of the economy: in industry -- by 4.6 percent, agriculture -- by 7.3 percent, construction -- by 37.8 percent, transportation and communication services -- by 10.0 percent, trade -- by 9.3 percent.

The share of goods manufacture in the GDP structure was 43.6 percent, and that of services was 52.6 percent. Industry is the biggest contributor to GDP production (29.7 percent).

Industrial production volume increased 4.6 percent in 2005 compared to 2004, to include a 3.2 percent increase in mining industry, a 6.0 percent increase in processing industry, and a 2.2 percent increase in production and distribution of electricity, gas, and water (Appendix 1 to Section I, Subsection 1.1, Figure 1.1.1). The share of mining industry in industrial production volume (58.6 percent) exceeded the share of processing industry (35.8 percent). An increase in world oil prices had the impact of increasing the rate of growth of production in mining industry. Expansion of investments and of consumer demand stimulated development of processing industries.

An increase in production volume in mining industry was made possible in 2005 mainly by growth of extraction of natural gas by 25.0 percent, of gas condensate by 21.0 percent, of lignite by 14.5 percent, of copper ore by 11.0 percent, of chromium ore by 8.9 percent, of non-sintered iron ore by 8.6 percent, of lead-zinc ore by 4.3 percent, and of crude oil by 1.1 percent.

About 40 percent of the volume of processing industry is credited to metallurgical industry and manufacture of finished metallic products, and over a fourth is credited to manufacture of edible products, including beverages and tobacco.

In 2005 gross agricultural production was T 764.8 billion, which is 6.7 percent higher than in 2004; this includes a 4.5 percent increase in livestock production (in connection with an increase in the numbers of farm animals and poultry and their productivity) and an 8.4 percent increase in plant farming production (owing to an increase in yields of all cereals and legumes in the country's northern oblasts compared to 2004).

Growth of the country's economy was promoted in many ways by the investment activity of domestic and foreign capital. Implementation of large investment projects in petroleum extractive industry with the participation of foreign investors, further implementation of measures under the Strategy for Development of Industry and Innovation in the Republic of Kazakhstan for 2003-2015, and execution of a number of industry-specific programs made it possible to keep the economy attracting a high volume of investments. Investment in fixed capital totaled T 2,205.2 billion in 2005, which is 1.2 times more than in 2004. The main sources of investment in fixed capital were the resources of economic agents themselves (56.8 percent) and foreign investments (25.2 percent), while budget resources came to 12.6 percent, and borrowed resources came to 5.4 percent. The priority

¹ Based on data from the Statistical Agency.

industries for investment are oil and natural gas extraction (35.9 percent of the total volume of investments in fixed capital), real estate operations (21.1 percent), transportation and communications (14.8 percent), and processing industry (10.4 percent).

Based on updated figures the volume of construction work and services in 2005 was T 743.6 billion, which is 34.1 percent above the 2004 level. Investment in housing construction came to T 241 billion, which is 1.6 times more than in 2004.

A 4.8 percent increase in freight carriage to a figure of 1,927.9 million metric tons was observed in a time of growth of industrial production. The volume of services delivered by communications enterprises grew 27.7 percent in 2005, including an increase of 29.4 percent in services to the public, coming to T 216.7 billion and T 75.9 billion respectively.

The size of the economically active population aged 15 years and older was 7.9 million persons in 2005 (according to preliminary data), which is 0.5 percent more than in the preceding year. The number of people employed in the economy increased during the past year increased by 0.9 percent to 7.2 million persons. The number of unemployed in 2005 decreased 3.0 percent compared to 2004, to 639,300 persons. Unemployment in 2005 prevailed at 8.1 percent, and the ratio of registered unemployed to the size of the economically active population was 1.2 percent.

In 2005 the ***average monthly nominal wage*** in the economy as a whole was T 34,066 (according to preliminary data), having risen 20.5 percent compared to the past year and 12.0 percent in real terms (Appendix 1 to Section I, Subsection 1.1, Figure 1.1.2). Growth of wages was brought about by an increase in economic activity in the country owing to a high rate of economic growth, and the state's social policy, under which the wages of employees in the budget sphere and of civil servants were increased. An increase in labor compensation of workers for hire in 2005 relative to the preceding year is noted in respect to all kinds of economic activity. Worker wages increased 24.8 percent in agriculture, forestry, and fish industry, 19.2 percent in industry and construction, and 20.1 percent in services.

Average (estimated) per-capita nominal private income was T 19,589 in December 2005, which is 26.2 percent more than in December of the past year. Real monetary income grew 17.4 percent during the same period.

1.2. Monitoring of Enterprises of the Real Sector of the Economy

During 2005 the number of enterprises participating in monitoring increased to 1,343 from 1,301, to include an increase to 1,114 from 1,015 in the number of mid-sized and large businesses. The share of income from the sale of products by monitoring participants in the total income from product sales in the country's economy increased from 65.6 percent in the fourth quarter of 2004 to 73 percent in the fourth quarter of 2005.

Efforts to improve organizational, methodological, informational, and software support to the monitoring system were continued within the framework of the "Monitoring of Enterprises of the Real Sector of the Economy" automated subsystem, aimed at upgrading the quality of analytical surveys of economic conditions and of the financial position of the nonfinancial sector of the country's economy on regional and industry breakdowns, at bringing their availability closer to real time, and at preparing

analytical materials to be distributed to enterprises. As part of this work, proposals for improving analysis of the financial condition of enterprises (insofar as concerns evaluating financial soundness and creditworthiness) were generated based on the results of surveys thereof for the purposes of refinancing second-tier banks under the promissory note program.

The results of quarterly enterprise surveys conducted in the reporting year permitted the following conclusions on the evolving economic situation and the principal trends in the real sector of the country's economy.

Enterprise business conditions continue to be positive. In the course of 2005 most surveyed enterprises did not experience any impact on their economic activity from current change in the tenge's exchange rate against the U.S. dollar, the euro, and the Russian ruble.

Some improvement occurred in lending conditions: average interest rates decreased for tenge and foreign currency credits to 14.9 percent and 12.4 percent respectively.

In the fourth quarter of 2005, credits of banks granted to finance enterprise activities were utilized by 33.3 percent of surveyed enterprises (30.7 percent in the fourth quarter of 2004). Credits were used mainly by enterprises in industry, trade, and construction. Mention should be made of a gradual increase in the influence of bank credits on the investment activity of enterprises: while in the fourth quarter of 2004 bank credits for investment financing were used by 6.4 percent of enterprises, 12.2 percent used them in the fourth quarter of 2005.

The overwhelming majority of enterprises participating in the survey (within 91.4-95.6 percent over the course of the year) reported a normal level of satisfaction of their need for banking services.

The price situation of finished products remained relatively stable: the proportion of enterprises for which product prices did not change was high (67.8-68.9 percent). At the same time the price situation of raw materials and supplies stayed negative: most surveyed enterprises reported growth of prices (51.5-59.1 percent).

The economic and financial position of enterprises improved. A growing trend in labor productivity (both in terms of income from product sales and in terms of production volume) and a decrease in per-unit costs of the manufacture and sale of products persisted generally among surveyed enterprises.

During the year the capital of the enterprises themselves continue to play a large role in the financing structure of both working capital and investments.

The structure of capital in the real sector remained positive from the standpoint of maintaining liquidity of current assets: current assets completely covered current liabilities -- the current liquidity ratio was 1.58 in the fourth quarter of 2005. The level of solvency (2.16) was above normal (2.0);

The profitability of sales was at a rather high level, and in the fourth quarter of 2005 it came to 46.5 percent, owing to a high index in mining industry (69.1 percent). Noticeable growth of the index also occurred in processing industry (from 26.5 percent in the fourth quarter of 2004 to 31.8 percent in the fourth quarter of 2005).

At the same time, negative factors are manifesting themselves. In the economy's real sector as a whole, the tendency for the prices of raw materials and supplies to increase has continued.

Profitability of sales in extractive industry remains significantly higher than in processing (by a factor of 2.2) and in other industries of the economy, which is evidence of a continuing growth trend in the investment attractiveness of extractive industry.

1.3. The Fiscal Sphere²

The Budget Code of the Republic of Kazakhstan, which is a consolidation of legislative acts on budget policy, the National Fund, and public debt management, came into effect on January 1, 2005.

The Budget Code of the Republic of Kazakhstan introduced a new budget structure. The budget consists of budget revenues and expenditures, the difference between which is the operating balance, budget lending (budget credits and their repayment), and operations with financial assets (acquisition of financial assets and proceeds from their sale). The budget deficit (surplus) is equal to the operating balance less net budget lending and the balance of financial asset operations. Budget deficit financing allows coverage of the budget deficit with borrowings and with the uncommitted balance of budget resources.

Execution of the 2005 state budget proceeded on the backdrop of persisting positive processes in economic development in the Republic of Kazakhstan, and a favorable external economic environment.

In 2005, while a deficit of T 129.3 billion was projected, for the first time execution of the state budget ended in a surplus amounting to T 46.7 billion, or 0.6 percent of GDP (a deficit was observed in 2004 -- T 18.7 billion, or 0.3 percent of GDP).

Based on the overall results of 2005, state budget revenues increased 63.1 percent compared to 2004, reaching T 2,098.5 billion, or 28.2 percent of GDP (21.9 percent in 2004).

Tax receipts within the revenue structure increased by 68.5 percent to 26.8 percent of GDP (20.2 percent of GDP in 2004). This increase was connected in many ways with the fact that both planned receipts from organizations of the raw material sector and receipts therefrom exceeding the plan began to be accounted for in the budget, as opposed to the practice of preceding years, when only planned receipts were shown in the budget. As a result receipts of corporate income tax grew by a factor of 2.2 and receipts from exploitation of natural resources grew by factor of 2.1; this includes increases by factors of 6.3 and 5.3 respectively for receipts from organizations of the raw material sector.

Growth of receipts was also observed for other taxes: 41.6 percent for value-added tax, 24.8 percent for personal income tax, 23.7 percent for taxes on international trade and external operations, 17.6 percent for ownership taxes (property tax, land tax, tax on transportation resources, uniform land tax), and 17.4 percent for social tax. Despite establishment of a zero rate for excises on sale of gasoline on the internal market the total receipts of excises grew 11.7 percent.

² According to data from the Ministry of Finance.

Nontax receipts dropped by 19.0 percent from 1.4 percent of GDP in 2004 to 0.9 percent in 2005. The decrease occurred because the National Bank's net income was not passed to the budget and receipts of rent on the Baikonur complex decreased 38.8 percent.

Receipts from capital sales climbed from 0.3 percent in 2004 to 0.5 percent in 2005 -- that is, by 79.0 percent, which was made possible by growth of revenues from sale of state property of government institutions and from sale of land parcels.

State budget expenditures amounted to T 1,946.1 billion, or 26.1 percent of GDP (21.1 percent of GDP in 2004). Execution of the annual budget financing plan in 2005 was 99.0 percent.

The largest increases were in expenditures on budget items of industry, architecture, urban development, and construction (by a factor of 3.3), and housing and municipal management (by factor of 1.8). Funding was also increased substantially for public health (41.4 percent), defense (35.6 percent), and education (34.7 percent). Expenditures on social security and social benefits grew 26.8 percent owing mainly to introduction of a supplemental base pension (of T 3,000) on July 1, 2005 and increase of scholarships. Growth of official transfers was connected with the recording of transfers to the National Fund among the budget's expenditures in 2005, while in prior years transfers to the National Fund were not shown in the budget.

Expenditures of the state budget on payroll increased 25.9 percent as a result of an increase in the wages of civil servants and employees of budget-supported institutions as of July 1, 2005, and an increase in the minimum wage.

Expenditures on public debt service and other expenditures decreased.

A decrease of 48.2 percent in budget credits granted in 2005 and of 38.3 percent in receipts due to settlement of credits granted earlier brought about an associated drop in the volume of net budget lending by 58.0 percent -- from 0.3 percent of GDP in 2004 to 0.1 percent of GDP in 2005.

State budget expenditures on acquisition of financial assets less the proceeds from their sale grew from 0.8 percent of GDP to 1.3 percent of GDP owing to an increase in expenditures on establishment of state development institutions and increase of their capitalization.

Government internal debt came to T 297.9 billion at the end of 2005, having increased 28.9 percent during the year.

The increase in internal debt was chiefly the result of an increase in medium-term treasury obligations of the Ministry of Finance, indebtedness under which grew 10.0 percent. They represented 75.9 percent of the structure of government internal debt at the end of 2005. Notwithstanding a 1.6-time increase in volume of short-term obligations in circulation, their share of total debt was 11.4 percent. Indebtedness under indexed treasury obligations shrank 66.6 percent, and their share of the structure of internal debt fell to 0.3 percent.

The Republican budget's surplus allowed the government to decrease external debt in 2005 by 35.0 percent compared to 2004, to a figure of \$1.8 billion. Government-guaranteed external debt shrank 6.4 percent.

Considering the above, it should be noted that more-active participation of the state in redistribution of income, expenditures, and other monetary flows in the economy is a typical feature of budget execution. On one hand value added collected to the budget in the form of taxes is growing constantly. This is happening moreover despite a decrease in the rates of certain taxes in recent years. On the other hand the state is increasing investment in the economy and enlarging the volume of state-owned property evermore aggressively. While in preceding years the state funded certain outlays through lending, this year the volume of credits granted decreased due to growth of outlays -- that is, unrequited funding.

We can therefore assert that the Ministry of Finance possesses sizable "surplus" financial resources, over and above the funding needs of existing budget programs.

1.4. The Balance of Payments and External Debt

A new turn in the growth spiral of the prices of energy resources during 2005 on the backdrop of internal macroeconomic stability and maintenance of a high rate of growth of the global economy had the dominant influence on the overall results of external economic activity of Kazakhstani residents.

Exports of goods came to \$28.3 billion in 2005, surpassing the same indicator for 2004 by 37 percent. Growth of goods exports was supported in its entirety by the price factor, while the physical volume of exports remained practically at the 2004 level. On the average, prices in 2005 were 47 percent higher than in 2004 for oil exported by Kazakhstan, 7.6 percent higher for ferrous metals, and 28 percent higher for nonferrous metals. As for imports of goods, an increase in quantitative deliveries coupled with moderate growth of the prices of imports was more typical. The cost of imports of goods officially recorded by customs statistics grew 35 percent during 2005 owing to a 3 percent increase in prices and a 31 percent increase in physical volumes. During 2005 imports of goods came to \$18 billion, which is 30.1 percent more than in the preceding year. As a result the positive trade balance exceeded \$10.3 billion compared to an indicator of \$6.8 billion in 2004 (Appendix 1 to Section 1 Subsection 1.4).

Despite significant increase of income from net exports of goods, it did not compensate for the negative imbalance that established itself for the rest of the items of the current account. High income and high prospects of exports of energy resources helped to spur investments in further development of the infrastructure of oil and gas deposits, which in turn produced dramatic growth of payments for foreign services. During 2005 the cost of imports of foreign services was about \$7.5 billion, surpassing the results for 2004 by a factor of 1.5. Given moderate (12.6 percent) growth of the incomes of Kazakhstanis from exports of services, this brought about an increase in the negative imbalance of services to \$5.2 billion, compared to \$3 billion in 2004.

The main Kazakhstani exporters of oil and other raw materials are enterprises with foreign participation, and therefore another direct consequence of growth of export income was an increase in dividends paid to direct foreign investors: in 2005 their amount came to \$3.8 billion (\$1.9 billion in 2004). In addition to these payments, payments to service external borrowing of the private sector increased dramatically, and as a result, the net outflow of resources in the revenue balance for 2005 exceeded \$5.2 billion, which is 1.8 times greater than the 2004 indicator.

A net outflow of resources was also recorded for current transfers (- \$412 million in 2005), and as a result the current account balance ended up in negative territory in 2005 at \$486 million, or 0.9 percent of GDP, as compared to a net inflow of resources in the current account of \$455 million in 2004.

Further development of extractive industry projects with the participation of foreign investment continued to support an inflow of foreign direct investments (FDI) in Kazakhstan. During 2005 the gross FDI inflow exceeded \$6.4 billion, as compared to \$8.3 billion in 2004. The relative decrease in gross FDI inflow was brought about, besides by a high base period indicator, by Kazakhstan's consummation of a transaction for the buyout of the share of foreign investors in the North Caspian Project, the largest in petroleum industry. Besides that, the volume of debt obligations settled with direct foreign investors is also increasing with growth of export income. As result, in 2005 the positive balance (net receipt of resources) of direct investment operations was \$1.7 billion, having shrunk by a factor of 3 relative to 2004.

While the net inflow of resources from direct investments decreased, the share of financing attracted in the form of other investments, mainly by the banking sector, increased. During 2005 the Republic's banks attracted foreign borrowings and loans in an amount exceeding \$11.7 billion, which is a 1.6-time increase over 2004. In addition to an increase in utilization of medium- and long-term loans by banks (\$4.5 billion in 2005), the volume of short-term borrowing almost doubled (\$7.2 billion in 2005). In contrast to dynamic growth of the private sector's obligations, external obligations of the public sector decreased during the reporting year by \$848 million: on the backdrop of utilization of new loans by the government, obligations under government loans attracted as official development assistance were settled early. In sum, the external obligations of Kazakhstani residents (not counting direct investments) grew by \$8.3 billion during 2005.

Major attraction of foreign capital was responsible both for expansion of internal lending and for growth of the external assets of residents. During 2005 the external assets of residents (with the exception of the National Bank's international reserves) increased \$9.5 billion, which is more than 3 times greater than the same indicator for 2004. The main contribution to this growth of assets was made by assets of the National Fund and the Republic's banking sector. Ultimately the net inflow of resources in operations of the financial account of the payment balance during 2005 totaled \$532 million, as compared to \$4.5 billion in 2004.

Unprecedented growth of the foreign assets of residents and aggressive settlement of external obligations on the backdrop of a current account deficit brought about a decrease in the National Bank's international reserves -- to \$7.1 billion from \$9.3 billion in 2004. This level of reserves can cover 3.3 months of imports of goods and services. Combined with resources of the National Fund, the country's accumulated official reserves came to more than \$15 billion at the end of 2005. The dynamics of the main indicators of Kazakhstan's external sector for the most recent 3 years are shown in Appendix 2 to Section I, Subsection 1.4.

As a result of an increase in debts between firms and abrupt growth of corporate borrowing, the Republic's gross external debt increased during 2005 by \$9.4 billion, and at the end of 2005 it was estimated at \$41.5 billion, which is 74 percent of GDP, or the same as in 2004. Looking at the structure of gross external debt, a decrease occurred in the share of inter-firm borrowing to 44.8 percent from 51.9 percent in 2004, and of public and government-guaranteed external debt to 5.7 percent from 10.5 percent in 2004, at the same time that the share of external obligations of the private sector owed

to unaffiliated creditors, which was estimated at almost \$20.6 billion at the end of 2005, increased to 49.5 percent. The greatest contribution to the increment in gross external debt indicators was made by borrowing by the banking sector. As of the end of 2005 the banking sector's external debt, which doubled during the year, came to \$13.9 billion or 24.8 percent of GDP.

Notwithstanding the increasing gross external debt and growth of debt service payments, the high indicators of Kazakhstani exports are helping to keep steady the ratios of the cost of external debt and payments to settle and service it to the revenues from exports of goods and services. As of the end of 2005 the ratio of gross external debt to annual exports of goods and services was 135.9 percent (141.3 percent in 2004), while that of total payments to settle and service gross external debt was 35.5 percent (35.9 percent in 2004). The share of short-term debt in the structure of the debt obligations of Kazakhstani residents continues to be not very high -- less than 17 percent based on the overall results for 2005 (10.2 percent in 2004). The absolute and relative parameters of Kazakhstan's external debt are presented in Appendix 3 to Section I, Subsection 1.4.

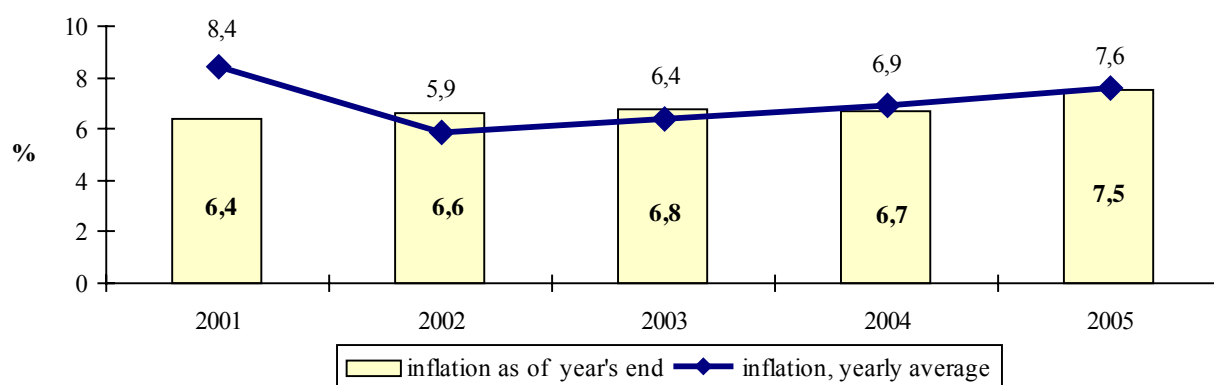
II. MONETARY POLICY AND MANAGEMENT OF GOLD AND FOREIGN EXCHANGE ASSETS

2.1. Monetary Policy

The macroeconomic situation prevailing in 2005 helped to intensify inflationary trends on the Republic's consumer markets. As a result, as of the year's end (December 2005 compared to December 2004) inflation was 7.5 percent (6.7 percent in 2004) and average annual inflation was 7.6 percent (6.9 percent in 2004) according to data of the Statistical Agency.

Prices increased in 2005 by 8.1 percent for foodstuffs, 5.9 percent for nonfood goods, and 8.0 percent for paid services. The largest growth was shown in the prices of gas supply -- 34.5 percent, fruits and vegetables -- 23.1 percent, services of educational institutions -- 19.5 percent, rice -- 18.3 percent, and meat and meat products -- 12.5 percent.

Dynamics of Inflation



Significant economic growth, a large inflow of foreign capital into Kazakhstan, substantial growth of bank lending, and high world prices of energy and raw material goods were among the main micro- and macroeconomic factors promoting inflation in 2005. These factors have a dual nature. On one hand they reflect the positive dynamics of Kazakhstan's development. On the other hand they do not permit effective pursuit of inflation control policy and reduction of inflation, despite the measures that are being taken.

Economic growth is not a direct threat to price stability. It is accompanied, however, by growth of the incomes of the population, enterprises, and the state, which is helping in turn to significantly increase aggregate demand.

Because growth of aggregate demand is outpacing growth of aggregate supply, prices on the consumer market and prices in other industries of the economy are increasing.

Over the last 3 years, the average rate of increase of wages reached 10.7 percent per year in real terms, and in 2005 the increase in the average monthly wage compared to 2004 was 12.0 percent.

At the same time, in the period from 2002 to 2004 labor productivity is estimated to have increased an average of 7 percent per year, and 8.8 percent during 2005. And so, a growth rate of wages that is higher than growth of labor productivity is one of the factors helping to increase inflationary potential.

The increase in private incomes is accompanied by a consumption "boom" manifesting itself as growth of retail turnover. In 2002-2005 it increased at a rate exceeding an average of 10 percent per year, including 12.4 percent in 2005.

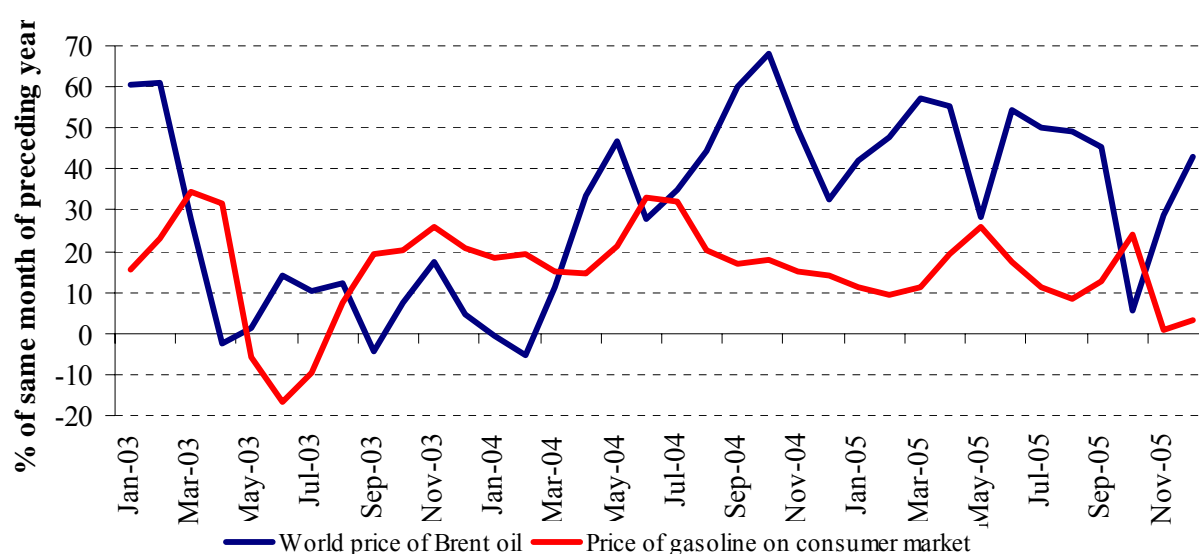
The population's consumer demand is reinforced by greater availability of bank credit resources. Thus, in 2002-2005 the volume of bank credits to the economy grew at a rate of about 52 percent per year on the average, including 74.7 percent in 2005. Over the last 3 years, moreover, consumer credits grew by a factor of 10, and by a factor of 2.2 in 2005.

Expansion of lending to the economy and significant inflow of foreign currency have been brought about mainly by growth in borrowing by second-tier banks on the external market, and by an increase in world prices, especially of oil. Thus, as of the end of 2005 the total volume of loans of second-tier banks owed to nonresidents in freely convertible currency reached \$14.6 billion, having doubled compared to 2004. In December 2005 the world price of Brent oil was \$56.8 per barrel, compared to \$39.7 per barrel in December 2004 (a 1.4-time increase), and since December 2001 it has tripled.

All of this is evidence that the above factors have already been influencing inflation a long time.

Instruments of Monetary Policy. In order to achieve the goals of inflation, the National Bank carried out operations to absorb excess liquidity, the main ones being issuance of short-term notes, attraction of bank deposits, and adjustment of minimum reserve requirements. Base money continued to be one of the operational indicators. Steps were taken to tighten monetary policy as a way to decrease excess liquidity.

Dynamics of Change in World Prices of Oil and Domestic Prices of Gasoline



This impacted interest rate policy primarily. While in preceding years the National Bank's measures were aimed at spurring bank lending to the economy, to include lowering rates, decreasing the rates was no longer an end unto itself in 2005. The National Bank based its policy on the notion that the rates in the economy should be formed on a market basis, and be adequate to the risks and factors of the real situation.

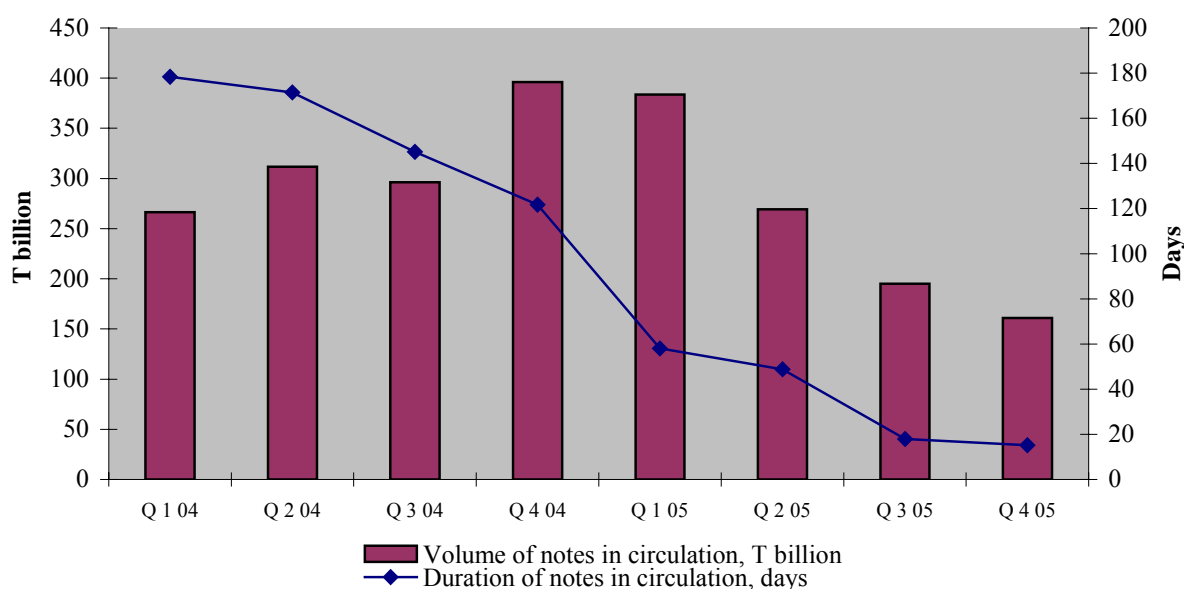
In keeping with this, the policy of gradually lowering official rates, which was typical of preceding years, was superseded in the face of persisting inflationary pressure by a policy of their stabilization and increase. In 2005 the official refinancing rate was increased in phases from 7.0 percent to 8.0 percent, the official overnight rate was increased from 8.5 percent to 9.0 percent, and the rate for reverse repo operations was increased from 7.5 percent to 8.0 percent.

Despite the fact that the minimum required reserve ratio was at the earlier level -- 6 percent, the basis for calculating minimum reserve requirements was broadened and the list of reserve assets was shortened.

During 2005 the National Bank issued short-term notes amounting to T 1,960.2 billion (a 3.5-time increase over 2004). The smallest number of notes was issued in the first quarter of 2005 (T 207.7 billion), while in the rest of the quarters note issuance was in larger volumes (second quarter -- T 538.3 billion, third quarter -- T 645.0 billion, fourth quarter -- T 569.3 billion).

It should be noted that on par with higher bank liquidity, a decrease in maturities of short-term notes and the associated shortening of the maturities of notes issued earlier were the reason for such an abrupt increase. Thus, the duration index for short-term notes was 121.7 days as of the end of 2004, and 15.2 days as of the end of 2005.

Short-Term Notes in Circulation (As of Period's End)



The amount of short-term notes settled in the reporting period was T 2,210.3 billion, as a result of which their volume in circulation shrank from T 396 billion at the end of 2004 to T 161 billion at the end of 2005.

Effective yield on short-term notes fell to 2.24 percent from 3.21 percent (the weighted average yield for the last month of the year).

Thus the National Bank is continuing on its design to lower the attractiveness of notes as an instrument for investing pension assets, and to make a gradual transition to regulating the situation on the financial market by short-term rates.

Repo operations on the secondary market came to T 477.4 billion in the reporting period, which is 39.0 percent less than in the past year. The maturity of these operations was 1.5 days, and the yield was 1.57 percent per annum. In addition the practice of carrying out direct repo operations was suspended, as was that of granting overnight loans and overdrafts, inasmuch as their maturities do not exceed one business day.

Reverse repo operations were carried out in an amount of T 6.9 billion, their maturity was 3.6 days, and their yield was 6.12 percent per annum.

During 2005 the National Bank did not carry out any operations to sell government securities. Purchases came to T 767 million with a weighted average yield to maturity of 5.38 percent per annum. Maturity was 1,897 days.

The National Bank continued to increase operations with the instrument of *attracting deposits of second-tier banks*. During the year the volume of tenge deposits attracted increased by a factor of more than 3.42 to T 2,634.1 billion, and their average maturity was 9 days at an average rate of 2.53 percent per annum. The National Bank also attracted tenge deposits from the Ministry of Finance totaling T 3,580.0 billion at an average rate of 1.97 percent per annum and an average maturity of 16 days.

The National Bank's total expenditures on sterilization of excess liquidity were T 10.5 billion during the reporting period.

General agreements on *granting overnight bank loans* were in place with 14 second-tier banks as of January 1, 2006.

In the past year overnight loans totaled T 9.1 billion (T 10.7 billion in 2004). Repayment of tenge loans came to T 9.3 billion, and repayment of U.S. dollar loans came to \$0.2 million (respectively T 10.9 billion and \$3.42 million in 2004).

Total debt under foreign exchange loans was \$0.708 million as of the end of 2005.

The system of promissory note circulation, which promotes an increase in the economic role of the official refinancing rate at which the National Bank *discounts notes*, continued to develop in 2005.

General note discounting agreements were executed with 8 second-tier banks. There were 15 enterprises on the list of first-class issuers in 2005. Notes accepted for discounting numbered 536,

coming to T 17.3 billion (respectively 699 notes at T 5.7 billion in 2004). Note settlement came to T 7.6 billion. As of the end of 2005 there were T 11.9 billion worth of notes in the National Bank's portfolio (T 2.3 billion as of January 1, 2004).

In 2005 the National Bank kept in place its *tenge floating exchange-rate policy*, under which the exchange rate varies depending on money supply and demand. A tendency for the tenge's exchange rate to weaken against the dollar was observed under these conditions. In all during 2005, the volume of net sales of foreign currency by the National Bank was \$391.9 million. Besides that, the National Bank converted currency amounting to \$2.8 billion for the Ministry of Finance with the purpose of replenishing the National Fund's assets.

Monetary aggregates. Despite the persistence of a high rate of economic growth, the rate of increase of the money supply fell significantly in 2005 compared to 2004.

In 2005 *base money* broadened 14.7 percent to a figure of T 663.0 billion, which is connected with growth of the National Bank's net internal assets. The rate of its expansion, however, fell significantly compared to 2004, when growth reached 82.3 percent. A decrease in the National Bank's net external assets was the main factor responsible for the rate decrease.

The National Bank's net international reserves decreased in current prices by 23.8 percent in 2005 to \$7,065.9 million as result of service of the government's external debt, replenishment of the National Fund's assets, and sale of foreign exchange by the National Bank on the internal market. As a result, net foreign exchange reserves (in freely convertible currency) fell by 28.2 percent to \$6,080.3 million. Assets in gold, on the other hand, grew 22.6 percent as a result of operations conducted by the National Bank and increase of the price of gold.

The National Bank's net internal assets increased in current prices by 46.9 percent. Net claims upon the government increased by 40.2 percent due to a drop in the money balances in government accounts, claims upon financial organizations decreased 58.0 percent as result of a decrease in the volume of circulating short-term notes, and claims upon the rest of the economy fell by a factor of 4.8. Other net internal assets of the National Bank shrank 20.7 percent.

In 2005 base money was observed to experience its greatest compression in January as usual. Maximum expansion of base money occurred in February -- by 8.8 percent, while expansion in September was 15.8 percent, and in December it was 8.7 percent.

An increase in the internal assets of the banking system and of lending partnerships (deposit institutions) during 2005 was the main factor responsible for expansion of the *money supply* by 25.2 percent to T 2,065.0 billion. Compared to the 2004 indicators, however, the rate of expansion of the money supply decreased owing to an 84.0 percent decrease in net external assets of deposit institutions, including both the National Bank and second-tier banks.

Growth of the internal assets of deposit institutions by a factor of 2.1 was the result of a significant increase in claims upon the government -- by 63.8 percent, and of claims upon other sectors of the economy -- by 74.2 percent. Claims upon the government grew due to an increase in the volume of government securities in circulation and a decrease in the money balances in government accounts. Growth of claims upon the economy was the result of a continuing increase in lending to the economy.

A higher rate of growth of the money supply compared to base money was responsible for an increase in the monetary multiplier to 3.11 from 2.86.

The level of the economy's monetization fell from 28.1 percent at the end of 2004 to 27.7 percent at the end of 2005 because the rate of growth of nominal GDP (27.0 percent) exceeded the rate of expansion of the money supply (25.2 percent).

Within the structure of the money supply, ***cash in circulation*** (M0) grew during 2005 by 8.6 percent to T 411.8 billion, while deposits with deposit institutions contributing to the money supply grew by 30.1 percent to T 1,653.5 billion. Because the rate of growth of the deposits of residents outpaced cash in circulation, a positive, increasing trend persisted in deposits within the structure of the money supply. During 2005 this indicator grew from 77.0 percent to 80.1 percent.

Growth of cash in circulation is connected with growth of wage payments, including withdrawals from automatic teller machines and withdrawals from current accounts of individuals, pensions, and benefits.

Even so, in 2005 the rate of growth of cash in circulation (M0) shrank substantially to 8.6 percent, from 59.0 percent in 2004. This is explained in many ways by substantial increase (44.9 percent) of cash receipts of bank cash vaults from sale of cash foreign currency. Net issuance from bank cash vaults in payment of goods, work, and services shrank by 10.8 percent, which is explained in all probability by the predominance of noncash settlements.

Thus expansion of base money in 2005 is explained by a significant increase in net internal assets of the National Bank. An aggressive lending policy pursued by second-tier banks brought about growth of the money supply, while cash in circulation grew owing to growth of private incomes and wages.

Improvement of the methods and instruments of monetary policy. Changes were introduced in the *mechanism of monetary regulation* on July 1, 2005. The purpose of these changes is to unify certain operations of monetary policy in terms of their maturities and rates -- ones such as deposit and lending operations, issuance of short-term notes, and repo operations. The granting of overnight loans and overdrafts and the conduct of direct repo operations were suspended in order to reinforce the results of unification. In order to boost the regulatory properties of the official refinancing rate, the National Bank introduced the practice of periodic (quarterly) review and setting of the official refinancing rate depending on the overall condition of the money market, loan supply and demand, inflation, and inflationary expectations.

The maturities of short-term notes were decreased significantly for the purposes of strengthening regulation of interest rates on the financial market. Deposits of banks with the National Bank became the main instrument for the sterilization of excess liquidity.

These measures were carried out in order to allow the National Bank to practically establish a band of market interest rates through the attraction and issuance of short-term money at clearly announced interest rates calculated from the positions of monetary policy. The official rates for attraction and placement of resources of the National Bank should serve as the boundaries of the band.

Gradual transition from target indicators of base money and gold and foreign exchange reserves to target indicators of inflation is more in keeping with the National Bank's main goal of lowering inflation. This is why efforts were continued in 2005 to *prepare for a transition to the principles of inflation targeting*.

These principles presuppose projection of the main parameters of monetary policy on the basis of specific inflation benchmarks. In 2005 the National Bank developed the monetary policy *transmission mechanism model*, which makes it possible to increase the accuracy of inflation projections and assess the influence monetary policy measures have on inflation (Appendix 1 to Section II, Subsection 2.1).

The transmission mechanism model includes the following main channels of influence of monetary policy instruments on inflation: monetary channel, interest rate (credit) channel, foreign exchange channel, foreign economic channel. The monetary channel describes the process of transmission of changes in policy on monetary regulation to inflation through changes in money supply. The interest rate (credit) channel describes the process of transmission of changes in interest rate policy to inflation through changes in rates on the interbank money market and changes in lending rates for borrowers. The foreign exchange channel describes the process of transmission of changes in the exchange rate to the economy through change in relative prices, and change in the cost of imported goods to inflation. The foreign economic channel describes the process of transmission of changes in world oil prices to inflation through change in exports and of internal gasoline prices.

A behavioral model was selected for the purposes of building the transmission mechanism model. The behavioral model is based on the postulate that if a number of economic variables exhibited specific functional mutual correlations with one another in the past, then most probably these mutual correlations will manifest themselves in the immediate future.

The model consists of 7 equations and 20 variables. Its endogenous (explanatory) variables are the tenge's nominal exchange rate against the U.S. dollar, the volume of base money, the volume of the money supply, the interbank market rate for one-day [literal translation; overnight?] credits, the rate on tenge loans to legal entities, the volume of credits to the economy, and quarterly inflation. Instruments of monetary policy are the exogenous (influencing) variables: the National Bank's rate for repo operations, the volume of short-term notes in circulation, the volume of deposits of second-tier banks with the National Bank, foreign exchange intervention by the National Bank, and minimum reserve requirements. In addition to the instruments of monetary policy, exogenous variables also include the volumes of imports and exports, GDP, the import price index, the volume of government securities of the Ministry of Finance in circulation, the volume of deposits in the banking system, investments in fixed capital, world prices of oil, and the countrywide average monthly wage.

Actual quarterly data of the National Bank and the Statistical Agency for the period from the first quarter of 1996 to the second quarter of 2005 were used to build a model.

The results of calculations with the transmission model were used to develop monetary policy guidelines for 2006-2008.

Technical assistance in monetary policy issues. In July 2005 USAID rendered consultative assistance within the framework of implementation of the Memorandum of Understanding between the U.S. International Development Agency (USAID) and the National Bank for Technical Assistance to

the National Bank. USAID consultants Warren Coates and David Kemmi [transliteration] worked in the National Bank under the auspices of the Kazakhstani-American Program of Economic Development to improve monetary policy activities of the National Bank.

The consultants held three courses of two-week workshops on the theory and practice of the use of econometric models for the introduction of "prognostic inflation targeting" into the practices of the National Bank.

Conduct of a roundtable on monetary policy. A roundtable titled "Selection of the Optimum Scheme of Monetary Policy," organized by the National Bank in accordance with a schedule of workshops conducted under the Agreement on Cooperation of Central (National) Banks of EurAsEU Countries, was held September 21-22, 2005.

Representatives of the central (national) banks of EurAsEU countries, as well as Lithuania, Poland, and the Czech Republic, and representatives of the Presidential Administration, the government, the World Bank, USAID, and the Marketing Analytical Research Center Joint-Stock Company took part in the roundtable.

Problems inherent to the central banks of countries with a transitional economy -- ones such as a government securities portfolio that is inadequate to the conduct of operations on the open market, inadequacy of the regulatory role of official interest rates, insufficient development of the secondary government securities market, and others -- were discussed during the meeting.

2.2. Gold and Foreign Exchange Assets of the National Bank and Management Thereof

Dynamics of the indicators of gold and foreign exchange assets. The total volume of gold and foreign exchange assets of the National Bank of Kazakhstan was \$7.1 billion as of January 1, 2006, which is \$2.2 billion less than on January 1, 2005. The change in gross gold and foreign exchange assets occurred under the influence of a \$2.4 billion decrease in freely convertible currency assets and a \$182.0 million increase in monetary gold (Appendix 1 to Section II, Subsection 2.2, Table 2.2.1).

Change in the foreign exchange part of assets in the reporting period was brought about by receipt of \$3.0 billion in foreign currency in favor of the Ministry of Finance, mainly in the form of tax payments by companies in the oil and gas sector.

Kazakhstan's exchange market was under the influence of a demand for freely convertible currency that exceeded its supply. Thus, net sales on the Kazakhstani stock exchange by the National Bank were \$549.9 million. Net purchases on the over-the-counter market were \$198.0 million.

In the past period the National Bank made transfers of resources from customer accounts amounting to \$639.9 million.

At the same time, during 2005 the National Bank made payments on external debt on behalf of the Ministry of Finance amounting to a total of \$1.1 billion, and sold \$2.8 billion to the National Bank.

Growth of the value of precious metal assets valued in dollars was provoked by an increase in the price of gold.

World gold prices grew from \$441.85 per troy ounce as of January 1, 2005 to \$513.00 as of January 1, 2006, or by 16.10 percent, which resulted in a \$129.4 million increase of this reserve asset.

The National Bank made purchases of gold on the internal market amounting to 82,620.241 troy ounces for a total of about \$52.6 million.

Thus according to the results of the National Bank's operations in 2005, net gold and foreign exchange assets decreased compared to January 1, 2005 by \$2.2 billion, or by (-) 23.8 percent compared to the same period of 2004, to a figure of \$7.1 billion.

Management of the gold and foreign exchange assets portfolio. National Bank Board Resolution No. 84, July 9, 2005 "On Approval of the Investment Strategy for the Management of Gold and Foreign Exchange Assets of the National Bank" adopted a new investment strategy that came into effect August 1, 2005.

The country and currency structure of portfolios was changed: all euro countries and the English market were included in the short-term portfolio, and certain currencies of European countries were dropped from the long-term portfolio in view of their high correlation with the euro. Also, changes were made to bring the investment portfolio closer to the standard by reducing permissible deviations from the standard.

The standard portfolio for the long-term portfolio of gold and foreign exchange assets became based on the following composite index:

- 35% ML US Treasuries and Agencies 1-3 years
- 35% ML EMU Direct Governments 1-3 years
- 10% ML UK Gilts 1-3 years
- 5% ML US Treasuries, Inflation-linked
- 5% ML Canadian Governments 1-3 years
- 5% ML Australian Governments 1-3 years
- 5% ML Japanese Governments 1-3 years

The standard portfolio for the short-term portfolio of gold and foreign exchange assets came to be based on the following composite index:

- 50% Merrill Lynch 3-month US Treasury Bill Index
- 40% Merrill Lynch Euro Government Bill Index
- 10% Merrill Lynch UK Gilts 0-1 years

Long-term portfolio of gold and foreign exchange assets. The market value of the long-term portfolio of gold and foreign exchange assets was US\$3.6 billion as of the start of 2005 and \$3.4 billion as of the year's end.

Significant strengthening of the dollar against other currencies negatively impacted the investment result expressed in dollars. Thus, the dollar grew stronger over the course of the year against other currencies in the standard portfolio: by 15.2 percent against the euro, by 11.8 percent

against the English pound sterling, by 15.2 percent against the Japanese yen, and by 6.9 percent against the Australian dollar. The dollar, meantime, weakened against the Canadian dollar by 2.5 percent.

The return on the long-term portfolio of gold and foreign exchange assets for 2005, expressed in the currency basket, was 2.64 percent. Given a standard portfolio return of (-) 4.92 percent, there was an excess return of 40 b.p. [basis points].

The return on the long-term portfolio of gold and foreign exchange assets for 2005, expressed in U.S. dollars, was (-) 4.56 percent. Given a standard portfolio return of 2.24 percent, there was an excess return of 36 b.p. (Appendix 2 to Section II, Subsection 2.2, Figure 2.2.1).

Not counting commissions, the excess return of dollar sub-portfolios under outside management in 2005 33 b.p. for the sub-portfolio under management of Trustee 1, and 71 b.p. for the sub-portfolio under the management of Trustee 2. Accounting for commissions, the figures were 18 b.p. and 50 b.p. respectively (Appendix 3 to Section II, Subsection 2.2).

Sector distribution of the long-term portfolio of gold and foreign exchange assets under internal and outside management. Trustees decreased the share of money and its equivalents by 1.5 percent -- from 3.0 percent at the end of 2004 to 1.5 percent at the end of 2005, they decreased the share of government securities by 6.3 percent -- from 71.1 percent to 64.7 percent, in which case the share of inflationary U.S. securities was 5.1 percent at the end of 2005, they increased the share of agency securities by 2.9 percent -- from 14.9 percent to 17.8 percent, and the share of securities of international financial organizations by 0.1 percent -- from 0.2 percent to 0.3 percent, they decreased the share of asset-backed securities by 1.4 percent -- from 7.2 percent to 5.8 percent, and they increase the share of corporate securities by 6.2 percent -- from 3.7 percent to 9.8 percent. The distribution of foreign exchange assets under internal management on the return curve is shown by quarters of 2005 in Appendix 1 to Section II, Subsection 2.2, Table 2.2.2.

Short-term portfolio of gold and foreign exchange assets. The market value of the short-term portfolio of gold and foreign exchange assets was \$3.7 billion at the start of 2005 and \$2.2 billion at the end of 2005. To bring portfolio liquidity in line with the current investment strategy for gold and foreign exchange assets, assets were transferred in the reporting period from the short-term portfolio of gold and foreign exchange assets to the liquidity portfolio in an amount equivalent to \$1.4 billion in connection with sales of dollars on the internal exchange market by the National Bank.

The return on the short-term portfolio of gold and foreign exchange assets in 2005, expressed in the currency basket, was 2.99 percent. Given a standard portfolio return of 2.82 percent, the excess return was 18 b.p..

The return on the short-term portfolio of gold and foreign exchange assets in 2005, expressed in dollars, was (-) 2.00 percent. Given a standard portfolio return of (-) 2.17 percent, the excess return was 17 b.p. (Appendix 2 to Section II, Subsection 2.2, Figure 2.2.2).

Liquidity portfolio of gold and foreign exchange assets. The market value of the liquidity portfolio of gold and foreign exchange assets was US\$551.8 million at the start of 2005 and US\$370.9 million at the end of 2005.

The purpose of the liquidity portfolio of gold and foreign exchange assets is to support pursuit of monetary policy, and all flows and the various payments also proceed through it. This portfolio is not included in the estimate of the return on portfolios of gold and foreign exchange assets, and there is no standard portfolio for it.

Gold portfolio. The market value of the gold portfolio of gold and foreign exchange assets was \$803.6 million at the start of 2005 and \$985.5 million at the end of 2005. During the year the total receipts were 82,620.241 ounces of gold.

The share of the gold portfolio relative to the level of gold and foreign exchange assets was 14.0 percent at the end of 2005.

New instruments such as the following were used in the management of the portfolios of gold and foreign exchange assets and the National Fund, in comparison to the past reporting period:

- ECP (European commercial paper) –an instrument with a maturity of up to 1 year;
- ABCP (asset backed commercial paper) –an instrument with a maturity of up to 1 year;
- Callable bonds with step-up coupon;
- UBS FAST-Note structural products managed by PIMCO, Europe Ltd. and USD CMS 10-yr bond managed by WestLB AG London;
- REMIC-type MBS – a liquid MBS backed by several large banks;
- ABS credit card deal – ABS backed by a credit card pool;
- ABS Kazkommerzbank – a floating-coupon ABS with a 3-month LIBOR + 29 b.p. and with a credit rating of AAA, guaranteed by the Bank of New York with a credit rating of AA-.

III. FOREIGN CURRENCY REGULATION AND CONTROL

The Law of the Republic of Kazakhstan "On Foreign Exchange Regulation and Foreign Exchange Control" was adopted December 18, 2005, as were associated regulatory acts regulating the conduct and control of foreign exchange operations.

The following measures were carried out pursuant to the adopted Law:

- licensing of direct investments, of investments abroad by banks and insurance organizations, and of portfolio investments abroad by all other investors through Kazakhstani professional participants of the securities market was abolished;

- a transition was made to a system of issuance of operating licenses for the placement of investments abroad by organizations engaging in brokering and dealer activities, and in management of investment portfolios, including investment funds, together with establishment of the necessary qualification requirements;

- issuance of licenses to open accounts with foreign banks abroad for the purposes of funding operating expenses connected with maintenance of branches and representative offices; accounts intended for entry of resources securing obligations of residents to nonresidents under attracted credits and loans; a temporary account for legal entities at the time of creation of an enterprise abroad; bank accounts of financial organizations with foreign banks and other financial institutions for the purposes of investing in international securities markets; and accounts of individuals opened with OECD countries, without establishing the minimum required country rating, was abolished;

- licensing of the granting of financial loans to nonresidents was abolished;

- licensing of transfers in favor of nonresidents in payment of title to real estate was abolished.

The main goal of work done in 2005 to liberalize the foreign exchange regime entailed creation of conditions for subsequent lifting of restrictions on foreign exchange operations and for transition to the principles of full convertibility of domestic currency starting 2007.

Licensing of foreign exchange operations will be abolished completely starting 2007. A policy of registration and notification is to remain in place in respect to certain foreign exchange operations for the purposes of monitoring unguaranteed external debt, gathering balance of payments statistics, and updating the foreign exchange operations database.

Thus the Law of the Republic of Kazakhstan "On Foreign Exchange Regulation and Foreign Exchange Control" makes it possible to significantly improve the conditions of foreign trade transactions and investments.

The system for controlling return of foreign exchange resources by residents in export-import operations will be changed fundamentally starting 2007. Control will be based on the repatriation requirement, whereby a resident is obligated to enter export proceeds or unutilized import advances in accounts with authorized banks within a time period stipulated in a foreign trade contract.

Simplification of the system will be accompanied by closer coordination of control on the part of the National Bank and of tax and customs authorities within the limits of their authority.

In this connection development of the new system of control of the return of foreign exchange resources by residents in export-import operations and testing of the new foreign exchange legislation will be the main focuses of the work of the National Bank in the area of liberalizing the foreign exchange regime in 2006.

Licensing of operations connected with the use of foreign exchange valuables. In 2005 the National Bank issued 2,095 licenses for the following kinds of operations:

1) for operations connected with capital movement -- 1,917, including in export-import operations -- 1,570, investments abroad -- 233, in payment of title to real estate -- 46, granting of credits -- 42; investments abroad by investment fund management companies investing the resources of investment funds abroad -- 26;

2) to open accounts -- 52, including 41 to resident legal entities abroad and 11 to resident individuals abroad;

3) for exchange operations -- 124;

4) for entry of foreign exchange obtained as credit in accounts of third persons -- 1;

5) for retail trade -- 1.

Improvement of licensing procedures and administration made it possible to assume an integrated approach to revealing violators during the licensing of foreign exchange operations, which helped in particular to raise discipline in the performance of obligations under foreign economic agreements, and as a consequence, in repatriation of resources.

Efforts to improve the system of ***export-import foreign exchange control*** were continued in the reporting period. Access of National Bank branches to automated foreign exchange control functions was expanded as a result. Processing of data of the automated export-import foreign exchange control system in 2005 resulted in the detection of 4,904 possible violations involving nonrepatriation of resources to the Republic that were brought to the attention of National Bank branches, 557 cases brought to the attention of the Economic Crime and Corruption Committee, and 7,426 cases brought to the attention of the Ministry of Finance Customs Control Committee for administrative and criminal prosecution. Accurate data on nonrepatriation of export proceeds and goods imports are also provided to the Presidential Administration.

Administrative prosecution of violations of foreign exchange legislation. In 2005 the National Bank commenced proceedings in 985 cases of administrative violations of foreign exchange legislation and statistical accounting. The National Bank's central office reviewed 513 of these cases, and T 25.9 million in penalties were imposed on 72.5 percent of them. National Bank branches reviewed 437 cases, and T 12.0 million in penalties were imposed in 359 of the cases (82 percent of the reviewed cases). Forty cases were forwarded to the judiciary, where fines of T 2.7 million were assessed in 30 of the cases.

And so, contribution of T 40.7 million to the Republican budget was one of the results of the activities of the National Bank (including its branches) in revealing cases of administrative violations of foreign exchange legislation.

Inspections under foreign exchange control. In 2005 the National Bank conducted 1,047 inspections of second-tier banks, organizations engaging in certain kinds of banking operations, and other legal entities for compliance with foreign exchange legislation, to include 958 based on inspection plans and 89 unplanned inspections.

The inspections revealed violations for which 99 administrative violation charge-sheets were drawn up, and fines totaling T 6.7 million were imposed in relation to 76 charge-sheets.

The National Bank engages in control and analysis of the results of inspections conducted by National Bank branches. In 2005 it reviewed 310 reports on inspections of branches of authorized banks and the Kazpochta AO [Joint-Stock Company].

In accordance with Republic of Kazakhstan Law No. 69-III, June 8, 2005 "On Changes and Additions to Certain Legislative Acts of the Republic of Kazakhstan on Activities of State Bodies Regulating the Financial Market," when the National Bank discovers a violation of requirements of Republic of Kazakhstan legislation in matters in which it has regulatory authority, it has the right to impose limited corrective actions against a bank or an organization engaging in certain kinds of banking operations.

In this connection the National Bank imposed 75 limited corrective actions against second-tier banks and organizations engaging in certain kinds of banking operations based on the results of inspections conducted by territorial branches and the central office of the National Bank. Of these, 69 were written warnings, in five cases a letter of promise was demanded, and in one a written admonition was forwarded. Penalties were also imposed in 10 cases, to include 7 suspensions for a set period of time and three revocations of exchange bureau registration certificates.

IV. INDICATORS OF CASH MONETARY CIRCULATION

National Bank issuances. During 2005 the National Bank released cash amounting to T 592.3 billion into circulation from its reserve funds. The amount of cash removed from circulation during the same period of time was T 544.6 billion. Thus the resulting issuance amount ended up in positive territory, at a figure of (+) T 47.7 billion, having decreased by a factor of more than 3 compared to 2004 (T 148.9 billion).

The decrease in the issuance indicator is connected first with an increase in the amount of cash removed from circulation in January, and second with an abrupt decrease in issuance of money in June-August (by a factor of 2) and in October-December (by a factor of 11.5). Cash withdrawn from circulation in January came to (-) T 33.5 billion, which is the highest negative issuance result of the past 5 years. Such growth was provoked by the sizable issuances made in late 2004, which brought about a downward adjustment in the amount of cash in circulation in early 2005. From February to May and in September the indicators of banknote and coin issuance increased as compared to the same period of the past year. In November 2005 the sign of the issuance result changed from positive for November 2004 to negative.

Seasonal variation of the economy's cash demand persisted during the year as a whole: cash not needed for the economy's operation was removed from circulation at the year's start and in November, and owing to positive factors such as growth of private incomes and development of the commercial, financial, and other sectors of the economy, in the remaining periods there was a moderate increase in cash demand -- that is, cash was released into circulation.

On a regional breakdown, positive issuance results were noted in all oblasts with the exception of the city of Almaty and Southern Kazakhstan Oblast. It is interesting that in the past year the issuance result in Southern Kazakhstan Oblast changed from positive in 2004 (+T 10.6 billion) to negative (-T 3.8 billion). Issuance continues to be highest in Eastern Kazakhstan (T 40.9 billion), Karaganda (T 38.4 billion), and Kzyl-Orda (T 36.8 billion) oblasts.

A decrease in the issuance result averaging 25.9 percent compared to the past year's indicator was recorded in six oblasts and in the city of Astana. In addition considerable growth of the amount of cash removed from circulation was observed for the city of Almaty -- by T 87 billion, or by a factor of 1.5.

An increase can be noted in the release of cash into circulation compared to 2004 in Dzhambul, Atyrau, Mangistau, Kzyl-Orda, Alma-Ata, and Akmola oblasts.

During 2005 the National Bank released 12 kinds of jubilee and commemorative coins into circulation (Appendix 1 to Section IV).

Keeping domestic currency banknotes and coins in good physical condition. Worn banknotes and defective coins in cash circulation amounting to T 91.7 billion were removed from circulation during 2005. The largest withdrawal was of banknotes of the T 5,000 denomination (T 23.4 billion)

Banknotes and coins that have ceased to be legal tender and the lowest denominations of banknotes continue to be withdrawn from circulation. In the period of analysis these items of currency

were withdrawn in an amount of T 180.2 million. The largest withdrawals were of T 1,000 and T 2,000 banknotes of the old series (T 62.8 million and T 88.4 million respectively). As a result 0.8 percent of such printed and minted currency remains in circulation as of January 1, 2006.

Worn and no longer negotiable banknotes amounting to T 140.3 billion were destroyed in 2005.

Vault turnover of bank cash. In 2005 compared to the past year the indicators of the turnover of cash passing through the cash vaults of second-tier banks showed that the increase in amounts entering bank cash vaults outpaced growth of the amounts issued from bank cash vaults.

Reduction of the issuance result impacted the indicators of the turnover of cash passing through the cash vaults of second-tier banks.

In particular, receipts of cash by bank cash vaults in the reporting period were T 4,539 billion, having increased 44.6 percent (T 1,399.2 billion) over the past year, while the amount of cash issued was T 4,657.3 billion, having increased 39 percent (T 1,306.7 billion). The increase in turnover occurred in respect to all items of vault turnover, with the exception of receipts of taxes, levies, and customs payments. As for cash issuance items, there were decreases in issuances to transportation and communications enterprises, which were also noted in the past year, and in issuances in payment of agricultural products (Appendix 2 to Section IV).

The coefficient of return of cash to bank cash vaults was 97.5 percent, as opposed to 93.7 percent in the past year.

The bulk of cash receipts by bank cash vaults are represented by receipts:

- from sale of goods, services, and completed work (27.5 percent);
- from sale of foreign exchange (22.1 percent);
- of cash passing to deposit accounts of individuals (12.3 percent).

The largest increase among the items of receipt of cash by bank cash vaults (by a factor of 2.4) was observed in the settlement of loans by individuals and legal entities.

Most of the issuances of cash from bank cash vaults are:

- issuances of cash in payment of goods, services, and completed work (21.3 percent);
- withdrawals from deposit accounts of individuals (17.5 percent);
- issuances to refill automatic teller machines (14.6 percent).

The largest increase -- by a factor of 3.3 -- in the total issuance of cash is observed for the item "issuances of loans to individuals and legal entities," which came to T 108.8 billion.

The situation seen in the past year persisted in the reporting period. Thus, an increase is observed in resources passing to the deposits of individuals, and withdrawals from these accounts have grown as a consequence, which is evidence of continuing public confidence in the domestic currency. The continuing increase in private incomes is helping to raise confidence in borrowers, as is reflected in the increase in lending volume.

At the same time, we continue to see prevalence of the volume of receipts and issuances of monetary resources in respect to items showing sale of goods, work, and services. These amounts,

coupled with the growth rates for these items, make it doubtful that banks are observing the legislative requirements on non-cash settlements between legal entities that go into effect when the amount exceeds 4,000 times the monthly calculation indicator.

V. THE FINANCIAL MARKET

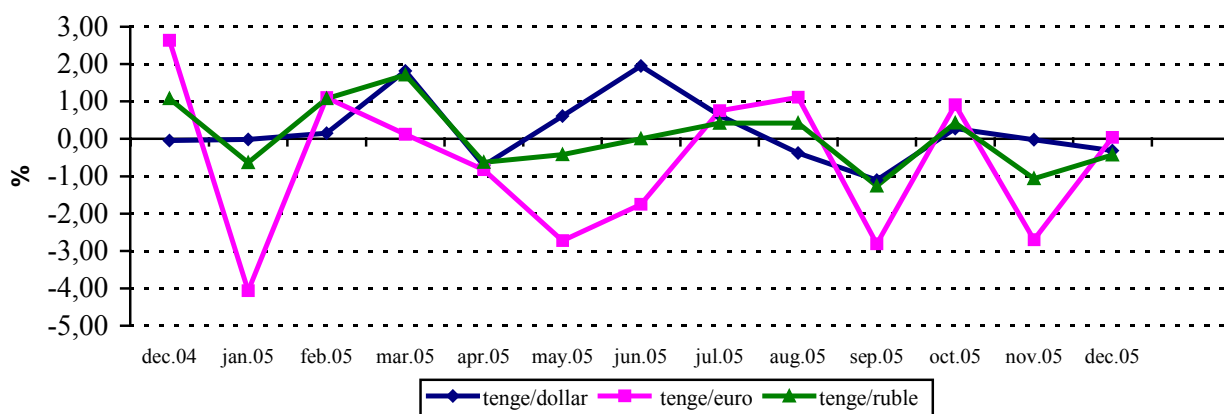
5.1. The Exchange Market

In 2005 the situation on the exchange market was characterized by a tendency for the tenge to weaken nominally against the U.S. dollar. It was generally consistent with the conditions of the world exchange market, which was characterized by significant strengthening of American currency.

The weighted average exchange rate of the tenge in 2005 was T 132.93 to the dollar. As of the period's end the exchange market rate was T 133.77 to the dollar. Since the year's start the tenge weakened 2.9 percent against the dollar in nominal terms. The highest devaluation rates were observed in March and June (respectively 1.82 percent and 1.95 percent).

During 2005 the official exchange rate of the tenge relative to the euro grew 6.69 percent stronger, while against the Russian ruble it underwent a devaluation of 0.22 percent.

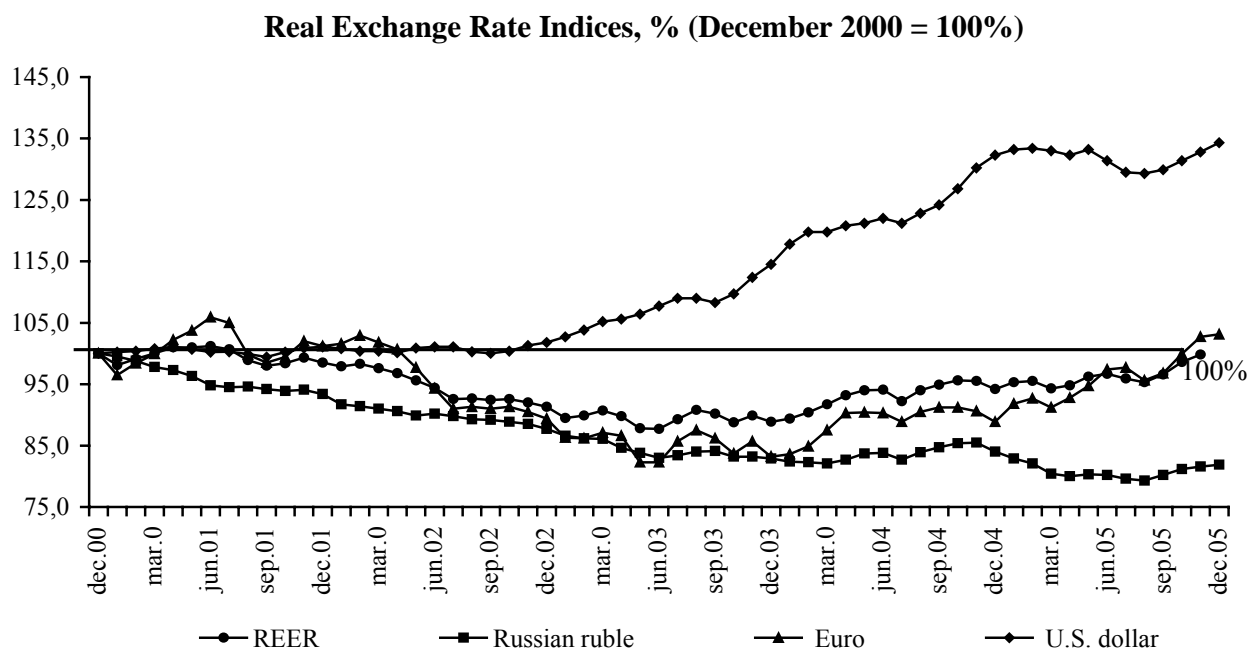
Dynamics of Change in the Exchange Rate of the Tenge against the U.S. Dollar, the Euro, and the Russian Ruble (% of Preceding Month)



The volume of exchange trading in the dollar position in 2005 exceeded the same indicator for 2004 by 26.3 percent, climbing to \$11.7 billion.

On the over-the-counter exchange market the transaction volume of resident banks increased by 126.4 percent to \$16.6 billion.

Operations with Russian rubles and euros represented a negligible share of the turnover of the exchange market's listed and over-the-counter segments. On the currency exchange the volume of Russian ruble and euro transactions decreased 11.5 percent and 62.9 percent respectively, to Rub 106.7 million and €18.6 million. On the over-the-counter exchange market the volume of conversion operations with Russian rubles and euros decreased 12.1 percent and 15.4 percent respectively, to Rub 1,306.8 million and €87.1 million.



As in preceding years preference was shown on the cash foreign exchange market for the dollar, and correspondingly purchases of this foreign currency dominated this segment of the market. Thus, during 2005 net sales of dollars by exchange bureaus were \$6,087.8 million, having increased by a factor of 2.3 compared to 2004.

During the year the net euro sales volume of exchange bureaus increased 35.4 percent to €523.1 million.

The Russian ruble purchase and sale volumes of exchange bureaus are practically the same, which can be explained by a preponderance of the demand for currency for tourism and business travel over the demand for savings. During 2005 the net Russian ruble sales volume of exchange bureaus increased 96.0 percent to Rub 1,495.4 million.

According to preliminary data the real effective exchange rate (REER) index for the tenge grew 5.8 percent in November 2005 relative to December 2004. During 2005 the tenge's real strengthening against the dollar and the euro was 1.5 percent and 15.9 percent respectively. Relative to the Russian ruble the tenge weakened in real terms by 2.6 percent.

5.2. Interbank Money Market

Short-term borrowing on the interbank money market remained one of the principal instruments for the regulation of banks' current liquidity in 2005.

During the reporting period banks continued to increase their placements of short-term tenge deposits. The total volume of placed interbank domestic currency deposits increased in 2005 by a factor of 3.9 compared to 2004, to a figure of T 2,279.1 billion. In December 2005 the weighted average remuneration rate on placed interbank tenge deposits climbed to 3.46 percent from 2.10 percent in December 2004.

Banks were also highly active on the interbank market in their placement of dollar deposits, inasmuch as dollar deposits continued to be the main instrument on the interbank money market of short-term foreign currency borrowings in 2005. Thus the volume of deposits placed in dollars was \$131.9 billion, which exceeds the 2004 volume by five times, while the weighted average remuneration rate for placed dollar deposits increased to 4.23 percent from 3.11 percent.

As for all of the other kinds of interbank foreign currency borrowing, the volume of transactions was insignificant.

5.3. Deposit Market

The situation on the country's deposit market was favorable on the backdrop of steady development of the financial sector, growth of private incomes, and operation of the deposit insurance system, and it was characterized by progressive growth of the resource base of banks and lending partnerships due to an influx of money of individuals and legal entities into deposits. Thus, the deposits of residents with deposit institutions grew during 2005 by 30.1 percent to a figure of T 1,653.5 billion (the foreign exchange equivalent exceeds \$12.3 billion).

Deposits of legal entities grew 28.5 percent to a figure of T 1,066.2 billion, while those of individuals grew 33.1 percent to T 587.3 billion (Appendix 1 to Section V, Subsection 5.3, Figure 5.3.1).

Significant growth of domestic currency deposits in a time of increasing confidence in tenge instruments was an important factor in the deposit market's development in 2005. Thus, tenge deposits increased 33.2 percent to T 960.7 billion, while foreign currency deposits increased 26.1 percent to T 692.8 billion. As a result tenge deposits increased in proportion to total deposits to 58.1 percent from 56.8 percent (Appendix 1 to Section V, Subsection 5.3, Figure 5.3.2).

During 2005 a positive growth trend persisted in private deposits in banks (counting nonresidents). Average monthly growth of deposits in 2005 was T 12.4 billion, as compared to T 8.7 billion in 2004. As a result private deposits increased 33.2 percent to T 596.8 billion, or by about \$4.5 billion.

The increase of foreign currency deposits outpaced tenge deposits within the structure of private deposits in a time of a strengthening dollar. Private foreign currency deposits increased 47.7 percent during the year, while tenge deposits increased 22.3 percent. As result the proportion of private tenge deposits fell to 52.3 percent from 57.0 percent.

The weighted average remuneration rate for tenge time deposits of individuals decreased in 2005 to 9.1 percent from 9.3 percent, while foreign currency deposits increased to 26.2 percent from 5.6 percent (Appendix 2 to Section V, Subsection 5.3).

5.4. Credit Market

On the backdrop of favorable macroeconomic conditions and continuing growth of the resource base of banks, the credit market remained one of the robustly developing segments of the financial market in 2005. Bank credits to the economy grew 74.7 percent to T 2,592.1 billion (about \$19.4

billion). The ratio of bank credits to the economy to GDP underwent a record increase in 2005 compared to 2004, to 34.8 percent from 26.8 percent.

Growth of domestic currency credits outpaced foreign currency credits. During 2005 domestic currency credits grew 75.9 percent to T 1,255.8 billion, while foreign currency credits grew 73.5 percent to T 1,336.3 billion (\$10.0 billion). As result the proportion of tenge credits climbed to 48.5 percent from 48.1 percent.

Positive changes also occurred during 2005 in the structure of credits by maturity, where growth of long-term credits (maturing in more than 1 year) outpaced growth of short-term credits. Long-term credits increased 76.6 percent to T 1,722.9 billion, while short-term credits increased 70.9 percent to T 869.1 billion. The proportion of long-term credits increased to 66.5 percent from 65.7 percent (Appendix 1 to Section V, Subsection 5.4, Figure 5.4.1).

Notwithstanding the fact that corporate customers continued to be the main borrowers on the market of credit services, in proportion to the total volume of credits to the economy credits to enterprises fell in 2005 to 74.2 percent from 79.5 percent, while the proportion of credits to individuals grew to 25.8 percent from 20.5 percent (Appendix 1 to Section V, Subsection 5.4, Figure 5.4.2). Significant expansion of banking products such as mortgage and consumer lending was mainly responsible for this. Thus, during 2005 mortgage and consumer loans increased by a factor of 2.2, coming to T 220.5 billion and T 320.5 billion respectively.

The volume of bank credits to small business increased during 2005 by 63.0 percent to T 470.2 billion, or by 18.1 percent of the total volume of credits to the economy.

The dynamics of rates on credits exhibited opposing trends. Thus, in December 2005 compared to December 2004 the weighted average remuneration rate for domestic currency credits to individuals increased to 19.7 percent from 19.5 percent, while that for credits to legal entities decreased to 13.0 percent from 13.7 percent (Appendix 2 to Section V, Subsection 5.4).

5.5. Government Securities Market

The Ministry of Finance placed its securities aggressively only in the first half of 2005, with practically no issuances of securities in the second half, in which only one auction was held at the year's end. This situation is explained by sizable passage of resources to the budget due to the high income of the economy's petroleum sector, and as a consequence, by the absence of the need for funding the budget through the issuance of treasury obligations.

On the other hand a significant inflow of foreign currency is compelling the National Bank to increase issuance of notes in order to sterilize excess liquidity, which means significant expenditures by the National Bank on their service.

One of these problems was created by the fact that accumulative pension funds placed significant assets in short-term notes in a time of a shortfall of long-term government securities of the Ministry of Finance. This led to weakening of the influence of the National Bank's monetary policy on bank liquidity.

Issuance of a new financial instrument by the Ministry of Finance -- government long-term treasury savings bonds (MEUZhKAM) -- lessened the acuity of this problem somewhat.

The following situation established itself on the market of Ministry of Finance government securities in 2005 as a whole.

During 2005 the volume of placed government securities decreased 2.7 percent compared to 2004, to T 122.8 billion. During the year the Ministry of Finance placed short-term 12-month MEKKAM, medium-term 3, 4, and 5-year MEOKAM, and long-term 10 and 15-year MEUZhKAM.

Qualitative development of the government securities market that had started in the preceding year was continued during 2005. Long-term MEUZhKAM were issued for the first time. The fixed rate on coupons at the time of placement of securities was 0.01 percent for 10-year MEUZhKAM and 0.00 percent for 15-year MEUZhKAM. Money invested in MEUZhKAM is indexed by calculating the indexed coupon, which is arrived at from the amount of the fixed coupon at the time of placement and the index of inflation for the past coupon period. This type of government securities is intended for accumulative pension funds as a means of diversifying their portfolios.

A decreasing trend in the number of auctions continued in 2005 (from 28 in 2004 to 7 in 2005), coupled with a concurrent increase in the volume of treasury obligations placed per auction.

Because issuances of Ministry of Finance government securities exceeded their retirement in 2005, their volume in circulation grew 29.5 percent (to T 297.2 billion). Net issuance was T 53.1 billion.

Medium-term indexed 4-year MOIKAM were removed from circulation. As a result the structure of the circulation of securities appears as follows as of December 31, 2005: short-term MEKKAM -- 11.4 percent of the total volume, medium-term MEKKAM (maturing in 1 to 5 years) -- 55.2 percent, long-term MEUKAM (with a maturity exceeding 5 years) -- 20.9 percent, medium-term indexed MOIKAM (maturing in 1 to 5 years) -- 0.2 percent, long-term indexed MUIKAM (with a maturity exceeding 5 years) -- 0.1 percent, and long-term savings MEUZhKAM (with a maturity exceeding 5 years) -- 12.2 percent.

The yield indices of financial operations are the most important indicators of the financial market. They give issuers and lenders a picture of the price of borrowing monetary resources, allow them to make decisions concerning sale and purchase of credit resources, and they permit them to assess the financial consequences of carrying out these decisions. The factors influencing interest rate formation (the determinants) are the long-term rate of growth of the economy, inflationary expectations, the duration of loans, the nature of the distribution of payments over time, and various risks.

A decrease in yield occurred during 2005 for 12-month MEKKAM to 2.75 percent from 3.16 percent, auctions were conducted only once during the reporting period for all other kinds of securities, and their yields were 3.82 percent for 3-year MEOKAM, 3.53 percent for 4-year MEOKAM, and 4.09 percent for 5-year MEOKAM.

VI. PAYMENT SYSTEMS

Kazakhstan's payment systems are operating stably, they are functioning efficiently, and they are distinguished by high payment safety at the present time. In 2005 the National Bank continued its efforts to develop payment systems further.

A meeting titled "Payment Systems As a Component of the Financial System" was held by the National Bank in September 2005 for the purposes of sharing experience with the participation of representatives of the central (national) banks of Japan, Austria, Italy, Turkey, Latvia, Russia, Ukraine, Belarus, Moldova, Armenia, Azerbaijan, Tajikistan, and Kyrgyzstan. During this meeting, experience was shared and joint discussions were conducted in respect to the different aspects of payment system structure and function, the main priorities in the work of a central bank, and the pressing problems and current trends in supporting effective functional operation and development of payment systems.

In 2005 the National Bank continued its work of reforming the structure of bank accounts opened by banks for their customers in order to bring Kazakhstan's payment systems closer to European Union standards. As part of this work a new account structure was developed and the timetable and procedure of transition to the new uniform account structure were specified.

In the area of organizing international payment systems, efforts to organize a common payment and settlement system were continued in coordination with the Interstate Bank. The fundamental documents on creation and functional operation of the system were agreed upon and the main issues connected with launching a pilot project with the payment and settlement system of Interstate Bank member countries were resolved.

The most important component of the process of supporting stable functional operation of the payment system is the creation of a reserve center and its maintenance in active state. Such a center would make it possible to quickly return the payment system to operation in the event of industrial or natural disasters or major accidents in the vicinity of the main center, and in wartime. In this connection the National Bank is working on the Conceptual Framework for Creation of a New Reserve Center in the City of Astana. Special attention is being devoted in the organization of the new reserve center to general requirements (criteria) on the design and structure of the reserve center building and to the selection of the place of construction of the reserve center building. It is presumed that the new reserve center will be used not only to ensure uninterrupted functional operation of payment systems, but also to permit the National Bank to perform the strategically important functions of managing the country's gold and foreign exchange assets and the National Fund, and of keeping existing bank information systems and databases at a proper technical level.

In 2005 the National Bank devoted heightened attention to developing the payment card market. Government Resolution No. 606, June 22, 2005 "On Changes and Additions to Government Resolution No. 84, January 23, 2002 'On Approving the Regulations on Value-Added Tax Exemptions for Goods Imported into the Republic of Kazakhstan'" was adopted for the purpose of creating conditions permitting development of the payment card market's infrastructure.

To encourage second-tier banks to participate in a real way in the work of the National Interbank Payment Card System, steps were taken to sell part of the National Bank's interest in the National Processing Center Joint-Stock Company to interested second-tier banks.

With further development of the country's economy, an associated increase in the quantity and volume of noncash payments was observed in 2005 as a whole. Thus, the total volume of noncash payments made through national payment systems in 2005 was T 51,705.7 billion, and the quantity of noncash payments came to a level of 23.2 million transactions. Compared to 2004 the volume of noncash payments increased 72.1 percent, while the quantity of payments increased 33.4 percent.

6.1. Interbank Money Transfer System (MSPD)

As of January 1, 2006 there were 51 users registered with the MSPD.

The quantity of payments grew during 2005 by 28.1 percent to 7.9 million transactions, while the amount of payments grew by 72.7 percent to T 50.3 trillion.

In 2005 the MSPD mainly handled payments in securities transactions of Kazakhstani residents (37.8 percent of the total volume of payments in the MSPD), interbank deposits and transfers of the resources of the banks themselves and their customers (23.1 percent), and transactions with foreign currency and precious metals (11.4 percent).

In this connection the observed increase in the volume of payments in the MSPD was mainly the result of an increase in the volume of payments in the securities transactions of Kazakhstani residents (by 86.0 percent) and in transactions with interbank deposits and transfers of resources of the banks themselves and their customers (by a factor of 2.2), and of payments in transactions with foreign currency and precious metals (by 83.5 percent). The overall increase in volume of these payments was 84.9 percent of the total increment of the MSPD's payment volume. Mention should also be made of increases in the system of 33.1 percent for payments for goods and intangibles, of 19.5 percent for payments for delivered services, and of 48.0 percent for payments to the budget and payments out of the budget.

Being a systemically important payment system of the country, the MSPD processed practically the entire main flow of noncash payments in the country -- 97.2 percent of the total volume of noncash payments in the period of analysis, which in quantitative terms was 34.2 percent of the total quantity of noncash payments. This ratio confirms the fact that the MSPD is performing only the largest payments of the highest priority in the country.

Also, the efficiency of the system in the period of analysis may be assessed as positive, inasmuch as significant growth of monetary flows in the system (by 72.7 percent) was accompanied by a decrease in the volume of unexecuted payment documents in the system (by 88.6 percent).

6.2. Interbank Clearing

The number of participants in Interbank Clearing was 34 as of January 1, 2006.

The quantity of payment documents processed in the clearing system during 2005 was 15.3 million, for a total amount of T 1.4 trillion. Compared to 2004 the quantity of payment documents in this system increased 36.3 percent, while the amount of the payments increased 53.6 percent.

In terms of the kinds of payments passing through the clearing system, the largest share of payments in 2005 consisted of payments for goods and intangibles (30.6 percent of the total volume of payments in the system), growth of which compared to 2004 was 62.3 percent, of payments for delivered services (25.1 percent) -- a 62.9 percent increase, and of payments to the budget and payments out of the budget (26.9 percent) -- a 51.5 percent increase. The overall increase in volume of these kinds of payments was 86.1 percent of the total increment of the Interbank Clearing payment volume.

At the same time more than half of the entire quantity of noncash payments -- 65.8 percent, or 2.8 percent of the total volume of noncash payments in the country -- was handled in Interbank Clearing, which is intended for payments that are not of high priority and do not exceed T 5 million.

The system's handling of more than half of the entire quantity of noncash payments, the overall relative weight of which is less than 3 percent, also suggests that the system is fulfilling its purpose of handling a large number of payments of small amounts.

The system's development in the year of analysis is also assessed as positive, inasmuch as an increase was observed in the quantity and volumes of payments (respectively 36.3 percent and 53.6 percent) in the presence of an associated 14 percent decline in the quantity of voided payment documents.

6.3. Payment Instruments

Second-tier banks and the Kazpochta AO carried out 85.1 million transactions amounting to T 47.6 trillion during 2005. Compared to 2004 the use of various payment instruments increased 34.4 percent, and the amount of payments increased 39.9 percent (Appendix 1 to Section VI, Subsection 6.3).

The structure of noncash payments by kinds of payment instruments employed did not change substantially compared to preceding periods. As before, payment orders (35.8 percent of the total quantity and 94.3 percent of the total volume of noncash payments using the above payment instruments) and payment cards (respectively 58.6 percent and 1.8 percent) were the most widespread in Kazakhstan. The average amount of one payment order was T 1.5 million in 2004, having increased 18.2 percent compared to 2004. The high relative weight of payment cards in terms of the quantity of payments and their low relative weight in terms of the volume of payments can be explained by the use of this payment instrument mainly for the withdrawal of small amounts of cash (the average amount of one cash withdrawal transaction was T 17,600 in 2005).

The rate of use of payment request-orders [*trebovaniye-porucheniye*] (0.1 percent in quantity and 0.5 percent in volume of payments) and collection orders (0.4 percent in quantity and 0.3 percent in volume of payments) is negligible.

Growth of the total quantity of payment instruments was mainly the result of an increase in the quantity of payment orders by 4,590,700 transactions and the quantity of operations using payment cards by 13,231,400 transactions. Growth of payment volume was provoked mainly by a T 12.7 trillion increase in the volume of payments using payment orders.

Payment cards. Positive shifts continue to be discerned in the development of the Kazakhstani payment card market. The popularity of payment cards is growing steadily among customers, which is encouraging banks to develop various payment card programs. The tendency for the volume of payments using payment cards, including of noncash payments for goods and services, and of the quantity of cards in circulation to increase further can be observed.

As of January 1, 2006, 21 second-tier banks (58 percent of the total number of banks) and the Kazpochta AO possessed licenses to issue payment cards, and among them, 20 banks and the Kazpochta AO are actually issuing payment cards.

Second-tier banks are issuing the payment cards of local systems: Altyn Card -- People's Bank of Kazakhstan AO and ATFBank AO, SmartAlemCard -- TuranAlem Bank AO, Citibank of Kazakhstan local card -- Citibank of Kazakhstan AO, Duet -- Valyut-Tranzit Bank AO, Caspian -- Caspian Bank AO, Tsesna Bank local card -- Tsesnabank AO, and KazCard -- Kazpochta AO. In addition Kazakhstani banks are issuing and distributing payment cards of international systems: VISA International, Europay International, Americans Express International, and Diners Club International.

In Kazakhstan there is now an average of one payment card for every five persons of the Republic, while as of January 1, 2005 there was an average of one payment card for every six persons.

The total number of cards issued and distributed by Kazakhstani banks reached 3.2 million units as of January 1, 2006, which exceeds the same period of the past year by 36.3 percent. The number of holders of these cards increased in the period of analysis by 35.2 percent to a figure of 3.1 million, or 39 percent of the total size of the country's economically active population (this ratio was 29 percent as of January 1, 2005). As before, the most popular cards in the country are those of the VISA International international payment system, which are used by 15 percent of the country's inhabitants.

In December 2005 Kazpochta AO began issuing cards of the local KazCard payment system, and as of January 1, 2006 it issued 267 units of this card, with the number of cardholders also being 267 persons. The KazCard card is based on the use of the latest M-Chip4 MasterCard Preauthorized Debit (MPAD) technology belonging to the MasterCard international payment system. MasterCard Europe and the National Processing Center (NPC) AO signed an agreement allowing NPC to use this technology in a local version to create the KazCard interbank payment card system. Granting of this right to a processing organization that is not a MasterCard participant is a first in the entire Eurasian region. The personal (business) identification number and electronic signature of individuals (legal entities) are to be placed on the KazCard, and it is to be used not only as a payment instrument in the "electronic government" system and as a means of accessing information systems of government agencies, but also in the implementation of a project to create a regional financial center in Almaty. According to the conceptual framework of the organization of the "electronic government" system, citizens and organizations will access the services of government agencies through an "electronic government" portal.

The volume of transactions using the payment cards of Kazakhstani issuers was T 849.1 billion in 2005, with the increase compared to 2004 being 50.0 percent. The quantity of transactions in 2005 was 49.8 million, having increased 36.1 percent compared to 2004.

The increment in noncash payments using payment cards was observed to significantly outpace cash withdrawal transactions in the year of analysis. Thus, the increments in the quantity and volume

of noncash payments in 2005 were factors of 2.6 and 2.8 respectively, as opposed to respectively 28.5 percent and 44 percent increases in the quantity and volumes of cash withdrawal transactions.

And so, significant increase of the use of payment cards in noncash settlements, brought about by associated expansion of the network of commercial equipment and commercial organizations handling noncash payments, is an important feature of the development of the payment card market in 2005.

There were 3,426 enterprises accepting payment cards for payment in Kazakhstan as of January 1, 2006, which exceeds by 45.5 percent their quantity in the same period of the past year. Moreover, these businesses located equipment handling payments for goods and services with payment cards in 4,799 of their commercial outlets, and the increment in the quantity of commercial outlets compared to the level on April 1, 2005³ was 62.7 percent.

Kazakhstan's payment card service consists of 7,010 commercial terminals and 1,692 automatic teller machines. Compared to January 1, 2005 a 66.5 percent increment in the quantity of commercial terminals and a 50.5 percent increment in the quantity of automatic teller machines may be observed.

³ The National Bank began gathering information on the quantity of commercial outlets on April 1, 2005 pursuant to NBK Board Resolution No. 21, February 3, 2005 "On Approving the Instructions on Compilation and Submission of Information on Payment Cards" (in the new wording).

VII. REGULATORY ACTIVITY

To improve legislation, efforts were continued in the improvement of regulatory acts governing basic issues (areas) such as foreign exchange regulation and control, monetary payments and transfers, and government purchases.

Three laws of the Republic of Kazakhstan and a decree of the president of the Republic of Kazakhstan drafted by the National Bank were passed in 2005:

1. Law No. 69-III ZRK of the Republic of Kazakhstan "On Changes and Additions to Certain Legislative Acts of the Republic of Kazakhstan on Activity of Government Agencies Regulating the Financial Market," signed by the president of the Republic of Kazakhstan on July 8, 2005;

2. Law No. 57-III ZRK of the Republic of Kazakhstan "On Foreign Exchange Regulation and Foreign Exchange Control," signed by the president of the Republic of Kazakhstan on June 13, 2005;

3. Law No. 56-III ZRK of the Republic of Kazakhstan "On Changes and Additions to Certain Legislative Acts of the Republic of Kazakhstan on Foreign Exchange Regulation and Foreign Exchange Control," signed by the president of the Republic of Kazakhstan on June 9, 2005;

4. Decree No. 1672 of the President of the Republic of Kazakhstan "On Changes and Additions to Decree No. 1271, December 31, 2003 of the President of the Republic of Kazakhstan 'On Approving the Statute and Structure of the National Bank of the Republic of Kazakhstan'," signed by the president of the Republic of Kazakhstan on November 15, 2005.

The Ministry of Justice has registered 56 regulatory acts of the National Bank pertaining to:

- financial reporting by investment portfolio managers; by organizations engaging in investment management of pension assets; by organizations engaging in brokering and dealer activities on the securities market; by organizations engaging in the activities of maintaining the system of security holder registers; by organizations engaging in transfer and agency activities on the securities market; by accumulative pension funds; by lending partnerships and mortgage companies; by second-tier banks and by organizations engaging in certain kinds of banking operations; by insurance (reinsurance) organizations and insurance brokers;

- withdrawal from circulation of the 20 tenge coin issued in honor of the 50th anniversary of the United Nations;

- accounting of banking and other transactions by pawnshops;

- approval and submission of information on payment cards;

- approval of the formats of orders (insofar as concerns taxes);

- accounting of transactions with acquired debt securities conducted by certain agents of the financial market of the Republic of Kazakhstan;

- regulations on issuance, placement, circulation, and retirement of short-term notes of the National Bank of the Republic of Kazakhstan;

- regulations on the licensing of retail trade and delivery of services for cash foreign currency in the Republic of Kazakhstan;

- regulations on monitoring of foreign exchange operations of nonresidents doing business in the Republic of Kazakhstan;

- the list of documents supporting the lawfulness of the origin of exiting cash foreign currency;

- the list, formats, and submission times of reports from authorized banks on demand and supply sources on the internal exchange market;

- regulations on foreign exchange operations in the Republic of Kazakhstan;

- the definition of monetary activity, and others.

Changes and additions were also made to regulatory acts of the National Bank pertaining to:

- surrender of foreign exchange proceeds from the export of goods (work, services);

- replacement of circulating domestic bills and coins when their design (form) is changed;

- the procedure for maintaining a bank's correspondent account;

- preparation and execution of payment documents;

- the procedure for inspecting activities of clearing organizations;

- the limit on money payments and transfers using correspondent accounts of banks and organizations engaging in certain kinds of banking operations;

- accounting of insurance and reinsurance operations in the "general insurance" industry;

- the sample Chart of Accounts setting forth the details of the accounts, to be used in setting up the Book of Original Entry of second-tier banks, lending partnerships, and mortgage companies;

- regulations on the licensing of operations connected with the use of foreign exchange valuables;

- regulations on accrual and remuneration (of interest) in respect to credits, loans, and deposits of the National Bank of the Republic of Kazakhstan;

- regulations on cash transactions with legal entities and individuals at branches of the National Bank of the Republic of Kazakhstan;

- regulations on the licensing and regulation of activities of legal entities that are not banks concerned with collection and transmittal of banknotes, coins, and valuables;

- transactions with bills of exchange and promissory notes by second-tier banks;

- regulations on use of the state classifier of the Republic of Kazakhstan -- the unified classifier of payment purposes;

- the list, formats, and submission times of reports from second-tier banks, lending partnerships, and mortgage companies to the National Bank of the Republic of Kazakhstan for the purpose of compiling a monetary and financial survey;

- regulations on issuance and use of payment cards in the Republic of Kazakhstan;

- regulations on organizing inspections of compliance with foreign exchange legislation of the Republic of Kazakhstan;

- organization of exchange transactions with cash foreign currency in the Republic of Kazakhstan;

- organization of export-import foreign exchange control in the Republic of Kazakhstan;

- regulations on minimum reserve requirements, and others.

Also during 2005, the National Bank conducted legal expert evaluation of 81 government resolutions and other legal acts pertaining to government purchases; to preparation and privatization of the state's block of shares in the State Accumulative Pension Fund AO; to regulations on coordination between the Economic Crime and Corruption Agency and the National Bank in the prevention and detection of counterfeiting; to the list of state-owned property not subject to privatization before 2010; to the Small-Business Development Fund; to the Memorandum of Understanding between the National Bank and the U.S. Agency for International Cooperation on the Granting of Rights within the Framework of the Kazakhstani-American Economic Development Program; to formation of a coordinating council on issues concerned with the effectiveness of planning, attracting, and using government loans and grants; to approval of the nomenclature of goods, work, and services purchased by the state from small-business agents in 2005; to the program "Guidelines of Economic Policy and Organizational Measures to Decrease the Dimensions of the Shadow Economy in the Republic of Kazakhstan in 2005-2010"; to approval of the Agreement between the Government of the Republic of Kazakhstan and the Government of the Islamic Republic of Iran on Long-Term Commercial and Economic Cooperation, and of the Protocol on Changes and Additions to the Agreement between the Government of the Republic of Kazakhstan and the Government of the Islamic Republic of Iran on Long-Term Commercial and Economic Cooperation dated October 6, 1999; to creation of a centralized database on administrative violations and on their perpetrators; to establishment of norms and limits supporting financial stability of the State Social Insurance Fund AO; to approval of the Joint Organizational Action Plan to prevent leakage of capital abroad, false and deliberate bankruptcy, and money laundering; to the List of Foreign States with Tax Concessions; to the Program for Development of Tourist Industry in 2006-2008, and the action plan for its implementation; to the regulations on registering the pledging of personal property subject to state registration, and others.

VIII. INTERNATIONAL COOPERATION AND THE NATIONAL BANK'S INFORMATION AND EXPLANATORY ACTIVITIES

8.1. International Cooperation

The National Bank's international activity in 2005 was governed in many ways by the need for strengthening cooperation further with countries of the far abroad and the CIS, and with international financial institutions.

Cooperation with countries of the far abroad. In the period from 27 to 30 November 2005 the National Bank held a conference titled "Maintenance of Financial Stability in a Period of High Economic Growth."

The conference participants were of an extremely high level, and to be specific, representatives of national (central) banks of the CIS, Europe, and Asia, international financial institutions (International Monetary Fund, World Bank, International Settlements Bank, European Bank for Reconstruction and Development), and directors of Republic of Kazakhstan ministries and agencies and of the Kazakhstan Financiers Association.

There was lively discussion of the most pressing issues of transitional economies, one such as maintaining financial stability in a period of high economic growth, by the participants in conference discussion groups. The difficulties encountered by central banks of oil producing countries in a time of high oil prices, the particulars of the fiscal policy of oil producing countries, and the work experience of governments with inordinate budget revenues were discussed in 2 days of work. These problems are inherent to many growing economies, which is why they were examined through the prism of the practical experience of countries participating in the conference. Thus, the accomplishments of macroeconomic stability in a time of prolonged economic growth were examined with China as the example, and specialists of the Bank of Belgium analyzed the European experience in maintaining financial stability. Notably, Dennis de Trey [transliteration], head of the World Bank's Central Asian mission, presented an analysis of sustained growth of Kazakhstan.

Negotiations were conducted in Astana on July 3-6, 2005 within the framework of an official visit to the Republic of Kazakhstan by Chinese People's Republic Chairman Hu Jintao, during which operation of Kazakhstani banks on Chinese territory was discussed, among other issues.

The second meeting of the Sino-Kazakhstani Committee for Cooperation was held in Astana on July 14-16, 2005. One issue included on the agenda was the possibility for expanding activities of commercial banks of the Republic of Kazakhstan in China.

A Kazakhstani delegation visited the Chinese People's Republic on December 11-15, 2005 within the framework of a meeting of the Sino-Kazakhstani Subcommittee on Financial Cooperation. The following events were held during it:

- a workshop on organizing anti-money laundering and fighting the financing of terrorism, and on creating and developing a regional financial center was held in Shanghai on December 12, 2005;

- a visit was made to the Chinese stock market and the Unionpay financial institution (the counterpart of Kazakhstan's Processing Center) on December 13, 2005;

A meeting of the Sino-Kazakhstani Subcommittee on Financial Cooperation was held in Beijing on December 14, 2005. The meeting was attended by representatives of the National Bank and the People's Bank of China, the Agency for Financial Regulation and Supervision of the Financial Market and Financial Organizations, the PRC Commission on Bank Supervision, interested ministries and agencies, and commercial banks of both Parties.

An Agreement between the People's Bank of China and the National Bank on Interbank Settlements in Trading in Border Regions was signed during the meeting for the purpose of creating favorable conditions for increasing the volume of transactions using the domestic currencies of the two countries. At the request of the Chinese side, a protocol addressing changes and additions to this Agreement insofar as concerns specification, by both Parties, of the particular border regions in which the relevant settlements in trading in goods and services would be made, is to be drafted and signed. Also for the purposes of strengthening cooperation in supervision of bank activities, a Memorandum of Understanding on Cooperation in Supervision of Bank Activities was signed between the Agency for Regulation and Supervision of the Financial Market and Financial Organizations and the PRC State Commission on Bank Supervision. In addition, an Agreement on Interbank Cooperation was signed during negotiations between representatives of the Bank of China and the People's Bank of Kazakhstan AO.

Cooperation with rating agencies. The National Bank made arrangements for a visit to Almaty by a delegation from the Standard & Poor's rating agency in the period from March 31 to April 1, 2005. Meetings were organized with representatives of the National Bank, Kazakhstani and foreign companies, international financial organizations, and the U.S. and German embassies in the Republic of Kazakhstan. The visit was coordinated with the Ministry of Economy & Budget Planning. Work was done on the draft report on the Republic of Kazakhstan prepared by Standard & Poor's. Based on the work results of a mission from Standard & Poor's the country's credit rating was confirmed at BBB- for long-term foreign currency bonds, its short-term foreign currency credit rating was confirmed as A-3, its rating for domestic currency bonds remained at BBB, its short-term domestic currency credit rating also remained at A-3, and all ratings have a "stable" prognosis.

The National Bank also made arrangements for a visit by a delegation from the Moody's Investors Service international rating agency in Almaty on April 12, 2005. Work was done on a draft report on the Republic of Kazakhstan prepared by Moody's Investors Service.

Based on the results of its analysis, Moody's Investors Service confirmed the country's investment credit rating at Baa3 for long-term foreign currency bonds and at Baa1 for long-term domestic currency bonds, foreign exchange bank deposits were scored as Ba1, and a "positive" prognosis was confirmed for all ratings.

In addition to the above, arrangements were made and coordination was carried out for a visit to Almaty on September 13-15, 2005 by a delegation from the Fitch Ratings international rating agency. Meetings were held with the deputy chairman of the Agency for Regulation and Supervision of the Financial Market and Financial Organizations, the British ambassador to the Republic of Kazakhstan, the World Bank, the chairman of TuranAlem Bank, the U.S. embassy, and the top management of the National Bank. Work was done on a draft report on the Republic of Kazakhstan.

Cooperation with CIS countries. During 2005 the National Bank continued work within the framework of the Subcommittee on Interbank and Investment Cooperation between the Republic of Kazakhstan and the Russian Federation.

On August 16-17, 2005 the Subcommittee on Interbank and Investment Cooperation between the Republic of Kazakhstan and the Russian Federation held its fifth meeting in Astana, organized by the National Bank. Participants of this meeting included representatives of central (national) banks of the parties, the Agency for Regulation and Supervision of the Financial Market and Financial Organizations, the Russian Federation Ministry of Economic Development, the ministries of economy & budget planning and finance, the Association of Russian Banks and the Kazakhstan Financiers Association, the Russian Federation's Trade Mission to the Republic of Kazakhstan, the Republic of Kazakhstan Central Securities Depository, commercial banks, insurance companies, and investment funds of both states.

Issues discussed during this meeting included the Action Plan of the Subcommittee on Interbank and Investment Cooperation between the Republic of Kazakhstan in the Russian Federation, progress in establishing the Investment Bank between Kazakhstan and Russia, interbank and other cooperation in the financial sphere, the possibilities for entering into an agreement on coordination of the Republic of Kazakhstan Central Depository with the associated organizations of the Russian Federation with the goal of coordinating the stock markets of the two countries, acceleration of efforts to conclude the Agreement (Memorandum of Understanding) on Cooperation of Insurance Companies and Pension and Investment Funds of Kazakhstan and Russia between the Agency for Regulation and Supervision of the Financial Market and Financial Organizations and the Central Bank of Russia, and the draft Agreement between the Government of the Russian Federation and the Government of the Republic of Kazakhstan on Resolution of Issues Connected with Public Internal Debt of the Former USSR (Vneshekonombank, RK Ministry of Finance).

On October 20, 2005 the intergovernmental commission on economic cooperation of the Republic of Kazakhstan and the Russian Federation held its ninth meeting, during which the work of the Subcommittee on Interbank and Investment Cooperation and establishment of the Interstate Bank for Economic Development were discussed.

Work was done on settlement of debt obligations between Kazakhstan and Azerbaijan, as well as with Moldova, Turkmenistan, Georgia, the Republic of Belarus, Lithuania, and Ukraine that arose based on the results of commercial and economic relations in 1992-1993.

National Bank representatives took part in a meeting of the Kazakhstani-Azerbaijani intergovernmental commission on economic cooperation (May 22, 2005). Because the Kazakhstani and Azerbaijani sides were unable to reach unanimity on settlement of debts owed by the Azerbaijan Republic to the Republic of Kazakhstan, and considering that resolution of this problem has bogged down unjustifiably, the National Bank proposed examination of this issue at the level of the Heads of State.

The National Bank also worked on items of the Joint Action Plan for Implementation of the Program of Long-Term Economic Cooperation between the Republic of Kazakhstan and the Republic of Belarus for 2001-2008. As a result of a review of the issue of negotiating interstate settlements between the Republic of Belarus in the Republic of Kazakhstan, and in connection with the fact that the

parties expressed fundamentally differing opinions on approaches to estimating current debt, and were unable to reach unanimity, a decision was made to bring this issue before the Heads of State.

Representatives of the National Bank took part in the sixth meeting of the intergovernmental commission of the Republic of Kazakhstan and Ukraine (May 28, 2005). A decision was made based on the meeting's results to hold additional consultations for the purpose of resolving mutual issues between the Republic of Kazakhstan and Ukraine. At the same time the National Bank continued its work on items of the Action Plan for the Program of Economic Cooperation between the Republic of Kazakhstan and Ukraine for 1999-2009.

National Bank representatives took part in a meeting of a workgroup for the settlement of long-term obligations between the Republic of Kazakhstan and Turkmenistan (November 23-24, 2005). Based on the results of the negotiations the Parties came to a unanimous opinion as to the amount of debt in rubles, and concurrently a decision was made to determine the procedure for calculating the debt in its dollar equivalent after signing of the Certificate of Final Adjustment of Mutual Settlements between the Central Bank of Turkmenistan and the National Bank of the Republic of Kazakhstan.

Cooperation with integrative agencies. The National Bank continued its work within the EurAsEU framework during 2005.

The Conceptual Framework on Cooperation of EurAsEU Member States in the Foreign Exchange Sphere, the Procedure for Coordination on the Main Macroeconomic Indicators of Development of the Economies of EurAsEU Member States, and the Statute on the Procedure for Forming and Using the Resources of Special Funds (Special Accounts) to Fund EurAsEU Interstate Special-Purpose Programs were approved pursuant to decisions No. 220, 222, and 226 of the EurAsEU Interstate Council dated June 22, 2005.

The Council of Directors of Central (National) Banks of EurAsEU Member States (henceforth - the Council) held its 12th meeting in Moscow on May 15-17, 2005, during which there was discussion of the procedures and means of cross-border transfers of monetary resources by individuals in EurAsEU member states, and of a comparative analysis of legislative support to the independence of central (national) banks of EurAsEU member states in accordance with the principles of independence of the European system of central banks, and approval was given to the Program for Professional Education of Executive Staff and Specialists of Central (National) Banks of EurAsEU Member States for 2005 and to the form "Information on Payments Connected with Commodity Turnover Made between EurAsEU Member States."

On October 21, 2005 the Council held its 13th meeting, which was organized by the National Bank. During this meeting there was discussion of the functions of central (national) banks and/or other EurAsEU member state authorities issuing stocks and bonds of banks and nonbank credit institutions, and as financial agents of the governments of EurAsEU member states on the securities market, of sharing information on anti-money laundering and prevention of the financing of terrorism in EurAsEU member states, of the Action Plan of Central (National) Banks of EurAsEU Member States to Implement the Conceptual Framework of Cooperation of EurAsEU Member States in the Foreign Exchange Sphere, of the Procedure for Supervision of Bank Groups on a Consolidated Basis, and of the Program for Professional Training of Personnel of Central (National) Banks of EurAsEU Member States for 2006.

The Board of the Interstate Bank held a meeting in Moscow on April 1, 2005, during which the following issues were examined: an auditor's opinion of financial reporting by the Interstate Bank prepared by Price Waterhouse Coopers, the results of the Interstate Bank's activities in 2004, approval of the 2005 budget, withdrawal of the Interstate Bank from the Internavigation Interstate Financial-Industrial Group and from the Central Company of the Internavigation International Financial-Industrial Group OOO [Limited Liability Company].

On November 18, 2005 the Board of the Interstate Bank held a meeting in Moscow with the following issues on its agenda: the draft Protocol on Changes and Additions to the Agreement to Establish the Interstate Bank dated January 22, 1993, the draft Charter of the Interstate Bank, the results of activities of the Interstate Bank in 9 months of 2005, progress in fulfilling the long-term program of activities of the Interstate Bank, adoption of the new program and Charter of the bank, and investment projects of the Interstate Bank.

During 2005 the National Bank did work within the framework of the CIS executive committee. It continued its work within the framework of the Plan for Implementing the Most Important Measures to Develop and Enhance the Effectiveness of Interaction of CIS Member States in the Economic Sphere in 2003-2010. The National Bank offered proposals on enhancing the effectiveness of interaction in the solution of practical problems of economic cooperation among CIS member states, including on the mechanism of operation of a free-trade zone.

Representatives of the National Bank took part in a meeting of the Interstate Foreign Exchange Committee (November 17, 2005, Moscow), which concluded with approval of a Program of Measures to Implement the Conceptual Framework of Cooperation and Coordination of Activities of CIS Member States in the Foreign Exchange Sphere and a metadata table titled "Main Indicators Characterizing the Status of the Banking Sectors of CIS Member States."

During 2005 the National Bank continued its work within the framework of the integrative union of the Republic of Belarus, the Republic of Kazakhstan, the Russian Federation, and Ukraine, established February 23, 2003. A number of documents forming the regulatory base of the Single Economic Space were developed within the framework of this Integrative Union.

Representatives of the National Bank also took part in five meetings of the High-Level Group within the framework of the Single Economic Space integrative union (Moscow April 8, 2005, Astana May 13, 2005, Kiev June 24, 2005, Minsk July 29, 2005, Moscow October 21, 2005).

An active effort was made in the reporting period to prepare agreements within the framework of this integrative union for signature: "Agreement on the Procedure for the Transfer of Foreign Exchange by Individuals Crossing the Border between SES Member States," "Agreement on Investment Activity and Free Movement of Capital in Member States of the Single Economic Space," "Agreement on the Principles of Foreign Exchange Regulation and Foreign Exchange Control Policy," "Agreement on Unified Approaches to Implementing Monetary and Foreign Exchange Policy."

Work was done with the participation of National Bank representatives on the Agreement on the Mechanism to Control Fulfillment of Measures to Unify Statistics Methodology and on Coordination of State Statistical Agencies, the Agreement on Harmonization of Banking Legislation in Keeping with the Basle Principles, the Agreement on Harmonization of Systems for Guaranteeing (Insuring) Deposits of Individuals with Finance and Loan Institutions, the Agreement on Trading in

Services between Member States of the Single Economic Space, the Agreement on the List of the Main Macroeconomic Indicators of Member States of the Agreement on Formation of the SES, the Agreement on Control over Implementation of Measures to Bring Closer Together the Macroeconomic Indicators of Member States of the Agreement on Formation of the SES, the Agreement to Create the Commission on Trade and Tariffs, and the Protocol between the Republic of Belarus, the Republic of Kazakhstan, the Russian Federation, and Ukraine on Entry into Force of International Agreements Concerned with Formation of the SES.

Efforts were spurred during 2005 under the Shanghai Cooperation Organization. On October 26, 2005 the Council of the Heads of Governments of the SCO met to sign the Agreement on Interbank Cooperation (Unification) within the SCO Framework and to approve, in accordance with Decision No. 16 dated October 26, 2005, the Mechanism for Implementation of the Action Plan to Fulfill the Program of Multilateral Commercial and Economic Cooperation of SCO Member States.

During 2005 the National Bank actively studied the mechanism for the creation and operation of the Shanghai Cooperation Organization Development Fund. The National Bank developed draft charter documents specifying the principles of operation of the Shanghai Cooperation Organization Development Fund and submitted them to the Parties for consideration. During the reporting period National Bank representatives took part in a conference of experts and directors of interested RK ministries and agencies with the goal of arriving at a single position on creation of the SCO Development Fund (June 27, 2005 in Astana, August 8-9, 2005), in a meeting of the Expert Workgroup for the Preparation of Proposals on the Procedure for Formation of the SCO Development Fund and the Principles of Its Operation (March 28-29, 2005 in Beijing), in a meeting of the Commission of Senior Officials and in a conference of SCO member state ministries (August 8-11, 2005, October 10-11, 2005), and in a meeting of the Interagency Workgroup (October 6, 2005, October 18, 2005).

During 2005 the National Bank continued its inventory of international agreements concluded by the Republic of Kazakhstan in the period from 1991 to 1995. National Bank representatives took part in meetings of the interagency commission on inventory of international agreements of the Republic of Kazakhstan.

Technical assistance. During 2005 the National Bank drafted and signed the Memorandum of Understanding between the Asian Development Bank and the National Bank, and it did the work of coordinating with ministries and agencies of the Republic of Kazakhstan on the draft resolution of the government of the Republic of Kazakhstan "On Signing Letters of Agreement between the Government of the Republic of Kazakhstan and the Asian Development Bank on the Provision of Grants to Implement the 'Financial Sector Management' Project." This project consists of three phases. ADB grants are to be made in the first phase in support of a search for a specialized consultant on information technologies who could evaluate the back-office system for the management of the country's gold and foreign exchange reserves, and to provide technical assistance in transition to inflation targeting. The second phase will help to strengthen regulation and control of nonbank financial institutions, and provide assistance in developing the securities market, and it will facilitate establishment of policy on control of money laundering in accordance with international standards. The third phase will help to achieve complete consistency with international standards and the best practices in the regulation and control of the financial sector. The Letters of Agreement signing procedure has now been completed.

Also in 2005 there were number of conferences with the participation of interested government agencies and USAID representatives, during which there was discussion of the Memorandum of Understanding between the Government of the Republic of Kazakhstan and the Government of the United States of America on the Kazakhstani-American Program of Economic Cooperation, in which National Bank representatives took part. Attraction of grants for this Program to improve National Bank monetary policy activities was discussed during the conference.

Representatives of the National Bank took part in the Meeting of Technical Assistance Coordinators (June 15-17, 2005, St. Petersburg), based on the results of which a report on technical assistance received by the National Bank during 2004 was forwarded to the International Settlements Bank.

Also a visit by representatives of the National Bank to Poland was organized within the framework of technical assistance with the purpose of making presentations and holding a number of meetings with representatives of interested subdivisions.

Cooperation with international financial organizations. The National Bank did some work to service the A account opened by the International Bank for Reconstruction and Development with the National Bank. Orders for the transfer of resources in payment of World Bank contracts were prepared and correspondence was maintained with the World Bank on servicing the account.

In addition a visit was arranged for National Bank Chairman A. G. Saydenov to the Annual Meeting of the International Monetary Fund and the World Bank in Washington, DC, which was held September 23-27, 2005.

The National Bank worked on the Joint Action Plan for Further Cooperation between the Government of the Republic of Kazakhstan and the Islamic Development Bank.

8.2. Information and Explanatory Activities of the National Bank

The National Bank continued publication of its periodicals -- *Kazakstan Ultyk Bankinin Khabarshysy/Herald of the National Bank*, *Statistikalyk Byulleten/Statistical Bulletin*, *Telem Balansy/Balance of Payments*, *Ekonomikalyk Sholu/Economic Review*, and the *Annual Report* (in Kazakh and Russian), and posting of the quarterly *Inflation Review* on the National Bank's web site.

In order to explain the guidelines of monetary policy and other issues concerned with its activities, the National Bank organized 3,817 appearances in the Republican media, including 2,111 in print media, 1,180 on news agency films, 45 in the *Tenge Territory* program carried by Radio 31, 318 on television, and 49 on Internet sites.

Regional media carried 754 reports pertaining to activities of the National Bank of the Republic of Kazakhstan.

Publishing in the reporting period included 4 "The National Bank of the Republic of Kazakhstan Informs, Explains, Comments" pages in the state language in the newspaper *Yegemen Kazakstan* and 10 "The National Bank Informs, Explains, Comments" pages in Russian in the newspaper *Kazakhstanskaya Pravda* explaining issues in monetary policy, foreign exchange regulation, payment systems, the national fund, mortgage lending, and monetary circulation to the public.

To form of a positive image of the Republic of Kazakhstan abroad, publication of 16 statements by National Bank directors was organized. Five special pages providing information on activities of the National Bank and its branches were inserted in the journal *Institutional Investor*.

Fifteen press conferences were organized, including two jointly with the National Bank's Center for Cash Operations and Valuables Storage concerning presentation of a certificate of compliance of the quality management system with requirements of the international standard ISO 9001:2000 to the Center, and jointly with the State Accumulative Pension Fund AO concerning the results of the "Selection of the Optimum Scheme of Monetary Policy" roundtable, the results of a meeting of representatives of central (national) banks on the topic "Payment Systems As a Component of the Financial System," the results of the 13th meeting of the Council of Directors of Central (National) Banks of EurAsEU Member States, and the results of the international conference "Maintenance of Financial Stability in Periods of High Economic Growth."

During the reporting period 40 press releases were distributed concerning approval of the National Bank's 2004 annual report, setting of the official refinancing rate and the balance of payments for 2004, the current situation on the financial market, international reserves and base money, the holding of a photographic art exhibit of Kazakhstani jubilee coins made from precious metals, an upcoming issuance of banknotes of a new design, the 13th meeting of the Council of Directors of Central (National) Banks of EurAsEU Member States, and the international conference "Maintenance of Financial Stability in Periods of High Economic Growth."

Sociological research titled "Perception of the Image of the National Bank by the Population and Experts" was organized jointly with the Reputation Communicative Technologies Center, based on the result of which adjustments were made in work with the media.

To explain the economic reforms and increase the public's confidence in the banking system, the *Tenge Territory* weekly television program of the National Bank of the Republic of Kazakhstan was aired starting August 2005 on TRK Channel 31. In a format understandable to the public each program explains the main functions of a central bank, the areas of monetary policy, and other issues in the activity of the National Bank. The chairman of the National Bank and his deputies answer questions from viewers, which helps a great deal to increase public recognition of the current leadership of the National Bank and encourages public feedback.

Fifteen public relations events were organized in Almaty and in the regions of the Republic of Kazakhstan (meetings with university students, coin exhibitions, participation in a roundtable organized by the U.S. Chamber of Commerce, celebration of the 10th anniversary of the Banknote Factory of the National Bank, etc.).

Kazakhstani mass media carrying reports on the financial sector and banking system of Kazakhstan are being monitored, and 257 weekly reviews titled *The Media on National Bank Activities* and 257 weekly reviews titled *The Media on the Financial System* were prepared, which helps to keep abreast of information about the National Bank for the purposes of reacting promptly and taking the necessary decisions.

IX. IMPROVEMENT OF ACCOUNTING AND FINANCIAL REPORTING

In 2005 the National Bank continued making improvements in accounting and financial reporting in financial organizations. In particular, the formats of the annual financial reports of second-tier banks and regulatory acts on accounting of banking and other transactions by pawnshops and of the transactions of certain agents of the financial market of the Republic of Kazakhstan with acquired debt securities were developed and approved.

Changes and additions were made in the instructions on accounting of insurance and reinsurance operations in the "general insurance" industry, in the Chart of Accounts of second-tier banks and of lending partnerships and mortgage companies, in the regulations on compilation of consolidated financial reports by second-tier banks, and in the formats of annual financial reports of insurance (reinsurance) organizations and insurance brokers.

Fulfillment of requirements of current legislation on automated systems by second-tier banks, insurance (reinsurance) organizations, and accumulative pension funds was subjected to control during the year. The appropriate recommendations were given to financial organizations.

The National Bank regularly provides methodological assistance to financial organizations in regard to changes and additions to current financial reporting standards and new international standards (IFRS). Explanations and recommendations were prepared as part of this work -- in particular, explanations of the application of changes and additions to IFRS that came into force January 1, 2005, recommendations on accounting of repo and reverse repo operations carried out by professional participants of the securities market with their own assets; operations of accumulative pension funds with government long-term treasury savings bonds acquired with pension assets; operations in the management of investment portfolios or pension assets; operations of second-tier banks with acquired securities and with letters of credit, and in fiduciary management of customer assets.

The practical training aid *Accounting in Banks. International Accounting and Financial Reporting Standards*, which was approved by the Republic of Kazakhstan Ministry of Education, was published in 2005. This book is the first training aid in the application of IFRS in commercial banks that was written after reform of accounting and transition of the financial sector of the Republic's economy to international financial reporting standards. The training aid is intended for students attending economic higher educational institutions and colleges and for accounting course students, it may be used to train professional accountants and auditors, and it is recommended to practicing accountants and financial workers.

During the year the National Bank took part in the organization and conduct of contests of the Central Accountants Club for the banking system best accountant title and the pension system best accountant title.

To raise the professional level of financial organization employees, and to train personnel in accounting and financial reporting, the National Bank gave lectures for second-tier banks, insurance organizations, and accumulative pension funds.

X. SERVICES RENDERED TO FINANCIAL INSTITUTIONS

10.1. Management of the National Fund

The market value of the National Fund's foreign exchange portfolio was equal to \$8.1 billion on December 31, 2005, including \$2.6 billion in the stabilization portfolio (32.06 percent) and \$5.5 billion in the savings portfolio (67.94 percent). The market value of securities and other financial instruments constituting the Fund's portfolio is based on data of the National Bank's custodian bank, ABN AMRO Mellon Global Securities Services.

According to data of the National Bank's custodian bank, ABN AMRO Mellon Global Securities Services, investment income (realized and unrealized) calculated in the base currency -- U.S. dollars -- came to \$193.8 million in 2005.

The return from management of National Fund assets. The National Fund's return from January 1 to December 31, 2005 was 3.29 percent. The National Fund's return since creation to December 31, 2005 was 23.73 percent, which is a 4.75 percent annualized return. The return was calculated in the base currency of the national fund -- U.S. dollars (Appendix 1 to Section X, Subsection 10.1).

The return on the stabilization portfolio from January 1 to December 31, 2005 was 3.28 percent, which is 0.18 percent above the return on the standard portfolio (Merrill Lynch 6-month U.S. Treasury Bill Index) (Appendix 2 to Section X, Subsection 10.1, Figure 10.1.1).

During 2005 the U.S. market was characterized by growth of interest rates, which led to growth of yield to maturity of government securities, and to a corresponding decrease in prices.

The return on the savings portfolio from January 1 to December 31, 2005 was 3.16 percent. The return on the standard portfolio from January 1 to December 31, 2005 was 2.85 percent (75%-CWGB excluding Japan index 60% USB hedged (90%) plus CWGB Japan Index 60% USD hedged (10%) and 25% MSCI World excluding Energy) (Appendix 2 to Section X, Subsection 10.1, Figure 10.1.2). The excess return on the savings portfolio for 2005 was positive -- 0.31 percent.

The results of managing assets of the savings portfolio using all types of stock purchase warrants showed positive results. The largest return indicator in 2005, however, was reached as a result of management of assets by the "Global Shares" warrant and "Global Tactical Asset Allocation" warrant (Appendix 3 to Section X, Subsection 10.1, Figure 10.1.3). Thus, the return for the first warrant was 8.41 percent, and for the second warrant the return in 2005 was 5.62 percent. The return on assets of the savings portfolio under "Global Bonds" warrant management came to 1.07 percent for 2005.

Management of assets of the savings portfolio using a "Global Bonds" stock purchase warrant. Management of assets of the savings portfolio using this type of warrant takes the form of both independent management by the RK National Bank and management by international investment management companies (outside trustees). As of December 31, 2005 assets of the savings portfolio under independent RK National Bank management using this type of warrant totaled 63.24 percent,

with the remaining 36.76 percent of assets of this sub-portfolio under outside management (Appendix 3 to Section X, Subsection 10.1, Figure 10.1.4).

The return from management of the savings portfolio's bonds or assets sub-portfolio using a "Global Bonds" warrant was 1.07 percent during 2005. The return on the standard portfolio of this sub-portfolio, CWGB excluding Japan Index 60% USD hedged (90%) plus CWGB Japan Index 60% USD hedged (10%), was 1.00 percent. Thus the excess return resulting from management by this type of warrant was 0.07 percent in 2005.

Based on the results of managing assets of the savings portfolio using the "Global Bonds" warrant in 2005, the excess return on assets under outside management was equal to 0.04 percent, and the excess return on assets under the National Bank's independent management was (-) 0.02 percent (Appendix 4 to Section X, Subsection 10.1, Table 10.1.1).

Management of assets of the savings portfolio using the "Global Stocks" warrant. Assets of the savings portfolio were managed with the "Global Stocks" warrant only by international investment management companies (outside trustees).

The return from management of assets by this type of warrant was 8.41 percent, while the benchmark return was 8.35 percent. Thus the result of managing assets with this type of warrant was positive relative to the standard portfolio, and the excess return was 0.06 percent.

Management of assets of the savings portfolio using the "Global Tactical Allocation" warrant. Assets of the savings portfolio were managed with the "Global Tactical Allocation" warrant by two international investment companies (outside trustees).

The return from management of assets by this type of warrant was 5.62 percent, while the benchmark return was 2.85 percent. Thus the result of managing assets of the savings portfolio with this type of warrant was positive relative to the standard portfolio, and the excess return was 2.77 percent (Appendix 4 to Section X, Subsection 10.1, Table 10.1.2).

10.2. Custodial, Brokering, and Other Customer Service Activities of the National Bank

In 2005 the National Bank continued providing custodial services to the State Accumulative Pension Fund AO and the Development Bank of Kazakhstan AO. The amount of assets under custodial storage as of January 1, 2006 was T 126.2 billion, which is 17.8 percent less than in the past year.

The National Bank's income from custodial services was T 55.3 million, and compensated expenditures came to T 14.6 million.

During 2005 the National Bank continued providing brokering services to the Development Bank of Kazakhstan AO. In addition in August and October 2005 the National Bank started providing brokering services to respectively the National Innovation Fund AO and the Housing Construction Savings Bank of Kazakhstan AO. All of the securities of the National Innovation Fund AO and the Housing Construction Savings Bank of Kazakhstan AO that had been under the National Bank's fiduciary management earlier were transferred to brokering services. Income from this kind of services was T 0.3 million.

In 2005 the National Bank continued to provide services to the Kazakhstan Deposit Guarantee Fund AO, the Kazakhstan Mortgage Company AO, the National Processing Center AO, the Indemnity Guarantee Fund AO, the State Insurance Corporation for Insurance of Export Credits and Investments AO, the Investment Fund of Kazakhstan AO, the Housing Construction Savings Bank of Kazakhstan AO, the National Innovation Fund AO, the Kazakhstan Mortgage Credits Guarantee Fund AO, and the State Social Insurance Fund AO.

Assets of customers under the National Bank's fiduciary management came to T 49.5 billion as of January 1, 2006, which is 50.1 percent more than in 2004 (Appendix 1 to Section X, Subsection 10.2). Resources passing to the National Bank for fiduciary management decreased 6 percent during the year, to a figure of T 42.3 billion. Resources withdrawn from fiduciary management came to T 31.2 billion (T 48.0 billion in 2004). Income from the services of fiduciary management of assets was T 14.8 million as of January 1, 2006, and compensated expenditures totaled T 10.3 million.

XI. ORGANIZATION AND INTERNAL ACTIVITY

11.1. Organizational Structure

The structure and total staff size (3,580 units) of the National Bank were approved by Decree No. 1271, December 31, 2003 of the President of the Republic of Kazakhstan "On Approving the Statute and Structure of the National Bank of the Republic of Kazakhstan."

During 2005 the National Bank's structure underwent changes connected with optimizing the structure of the National Bank and creating the National Bank of the Republic of Kazakhstan Activity Support Center RGP (KP) out of facilities of the Motor Depot of the National Bank of the Republic of Kazakhstan RGP and the Almaty National Bank Buildings Operating Center RGP (KP).

As of the end of the reporting period the National Bank's organizational structure included 10 departments, 10 independent administrations, and one independent central office division, 17 branches, the National Bank's representative office in the Russian Federation, and five subordinated organizations (Attachment 1 to Section XI, Subsection 11.1).

The National Bank is also the founder of three joint-stock companies (100.0 percent of shares belong to the National Bank). In addition the National Bank is one of the founders of the National Processing Center AO (the National Bank's share is 80.6 percent) and one of the shareholders of the GNPF Accumulative Pension Fund AO (the National Bank's share is 64.0 percent).

11.2. Personnel Policy and Personnel Training

As of the end of the reporting period National Bank staff increased 4.8 percent compared to the past year in connection with change in the National Bank's structure and increase of the production program of the Kazakhstan Mint of the National Bank of the Republic of Kazakhstan RGP and the Banknote Factory of the National Bank of the Republic of Kazakhstan RGP. The staff of the joint-stock companies increased by a factor of 2.1 in connection with issuance of permission by the National Bank to exercise the right of direct ownership and disposition of 64.0 percent of the shares of the GNPF Accumulative Pension Fund.

As of the end of the reporting period the actual staff size of the National Bank increased 3.9 percent compared to the past year, and that of the joint-stock companies increased by a factor of 2.3 (Appendix 1 to Section XI, Subsection 11.2, Table 11.2.1).

Personnel turnover in the National Bank compared to the past year increased by 1.9 percentage points, coming to a total of 14.8 percent.

Personnel turnover in the central office of the National Bank remained at the 2004 level -- 14.6 percent, at the same time that this indicator increased by 4.5 percentage points to 15.1 percent for branches and decreased by 0.2 percentage points for organizations.

A continuing decreasing trend in personnel turnover is observed in the joint-stock companies. Compared to 2004 this indicator fell 11.9 percentage points.

Looking at the educational structure of National Bank personnel, 58.8 percent have a higher education, 21.2 percent have a secondary special education, and 20.0 percent have a secondary education. For the joint-stock companies these indicators were respectively 92.1 percent, 7.9 percent, and 0 percent.

Employees with a time in service with the National Bank of "from 10 to 20 years" constitute the largest share in the central office and branches, respectively 29.3 percent and 34.4 percent.

Thirty-four administrative state employees of the National Bank underwent certification, and based on the results 34 persons qualify for the positions they hold. Thirteen RGP *nomenklatura* employees underwent certification, and based on the results 13 persons qualify for the positions they hold.

Eight competitions were held to fill 82 vacant administrative state positions in the central office and *nomenklatura* positions in branches of the National Bank (80 positions in the central office, 2 *nomenklatura* positions in branches). The competition drew 257 candidates. There were 43 competition winners. Fourteen persons were registered in the personnel reserve of the Agency for Civil Service Affairs.

A competition was held to fill nine vacant technical positions. Five persons competed. Based on the competition results one person filled a vacant position.

Two competitions were held to fill the vacant position of the state enterprise director (National Bank of the Republic of Kazakhstan Activity Support Center RGP (KP)). There were five competitors. Based on the competition results two persons filled vacant positions.

Presidential Decree No. 1633, August 25, 2005 awarded the "Kazakhstan Konstitutsiyasya 10 zhyl" jubilee medal to 33 employees of the National Bank system and joint-stock companies.

Presidential Decree No. 1682, December 22, 2005 awarded state decorations to National Bank employees: the Order of "Kurmet" -- 3 persons, the "Yeren enbegi ushin" medal -- 2 persons; Honorary Certificates of the Republic of Kazakhstan were presented to 2 employees.

The number of students in 2005 was: in National Bank courses and apprenticeships -- 541 (including 12 representatives of outside organizations); in RK training centers -- 366; on CIS territory -- 49 employees of the central office and 1 branch employee; abroad -- 175 employees of the central office and 5 branch employees; in Kazakh-language courses -- 121 employees of the central office and 279 employees of branches of the National Bank; in English-language courses -- 70 employees.

Two workshops were held in 2005 for National Bank specialists and executives with the participation of invited representatives of foreign central banks (Deutsche Bundesbank) on the subjects "International Financial Reporting Standards" and "Cash Management and Logistics."

Twenty-four National Bank employees participated in international seminars held under the Program for Professional Training of Executive Staff and Specialists of Central (National) Banks of EurAsEU Member States in 2005. The Bank of Russia organized two apprenticeships for National Bank employees.

In addition the National Bank conducted a roundtable titled "Selection of the Optimum Scheme of Monetary Policy" and a meeting of representatives of central (national) banks titled "Payment Systems as a Component of the Financial System."

The National Bank is continuing its active assistance to the country's higher educational institutions in the training of specialists for the financial sector.

Graduation ceremonies, the second, were held in 2005 for 41 undergraduates of the Undergraduate MBA Program of Kazakh Economics University imeni T. Ryskulov. All graduates have been placed in jobs -- 10 of them in the National Bank, 15 in the Agency for Regulation and Supervision of the Financial Market and Financial Organizations, 12 in second-tier banks, and 4 in other organizations.

In the 2005-2006 school year 46 undergraduates were enrolled in a 1-year training program, including 39 undergraduates (84 percent) attending free of charge. Training is being provided in the following specializations: financial analyst -- 15, actuary -- 10, risk manager -- 12, information systems in financial organizations -- 9. In addition 39 undergraduates are finishing a 2-year program in 2006 with the following specializations: financial analyst -- 16, banking -- 12, insurance -- 5, actuary -- 6.

An experimental undergraduate program titled "Remote Learning" was started in 2005.

Forty-four students from institutions of higher education, including 16 undergraduates in the Undergraduate Program, underwent professional practical training in subdivisions of the National Bank's central office.

There were two winners among 39 competitors for a personal scholarship from the National Bank: a female student from Pavlodar University imeni S. Toraygyrov and a male student from Kazakh-British Technical University.

Labor compensation and social payments to personnel. During 2005 the National Bank's actual expenditures on the labor compensation fund including insurance of personnel, on social tax, and on social deductions increased 16.1 percent compared to the past year in connection with an increase in the staff size of National Bank subdivisions and an increase in wages of National Bank employees.

These expenditures increased for joint-stock companies by 51.6 percent in connection with an increase in their staff size (Appendix 1 to Section XI, Subsection 11.2, Table 11.2.2).

The average monthly wage of a single National Bank employee increased 14.1 percent in 2005 compared to the past year in connection with a National Bank employee pay hike on July 1, 2005.

The average monthly wage of a single worker in joint-stock companies increased by a factor of 2.2 in connection with change in the composition of the National Bank's joint-stock companies (the GNPf Accumulative Pension Fund AO, in which the average monthly wage is lower, was added to its composition, and the Kazakhstan Mortgage Company AO and the Kazakhstan Mortgage Credit Guarantee Fund AO, in which the average monthly wage is higher, were withdrawn).

The National Bank continued to insure its employees.

During the effective period of the health insurance agreement (from April 20, 2005 to December 31, 2005), 1,947 employees used services for a total amount of T 84.5 million.

Social support was provided to former employees of the National Bank system -- nonworking pensioners, whose number came to 1,076 at the end of the reporting period. During 2005 they were provided charitable assistance coming to a total of T 31 million.

The 2005-2007 Program for Development of the State Language in the National Bank of the Republic of Kazakhstan and the 2005-2006 Action Plan of the National Bank of the Republic of Kazakhstan to Implement the 2001-2010 State Program of Language Function and Development were approved in 2005. As part of the Program and the Plan training courses in the state language were organized in 2005. Subdivision employees are continuing their independent drafting of certain documents in the state language, and a permanent commission on drafting of standard formats of acts, decisions, and other documents of the National Bank was organized. All subdivisions of the central office and oblast branches and organizations of the National Bank have been provided with the Russian-Kazakh dictionary of banking terms and with specimens of resolutions in the state language for use in their work. A contest in the knowledge of the state language was conducted among central office employees.

Efforts to improve automation of accounting and calculation of personnel wages are continuing.

11.3. Development of Information Technologies

Planning work was done in the following principal areas for the purposes of further developing the National Bank's integrated automated information system (IAIS):

- development of the KUBAZh-ZTs automated information system (AIS): development of the "Deposits Placed in Precious Metals (for Gold and Foreign Exchange Assets)" module and the "KASE Interface" module, introduction of the "Client-Bank" module, development of the "Securities" module, customization of the "Precious Metals on the Internal Market" module, development of the "Interface with the Center for Cash Operations and Valuables Storage" module, and development of the "Cash Management" module, insofar as concerns meeting reliability and safety requirements;

- introduction of new subsystems: a pilot project of the "Electronic Archive" module, acquisition and introduction of software automating reception/transmission and storage of information transmitted by facsimile communication, development of requirements on software for the control of business planning of subsidiary organizations of the National Bank;

- development and debugging of IAIS subsystems insofar as concerns debugging and improving the functional, coordinating with the KUBAZh-ZTs AIS, supporting security requirements and password protection, making a phased transfer of operating subsystems to the state language, centralizing at the database level, and managing regulatory reference information.

Research was conducted in the following areas:

- testing of a simplified system of branch access to the Internet and electronic mail using the Check Point Firewall-1 and Check Point SecureClient functional (without a proxy server);

- testing of an updated version of the kernel (Content Tools) of the National Bank's information server on the Internet with a test server;
- analysis of network management systems;
- support of automatic protected information sharing between the Reuters and Bloomberg external systems and the KUBAZh-ZTs subsystem using hardware-software resources.

A certification audit using the TUV CERT procedure confirmed compliance of the quality management system of the information technologies subdivision with ISO 9001-2000 requirements. The certificate was issued by the TUV NORD CERT GmbH & Co. KG Certification Authority.

Efforts to centralize bookkeeping entries and for migration to the Microsoft Windows 2003 Active Directory were started as part of the corporate network's development.

Segments of the structured cable network were optimized.

Seven National Bank IAIS subsystems were converted to Oracle 9i 9.2.0.4., which allows introduction of the state language and offers advantages over the preceding version insofar as concerns output.

As part of the work of creating a single information space in the Republic of Kazakhstan, there was participation in work on the State Program for Formation of the "Electronic Government" in the Republic of Kazakhstan for 2005-2007, approved by Decree No. 1771 of the President of the Republic of Kazakhstan dated November 10, 2004.

Effort was put into maintaining and administering 38 IAIS tasks and subsystems operating in subdivisions of the central office and branches of the National Bank.

The period of completion of the financial year was managed without failures and without user complaints, consultative and practical assistance was provided to users in response to all queries, and the necessary reports for improving the work of users were prepared.

Servers, active equipment of the structured cable network, databases, and mail systems were kept in operable condition, and solution [sic; *resheniye*] and issuance of information pertaining to the computer room applications package was provided for. Efforts were carried on in parallel to develop and modernize various areas of activity with the aim of improving the quality of administration, maximally satisfying the growing needs of the users of National Bank information systems in keeping with the current status of information technologies, and correcting revealed shortcomings in reliability, output, and security.

Technical and system maintenance of computer equipment was carried out, and current repairs were made on the calculating and office equipment of subdivisions of the central office of the National Bank and its branches.

11.4. Internal Audit

In the reporting year, in keeping with the 2005 National Bank Subdivisions Inspection Plan approved by National Bank Board Resolution No. 204, December 29, 2004 there were 38 audits of subdivisions of the central office, organizations, branches, the representative office of the National Bank in Russia, and automated information subsystems. Four unplanned inspections were conducted in the reporting period.

The results of audits made in the reporting year revealed that on the whole, National Bank subdivisions are performing their tasks and functions. The system of internal control was assessed based on the results of the audits, and the appropriate recommendations on its improvement were provided as necessary.

Efforts to improve the methodological base of National Bank internal audit were continued in the reporting year. The Manual on Organization of Audits and Report Preparation by the Internal Audit Department, an updated List of Audit Target Areas, and the Procedure for Review of Draft Regulatory Acts and Other Internal Documents were approved.

Methodological work was also continued in the organization of the process approach in the National Bank of the Republic of Kazakhstan, and in introduction of integrated risk management. Draft Regulations on the Principles of Internal Control in the National Bank and Regulations on the Organization of Risk Management in the National Bank were developed.

To lower operating risks in the National Bank's activity, proposals were prepared on changes in its structure (performance of National Bank functions of maintaining financial stability and separation of front and back office functions of the National Bank).

The work of the outside auditor (Deloitte & Touche Limited Partnership) connected with the audit of the National Bank's annual financial reports for 2005 was coordinated with National Bank subdivisions.

11.5. Financial and Economic Activity

Accounting for the results of revaluing gold and foreign exchange assets, during 2005 the National Bank received T 7,586.4 million in net income, while the result accounting for revaluation in 2004 was a loss of T 59,696.4 million (T 6,356.1 million after transfers to special reserve accounts) (Appendix 1 to Section XI, Subsection 11.5, Table 10.5.1).

During the reporting year the National Bank's income was T 28.8 billion, having increased by T 11.1 billion (62.7 percent). Expenditures reached T 21.2 billion, having decreased by T 56.2 billion (72.6 percent).

The profit of subsidiary organizations was T 1.8 billion (RGPs -- T 1.1 billion, AOs -- T 712.6 million).

In monetary activity, the average volume of gold and foreign exchange assets increased to \$8.4 billion from \$6.4 million (by 31.3 percent) during 2005 as a result of operations on the external

and internal markets; net income came to T 14.40 billion, which is a T 66.1 billion (127 percent) increase (Attachment 1 to Section XI, Subsection 11.5, Table 10.5.2).

Net income in operations *on the external market* came to T 27.7 billion, which is a T 12.5 billion (82.8 percent) increase, resulting from an increase in the net income of the foreign exchange portfolio by T 12.4 billion (81.5 percent) and of the gold portfolio by T 155.5 million (by a factor of 1.8).

Management of the National Bank's gold and foreign exchange assets is characterized by the following indicators:

- *gold portfolio*: net income grew by a factor of 1.8 to T 99.7 million. Owing to increasing world prices of gold and increasing volume of the gold portfolio, the average market value of the gold portfolio grew by \$113.0 million (15.4 percent), from \$733.0 million to \$846.0 million, which included an increase in the market value of gold placed on deposit by \$68.8 million (14.2 percent) to \$552.8 million;

- *foreign exchange portfolio*: the market value averaged \$7.6 billion during the reporting period, having increased 35.7 percent. Net income was T 27.6 million, which is an increase of T 12.4 million (81.5 percent) owing to an increase in the dimensions of the foreign exchange portfolio, to include:

 - of the liquidity portfolio* -- by \$456.7 million (139.8 percent) to \$783.2 million;

 - of the short-term portfolio* -- by \$1.3 billion (165.3 percent) to \$3.2 billion;

 - of the long-term portfolio* -- by \$221.3 million (6.5 percent) to \$3.6 billion.

The structure of gold and foreign exchange assets was changed in 2005 in accordance with adopted changes to the Investment Strategy for the Management of National Bank Gold and Foreign Exchange Assets. Thus in the *short-term portfolio*, in order to further diversify assets in the standard portfolio the German government securities index was replaced by an index that includes debt obligations of all countries in the euro zone, and the English short-term securities market was included.

Swedish and Danish krone and the Swiss franc were dropped from the currency basket of the *long-term portfolio*, while the percent ratio of the Canadian and Australian dollars and the Japanese yen was increased. Still, the bulk of the foreign exchange portfolio consists of U.S. dollar-denominated assets, which made it possible to increase the excess return in connection with increase of the U.S. dollar's strength during the year.

The volume of assets *under outside management* was decreased to \$334.0 million from \$588.8 million (by 43.3 percent). Net expenditures on operations with gold and foreign exchange assets under outside management were T 322.8 million.

Assets *under internal management* grew 52.3 percent to \$7.7 billion, while net income increased by T 13.3 billion (91.1 percent) to T 27.9 billion.

Net expenditures in operations on the *internal market* decreased by T 145.7 million (1.0 percent) to T 14.5 billion.

Net expenditures on operations with government securities decreased by T 5.8 billion (41.4 percent) owing to a T 235.1 billion (59.4 percent) drop in the placement volume of National Bank short-term notes and a decrease in their maturity. As of the end of 2005 the volume of notes was T 161.1 billion.

Expenditures related to deposits of second-tier banks with the National Bank increased by a factor of 2.9 to T 1.9 billion in connection with an increase in attraction volume. Expenditures on government deposits increased by 44.6 percent to T 2.4 billion owing to a significant increase in resources placed in deposits with the National Bank.

Net expenditures on purchase of domestic banknotes and coins amounting to T 3.7 billion were accounted for in the operations with the internal financial system, nonfinancial organizations, and individuals, at the same time that in 2004 they were accounted for in the nonmonetary part of the National Bank's report; total expenditures came to T 2.5 billion.

Provisions for loans granted to banks and individuals were created and canceled during the reporting period, as a result of which the net income came to T 352.5 million, which exceeds the indicator for the preceding year by T 345.0 million.

Income in 2005 **in nonmonetary activity** came to T 309.6 million, having decreased by T 881.0 million (74.0 percent); expenditures amounted to T 6.8 billion, including T 904.5 million in expenditures of the Agency for Regulation and Supervision of the Financial Market and Financial Organizations, which decreased by T 2.0 billion (23.2 percent). As a result the net expenditures were T 6.5 billion, which is a decrease of T 1.2 billion (15.2 percent) (Attachment 2 to Section XI, Subsection 11.5, Table 10.5.3).

The decrease in income occurred mainly due to smaller receipts under the following items:

income from cash operations -- starting 2005, income from sale of monetary products (gold, collectible, and silver coins) of the National Bank, which came to T 106.1 million, was classified as monetary activity, while in 2004 this income was T 114.0 million and included in nonmonetary activity;

compensated expenditures came to T 24.0 million, having decreased by T 595.4 million (96.1 percent). The bulk of the reporting period's income (from custodial and fiduciary activity), T 1.1 billion, is also shown among the results of monetary activity in connection with accounting changes;

other income came to a total of T 201.6 million, having decreased by T 151.4 million (42.9 percent). The main impact on the decrease in expenditures for this group was from transfer of the Banknote Factory (an affiliate of the National Bank) to the Banknote Factory RGP on April 1, 2004. The Banknote Factory's share of total income from nonmonetary activity was 18.0 percent (T 214.0 million) in 2004; there was no such income in 2005.

Expenditures on nonmonetary activity came to T 6,766.4 million, having decreased by T 2.0 billion (23.2 percent), mainly due to a T 3.7 billion drop in expenditures on manufacture of domestic banknotes and coins, which have been classified as monetary activity since 2005.

The main increase in the reporting year occurred under the following items:

expenditures on operations with fixed assets, intangibles, and inventory holdings came to a total of T 1.6 billion, having increased by T 201.4 million (14.9 percent). The increase was brought about by acquisition of fixed assets, intangibles, and inventory holdings, and by additional depreciation expenditures upon transfer of motor transport resources that had been carried earlier on the balance sheet of the NBRK Activities Support Center RGP to the National Bank's balance sheet from the start of 2005;

other expenditures came to a total of T 577.2 million, having increased by T 171.7 million (42.4 percent) mainly due to an increase in cost of technical support and software maintenance services, and in connection with placement of information subsystems carrying out five tasks into industrial operation and with update of the "Fasti" document handling system version;

expenditures on personnel came to T 3.1 billion, having increased by T 222.0 million (7.8 percent) in connection with introduction of a new system of labor compensation for employees of the National Bank starting July 1, 2005;

administrative expenditures came to a total of T 1.3 billion, having increased by T 55.4 million (4.5 percent). Growth is explained mainly by growth of the cost of telecommunications services in connection with an increase in speed of Frame Relay channels on March 1, 2005 and increase of the carrying capacity of the Internet access channel on April 1, 2005.

Capital expenditures of the National Bank totaled T 746.5 million, having decreased by T 1,891.8 million (71.7 percent). Within this total, expenditures of the Agency for Regulation and Supervision of the Financial Market and Financial Organizations were T 141.2 million (Appendix 3 to Section XI, Subsection 11.5, Table 10.5.4).

Capital expenditures decreased because there were no major construction projects or repairs during the year. Besides that, resources totaling T 1,022.4 million were transferred in 2004 to the authorized capital of the National Processing Center AO, the Banknote Factory RGP, the Kazakhstan Actuarial Center AO, and the GNPf NPF AO, at the same time that the only acquisition of shares in the reporting year was that of the Central Securities Depository AO amounting to T 15.2 million.

Organizations of the National Bank. Income of Republican state enterprises of the National Bank from sales of products (work, services) came to T 7.8 billion in 2005, while expenditures on production of products (work, services) came to T 6.1 billion. The net income of the enterprises, after payment of corporate income tax to the budget, was T 1.1 billion.

Indicators of the activity of National Bank enterprises are characterized by a T 209.8 million (24.4 percent) increase in net income compared to 2004 (Appendix 4 to Section XI, Subsection 11.5, Table 10.5.5).

Joint-stock companies of which the National Bank is the founder. Income of joint-stock companies came to T 2.1 billion and 2005, and expenditures were T 1.2 billion. Net income amounted to T 712.6 million.

On the whole, the results of activities of joint-stock companies are characterized by an improvement in the indicators of their main activity: growth of the volume of calendar contributions of banks participating in the deposit guarantee system, an increase in the indemnity guarantee reserve of the FGSV AO, and growth of the net income of the NPF GNPF AO.

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Appendix 1 to Section I, Subsection 1.1

Figure 1.1.1

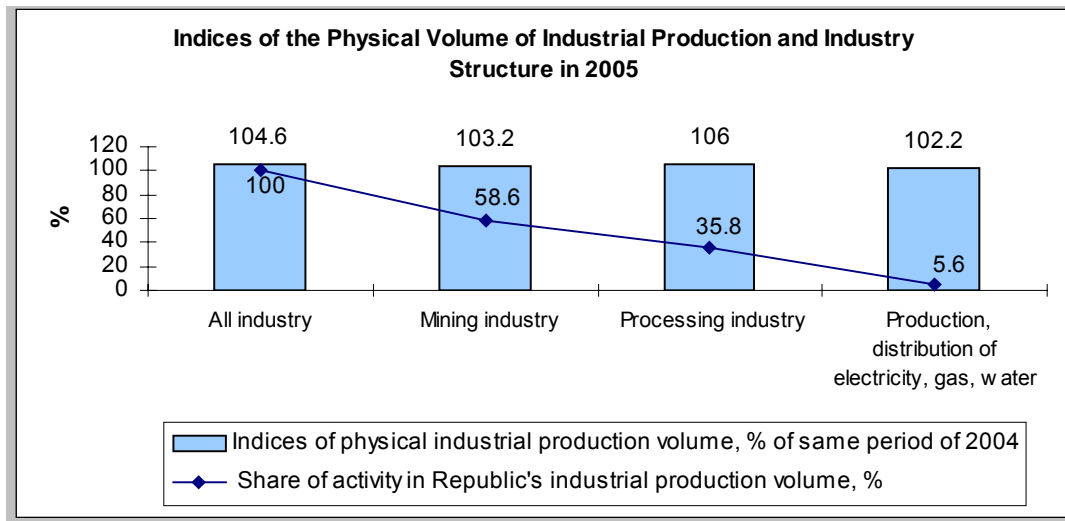
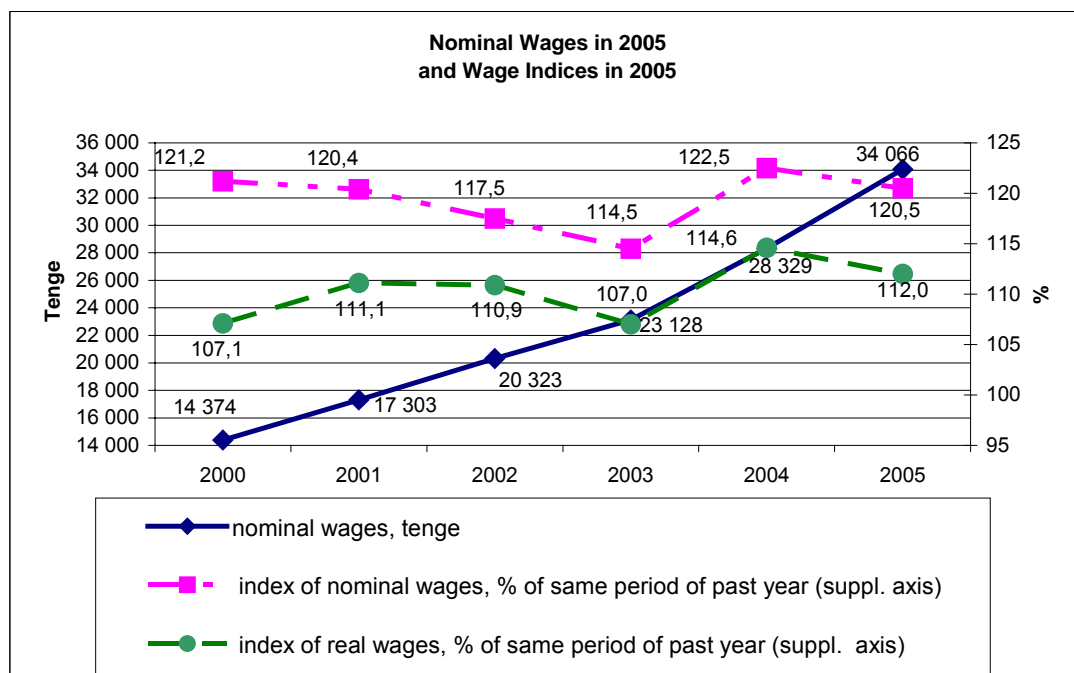


Figure 1.1.2



Appendix 1 to Section I, Subsection 1.2

Table 1.2.1

Dynamics of the Number of Monitoring Participants

	Survey Quarter				
	Q 1 2005	Q 2 2005	Q 3 2005	Q 4 2005	Q 1 2006
Number of participating enterprises	1301	1327	1337	1341	1343
including large and midsize	1015	1007	1013	1004	1114
Number of large and midsize enterprises in country's economy	4243	4301	4301	4405	4405
Share of participating large and midsize enterprises (line 2/line 3),%	23.9	23.4	23.6	22.8	25.3
Share of income from product sales by monitoring participants, %	66.0	65.6	63.8	71.4	73.0

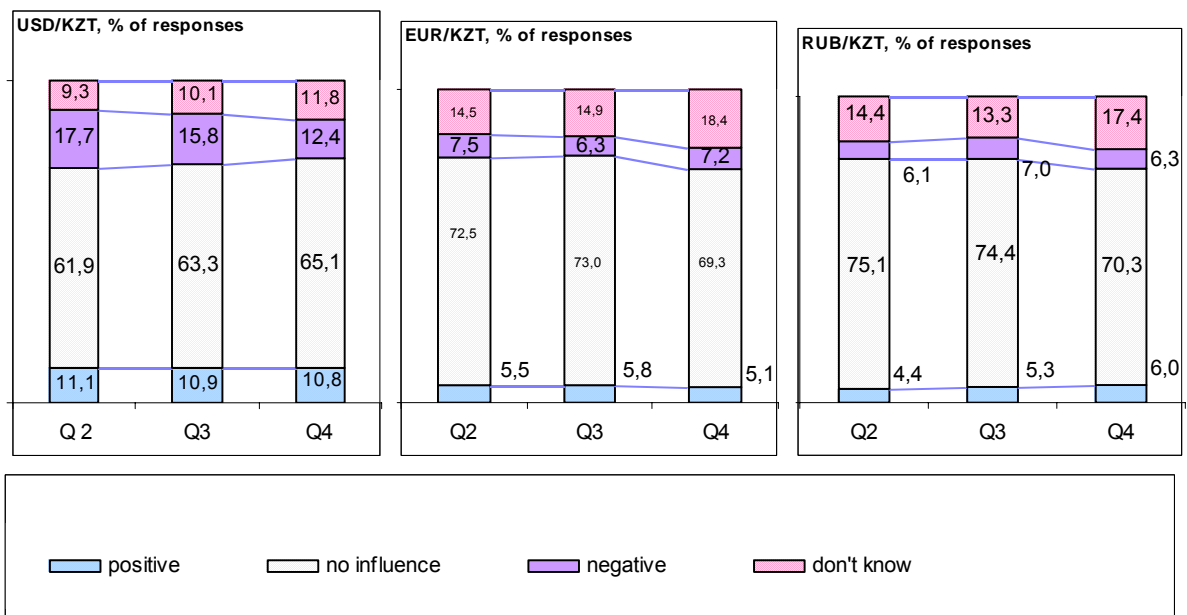
Change in Economic and Financial Conditions in Economy's Real Sector in 2006 (Actual) and in First Quarter of 2006 (Anticipated)

General Economic Conditions and Their Factors

Figure 1.2.1

Influence of foreign exchange rate

Assessment of influence of change in foreign exchange rate on economic activity of enterprises in Q4 2005

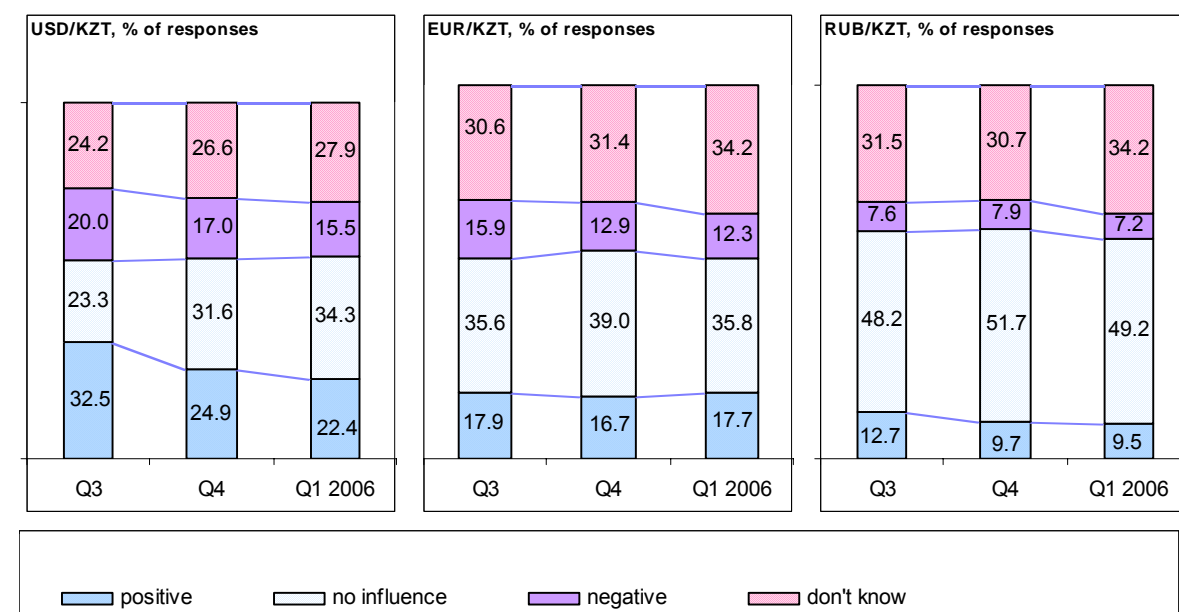


A positive influence on economic activity by change in the tenge's exchange rate against the U.S. dollar was reported by 10.8% of enterprises, against the euro by 5.1%, and against the ruble by 6%. A negative influence was reported by respectively 12.4%, 7.2%, and 6.3% of enterprises. Most enterprises did not experience an influence from change in the tenge's exchange rate -- respectively 65.1%, 69.3%, and 70.3% of enterprises.

Appendix 2 to Section I, Subsection 1.2

Figure 1.2.2

Assessment of anticipated change in foreign exchange rate at end of first quarter of 2006



Strengthening of the tenge against the U.S. dollar is anticipated by 22.4% of enterprises, against the euro by 17.7%, and against the Russian ruble by 9.5%;

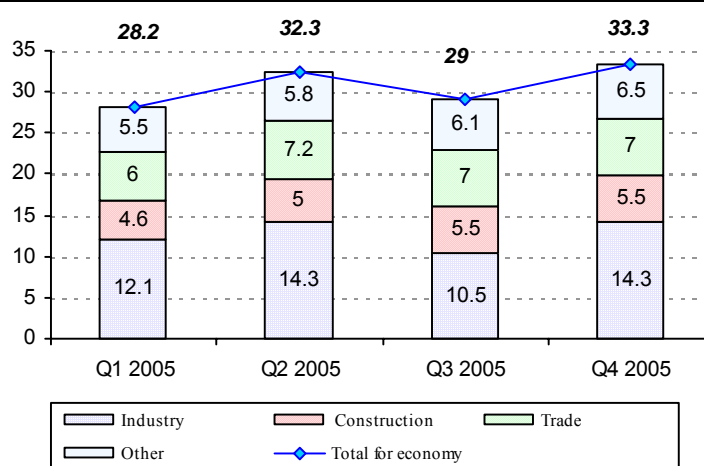
2) Devaluation of the tenge is anticipated by respectively 15.5%, 12.3%, and 7.2% of enterprises;;

3) 34.3%, 35.8% and 49.2% respectively feel that the tenge's exchange rate will not change in the first quarter of 2006.

Figure 1.2.3

1.2. Bank credits

In the fourth quarter of 2005 compared to the preceding quarter, the share of enterprises obtaining credit increased to 33.3% from 29%; these are mainly enterprises in industry (14.3%), trade and repair (7%), and construction (5.5%).



Appendix 3 to Section I, Subsection 1.2

Figure 1.2.4

1.3. Assessment of working capital funding sources

In the fourth quarter of 2005 compared to the third quarter, the share of enterprises using their own resources to fund replenishment of working capital decreased a little (82.7%). There were also decreases in the number of enterprises using other sources (5.8%) and the number of enterprises using bank credits to fund working capital (27%).

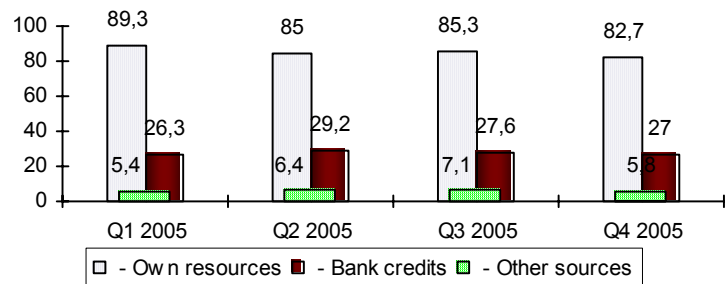


Figure 1.2.5

Assessment of investment funding sources

In the fourth quarter of 2005 compared to the third quarter, the number of enterprises using their own resources and bank credits for investments increased -- 40 8.1% and 12.2%. There was also an increase in the share of enterprises not funding investments in fixed assets -- 42.4 percent. These data characterize growth of the investment activity of enterprises.

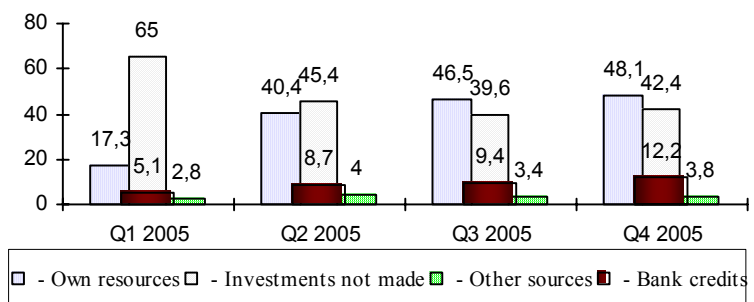
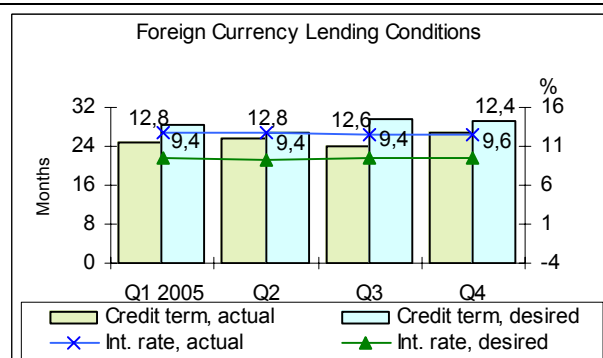
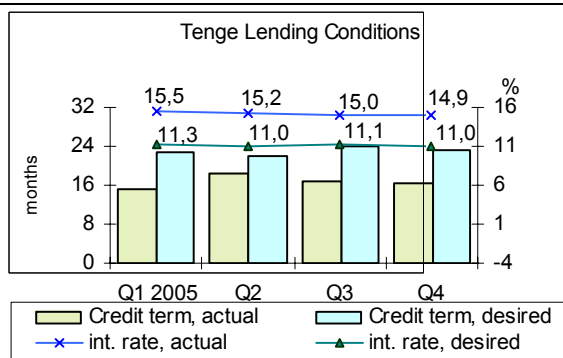


Figure 1.2.6

Lending conditions



There were no significant changes in lending conditions in the fourth quarter of 2005: the average interest rate on tenge and foreign currency credits remained practically unchanged. The same can be said for the interest rate desired by enterprises (from the standpoint of the profitability of productive assets).

Appendix 4 to Section I, Subsection 1.2

Figure 1.2.7

Degree of satisfaction of enterprises' demand for banking services

In the fourth quarter of 2005, 31.2% of enterprises had a high demand for banking services. Correspondingly, 62.2% of enterprises reported an average level for this indicator. There were 5.5% of enterprises with a low demand for banking services. The degree of satisfaction of the demand for banking services was assessed by enterprises: as normal -- 95.6%, and as low -- 4.4%.

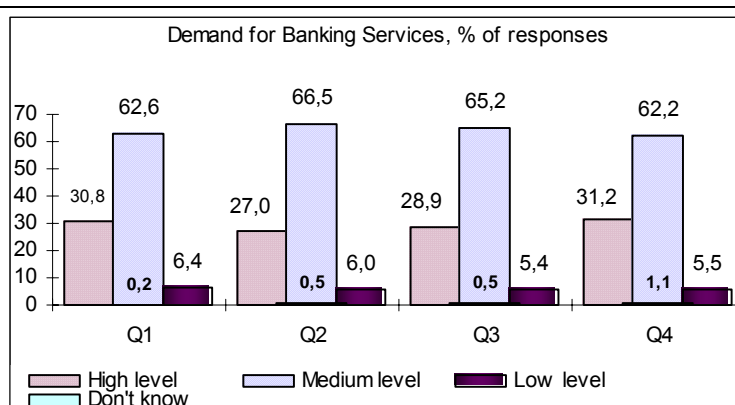


Figure 1.2.8

1.7. Possibilities for satisfying the demand for banking services

In the fourth quarter of 2005, 29.9% of surveyed enterprises reported a high possibility for obtaining banking services, 61.9% reported a middle level, and 6% reported a low level for this indicator.

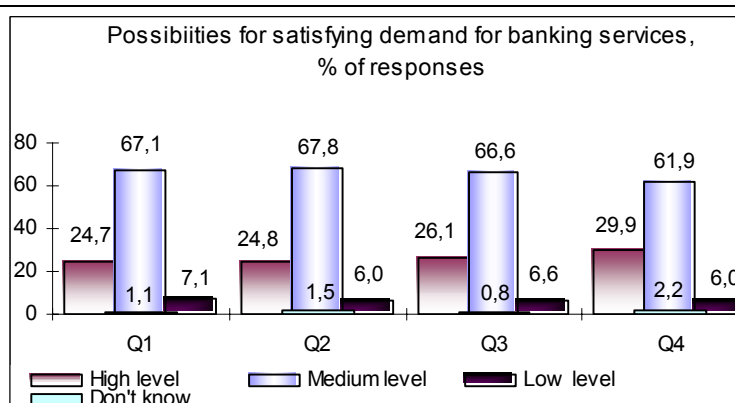
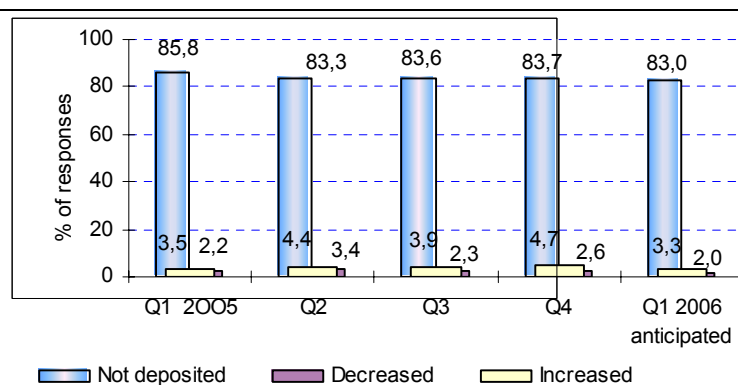


Figure 1.2.9

1.8. Change in volume of deposits with banks by enterprises

In the fourth quarter of 2005 compared to the preceding year, the share of enterprises: 1) not possessing investments in bank deposits increased significantly (to 83.7%); increasing deposits with banks increased (4.7%); 3) decreasing deposits also increased (2.6%). No significant changes are anticipated in the first quarter of 2006.



Appendix 5 to Section I, Subsection 1.2

2. Assessment of change in prices of finished products, business activity, and financial condition of the economy's real sector

Figure 1.2.10

2.1. Behavior of demand for finished products of enterprises

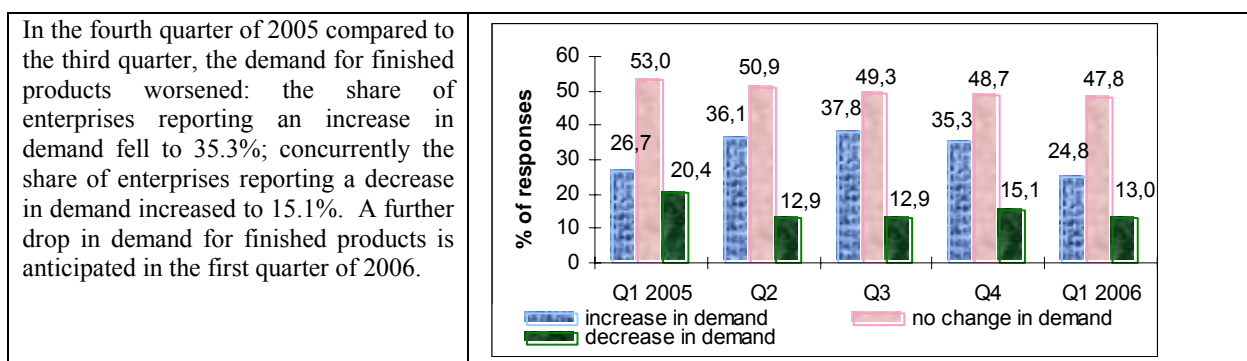


Figure 1.2.11

2.2. Assessment of solvency and liquidity

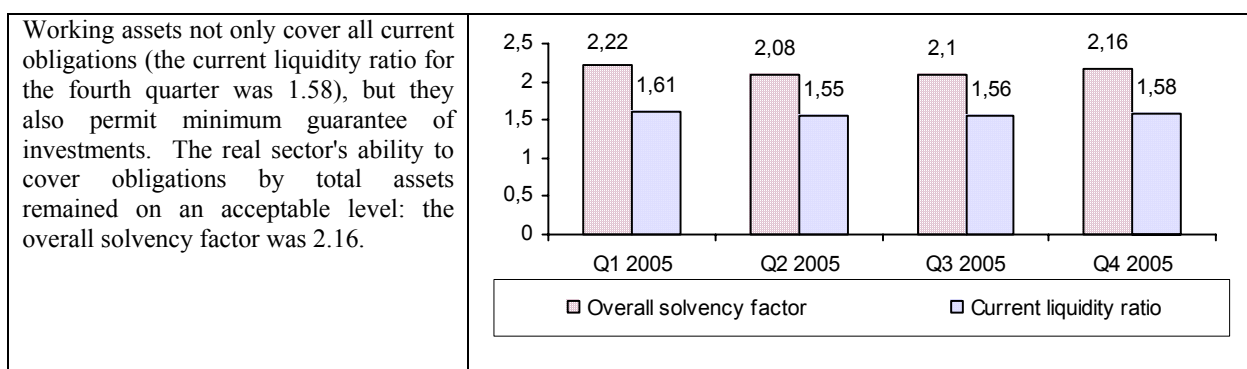
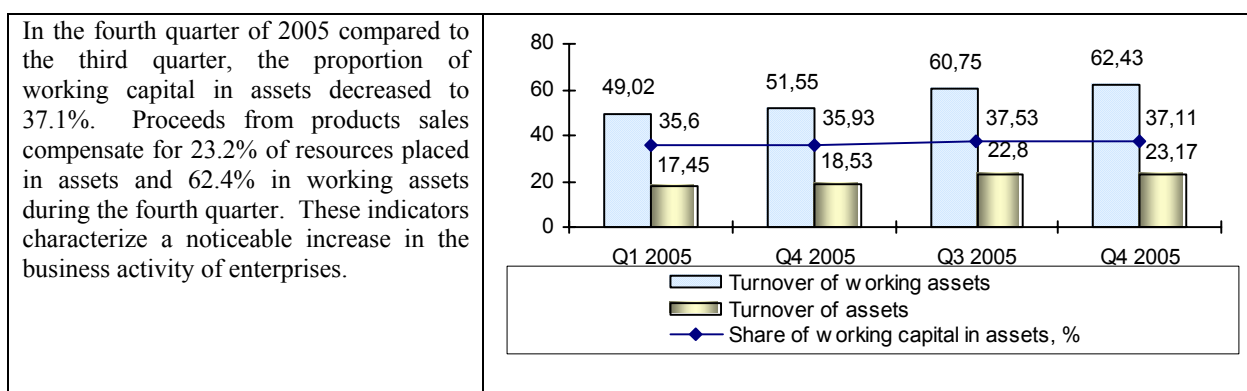


Figure 1.2.12

2.3. Assessment of business activity



Appendix 6 to Section I, Subsection 1.2

Figure 1.2.13

2.4. Assessment of profitability of sales

In the fourth quarter of 2005 the profitability of sales was (46.5%), due to this indicator's high level in extractive industry (69.1 percent). The indicator underwent growth in processing industry (to 31.8% from 31%). Thus extractive industry generally remains more attractive to investments.

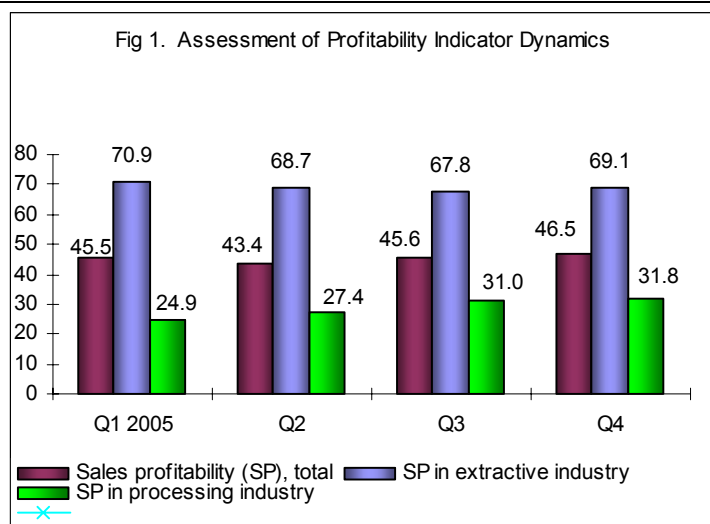
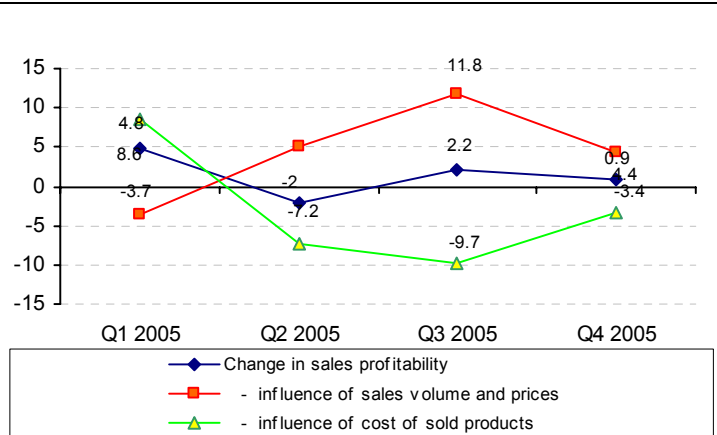


Figure 1.2.14

2.5. Influence of factors on sales profitability, %

In the fourth quarter of 2005 compared to the third quarter, the profitability of sales increased by 0.9% owing to aggregate influence of the principal factors: 1) change in sales volume (prices and physical volume of sold products) led to growth of sales profitability by 4.4%; 2) an increase in cost of sold products led to a decrease in sales profitability by 3.4%. As result, sales profitability increased to 46.5%.



Appendix 1 to Section I, Subsection 1.4

Balance of Payments of the Republic of Kazakhstan: Analytical Picture

US\$ million

	2003	2004	2005	2005			
				I	II	III	IV
A. Current account	-272.6	454.9	-485.7	439.5	253.2	-187.7	-990.7
Balance of trade	3679.0	6785.4	10321.8	2258.9	2711.2	2827.3	2524.4
Exports	13232.6	20603.1	28300.6	5753.1	7512.9	7509.0	7525.6
Imports	-9553.6	-13817.7	-17978.8	-3494.2	-4801.7	-4681.7	-5001.2
Balance of services	-2040.4	-3027.0	-5215.4	-737.2	-1209.8	-1459.6	-1808.7
Exports	1712.3	1999.1	2251.0	482.0	534.0	611.5	623.6
Imports	-3752.7	-5026.2	-7466.4	-1219.2	-1743.8	-2071.1	-2432.3
Balance of income	-1746.6	-2815.3	-5179.7	-1072.9	-1180.3	-1402.1	-1524.3
Payments of remuneration on attracted credits and loans	-277.5	-410.2	-817.9	-177.3	-196.5	-196.0	-248.0
Income of direct investors	-1448.3	-2331.8	-4611.5	-929.5	-1057.9	-1270.6	-1353.4
Remuneration on reserves and assets of National Fund	191.7	258.5	410.0	91.6	103.0	95.6	119.8
Other (net)	-212.5	-331.8	-160.3	-57.7	-28.9	-31.1	-42.6
Current transfers	-164.7	-488.2	-412.4	-9.3	-67.8	-153.3	-182.0
B. Capital and finances account	2738.0	4489.0	531.9	-59.5	-612.2	562.0	641.6
Capital account	-27.8	-20.3	13.9	4.9	10.9	-3.4	1.5
Financial account	2765.8	4509.2	517.9	-64.4	-623.1	565.4	640.0
direct investments	2213.4	5391.6	1721.1	651.8	-703.6	885.9	887.0
financing (net)	4479.6	9614.9	6170.0	1397.2	1118.8	1848.8	1805.2
repayment	-2266.2	-4223.3	-4448.9	-745.4	-1822.4	-962.9	-918.2
portfolio investments	-1891.0	-417.8	-4044.0	-220.8	240.0	-647.5	-3415.6
among them, government eurobonds	54.3	21.2	-59.8	4.7	-29.2	-18.2	-17.1
Derivative financial instruments (net)	15.9	-46.4	-112.6	-130.9	3.9	21.6	-7.2
Other medium and long-term investments	2188.3	1947.5	2187.4	416.3	458.8	259.3	1053.0
Commercial credits	47.2	16.8	113.4	-11.9	6.7	169.2	-50.6
guaranteed by RK government	-0.8	91.0	-34.1	-7.3	-3.3	32.0	-55.5
other (net)	48.0	-74.2	147.5	-4.6	10.0	137.2	4.9
Loans	1866.1	1930.7	2074.1	428.2	452.1	90.1	1103.6
attracted by RK government	57.4	-65.7	-848.0	-126.6	-228.4	25.6	-518.7
financing (used)	204.2	199.7	85.8	8.6	20.1	43.0	14.2
repayment of debt (accrued)	-146.9	-265.4	-933.8	-135.1	-248.5	-17.3	-532.9
other (net)	1808.7	1996.4	2922.1	554.8	680.5	64.5	1622.3
Other (net)	275.0	0.0	0.0	0.0	0.0	0.0	0.0
Other short-term capital	239.2	-2365.7	766.0	-780.7	-622.3	46.1	2122.8
C. Errors and omissions	-931.9	-944.9	-1990.9	-224.0	-699.7	-178.7	-888.4
D. Overall balance	1533.5	3999.0	-1944.7	156.0	-1058.7	195.6	-1237.5
E. Financing	-1533.5	-3999.0	1944.7	-156.0	1058.7	-195.6	1237.5
NBK reserve assets	-1533.5	-3999.0	1944.7	-156.0	1058.7	-195.6	1237.5
IMF credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Appendix 2 to Section I, Subsection 1.4

Main Indicators of the External Sector of the Republic of Kazakhstan

	2003	2004	2005
Current account balance (\$ million)	-273	455	-486
- % of GDP	-0.9	1.1	-0.9
Exports of goods and services (\$ million for period)	14945	22602	30552
- % of GDP	48.4	52.4	54.5
Imports of goods and services (\$ million for period)	13306	18844	25445
- % of GDP	43.1	43.7	45.4
Real and effective exchange rate (change in index,% of December of preceding year)	-2.5	6.1	6.2
Trading conditions (change in year's average index, % of preceding year)	0.4	16.0	21.4
Net inflow of direct foreign investments (US\$ million for period)	2213	5392	1721
- % of GDP	7.2	12.5	3.1
Gross external debt (US\$ million at period's end)	22920	31941	41516
Government and government-guaranteed external debt	3623	3366	2369
Interfirm debt	11983	16615	18591
Banking sector's external debt	3519	6858	13901
Other debt obligations	3795	5101	6655
NBRK international reserves (US\$ million at period's end)	4962	9280	7070
- in months of imports of goods and services	4.5	5.9	3.3
RK National Fund (US\$ million at period's end)	3663	5065	8073

Appendix 3 to Section I, Subsection 1.4

Absolute and Relative Parameters of Republic of Kazakhstan External Debt

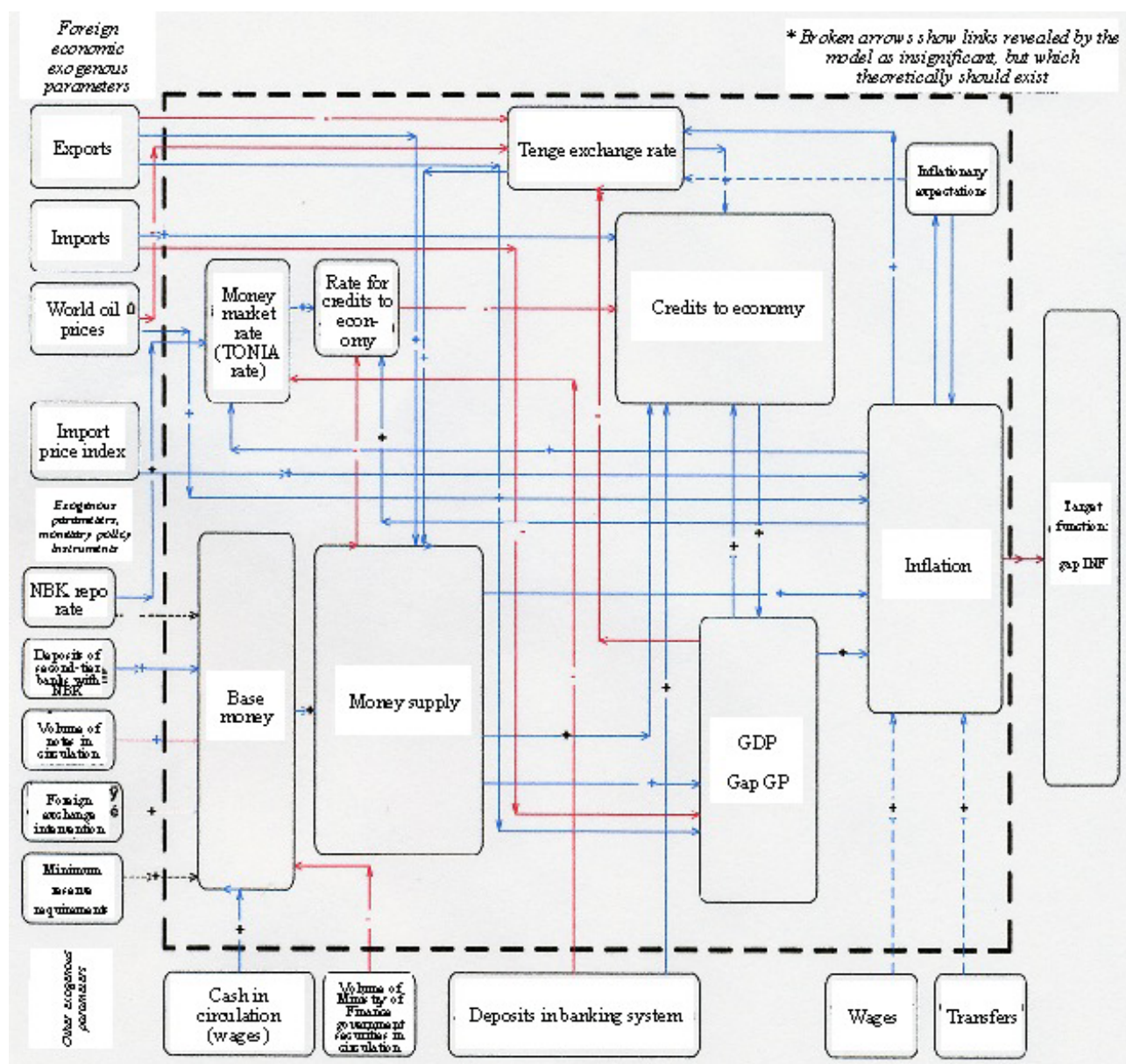
Indicator	2002	2003	2004	2005	Debt (EBRD)	
					Low	Moderate
A. Absolute parameters (US\$ million)						
1. Gross external debt (at period 's end)	18 251.5	22 920.2	31 940.8	41 516.2		
<i>Within it, interfirm debt</i>	10 709.7	11 983.0	16 615.5	18 590.6		
2. Gross external debt excluding interfirm debt (at period's end)	7 541.8	10 937.2	15 325.3	22 925.6		
3. Aggregate accrued payments in settlement and service of long-term debt	4 094.9	5 258.7	8 104.9	10854.2		
excluding settlement and service of interfirm debt	2260.7	2 626.4	3 439.1	5 438.3		
4. Export of goods and nonfactoring services (EGS)*	11 567.3	14 944.9	22 602.3	30 551.6		
B. Relative parameters						
1. Per capita gross external debt (US\$)	1 228.4	1 532.7	2 118.8	2 728.2		
excluding interfirm debt	507.6	731.4	1 016.6	1 506.5		
2. Ratio of gross external debt to GDP (%)	74.8	74.3	74.0	74.0	<48	48-80
excluding interfirm debt	30.9	35.5	35.5	40.9		
3. Ratio of gross external debt to EGS (%)	157.8	153.4	141.3	135.9	<132	132-220
excluding interfirm debt	65.2	73.2	67.8	75.0		
4. Ratio of payments in settlement and service of debt to EGS (%)	35.4	35.2	35.9	35.5	<18	18-30
excluding interfirm debt	19.5	17.6	15.7	17.8		
5. Ratio of remuneration payments to EGS (%)	5.8	4.8	3.9	5.0	<12	12-20
6. Ratio of long-term debt to gross external debt	89.9	87.7	89.8	83.2		

For reference:

Population (1,000 persons) 2002 – 14 858; 2003 – 14 954; 2004 – 15 075; 2005 – 15 218

GDP (US\$ billion) 2002 – 24,4; 2003 – 30,8; 2004 – 43,2; 2005 – 56,1

Appendix 1 to Section II, Subsection 2.1



Appendix 1 to Section II, Subsection 2.2

Table 2.2.1

	Indicator (US\$ million)	Amount	
		01.01.05	01.01.06
1	Gross gold and foreign exchange assets, total	9 276.654	7 069.705
	Including:		
1.1.	Monetary gold	803.562	985.512
1.2.	Assets and freely convertible currency and SDR	8 473.093	6 084.192
a)	Cash foreign currency (freely convertible)	3.299	2.654
b)	Deposits in freely convertible currency	1 092.017	669.459
c)	Credits in freely convertible currency backed by securities	539.924	290.800
d)	Securities other than shares in freely convertible currency	6 836.278	5 104.825
e)	Financial derivatives and other accounts	1.575	16.454
2	External obligations (freely convertible currency)	3.297	3.849
	including:		
2.1.	Obligations to international financial organizations	0.314	1.001
2.2.	Medium- and long-term credits	1.903	1.903
2.3.	Financial derivatives	0.050	0.080
2.4.	Other accounts	1.030	0.866
3	Net international reserves (1-2), total	9 273.358	7 065.856

Table 2.2.2

Distribution of Foreign Exchange Assets under Internal Management on Return Curve

	<1 year	1 – 3 years	3 – 10 years
1 quarter	17%	72%	11%
2 quarter	26%	60%	14%
3 quarter	27%	58%	16%
4 quarter	21%	62%	17%

Appendix 2 to Section II, Subsection 2.2

Figure 2.2.1

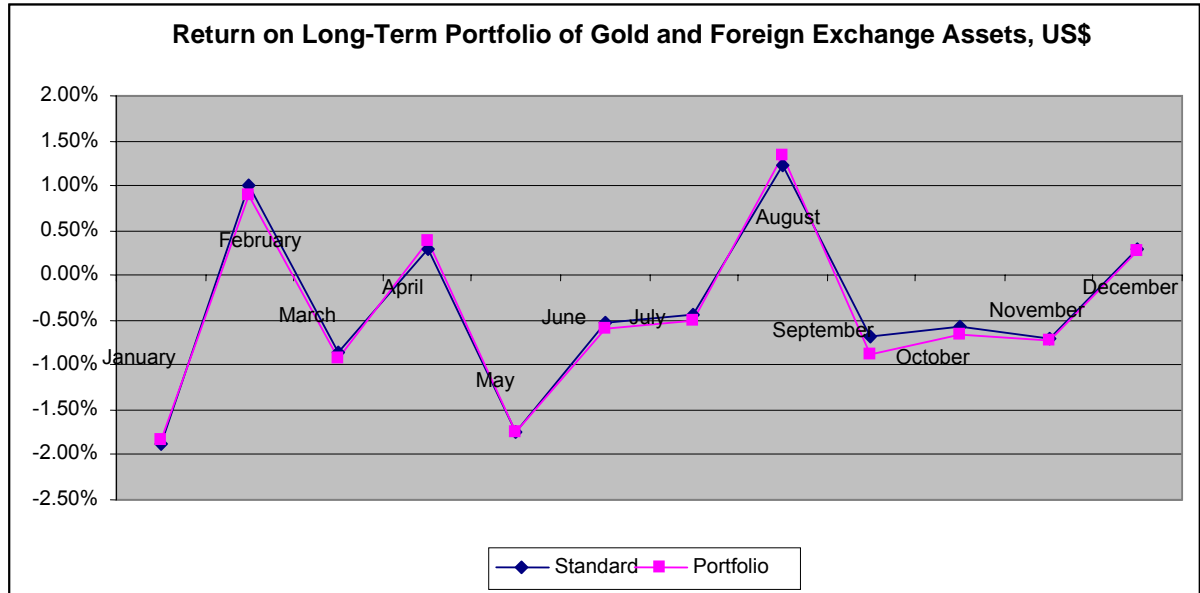
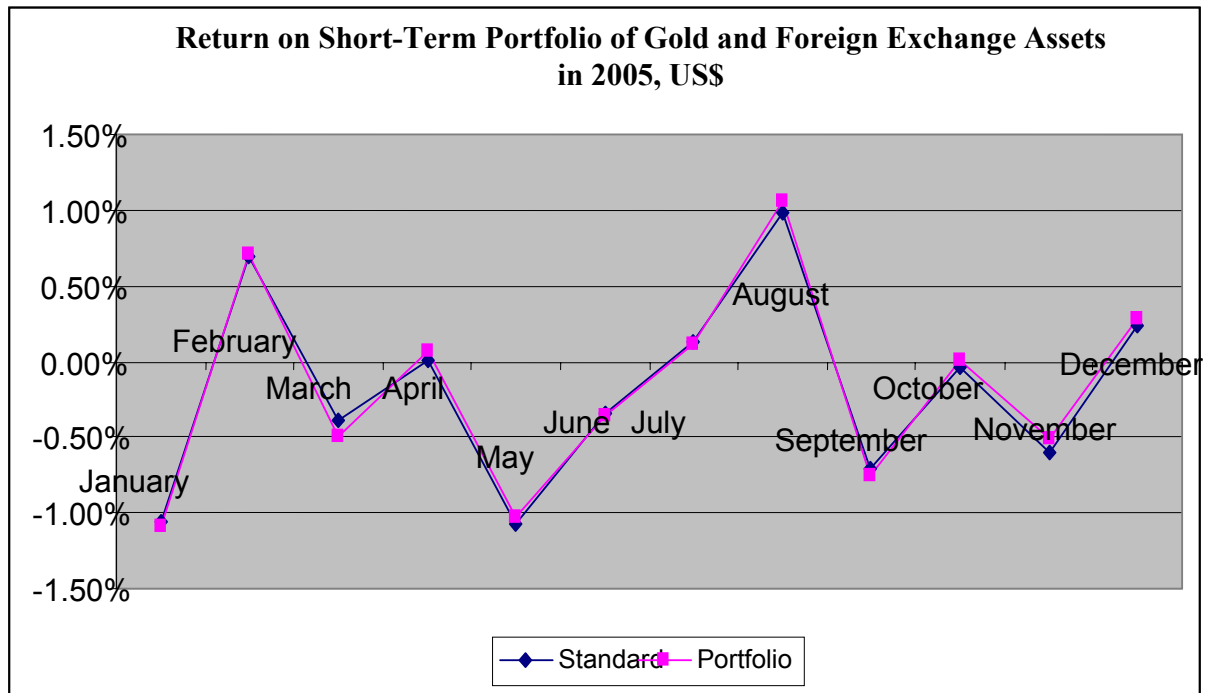


Figure 2.2.2



Appendix 3 to Section II, Subsection 2.2

Excess Return Comparison Table for Trustees of Gold and Foreign Exchange Assets* Portfolio for 2005 (Returns Calculated in Currency of Each Sub-Portfolio)

US\$ million				
Trustee	Market value	Portfolio return	Standard portfolio return	Excess return
Long-term foreign exchange assets portfolio				
Total	3 443.86	-4.56%	-4.92%	0.36%
Sub-portfolio denominated in U.S. dollars				
Total	1 205.38	2.32%	1.78%	0.54%
National Bank	866.61	2.42%	1.78%	0.65%
Trustee 1	163.98	2.18%	1.85%	0.33%
Trustee 2	174.78	2.41%	1.70%	0.71%
Sub-portfolio of U.S. inflation securities				
National Bank	177.29	3.22%	3.03%	0.19%
Sub-portfolio denominated in euros				
National Bank	1 201.78	2.32%	2.04%	0.28%
Sub-portfolio denominated in pounds sterling				
National Bank	342.58	5.11%	5.01%	0.10%
Sub-portfolio denominated in Canadian dollars				
National Bank	173.24	2.13%	1.93%	0.20%
Sub-portfolio denominated in Australian dollars				
National Bank	172.73	5.02%	4.91%	0.10%
Sub-portfolio denominated in Japanese yen				
National Bank	170.87	0.13%	0.04%	0.09%
Short-term foreign exchange assets portfolio				
Total	2 221.70	-2.00%	-2.17%	0.17%
Sub-portfolio denominated in U.S. dollars				
National Bank	1 114.94	3.36%	3.05%	0.31%
Sub-portfolio denominated in euros				
National Bank	885.65	2.10%	2.01%	0.09%
Sub-portfolio denominated in pounds sterling				
National Bank	221.12	2.07%	1.96%	0.11%

* not counting trustee commissions

Appendix 1 to Section IV

Jubilee and Commemorative Coins Issued in 2005

1. Coin dedicated to the 2006 Winter Olympic Games, face value 100 tenge, 925 silver.
2. "Horseman" coin from the "Kazakhstan Petroglyphs" series, face value 500 tenge, 925 silver.
3. Coin dedicated to the 60th anniversary of the Victory in the Great Patriotic War, face value 50 tenge, nickel silver.
4. Dedicated to the 10th anniversary of the adoption of the Republic of Kazakhstan Constitution, face value 50 tenge, nickel silver.
5. "Drakhma" "from the "Old Coinage Coins" series, face value 500 tenge, 925 silver.
6. "Tiger's Head" from the "Gold of the Nomads" series, face value 500 tenge, 925 silver.
7. "Adyrna" from the "Applied Arts" series, face value 500 tenge, 925 silver.
8. "Mavzoley Zhoshi-khana" from the "Architectural and Historical Monuments" series, face value 500 tenge, 925 silver.
9. "Dzheyran" from the "Kazakhstan Redbook" series, face value 500 tenge, 925 silver.
10. Composite bicolor coin dedicated to the 60th Anniversary of the United Nations, face value 100 tenge; the coin's inner disk is made from white nickel silver, and the outer ring is made from yellow NiBrass.
11. "Ancient Turkestan", face value 100 tenge, 999 gold.
12. "Red Wolf", face value 500 tenge, 999 gold, with two inset diamonds.

Appendix 2 to Section IV

II. Cash Movement in Second-Tier Banks

Cash flows through bank cash vaults	During 2005 (T million)	During 2004 (T million)	Change in period	
			(T million)	%
Cash vault receipts of second-tier banks	4 539 965.0	3 140 712.1	1 399 252.9	44.6
from sale of goods, services, and work	1 246 556.0	959 715.94	286 840.1	29.9
from municipal payments	83 852.5	67 767.7	16 084.8	23.7
from transport enterprises	46 978.4	41 589.4	5 388.9	13.0
from communications enterprises	71 979.2	60 859.2	11 120.1	18.3
from hotel, gaming, and show business enterprises	7 588.8	4 543.4	3 045.4	67.0
from insurance organizations	3 077.7	2 359.2	718.5	30.5
from sale of foreign exchange	1 001 112.2	690 957.5	310 154.6	44.9
to deposit accounts of individuals	558 157.1	345 736.5	212 420.5	61.4
mandatory and voluntary pension contributions	5 002.2	2 687.5	-69 682.4	86.1
customs payments	73 175.4	74 684.6	20 419.3	-2.0
loan repayment	126 765.5	52 756.1	36 143.8	140.3
ATM withdrawals	147 214.0	90 621.7	56 592.3	62.4
Other receipts	1 168 506.1	746 433.2	422 073.0	56.5
Issuances from cash vaults of second-tier banks	4 657 354.9	3 350 573.6	1 306 781.4	39.0
in payment of goods, services, and work	990 565.5	728 739.0	261 826.5	35.9
for labor compensation	287 060.9	263 646.0	23 414.8	8.9
in payment of agricultural products	73 075.8	88 300.5	-15 224.7	-17.2
to transport, communications enterprises	919.1	3 141.1	-2 222.0	-70.7
to insurance organizations	481.2	517.3	-36.1	-7.0
for foreign exchange purchases	334 731.3	346 377.3	-11 646.1	-3.4
from deposit accounts of individuals	812 825.3	516 953.3	295 872.0	57.2
loans to individuals and legal entities	108 886.8	33 124.6	75 762.2	228.7
in payment of pensions and benefits	238 755.9	198 435.2	40 320.7	20.3
to refill ATMs	678 139.5	459 373.2	218 766.3	47.6
other issuances	1 131 913.9	711 966.1	419 947.8	59.0
Coefficient of return of cash to cash vaults of second-tier banks,%	97.5	93.7		

Appendix 1 to Section V, Subsection 5.3

Figure 5.3.1

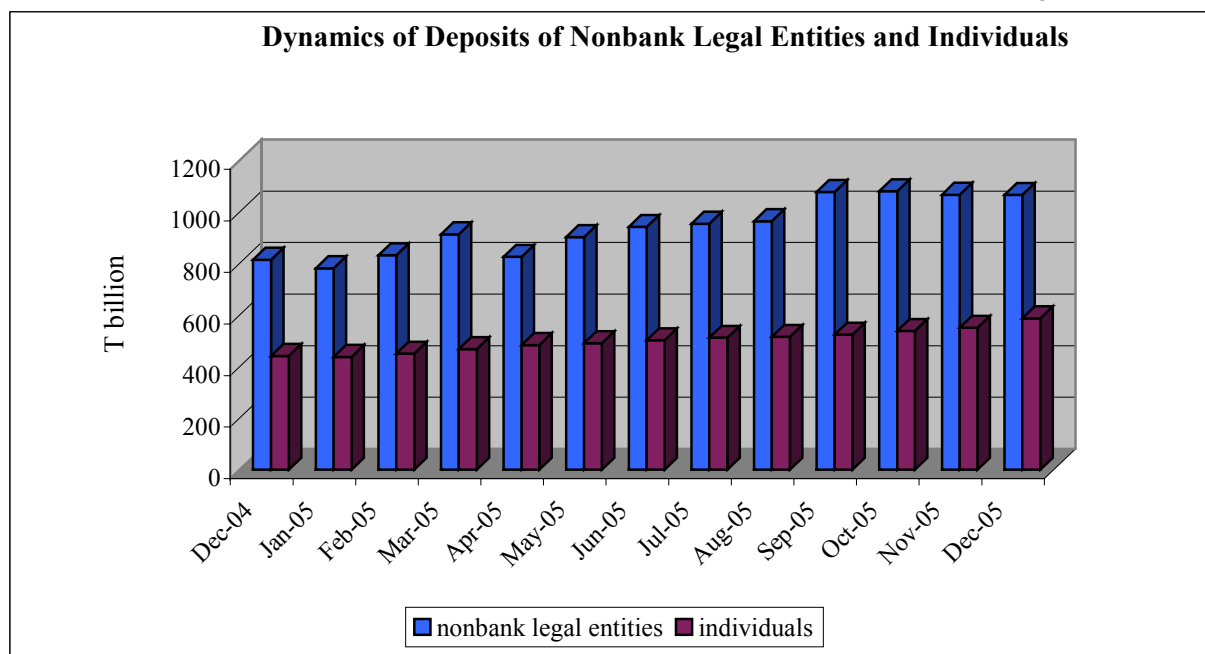
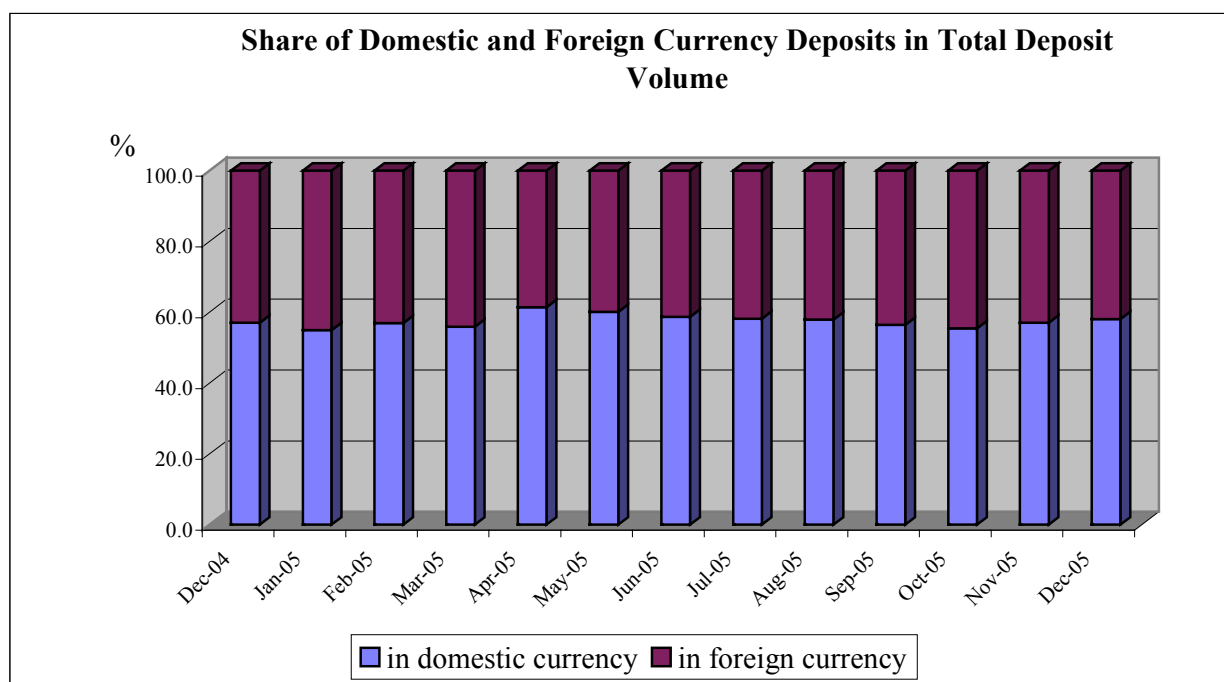
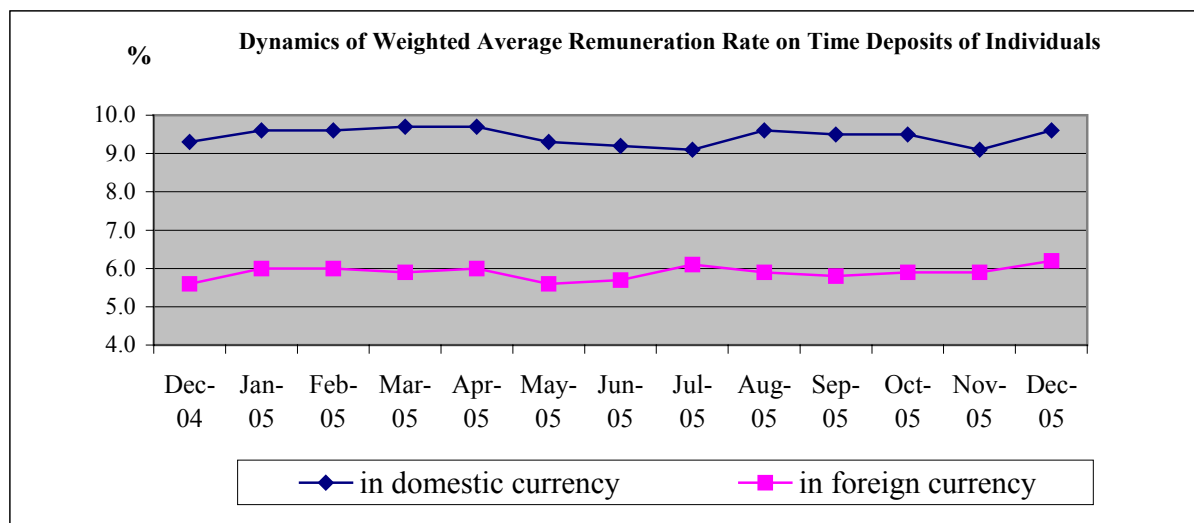


Figure .3.2



Appendix 2 to Section V, Subsection 5.3



Appendix 1 to Section V, Subsection 5.4

Figure 5.4.1

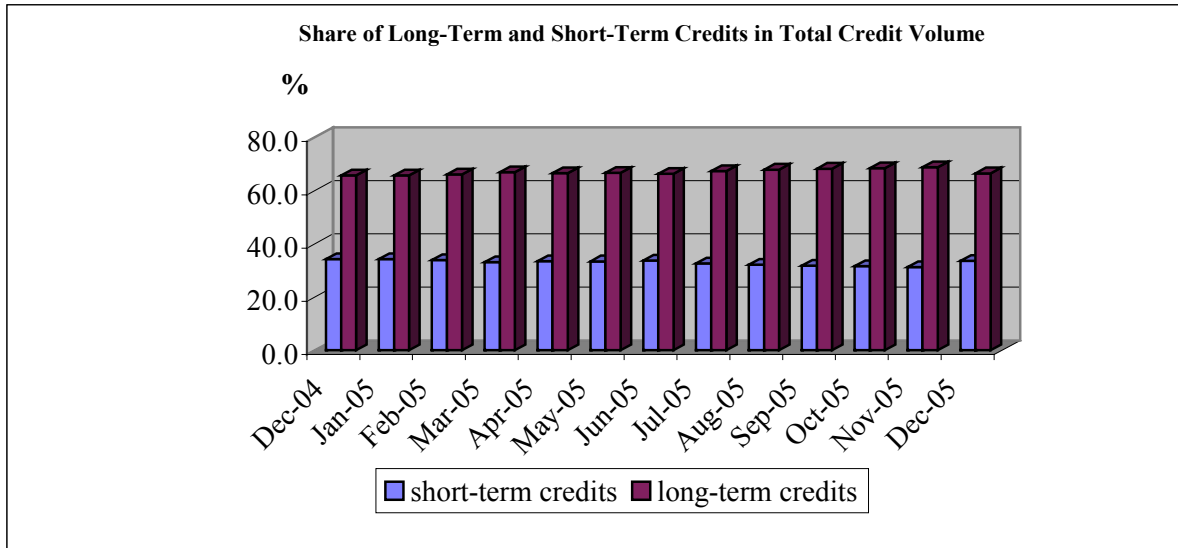
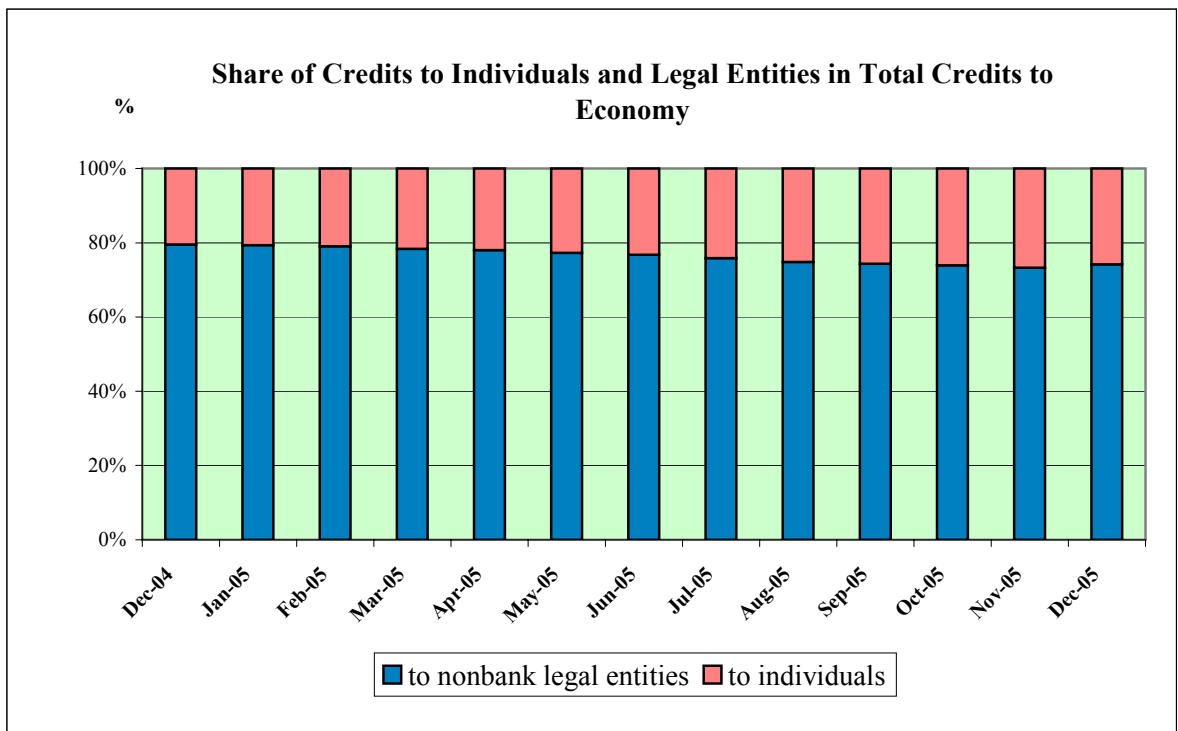
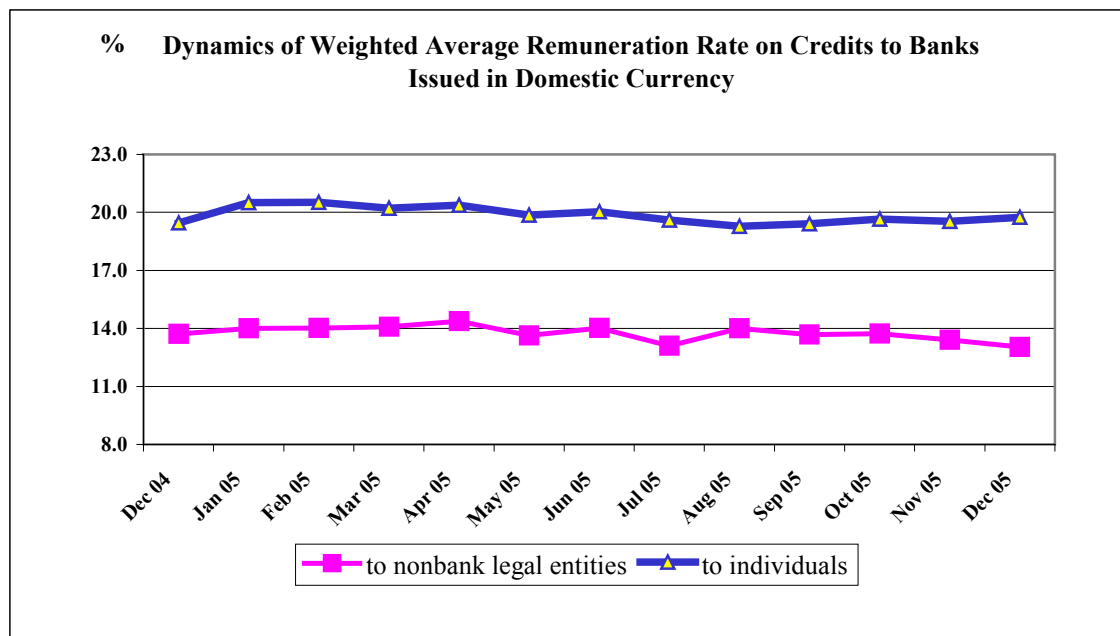


Figure 5.4.2



Appendix 2 to Section V, Subsection 5.4



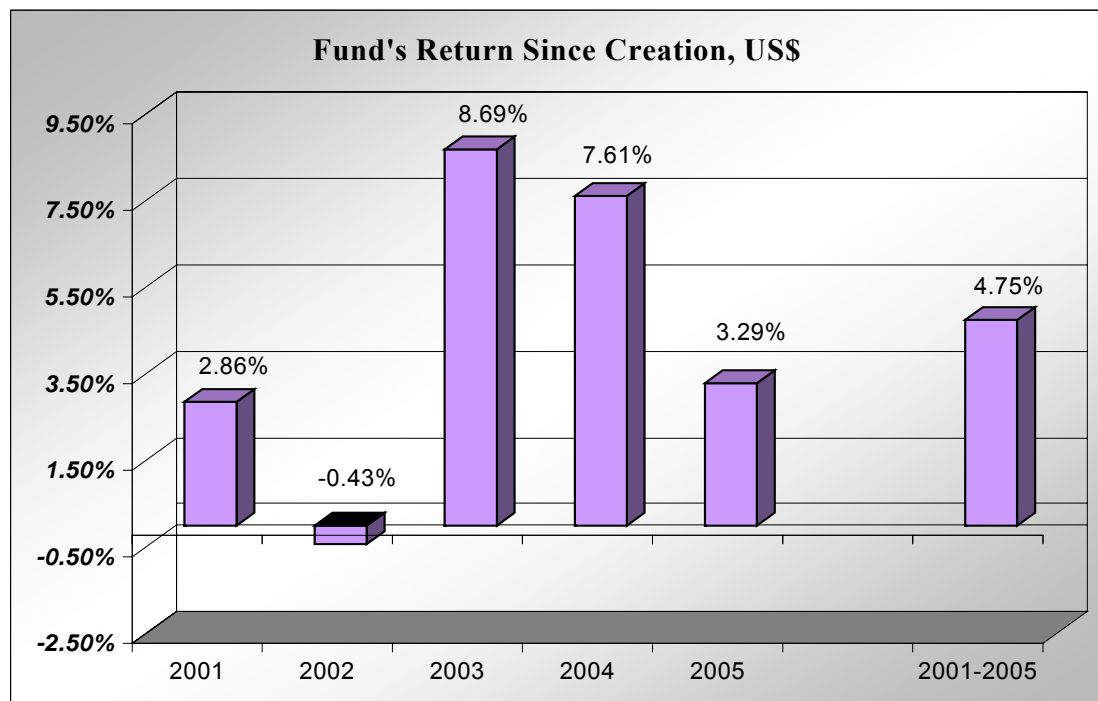
Appendix 1 to Section VI, Subsection 6.3

Information on Use of Payment Instruments

(1000 transactions and T billion)

Payment instrument	2004		2005		Change	
	Quantity	Amount	Quantity	Amount	Quantity	Amount
Payment orders	25 862.9	32 269.2	30 453.6	44 929.3	17.8%	39.2%
Payment request-orders	96.0	93.5	120.1	217.2	25.2%	by factor of 2.3
Collection orders	263.6	223.9	301.2	140.7	14.3%	-37.2%
Payment cards	36 611.7	566.1	49 843.1	849.1	36.1%	50.0%
Other instruments	437.8	901.0	4 335.2	1 498.8	by factor of 9.9	66.3%
Total	63 271.9	34 053.6	85 053.3	47 635.1	34.4%	39.9%

Appendix 1 to Section X, Subsection 10.1



Appendix 2 to Section X, Subsection 10.1

Figure 10.1.1

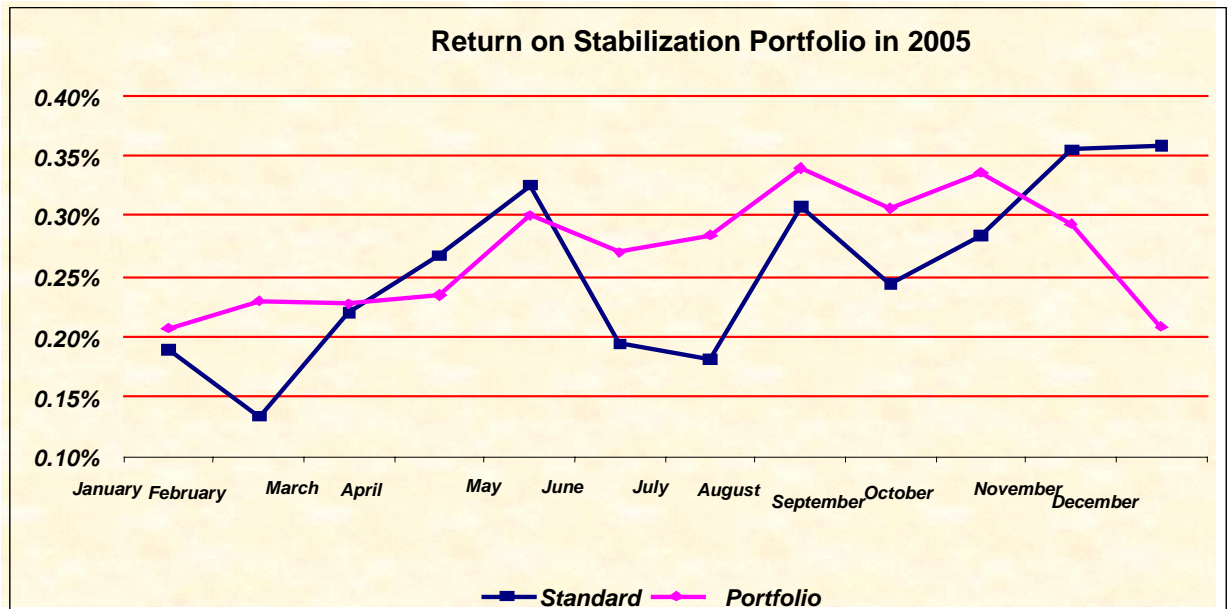
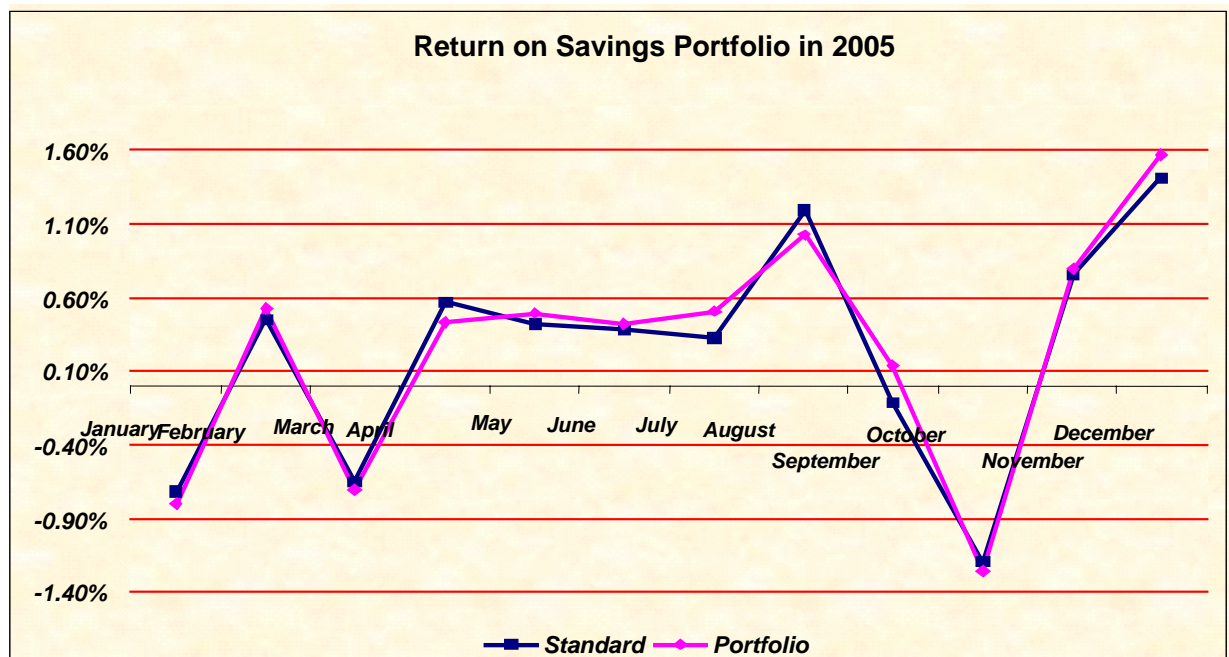


Figure 10.1.2



Appendix 3 to Section X, Subsection 10.1

Figure 10.1.3

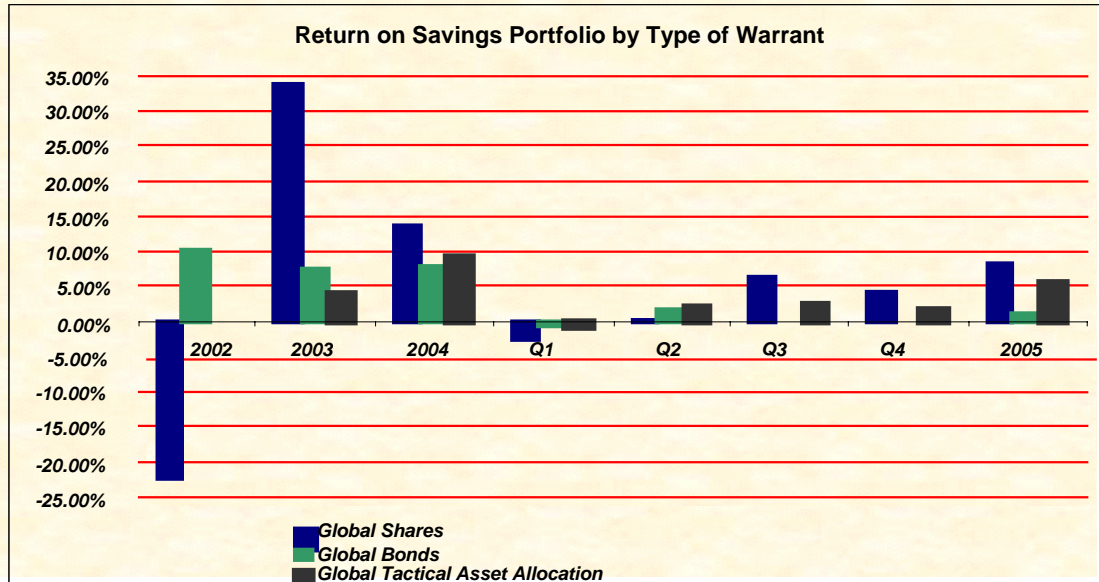
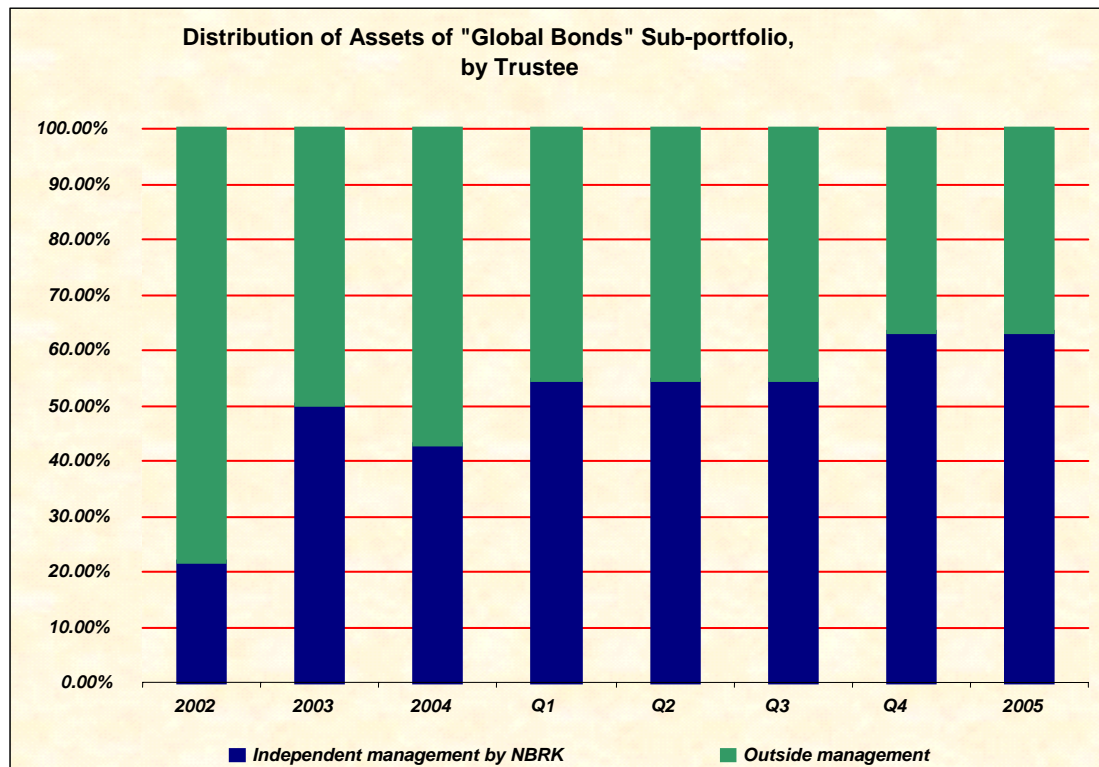


Figure 10.1.4



Appendix 4 to Section X, Subsection 10.1

Table 10.1.1

Comparison Table of Return on "Global Bonds" Sub-Portfolio Versus Standard Portfolio

	Portfolio	Standard	Excess return
<i>Independent management by NBRK</i>	<i>1.16</i>	<i>1.18</i>	<i>-0.02</i>
<i>Outside management</i>	<i>1.05</i>	<i>1.00</i>	<i>0.04</i>
<i>Sub-portfolio total</i>	<i>1.07</i>	<i>1.00</i>	<i>0.07</i>

Table 10.1.2

Comparison Table for Excess Return, by Savings Portfolio Trustee, for 2005*

US\$ million

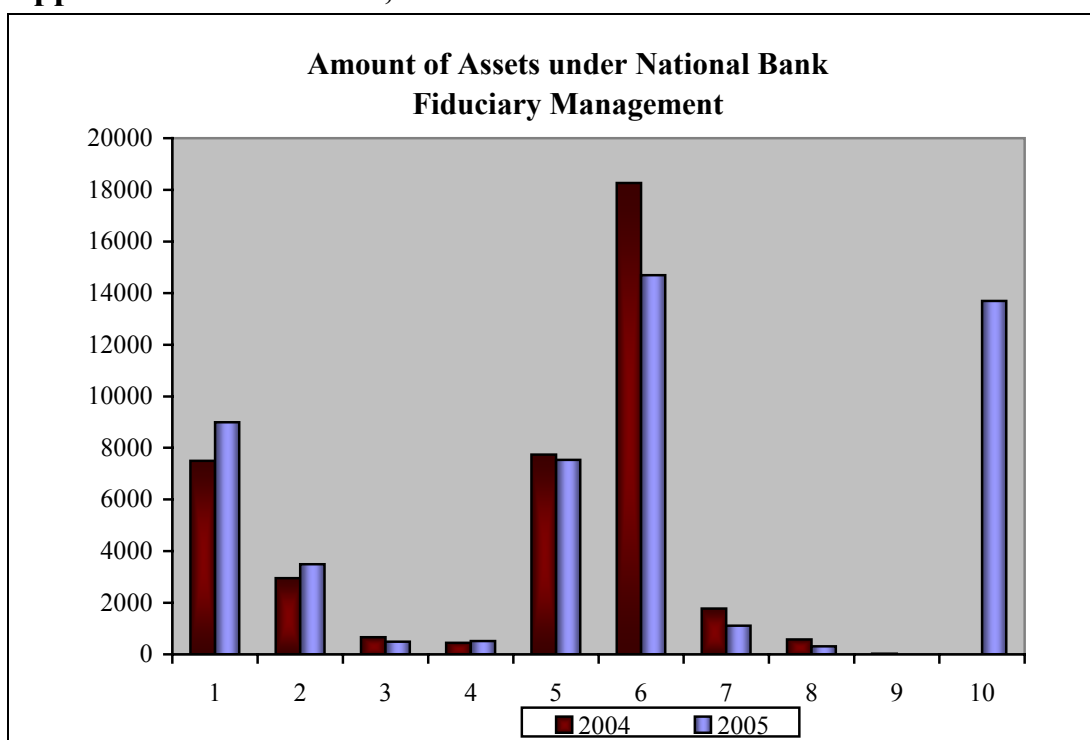
Trustee	Market value	Portfolio return	Standard portfolio return	Excess return
Global bonds with fixed income				
Trustee 1	289.9	1.52%	1.00%	0.52%
Trustee 2	143.6	1.37%	1.00%	0.37%
Trustee 3	298.2	1.61%	1.38%	0.23%
Trustee 4	291.8	1.18%	1.00%	0.17%
Trustee 5	182.2	1.09%	1.00%	0.09%
RK National Bank	2 320.2	1.16%	1.18%	-0.02%
Trustee 6**	170.1	-0.51%	-0.09%	-0.43%
Trustee 7	142.7	0.11%	1.00%	-0.89%
Global shares				
Trustee 8***	209.5	14.49%	11.18%	3.31%
Trustee 9	311.0	8.63%	8.35%	0.28%
Trustee 10	481.9	8.50%	8.35%	0.15%
Trustee 11	113.3	8.01%	8.35%	-0.34%
Trustee 12	160.6	4.47%	8.35%	-3.88%
Global tactical asset allocation				
Trustee 13	238.8	9.48%	2.85%	6.63%
Trustee 14	301.1	2.75%	2.85%	-0.10%

* not counting trustee commission

** return on portfolio and standard calculated before November 30, 2005

***return on portfolio and standard calculated before December 21, 2004

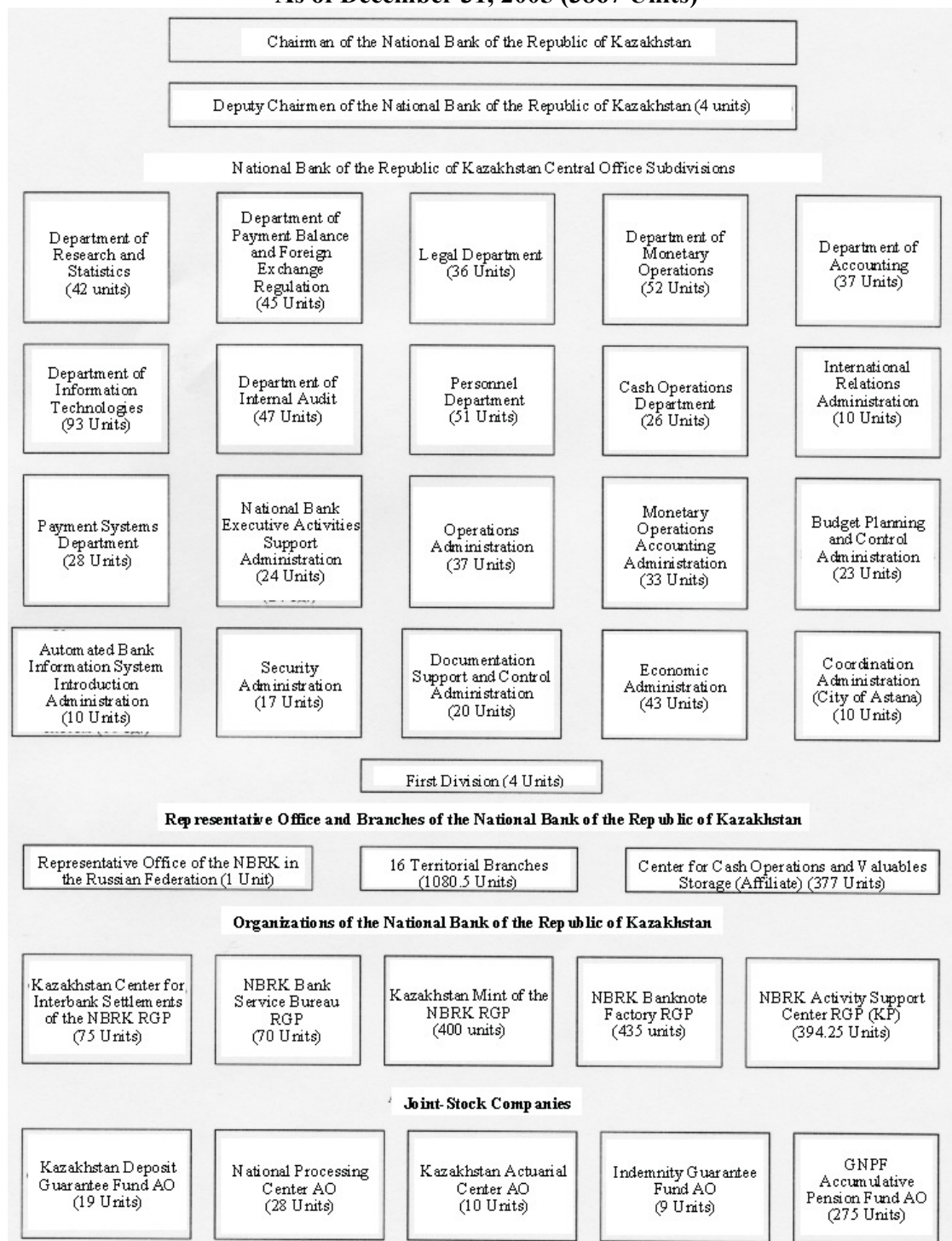
Appendix 1 to Section X, Subsection 10.2



Key: 1-- Kazakhstan Deposit Guarantee Fund AO; 2 -- Kazakhstan Mortgage Company AO; 3 -- National Processing Center AO; 4 -- Indemnity Guarantee Fund AO; 5 -- State Insurance Corporation for Insurance of Export Credits and Investments AO; 6 -- Kazakhstan Investment Fund AO; 7 -- Housing Construction Savings Bank of Kazakhstan AO; 8 -- National Innovation Fund AO; 9 -- Kazakhstan Mortgage Credits Guarantee Fund AO; 10 -- State Social Insurance Fund AO

Appendix 1 to Section XI, Subsection 11.1

Organizational Structure of the National Bank and Joint-Stock Companies As of December 31, 2005 (3867 Units)



Appendix 1 to Section XI, Subsection 11.2

Table 11.2.1

Staff Size of National Bank and Joint-Stock Companies

	Staff size at end of reporting period				Turnover, %	
	Per staff schedule, units		Listed, persons		2004	2005
	2004	2005	2004	2005		
1	2	3	4	5	6	7
Central office	675	694	608	652	14.6	14.6
Branches	1 309	1 458	1 300	1 439	10.6	15.1
Total:	1 984	2 152	1 908	2 091	11.8	14.9
NBRK Organizations (RGPs)	1 379	1 374	1 341	1 286	14.8	14.6
Total for NBRK:	3 363	3 526	3 249	3 377	12.9	14.8
AO	159	341	135	304	27.8	15.9
Total:	3 522	3 867	3 384	3 681	13.4	14.9

Table 11.2.2

Labor Compensation Fund Expenditures Accounting for Social Tax and Average Monthly Wage

	Actual labor compensation fund expenditures accounting for personnel insurance, social tax, and social deductions, T million			Average monthly wage of one worker, T		
	2004	2005	% of 2004	2004	2005	% of 2004
1	2	3	4	5	6	7
Central office	1 325.9	1 408.3	106.2	165 054	168 241	101.9
Branches	1 120.8	1 199.5	107.0	58 526	62 665	107.1
Total:	2 446.7	2 607.8	106.6	89 710	94 622	105.5
NBRK Organizations (RGPs)	1 012.8	1 409.5	139.2	57 390	77 266	134.6
Total for NBRK:	3 459.5	4 017.3	116.1	77 049	87 886	114.1
AO	322.9	489.4	151.6	199 816	91 300	45.7
Total:	3 782.4	4 506.7	119.1	81 125	88 244	108.8

Appendix 1 to Section XI, Subsection 11.5

Table 10.5.1

Results of Activities of the National Bank of the Republic of Kazakhstan*

T million

	2004				2005			Deviations, total (2005/2004)		
	NBK	RGP	AO	Total	NBK	RGP	AO	Total	(+/-)	(%)
Income	17 756.5	5 584.6	3 620.3	26 961.4	28 811.3	7 769.0	2 123.4	38 703.7	11 742.4	43.6
Expenditures	77 452.9	4 250.0	2 879.8	84 582.7	21 224.9	6 124.1	1 174.5	28 523.5	-56 059.2	-66.3
Undistributed profit/ (loss)	-59 696.4	1 334.60	740.50	-57 621.3	7 586.4	1 644.9	948.9	10 180.2	67 801.5	-117.7
Corporate income tax		474.3	7.0	481.3		574.8	236.2	811.0	329.7	68.5
Balance of undistributed profit/(loss)	-59 696.4	860.3	733.5	-58 102.6	7 586.4	1 070.1	712.6	9 369.2	67 471.8	-116.1

Table 10.5.2

A. National Bank Income and Expenditures in Monetary Activity*

T million

Item №	Item	Net result		Deviations	
		2004	2005	(+/-)	(%)
1	2	3	4	5	6
1	External market	15 151.6	27 693.2	12 541.6	82.8
1.1	Management of gold and foreign exchange reserves	15 151.2	27 695.7	12 544.5	82.8
1.1.1	Gold portfolio	-55.8	99.7	155.5	factor of 1.8
1.1.2	Foreign exchange portfolio	15 207.0	27 596.0	12 389.0	81.5
1.1.2.1	Under outside management	600.6	-322.8	-923.4	-153.7
1.1.2.2	Under internal management	14 606.4	27 918.8	13 312.4	91.1
1.2	Other	0.4	-2.5	-2.9	factor of 6.8
2	Internal market	-14 604.3	-14 458.5	145.7	1.0
2.1	Operations with RK government	-1 682.1	-2 431.8	-749.7	44.6
2.2	Operations with government securities	-14 048.3	-8 233.3	5 814.9	41.4
2.3	Operations with internal financial system, nonfinancial organizations, and individuals	1 118.6	-4 145.7	-5 264.3	factor of 3.7
2.4	Creation and cancellation of provisions	7.5	352.5	345.0	factor of 46.7
2.5	Other		-0,2	-0,2	
3	Realized revaluation	1 414,3		-1 414,3	-100,0
4	Unrealized revaluation	-54 040,0	808,5	54 848,5	101,5
	Monetary activity result	-52 078,4	14 043,2	66 121,6	127,0

* - NBRK income and expenditures in monetary activity are on a net basis.

Appendix 2 to Section XI, Subsection 11.5

Table 10.5.3

National Bank Income and Expenditures in Nonmonetary Activity

Item №	Item	2004	2005	T million	
				Deviations	
				(+/-)	(%)
1	2	3	4	5	6
1	Total income	1 190.6	309.6	-881.0	-74.0
1.1	Current income	1 086.8	243.6	-843.2	-77.6
1.1.1	In cash operations	114.0		-114.0	-100.0
1.1.2	Compensated expenditures	619.5	24.0	-595.4	-96.1
1.1.3	Income from investment securities -- invested capital (dividends)		17.5	17.5	
1.1.4	In operations with unrefined precious metals and precious stones	0.3	0.4	0.02	7.3
1.1.5	Other income including Banknote Factory	353.0 214.0	201.6	-151.4 -214.0	-42.9 -100.0
1.2	Contingent income	86.4	56.6	-29.8	-34.5
1.3	Cancellation of previously created provisions	17.4	9.5	-7.9	-45.6
2	Total expenditures	8 808.6	6 766.4	-2 042.2	-23.2
2.1	Current expenditures	8 573.7	6 746.9	-1 826.8	-21.3
2.1.1	Manufacture of domestic banknotes and coins and their delivery	2 508.8		-2 508.8	-100.0
2.1.2	In payment of commissions on National Bank operations	38.3	0.08	-38.2	-99.8
2.1.3	Operations with fixed assets, intangibles, and inventory holdings	1 351.5	1 553.0	201.4	14.9
2.1.4	Other	405.5	577.2	171.7	42.4
2.1.5	On personnel	2 864.3	3 086.3	222.0	7.8
2.1.6	On insurance for personnel	29.9	64.4	34.5	by factor of 2.2
2.1.7	On personnel training and retraining	63.3	75.2	11.9	18.8
2.1.8	On business travel	88.1	111.2	23.2	26.3
2.1.9	Administrative expenditures	1 224.1	1 279.5	55.4	4.5
2.2	Contingent expenditures and expenditures to create provisions	234.9	19.5	-215.4	-91.7
	Nonmonetary activity result	-7 618.0	-6 456.8	1 161.2	-15.2

Appendix 3 to Section XI, Subsection 11.5

Table 10.5.4.

Capital Expenditures of the National Bank

T million

№№	Item	2004	2005	Deviation	
				(+,-)	(%)
1	2	3	4	5	6
1	Construction of facilities	88.6	20.3	-68.3	-77.1
2	Reconstruction and expansion of existing operations	0.5	2.5	2.0	By factor of 5
3	Major repairs	413.0	18.4	-394.6	-95.5
4	Acquisition of office equipment	743.3	359.7	-383.6	-51.6
	-computers	227.0	74.1	-152.9	-67.4
	-motor transport		20.8	20.8	
	-security and alarm resources	140.3	149.5	9.2	6.6
	-resources for mechanization of cash operations	165.1	0.1	-165.0	-99.9
	-machinery and equipment	6.1	6.7	0.6	9.8
	-communication devices	115.3	40.9	-74.4	-64.5
	-other inventory	89.5	67.6	-21.9	-24.5
5	Acquisition of intangibles	370.5	330.4	-40.1	-10.8
6	Other expenditures	1022.4	15.2	-1007.2	-98.5
	Total capital expenditures	2 638.3	746.5	-1 891.8	-71.7

Appendix 4 to Section XI, Subsection 11.5

Results of Activities of National Bank Organizations, 2005

T million

№	Item	Income			Expenditures			Corporate income tax			Net after-tax income (loss)		
		2004	2005	Rate of growth (decrease), %	2004	2005	Rate of growth (decrease), %	2004	2005	Rate of growth (decrease), %	2004	2005	Rate of growth (decrease), %
	Total	9 204.9	9 892.3	7.5	7 129.8	7 298.6	2.4	481.2	811.0	68.5	1 593.8	1 782.7	11.9
	Republican state enterprises	5 584.6	7 769.0	39.1	4 250.0	6 124.1	44.1	474.3	574.8	21.2	860.3	1 070.1	24.4
1	Kazakhstan Mint	1 276.4	2 375.9	86.1	1 076.9	1 847.7	71.6	63.3	165.5	161.5	136.2	362.7	166.3
2	Kazakhstan NBRK Interbank Settlements Center	1 109.4	1 306.8	17.8	579.0	622.8	7.6	166.5	178.1	7.0	363.9	505.9	39.0
3	NBRK Bank Service Bureau	277.4	268.6	-3.2	261.6	238.3	-8.9	5.0	16.3	226.0	10.8	14.0	29.6
4	NBRK Activity Support Center	715.5	486.7	-32.0	497.9	488.3	-1.9	66.0	1.4	-97.9	151.6	-3.0	-102.0
5	Banknote Factory	2 205.9	3 331.0	51.0	1 834.6	2 927.0	59.5	173.5	213.5	23.1	197.8	190.5	-3.7
	Joint-stock companies	3 620.3	2 123.3	-41.4	2 879.8	1 174.5	-59.2	6.9	236.2	By factor of 34	733.5	712.6	-2.8
1	KFGD	562.8	501.0	-11.0	204.8	186.2	-9.1	-	-0.2	-	358.0	315.0	-11.9
2	KATs	6.9	5.3	-23.2	18.5	17.1	-7.6	-	-	-	-11.6	-11.8	1.7
3	FGSV	56.8	39.9	-29.8	52.7	36.8	-30.2	-0.1	-0.3	200.0	4.2	3.4	-19.0
4	National Processing Center (NBRK share 66.9%)	68.3	38.1	-44.2	190.1	186.4	-2.0	-	-1.8	-	-121.8	-146.5	20.7
5	KIK ¹	2 127.0	-	-	1 773.2	-	-	-	-	-	353.8	-	-
6	KFGIK (NBRK share 25%) ²	145.1	-	-	58.4	-	-	-	-	-	86.7	-	-
7	GNPF NPF (NBRK share 64%)	653.4	1 539.0	135.5	582.1	748.0	28.5	7.0	238.5	By factor of 34	64.3	552.5	By factor of 8.6

Key: KFGD -- Kazakhstan Deposit Guarantee Fund AO; KATs -- Kazakhstan Actuarial Center AO; FGSV -- Indemnity Guarantee Fund; KIK -- Kazakhstan Mortgage Company; KFGIK -- Kazakhstan Mortgage Credits Guarantee Fund AO

¹ - Shares of KIK AO belonging to the National Bank were transferred to the RK Ministry of Finance in March 2005.

² - Shares of KFGIK AO were transferred to the fiduciary management of the RK Ministry of Finance in April 2005.

**NATIONAL BANK
OF THE REPUBLIC
OF KAZAKHSTAN**

Consolidated Financial Statements
for the year ended 31 December 2005

and Independent Auditor's Report

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

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INDEPENDENT AUDITORS' REPORT

To the Board of the National Bank of the Republic of Kazakhstan:

We have audited the accompanying consolidated balance sheet of the National Bank of the Republic of Kazakhstan and its subsidiaries (hereinafter - the "National Bank") as of 31 December 2005, the related consolidated profit and loss account, statements of cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the National Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the National Bank of the Republic of Kazakhstan as of 31 December 2005, and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

15 February 2006
Almaty

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2005

	<u>Notes</u>	31 December 2005 KZT'000	31 December 2004 (restated) KZT'000
ASSETS:			
Gold	4	132,072,384	104,490,724
Due from banks and other financial institutions, less allowance for impairment losses	5	138,287,004	266,856,544
Investments available-for-sale, less allowance for impairment losses	6,31	710,296,928	901,633,149
Fixed and intangible assets, less accumulated depreciation	7	13,629,469	14,096,704
Other assets, less allowance for impairment losses	8,31	18,308,929	8,935,497
TOTAL ASSETS		1,012,594,714	1,296,012,618
LIABILITIES AND EQUITY			
LIABILITIES:			
Currency in circulation	9	458,513,603	410,889,923
Due to banks and other financial institutions	10	228,277,795	305,758,477
Due to the National Fund of the Republic of Kazakhstan	11	1,856,327	531,059
Due to the Ministry of Finance of the Republic of Kazakhstan	12,31	48,595,012	76,782,045
Reserves of the Guarantee Funds	13	7,843,816	6,429,660
Customer accounts	14	1,696,354	717,721
Debt securities issued	15	161,132,190	399,855,634
Other liabilities	16	3,032,182	1,857,336
Total liabilities		910,947,279	1,202,821,855
EQUITY:			
Share capital	17	20,000,000	20,000,000
Reserve fund	18	4,349,053	3,992,545
Investments available-for-sale fair value reserve		(765,707)	124,171
Retained earnings and other reserves	18	76,988,037	68,253,551
Minority interest		100,571,383	92,370,267
Total equity		101,647,435	93,190,763
TOTAL LIABILITIES AND EQUITY		1,012,594,714	1,296,012,618
On behalf of the Board:			

Saidenov A.G.
Chairman

15 February 2006
Almaty, Republic of Kazakhstan

Shalgimbayeva N.T.
Chief Accountant

15 February 2006
Almaty, Republic of Kazakhstan

The notes on pages 7-35 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005

	<u>Notes</u>	<u>Year ended</u> <u>31 December</u> <u>2005</u> KZT'000	<u>Year ended</u> <u>31 December 2004</u> <u>(restated)</u> KZT'000
Interest income	19,31	29,611,169	13,918,875
Interest expense	19,31	(13,625,326)	(17,407,380)
NET INTEREST INCOME/(LOSS) BEFORE RECOVERY OF ALLOWANCE FOR IMPAIRMENT LOSSES		15,985,843	(3,488,505)
Recovery of allowance for impairment losses	20	353,211	7,696
NET INTEREST INCOME/(LOSS)		16,339,054	(3,480,809)
Gain/(loss) on dealing operations	21	1,334,765	(3,194)
(Loss)/gain on investments available-for-sale	22	(1,555,612)	3,915,189
Gain/(loss) on foreign currency and gold revaluation	23	808,514	(52,625,741)
Net operating income from subsidiaries	24	1,433,259	757,485
Gain on acquisition of subsidiary	1	-	603,230
Other income	25	1,721,306	1,130,773
NET NON-INTEREST INCOME/(LOSSES)		3,742,232	(46,222,258)
OPERATING INCOME/(LOSS)		20,081,286	(49,703,067)
Expenses on issue of banknotes and coins	34	(2,965,898)	(1,978,502)
Funding of third parties	26	(975,566)	(713,819)
Payroll and payments to employees	27	(3,392,343)	(2,924,946)
Administrative expenses	28	(2,178,949)	(1,719,497)
Commission expenses		(26,713)	(40,396)
Amortization and depreciation	7	(1,324,556)	(1,185,179)
OPERATING EXPENSES		(10,864,025)	(8,562,339)
OPERATING PROFIT/(LOSS)		9,217,261	(58,265,406)
Recovery of/(Provision for) impairment losses on other transactions	20	6,944	(20,501)
NET PROFIT/(LOSS)		9,224,205	(58,285,907)
Attributable to:			
National Bank of the Republic of Kazakhstan		9,097,548	(58,347,223)
Minority interest		126,657	61,316
NET PROFIT/(LOSS)		9,224,205	(58,285,907)

On behalf of the Board:

Saidenov A.G.
Chairman

15 February 2006
Almaty, Republic of Kazakhstan

Shalgimbayeva N.T.
Chief Accountant

15 February 2006
Almaty, Republic of Kazakhstan

The notes on pages 7-35 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005

	Share capital KZT'000	Reserve Fund KZT'000	General reserves KZT'000	Investments available-for- sale fair value reserve KZT'000	Special reserve funds KZT'000	Retained earnings KZT'000	Total equity attributable to the National Bank of the Republic of Kazakhstan KZT'000	Minority interest KZT'000	Total equity KZT'000
At 31 December 2003 (previously reported)	20,000,000	10,348,595	1,273,942	-	131,267,644	5,113,598	168,003,779	205,806	168,209,585
At 31 December 2003 (restated)	20,000,000	10,348,595	1,273,942	1,228,133	131,267,644	3,885,465	168,003,779	205,806	168,209,585
Net profit	-	-	-	-	-	(58,347,223)	(58,347,223)	61,316	(58,285,907)
Transfers to the Government and budget	-	-	-	-	-	(16,566,259)	(16,566,259)	-	(16,566,259)
Fixed assets revaluation	-	-	-	-	383,932	-	383,932	-	383,932
Amortization of revaluation fund and fixed assets	-	-	-	-	(75,209)	75,209	-	-	-
Transfer from the reserve fund	-	(6,356,050)	-	-	-	6,356,050	-	-	-
Transfers from other funds	-	-	209	-	(66,977,417)	66,977,208	-	-	-
Investments available-for-sale fair value reserve	-	-	-	(1,103,962)	-	-	(1,103,962)	-	(1,103,962)
Purchase of subsidiaries	-	-	-	-	-	-	-	553,374	553,374
At 31 December 2004 (previously reported)	20,000,000	3,992,545	1,274,151	-	64,598,950	2,504,621	92,370,267	820,496	93,190,763
At 31 December 2004 (restated)	20,000,000	3,992,545	1,274,151	124,171	64,598,950	2,380,450	92,370,267	820,496	93,190,763
Net profit	-	-	-	-	-	9,097,548	9,097,548	126,657	9,224,205
Fixed assets revaluation	-	-	-	-	(6,554)	-	(6,554)	-	(6,554)
Amortization of revaluation fund and fixed assets	-	-	-	-	(5,869)	5,869	-	-	-
Investments available-for-sale fair value reserve	-	-	-	(889,878)	-	-	(889,878)	1,835	(888,043)
Transfer to the reserve fund	-	356,508	184,587	-	-	(541,095)	-	-	-
Dividends declared	-	-	-	-	-	-	-	(11,586)	(11,586)
Sale of share in subsidiaries	-	-	-	-	-	-	-	138,650	138,650
At 31 December 2005	20,000,000	4,349,053	1,458,738	(765,707)	64,586,527	10,942,772	100,571,383	1,076,052	101,647,435

On behalf of the Board:

Saidenov A.G.
Chairman

15 February 2006
Almaty, Republic of Kazakhstan

Shalgimbayeva N.T.
Chief Accountant

15 February 2006
Almaty, Republic of Kazakhstan

The notes on pages 7-35 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2005

	<u>Notes</u>	<u>Year ended</u> <u>31 December 2005</u> KZT'000	<u>Year ended</u> <u>31 December 2004</u> <u>(restated)</u> KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net profit/(loss)		9,224,205	(58,285,907)
Adjustments for:			
Depreciation and amortization		1,324,556	1,185,179
(Recovery of provision)/provision for impairment losses		(360,155)	12,806
Loss on revaluation of investments to Kazakhstan Mortgage Company		-	259,480
Income from purchase of subsidiary		-	(603,230)
Loss from disposal of JSC Kazakhstani Guarantee Fund of Mortgage Loans		86,488	-
Income from sale of fixed assets		(34,815)	(12,157)
		<hr/>	<hr/>
Cash flow from operating activities before changes in operating assets and liabilities		10,240,279	(57,443,829)
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Gold		(27,581,660)	262,141
Due from banks and other financial institutions		49,364,525	13,906,830
Investments available-for-sale		191,375,480	(438,317,845)
Other assets		(11,610,028)	(1,168,768)
Increase/(decrease) in operating liabilities:			
Currency in circulation		47,623,680	148,820,953
Due to banks and other financial institutions		(77,480,682)	234,111,149
Due to the National Fund of the Republic of Kazakhstan		1,325,268	(922,907)
Due to the Ministry of Finance of the Republic of Kazakhstan		(28,187,033)	26,758,324
Reserves of the Guarantee Funds		2,250,322	1,326,507
Customer accounts		978,633	191,167
Other liabilities		315,655	1,187,298
Change of exchange rate of foreign currency in relation to tenge		10,694,666	15,972,402
		<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities		169,309,105	(55,316,578)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed and intangible assets		1,529,252	(2,014,742)
Proceeds from sale of fixed assets		6,993	10,763
Proceeds from purchase of organization		-	36,942
Investments in equity of Agency on regulation and supervision		-	(285,374)
Investments in equity of other organizations		2,047,550	(185,689)
		<hr/>	<hr/>
Net cash inflow/(outflow) from investing activities		525,291	(2,438,100)

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

CONSOLIDATED STATEMENT OF CASH FLOWS (continued) FOR THE YEAR ENDED 31 DECEMBER 2005

	<u>Notes</u>	<u>Year ended</u> <u>31 December 2005</u> KZT'000	<u>Year ended</u> <u>31 December 2004</u> <u>(restated)</u> KZT'000
CASH FLOWS FROM FINANCING ACTIVITIES:			
Debt securities (repaid)/issued		(238,723,444)	202,679,752
Transfers to the Government and budget		<u>-</u>	<u>(16,566,259)</u>
Net cash (outflow)/inflow from financing activities		<u>(238,723,444)</u>	<u>186,113,493</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(68,889,048)	128,358,815
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	36	127,925,555	15,539,142
Change of exchange rate of foreign currency in relation to tenge		<u>(10,694,666)</u>	<u>(15,972,402)</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	36	<u><u>48,341,841</u></u>	<u><u>127,925,555</u></u>

Interest paid and received by the NBRK during the year ended 31 December 2005 amounted to KZT 19,046,868 thousand and KZT 32,816,410 thousand, respectively.

Interest paid and received by the NBRK during the year ended 31 December 2004 amounted to KZT 17,276,536 thousand and KZT 287,339 thousand, respectively.

On behalf of the Board:

Saidenov A.G.
Chairman

15 February 2006
Almaty, Republic of Kazakhstan

Shalgimbayeva N.T.
Chief Accountant

15 February 2006
Almaty, Republic of Kazakhstan

The notes on pages 7-35 form an integral part of these consolidated financial statements.

NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

1. ORGANISATION

The National Bank of the Republic of Kazakhstan (the “NBK”) was established in accordance with the Resolution of the Supreme Council of the Republic of Kazakhstan # 2134-XII dated 13 April 1993. In accordance with this Resolution the State Bank of Kazakh SSR was renamed to the National Bank of the Republic of Kazakhstan.

NBK performs monetary and crediting policy by monetary base and reserves management and acts as a bank, financial consultant and agent of the Government of the Republic of Kazakhstan and other state governance bodies in accordance with the agreement.

In accordance with the Law of the Republic of Kazakhstan, “On state regulation and supervision of the financial market and financial organizations” dated 4 July 2003 № 474, and the Decree of the President of the Republic of Kazakhstan dated 31 December 2003 № 1270 “On further improvement of the system of state management of the Republic of Kazakhstan”, from 1 January 2004 NBK was reorganized by segregation of the Agency of the Republic of Kazakhstan on regulation and supervision of the financial market and financial organizations (“AFS”) and it was granted the function of regulation and supervision of the financial market and financial organizations. NBK does not have control over operational and financial activities of AFS, but AFS is funded from the budget of NBK (see Note 27).

The head office of NBK is in Almaty. The NBK has 16 branches and 11 subsidiaries located in the Republic of Kazakhstan.

The total number of the NBK’s subsidiaries as of 31 December 2005 and 2004 was 10 and 11 enterprises, respectively (hereinafter the NBK and its subsidiaries jointly referred to as “National Bank”) consists of the following enterprises consolidated in the financial statements as of 31 December 2005 and 2004, except for JSC Kazakhstani Guarantee Fund of Mortgage Loans (“KGFML”) in 2005:

<u>Name</u>	<u>Year of establish- ment</u>	<u>Main operations</u>	<u>Ownership interest</u>	
			<u>2005</u> %	<u>2004</u> %
RSE Kazakhstani Mint	1994	Coins manufacturing	100.0	100.0
RSE Kazakhstan Center of Inter-banking Settlements	1996	Electronic payment transfers	100.0	100.0
RSE Banking Service Bureau	1996	Software services	100.0	100.0
RSE Operations support center of the National Bank of the Republic of Kazakhstan	2005	Transportation services. Economic activity on management of property	100.0	100.0
JSC Kazakhstani Fund of Individuals Deposits Guarantee (Insurance)	1999	Individuals deposits guarantee	100.0	100.0
JSC Actuarial Center	2002	Development of actuarial activities in the Republic of Kazakhstan	100.0	100.0
JSC Guarantee Fund of Insurance Payments	2003	Allowance of rights and legislation interest of insurers protection	100.0	100.0
RSE Banknote factory of National Bank	2004	Banknote manufacturing	100.0	100.0
JSC Processing Center	2000	Processing of transactions of payment cards	66.9	80.6
JSC State Accumulation Pension Fund (“SAPF”)	1997	Collection of pension payments and their investments.	64.0	64.0
JSC Kazakhstani Mortgage Company	2000	Development of mortgage crediting	-	100.0
RSE Autobase of the National Bank of the Republic of Kazakhstan	1999	Transportation services	-	100.0

In accordance with the Law of the Republic of Kazakhstan “On the Republican Budget for 2005”, program 053 “Institutional ensuring of implementation of the State program of development of housing construction”, the administrator of the program is the Ministry of Finance of the Republic of Kazakhstan, the funds of 1.5 billion tenge were allocated for increase of the share capital of the JSC Kazakhstani Guarantee Fund of Mortgage Loans. Contributions of the National Bank into KGFML were recognized in other assets in the consolidated balance sheet as of 31 December 2005 in the amount of 500,000 thousand tenge.

In accordance with resolution of the Board of Directors of NBK dated 22 December 2004 № 310 “On reorganization of the Republican state enterprise “Almaty operating center of buildings of the National Bank of the Republic of Kazakhstan” by merger with the Republican state enterprise “Autobase of the National Bank of the Republic of Kazakhstan,” the subsidiary of NBK – Republican state enterprise “Operations support center of the National Bank of the Republic of Kazakhstan” was created.

In accordance with a resolution of the Government of the Republic of Kazakhstan dated 27 July 2002 № 837 “On certain issues of the closed joint stock company “State accumulation pension fund”, the rights of ownership and use of the state package of shares were transferred to the National Bank of the Republic of Kazakhstan.

Under Agreement dated 1 November 2004 № 384 for purchase/sale of common stock of SAPF, NBK purchased 3,200 thousand common shares reissued of SAPF, which comprises 64 % of the share capital of SAPF. The difference between investments of NBK to charter capital of SAPF and received net assets of SAPF is accounted as gain on acquisition of subsidiary in the consolidated profit and loss account for the year ended 31 December 2004.

The NBK also own shares in the following companies whose operations are not significantly affected by NBK and investments into them are accounted for at cost:

<u>Name</u>	<u>Year of establish- ment</u>	<u>Main operations</u>	<u>Ownership interest</u>	
			<u>2005</u> %	<u>2004</u> %
JSC Central Securities Depository	1997	Operations with securities	49.8	50.00
JSC Kazakh Stock Exchange	1999	Organization and servicing financial markets	17.8	19.28
JSC Kazsmart	2004	Maintenance and development of payment card market	42.9	34.50
JSC Kazakhstani Guarantee Fund of Mortgage Loans	2003	Mortgage credits guarantee	25.0	100.0

During the years ended 31 December 2005 and 2004 the average listed number of employees of the National Bank was 3,317 and 3,224, respectively, and the total number of employees as of 31 December 2005 and 2004 was 3,374 and 3,249, respectively.

2. BASIS OF PRESENTATION

Accounting basis

These consolidated financial statements of the National Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These financial statements are presented in thousands of Kazakhstani Tenge (“KZT”), unless otherwise indicated. These financial statements are prepared on an accrual basis under the historical cost convention modified for the measurement at fair value of available-for-sale investment securities, financial assets and financial liabilities held for trading, derivative contracts.

The National Bank maintains its accounting records and prepares its financial reports in accordance with the requirements of the accounting policy and accounting and reporting procedures approved by the Board of the National Bank. These financial statements have been prepared from the accounting records maintained in accordance with the requirements of the accounting policy and accounting and reporting procedures approved by the Board of the National Bank and have been adjusted to conform to IFRS (from 1 January 2005 IFRS 39).

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the management's knowledge of current events and actions, the actual results could differ from those estimates.

Functional currency

The functional currency of these consolidated financial statements is tenge (KZT).

Adoption of amended IAS 39

According to IAS 39 "Financial Instruments: Recognition and Measurement" (applied for annual periods beginning on or after 1 January 2005) unrealized gains or losses on investments available - for - sale are recognized directly in equity except for impairment losses and foreign exchange gains and losses. Furthermore, this Standard is applied retrospectively. Therefore the opening balances of equity as of 31 December 2003, the profit and loss account for the year ended 31 December 2004 and the respective comparative information presented in these consolidated financial statements were restated by the National Bank as if this Standard had always been in use. The effect of the adoption of amended IAS 39 is disclosed in Note 37 and in the statement of changes in equity.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements of the National Bank include the accounts of the NBK and its subsidiaries, except for JSC Kazakhstani Guarantee Fund of Mortgage Loans in 2005 (see Note 1). Subsidiaries are represented by the companies which are majority owned by the NBK directly or indirectly or controlled by their financial and operational policies.

All significant inter-company transactions, balances on corresponding accounts and unrealized income on inter-company transactions have been eliminated. The minority interest is an interest of net results of operations and net assets of the subsidiaries whose shares are not owned by the NBK. The liabilities and shareholders' equity attributable to minority interests are shown separately in the consolidated balance sheet. The minority interest attributable to the current year results of operations is shown in the consolidated profit and loss account.

Gold

Refined gold is recorded at market price at the balance sheet date. Market price is determined by reference to the London Bullion Market Association ("LBMA") AM fixings. Changes in the market value of gold are recorded in the consolidated statement of income within net foreign exchange translation (loss)/gain in the period in which the change occurs. Non-refined precious metals are recorded at cost, and are included within other assets.

Recognition and measurement of financial instruments

Financial assets and liabilities are recognized on the consolidated balance sheet of the National Bank when the National Bank becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, net of any transaction costs incurred, respectively. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Due from banks and other financial institutions

In the normal course of business, the National Bank maintains advances or deposits for various periods of time with other banks and other financial institutions. Loans and advances to banks and other financial institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for impairment losses.

Investments available-for-sale

Investments available-for-sale that are intended to be held for an indefinite period of time and that could be sold depending on liquidity requirements or interest rate, rate of exchange or share prices are classified as investments available-for-sale.

Initially investment securities available-for-sale are accounted for at cost (including transaction costs), and subsequently are measured at fair value based on purchase quotes. If such quotes do not exist, management of the National Bank use estimation to determine fair value with other related information such as discounted cash flows, financial information of the investee and application of other estimation methodologies. Realized income and losses incurred in the result of change of the fair value of investment securities available-for-sale are recorded in the consolidated profit and loss account in the period in which they are incurred. Unrealized income and expenses are recorded within equity since 2005 due to changes to IFRS 39 whereby unrealized income and expenses (revaluation) should be recorded as part of equity. For the purpose of matching information for 2005 and 2004 the financial statements for 2004 were restated taking into account the said changes. Interest income on investment securities available-for-sale is recorded in the consolidated profit and loss account as interest income on investment securities available-for-sale.

Impairment and reversal of impairment of investment securities available-for-sale are recorded in the consolidated profit and loss account.

Repurchase and reverse repurchase agreements

Operations under repos are accounted for as financing transactions. Financial assets sold under repo are retained in the consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit which is collateralized by securities and other assets.

Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets under repos is recognized as interest income or expense.

Derivative financial instruments

The National Bank enters into derivative financial instruments for trading purposes. Derivative financial instruments including forward rate agreements, currency and interest rate swaps, currency and interest rate options and other derivative financial instruments are initially recorded in the consolidated balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices (if available), discounted cash flow models or using the spot rate at the year end as the basis as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives held for trading are included within gain/(loss) on dealing operations.

Allowance for impairment losses

The National Bank establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discontinued at the financial asset's original effective interest rate, for financial assets which are carried at amortised cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusted an allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment losses is charged to profit and the total of the allowance for impairment losses is deducted in arriving at assets as shown in balance sheet. Factors that the National Bank considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the National Bank may sustain losses, which are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

Fixed and intangible assets

Fixed assets are carried at re-valued amounts less accumulated depreciation. Intangible assets are carried at historical cost less accumulated amortization.

Depreciation is designed to write off the cost of assets or the estimate based on unit of production method for production equipment and based on a straight line basis for other assets with the following useful lives:

Buildings	5-40 years
Office equipment	1-10 years
Equipment and accessories	1-25 years
Vehicles	5-25 years
Intangible assets	1-3 years

Depreciation of fixed assets used in production of banknotes and coins are included in expenses on production of banknotes and coins. Depreciation of other fixed assets and amortization of intangible assets are accounted as amortization and depreciation in consolidated profit and loss account.

Construction in progress is not depreciated. Depreciation on such assets commences from the date of their operations.

Revaluation of fixed assets is performed during the fiscal year except for the following groups of fixed assets revalued as follows: every three years – cars, vehicles, transport vehicles, power plant and equipment, every five years – railway transport vehicles, buildings, constructions and habitations.

Currency in circulation

The National Bank manufactures bank notes and coins at RSE Banknote Factory of NBK and RSE Kazakhstani Mint. Banknotes and coins in circulation are recorded in the balance sheet at their nominal value. Expenses on banknotes and coins in circulation include expenses on security, transportation, insurance and other expenses. Expenses on banknotes and coins in circulation are recognized when they are issued for circulation and recorded as separate item in the consolidated profit and loss account.

Due to banks and other financial institutions and due to National Fund of the Republic of Kazakhstan and the Ministry of Finance of the Republic of Kazakhstan and customer accounts

Amounts due to banks and other financial institutions and due to National Fund of the Republic of Kazakhstan and the Ministry of Finance of the Republic of Kazakhstan and customer deposits are recognised initially at “cost”, being their issue proceeds net of transaction costs incurred. Subsequently these liabilities are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the consolidated profit and loss account over the period of the amounts due using the effective yield method.

Reserves of the Guarantee Funds

Reserves of the Guarantee Funds are recognized in amount of accrued mandatory payments made by local banks, mortgage and insurance companies, which are members of the guarantee systems.

Customer accounts

Customer accounts are initially stated at cost equal to the amount of received funds less transaction costs. Subsequently Subsequently, such payables to customers are adjusted for amortization and the related income between net net proceeds and cost of repayment is recorded within the consolidated income statement using the effective interest method.

Debt securities issued

Debt securities issued by the National Bank have a fixed maturity date and initially are recognized at cost. Subsequently debt securities issued are stated at amortized cost, and any difference between net profit and the redemption value is recognized in the consolidated profit and loss account over the period of the issuance of such securities.

Provisions

Provisions are recognized when the National Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Income taxes

In accordance with Kazakhstani legislation, the National Bank is exempt from income tax.

Recognition of income and expense

Interest income and expense are recognized on an accrual basis calculated using the effective yield method. Interest income includes interest income on investment securities. Commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognized on an accrual basis.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the balance sheet when the National Bank has a legally enforceable right to set off the recognized amounts and the National Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Membership in international financial organizations

The National Bank is a fiscal agent of the Government of the Republic of Kazakhstan on transactions related to the membership of Kazakhstan in international financial organizations including payment of membership fees to such organizations. Membership fees payable are denominated in US Dollars or Special Drawing Rights (SDR) and are revaluated in KZT at the rate of exchange at the year-end.

Payables to IMF and other international financial organizations and membership related liabilities of the Government in international financial organizations, accounted for in the National Bank, are not included in the accompanying consolidated balance sheet as they do not represent assets and liabilities of the National Bank.

Retirement and other benefit obligations

The National Bank does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan. In accordance with the Law of the Republic of Kazakhstan “On provisions of pensions of the Republic of Kazakhstan” dated 20 June 1997 # 136-1 the National Bank contributes pensions of employees to the accumulating pension funds at the rate of ten percent of employees’ salary payments under the terms of the legislation up to KZT 375 thousand per employee per year. Once the contributions have been paid, the National Bank has no further payment obligations. Upon retirement of employees, all pension payments are administered by the pension funds directly.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Kazakhstani Tenge at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in (loss)/gain on revaluation of foreign exchange and gold transactions.

Rates of exchange

The exchange rates and prices on gold at year-end used by the National Bank in the preparation of the financial statements are as follows:

	<u>2005</u>	<u>2004</u>
KZT/USD	133.77	130.00
KZT/Special Drawing Rights (SDR)	191.17	201.37
KZT/Euro	158.54	177.10
KZT/GBP	231.01	250.07
KZT/Japanese Yen (10/1)	11.41	12.23
KZT/Gold (1 troy ounce)	68,624.01	56,940.00

Statement of cash flows

For the purposes of the preparation of the consolidated statement of cash flows, cash and cash equivalents are represented by items which can be converted into cash within one day (see Note 36).

Reclassifications and restatements

Certain reclassifications have been made to the consolidated balance sheet as at 31 December 2004 and consolidated profit and loss account for the year ended 31 December 2004 to conform to the presentation for the year ended 31 December 2005. The opening balances of equity as at 31 December 2003 were also restated due to the adoption of amended IAS 39 “Financial Instruments: Recognition and Measurement”. See Note 37 for details.

4. GOLD

	31 December 2005 KZT'000	31 December 2004 KZT'000
Gold deposits in foreign banks	86,140,882	68,981,594
Gold bullion in NBK depository	45,602,321	35,482,893
Gold coins	237,288	26,237
Gold bullion in other depositories	91,893	-
Total gold	132,072,384	104,490,724

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, LESS ALLOWANCE FOR IMPAIRMENT LOSSES

	31 December 2005 KZT'000	31 December 2004 KZT'000
Due from foreign banks and other financial institutions		
Due from external asset managers	45,462,593	42,925,322
Deposits and loans in foreign banks	36,358,252	123,729,762
Correspondent accounts	17,209,567	3,549,762
Current accounts at IMF	154,565	158,864
Reverse repo agreements	-	70,190,100
	99,184,977	240,553,810
Less allowance for impairment losses	(21,143)	(94,798)
Total due from foreign banks and other financial institutions, less allowance for impairment losses	99,163,834	240,459,012
Due from local banks		
Reverse repos	38,909,249	26,010,987
Correspondent accounts	119,237	271,294
Loans and due from local banks	94,684	115,251
Total due from local banks, less allowance for impairment losses	39,123,170	26,397,532
Total due from banks and other financial institutions, less allowance for impairment losses	138,287,004	266,856,544

In 2005 and 2004 there were 2 agreements on external management of long-term portfolio of gold and foreign currency reserves of NBK (the G&FCR), and in 2004 there were two agreements on management of the short-term portfolio of G&FCR. Portfolio profitability for 2005 and 2004 during the management period comprised 0.07% to 2.41% per annum and 4.26% to 6.86% per annum, respectively.

Time deposits in foreign banks include short-term deposits and overnight deposits with foreign banks with an average interest rate for 2005 and 2004 ranging from 1.50% to 5.51% and 1.45% to 4.36%, respectively.

Reverse repos are pledged by discount notes of the USA and bonds of the Government of the Republic of Kazakhstan. Average interest rate for reverse repo with foreign government treasury bills is 3.15% and with securities of the Republic of Kazakhstan is 6.13%.

Loans to local banks include short-term loans as of 31 December 2005 in the amounts of KZT 68,925 thousand, to JSC Kazkommertsbank and KZT 25,759 thousand issued to JSC Bank Centercredit with an average interest rate from 3.47% to 3.58%.

Movement in allowances for impairment losses for the years ended 31 December 2005 and 2004 is disclosed in Note 20.

Information on average annual interest rates on loans and advances to banks and other financial institutions for the years ended 31 December 2005 and 2004 is disclosed in Note 30.

6. INVESTMENTS AVAILABLE-FOR-SALE, LESS ALLOWANCE FOR IMPAIRMENT LOSSES

	<u>31 December 2005</u>		<u>31 December 2004</u>	
	<u>Nominal</u>	<u>Carrying</u>	<u>Nominal</u>	<u>Carrying</u>
	KZT'000	value	KZT'000	value
		KZT'000		KZT'000
Foreign investments				
Debt securities of international governmental and non-governmental financial institutions	254,124,029	253,978,717	385,514,477	384,732,142
Britain government treasury bills	69,972,929	72,947,527	21,868,622	23,031,358
US government treasury bills	61,487,942	61,849,550	66,270,110	66,781,516
Germany government treasury bills	57,645,144	58,790,365	300,999,160	308,811,086
Other	241,751,947	244,982,326	96,700,743	105,360,038
		692,548,485		888,716,140
Less allowance for impairment losses		-		(39,260)
Total foreign investments available-for-sale, less allowance for impairment losses		692,548,485		888,676,880
State securities				
Long-term	7,639,368	8,093,405	6,260,699	6,475,022
Mid-term	4,800,900	5,223,294	4,767,700	4,998,898
Short-term	2,499,449	4,431,744	1,463,112	1,482,349
Total state investments available-for-sale		17,748,443		12,956,269
Total investments available-for-sale, less allowance for impairment losses		<u>710,296,928</u>		<u>901,633,149</u>

As at 31 December 2005 and 2004 other foreign investments included investments of Australia, Italy, Canada, Netherlands, Russia, France, Switzerland and Japan governments.

In 2005 the Ministry of Finance of the Republic of Kazakhstan repaid state securities MEOKAM-36 with nominal value of 700,000 thousand tenge and MEOKAM-48 with nominal value of 15,500 thousand tenge. The maturity of mid-term securities of the Ministry of Finance of the Republic of Kazakhstan issued in 2000 with a coupon rate of 5.60% to 8.35% is August 2006.

Movement in provisions for impairment losses for securities portfolio for the years ended 31 December 2005 and 2004 is disclosed in Note 20.

Information on average annual interest rates in investment securities available-for-sale for the years ended 31 December 2005 and 2004 is disclosed in Note 30.

7. FIXED AND INTANGIBLE ASSETS, LESS ACCUMULATED DEPRECIATION

	<u>Buildings</u> KZT'000	<u>Furniture and equipment</u> KZT'000	<u>Computer equipment</u> KZT'000	<u>Vehicles</u> KZT'000	<u>Construction in progress/uninstalled equipment</u> KZT'000	<u>Intangible assets</u> KZT'000	<u>Total</u> KZT'000
Cost							
31 December 2004	8,600,602	5,820,751	2,020,391	741,775	202,040	1,569,996	18,955,565
Acquisition	113,847	965,211	56,181	47,768	71,138	275,098	1,529,256
Other additions	-	12,481	337,291	-	-	51,770	401,549
Transfers	19,043	6,601	6,951	-	(52,875)	20,273	-
Disposals	(1,747)	(52,534)	(547,629)	(43,556)	(116,114)	(186,036)	(947,616)
Revaluation	-	219	7,091	-	-	-	7,301
31 December 2005	8,731,746	6,752,741	1,880,281	745,987	104,189	1,731,101	19,946,056
Accumulated depreciation							
31 December 2004	1,091,517	1,783,971	942,451	205,353	-	835,558	4,858,859
Charge	354,941	695,671	277,381	115,350	-	452,434	1,895,784
Disposals	(1,747)	(111,437)	(100,694)	(44,103)	-	(179,319)	(437,300)
Revaluation	-	(22)	(733)	-	-	-	(755)
31 December 2005	1,444,711	2,368,181	1,118,411	276,600	-	1,108,673	6,316,586
Net book value							
31 December 2004	7,509,085	4,036,771	1,077,941	536,423	202,040	734,438	14,096,704
31 December 2005	7,287,035	4,384,551	761,871	469,387	104,189	622,428	13,629,461

Fixed assets depreciation charges of subsidiaries are included in cost of products and services (See Note 24).

8. OTHER ASSETS, LESS ALLOWANCE FOR IMPAIRMENT LOSSES

	<u>31 December 2005</u> KZT'000	<u>31 December 2004</u> KZT'000
Accepted promissory notes	11,881,352	2,228,232
Accrued income receivable	1,686,665	482,137
Trade debtors	1,605,777	1,526,775
Inventories	1,246,612	1,033,871
Investments in equity of companies	952,315	2,999,866
Cash in foreign currency and on hand	366,174	430,923
Prepayments	118,086	13,701
Other	477,430	255,089
	<u>18,334,411</u>	<u>8,970,594</u>
Less allowance for impairment losses	<u>(25,482)</u>	<u>(35,097)</u>
Total other assets, less allowance for impairment losses	<u><u>18,308,929</u></u>	<u><u>8,935,497</u></u>

As of 31 December 2005 provisions of KZT 25,482 thousand were made, which included provisions for loans to individuals of KZT 5,866 thousand and provisions on non-monetary operations of KZT 19,616 thousand.

Movement in provisions for impairment for other assets for the years ended 31 December 2005 and 2004 is disclosed in Note 20.

9. CURRENCY IN CIRCULATION

	<u>31 December 2005</u> KZT'000	<u>31 December 2004</u> KZT'000
Banknotes and coins in circulation	459,231,193	411,564,522
Less banknotes and coins on hand	<u>(717,590)</u>	<u>(674,599)</u>
Total currency in circulation	<u><u>458,513,603</u></u>	<u><u>410,889,923</u></u>

10. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>31 December 2005</u> KZT'000	<u>31 December 2004</u> KZT'000
Due to foreign banks and other financial institutions		
Spot operations liabilities	6,777,620	27,971,919
International Bank for Reconstruction and Development accounts	<u>133,997</u>	<u>40,806</u>
Total due to foreign banks and other financial institutions	<u><u>6,911,617</u></u>	<u><u>28,012,725</u></u>
Due from local banks and other financial institutions		
In foreign currency		
Correspondent accounts and demand deposits	17,971,619	6,152,208
Time deposits	36,864	88,022,450
Repo agreements	9,631,814	-
In local currency		
Time deposits	96,907,904	103,107,766
Correspondent accounts	96,802,346	80,445,342
Obligatory reserves	<u>15,631</u>	<u>17,986</u>
Total due to local banks and other financial institutions	<u><u>221,366,178</u></u>	<u><u>277,745,752</u></u>
Total due to banks and other financial institutions	<u><u>228,277,795</u></u>	<u><u>305,758,477</u></u>

Information on average annual interest rates on deposits from foreign banks and other financial institutions for the years ended 31 December 2005 and 2004 is disclosed in Note 30.

11. DUE TO THE NATIONAL FUND OF THE REPUBLIC OF KAZAKHSTAN

	<u>31 December 2005</u> KZT'000	<u>31 December 2004</u> KZT'000
In foreign currency	1,834,790	486,201
In national currency	21,537	44,858
	<u>1,856,327</u>	<u>531,059</u>

In 2005 the National Bank performed trust management of assets of the National Fund of the Republic of Kazakhstan. The fund's assets were allocated on deposits and were used for foreign countries securities transactions (purchase and sale and reverse repos) and for foreign currencies operations. The funds of the National Fund received for trust management are accounted for on off-balance accounts.

12. DUE TO THE MINISTRY OF FINANCE OF THE REPUBLIC OF KAZAKHSTAN

	<u>31 December 2005</u> KZT'000	<u>31 December 2004</u> KZT'000
<i>In national currency</i>		
Current accounts	46,862,360	52,755,486
<i>In foreign currency</i>		
Current accounts	1,732,652	22,697,689
Time deposits	-	1,328,870
	<u>48,595,012</u>	<u>76,782,045</u>

Information on average annual interest rates on Ministry of Finance of the Republic of Kazakhstan accounts for the years ended 31 December 2005 and 2004 is disclosed in Note 30.

13. RESERVES OF THE GUARANTEE FUNDS

	<u>31 December 2005</u> KZT'000	<u>31 December 2004</u> KZT'000
Kazakhstani Fund of Individuals Deposits Guarantee	7,662,845	6,350,387
Guarantee Fund of Insurance Payments	180,971	79,210
Kazakhstani Guarantee Fund of Mortgage Loans	-	63
	<u>7,843,816</u>	<u>6,429,660</u>

Reserves of the Guarantee Funds is recognized in amount of accrued mandatory payments made by commercial banks of the Republic of Kazakhstan, mortgage and insurance companies, which are members of the guarantee systems.

14. CUSTOMER ACCOUNTS

	<u>31 December 2005</u> KZT'000	<u>31 December 2004</u> KZT'000
Current accounts in national currency	2,176,588	1,873,361
Current accounts in foreign currency	924,669	186,666
	<u>3,101,257</u>	<u>2,060,027</u>
Less cash of current accounts of subsidiaries in national currency	(1,404,903)	(1,342,306)
	<u>1,696,354</u>	<u>717,721</u>

15. DEBT SECURITIES ISSUED

	<u>31 December 2005</u> KZT'000	<u>31 December 2004</u> KZT'000
Securities issued by the NBK	161,267,152	404,879,320
Less discount on securities	<u>(134,962)</u>	<u>(5,023,686)</u>
	<u>161,132,190</u>	<u>399,855,634</u>

Debt instruments of the National Bank are issued with a circulation period from 14 to 364 days with an interest varying from 2.10% to 5.1%.

Information on average annual interest rates on debt securities issued for the years ended 31 December 2005 and 2004 is disclosed in Note 30.

16. OTHER LIABILITIES

	<u>31 December 2005</u> KZT'000	<u>31 December 2004</u> KZT'000
Trade creditors	1,251,819	101,693
Accrued commission payable for asset management	943,128	436,151
Due to employees	462,237	478,360
Due to budget	238,398	123,856
Advances received	-	250,281
Prepaid contributions of banks-members of guarantee fund	-	149,684
Others	<u>136,600</u>	<u>317,311</u>
Total other liabilities	<u>3,032,182</u>	<u>1,857,336</u>

17. SHARE CAPITAL AND RESERVES

Formation of the share capital of the National Bank is regulated by the Decree of the President of the Republic of Kazakhstan dated 30 March 1995 with amendments and alterations. In accordance with the amendments to the Decree dated 18 December 2000 the share capital shall comprise KZT 20,000,000 thousand formed by deductions from the net income as well from funds of republican budget. As of 31 December 2005 the share capital of the National Bank comprised KZT 20,000,000 thousand.

Reserve fund is formed up to an amount equal to the share capital by deductions from net income in amounts approved by the President of the Republic of Kazakhstan. As of 31 December 2005 and 2004 the reserve fund amounted to KZT 4,349,053 thousand and KZT 3,992,545 thousand, respectively.

18. RETAINED EARNINGS AND OTHER RESERVES

Special reserve funds are formed in the amount of unrealized earnings from the revaluation of gold, assets and liabilities denominated in foreign currencies. When realized this income is transferred to retained earnings and is distributable. Special reserve funds include fixed assets revaluation fund in foreign currency and in tenge.

General reserves are formed from annual deductions of retained earnings in the amount of 0.5% of the value of the NBK's certain assets and include reserve fund of the NBK's subsidiaries. General reserves are non-distributable.

19. NET INTEREST INCOME/(LOSS)

	Year ended 31 December 2005 KZT'000	Year ended 31 December 2004 KZT'000
Interest income		
Investment securities	27,114,414	11,880,797
Due from banks and other financial institutions	1,921,599	1,566,689
Other	575,156	471,389
Total interest income	<u>29,611,169</u>	<u>13,918,875</u>
Interest expense		
Debt securities issued	(8,840,759)	(14,851,111)
Due to Ministry of Finance of the Republic of Kazakhstan	(2,462,583)	(1,740,571)
Due to local banks	(1,867,686)	(663,397)
Due to foreign banks and other financial institutions	(454,298)	(152,301)
Total interest expense	<u>(13,625,326)</u>	<u>(17,407,380)</u>
Net interest income/(loss) before recovery of allowance for impairment losses	<u><u>15,985,843</u></u>	<u><u>(3,488,505)</u></u>

20. ALLOWANCE FOR IMPAIRMENT LOSSES

The movements in allowance for impairment losses on interest earning assets were as follows:

	Due from banks and other financial institutions		Investments available-for- sale	
	<u>Foreign</u> KZT'000	<u>Local</u> KZT'000	<u>Foreign</u> KZT'000	<u>Total</u> KZT'000
At 31 December 2003	98,199	2,402,702	43,555	2,544,456
Recovery of provisions	(3,401)	-	(4,295)	(7,696)
Write off of assets	-	(2,402,702)	-	(2,402,702)
At 31 December 2004	94,798	-	39,260	134,058
Recovery of written off provisions	-	240,296	-	240,296
Recovery of provisions	(73,655)	(240,296)	(39,260)	(353,211)
At 31 December 2005	<u>21,143</u>	<u>-</u>	<u>-</u>	<u>21,143</u>

The movements in allowances for impairment losses on other assets were as follows:

	2005 KZT'000	2004 KZT'000
At beginning of the year	35,097	44,682
(Recovery of)/provisions for impairment losses	(6,944)	20,501
Write off of assets	<u>(2,671)</u>	<u>(30,086)</u>
At end of the year	<u>25,482</u>	<u>35,097</u>

21. GAIN/(LOSS) ON DEALING OPERATIONS

	Year ended 31 December 2005 KZT'000	Year ended 31 December 2004 (restated) KZT'000
Income from foreign currency transactions	1,252,423	83,061
Income/(loss) from precious metals transactions	82,342	(86,255)
Total gain on dealing operations	1,334,765	(3,194)

22. (LOSS)/GAIN ON INVESTMENT SECURITIES AVAILABLE FOR SALE

	Year ended 31 December 2005 KZT'000	Year ended 31 December 2004 (restated) KZT'000
Gain on investment securities available-for-sale		
Foreign investment securities	13,568,536	11,600,532
Promissory notes	402,675	105,360
State investment securities	360,447	177,552
Adjustment for revalued value of securities	-	1,103,962
Total gain	14,331,658	12,987,406
Loss on investment securities available-for-sale		
Foreign investment securities	(15,533,845)	(8,912,858)
State investment securities	(353,425)	(159,359)
Total loss	(15,887,270)	(9,072,217)
Total (loss)/gain on investment securities available-for-sale	(1,555,612)	3,915,189

23. GAIN/(LOSS) FROM FOREIGN CURRENCY AND GOLD REVALUATION

	Year ended 31 December 2005 KZT'000	Year ended 31 December 2004 KZT'000
Unrealized loss from foreign currency and gold revaluation	(11,227,849)	(54,040,032)
Realized income from foreign currency and gold revaluation	12,036,363	1,414,291
Total gain/(loss) from foreign currency and gold revaluation	808,514	(52,625,741)

24. OPERATING INCOME FROM SUBSIDIARIES

	Year ended 31 December 2005 KZT'000	Year ended 31 December 2004 KZT'000
Sale of products		
Income	1,414,955	1,222,212
Cost of sales	(1,193,110)	(824,101)
Sale of services		
Income	2,380,744	1,490,592
Cost of sales	(1,169,330)	(1,131,218)
Total operating income from subsidiaries	1,433,259	757,485

25. OTHER INCOME

	Year ended 31 December 2005	Year ended 31 December 2004
	KZT'000	KZT'000
Income from trust management services and treasury bills, net	1,223,206	723,392
Sale of coins	106,095	113,946
Expenses reimbursed	56,695	58,562
Contingent income	36,578	7,681
Income from lease of fixed assets	35,124	31,230
Loss from disposal of Kazakhstani Guarantee Fund of Mortgage Loans	(86,488)	-
Loss on revaluation of investments in Kazakhstan Mortgage Company	-	(259,480)
Other	350,096	455,442
Total other income	1,721,306	1,130,773

26. FUNDING OF THIRD PARTY ORGANIZATIONS

	Year ended 31 December 2005	Year ended 31 December 2004
	KZT'000	KZT'000
Funding of AFS	904,521	643,782
Funding of the Magistrate at KAZGAU	71,045	70,037
Total funding of third party organizations	975,566	713,819

Funding of AFS is performed from the budget of NBK in accordance with Law of the Republic of Kazakhstan Concerning state regulation and supervision of the financial market and financial organizations dated 4 July 2003 № 474, and Decree of the President of the Republic of Kazakhstan dated 31 December 2003 № 1270 Concerning further improvement of the system of state management of the Republic of Kazakhstan”.

27. PAYROLL AND OTHER PAYMENTS TO THE EMPLOYEES

	Year ended 31 December 2005	Year ended 31 December 2004
	KZT'000	KZT'000
Payroll	1,928,354	1,580,357
Bonuses	728,590	747,840
Social tax	353,554	302,536
Training	84,717	65,807
Other	297,128	228,406
Total payroll and payments to employees	3,392,343	2,924,946

28. ADMINISTRATIVE EXPENSES

	Year ended 31 December 2005 KZT'000	Year ended 31 December 2004 KZT'000
Taxes other than income tax	523,523	378,758
Communication expenses	260,498	206,251
Materials	252,228	285,650
Informational and other services	242,289	158,938
Fixed assets repair and maintenance	214,356	208,701
Security	152,339	149,902
Business trip expenses	103,987	84,319
Utilities	51,822	47,224
Property transferred gratis	35,314	41,659
Other	342,593	158,095
Total administrative expenses	2,178,949	1,719,497

29. INTERNATIONAL MONETARY FUND AND OTHER FINANCIAL INSTITUTIONS

Analysis of assets and liabilities related to the membership of the Republic of Kazakhstan in IMF and other financial institutions is given below. In accordance with the National Bank's functions of agent of the Government of the Republic of Kazakhstan these items are excluded from the consolidated balance sheet of the Republic of Kazakhstan.

International Monetary Fund (IMF)

Payment of the membership of the Republic of Kazakhstan in IMF is as follows:

	31 December 2005		31 December 2004	
	SDR'000	KZT'000	SDR'000	KZT'000
IMF quota	365,700	69,910,869	365,700	73,641,009
	<u>365,700</u>	<u>69,910,869</u>	<u>365,700</u>	<u>73,641,009</u>

For each member of IMF there is a quota expressed in the special drawing rights. Membership fee represents its maximum financial liability to IMF, its voting power and is a base for determining access to financing by IMF.

The National Bank operates as a depository of the Republic of Kazakhstan. The Ministry of Finance issued securities as a payment of the subscription quota. These securities are held by the National Bank, subject to payment at the request of the IMF and accounted for in off-balance sheet accounts.

Other international financial organizations

The Republic of Kazakhstan is a member of International Bank for Reconstruction and Development ("IBRD"), European Bank for Reconstruction and Development ("EBRD"), International Association of Investments Guarantee ("IAIG") and other international financial organizations. In accordance with the conditions of the membership fees to the share capitals of international financial organizations, a country as a member of such organizations shall make contributions in freely convertible currency and securities issued by the country-member of such organizations.

	31 December 2005		31 December 2004	
	USD'000	KZT'000	USD'000	KZT'000
International Bank for Reconstruction and Development	-	2,088,900	-	2,312,874
European Bank for Reconstruction and Development	987	132,014	987	128,293
International Association of Investments Guarantee	283	37,813	283	36,747
Other	-	646,512	-	646,230
	<u>1,270</u>	<u>2,905,239</u>	<u>1,270</u>	<u>3,124,144</u>

30. RISK MANAGEMENT POLICY

Risk management is fundamental to the National Bank's activities and is an essential element of the National Bank operations. The main risks inherent to the National Bank operations are those related to currency, operational, credit risks, liquidity and interest rates risks. The structure of assets and liabilities of the National Bank is defined primarily by the manner of stated by legislation functions of the National Bank and not by commercial judgments. The National Bank performs constant risk management by a number of risk management procedures. The National Bank's risk management is regulated by its internal instructions and is thoroughly monitored by the Board of Directors of the National Bank, as well as by the committees and commissions of the National Bank. The Board of Directors, committees, commissions and related working groups review matters related to the monetary, investing and currency policies of the National Bank and set up limits of transactions scope, as well as requirements for assessment of the National Bank's counter-parties.

The operations of the National Bank's subsidiaries are also subject to the exposure of a number of risks, the most significant are those related to currency, operating, credit risks, liquidity and interest rate risks. Risk management procedures in subsidiaries are regulated by the internal instructions and their execution is monitored by various bodies, including the board of directors of the subsidiaries, crediting committees and internal control departments.

Operating risk

Operating risk is a risk of sustaining losses due to the internal control system failure. The National Bank manages this risk through the Department of Internal Audit of the NBK which controls compliance to the policies and accounting procedures and effective functioning of the internal control system of the National Bank. Operating risk related to the currency reserves transactions is controlled by a number of internal instructions of the National Bank. Segregation of duties between various departments of the National Bank is also a mechanism of operating risk management.

Credit risk

The National Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation in contractual terms. The National Bank structures the levels of credit risk and undertakes it by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. Limits on the level of credit risk are monitored by the National Bank annually or more frequently. Limits on the level of credit risk in relation to products, borrowers and industries are approved by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures, as well as daily limits of risks within supply of trading securities, for instance, forward foreign currency exchange agreements. Actual exposures against limits are monitored daily.

Credit risk management is performed by regular analysis of the ability of existing and potential borrowers to repay interest and principals of the debt, as well as by change of credit limits if required.

In addition, the National Bank obtains collateral and guarantees for credit risk management.

The National Bank's maximum exposure to credit risk as a rule is recognized in the carrying value of the financial assets in the consolidated balance sheet. The impact of the potential assets and liabilities offset has no material value for the reduction of the potential credit risk.

The credit risk on off-balance sheet items is the possibility of incurring losses when one party to a financial instrument will fail to discharge its contractual obligation. The National Bank uses the same credit control policies in undertaking off-balance sheet commitments as it does for on-balance operations based on procedures of approval of transactions and setting up control risk limits and transactions monitoring.

Geographical risk

Geographical analysis of assets and liabilities of the National Bank as of 31 December 2005 is given below:

	<u>Kazakhstan</u> KZT'000	<u>OECD</u> <u>countries</u> KZT'000	<u>Other</u> <u>countries</u> KZT'000	<u>Total</u> KZT'000
Assets				
Gold	45,931,502	86,140,882	-	132,072,384
Due from banks and other financial institutions, less allowance for impairment losses				
<i>Foreign</i>	-	98,978,161	185,673	99,163,834
<i>Local</i>	213,921	38,909,249	-	39,123,170
Investments available-for-sale, less allowance for impairment losses				
<i>Foreign</i>	-	692,470,213	78,272	692,548,485
<i>State</i>	15,088,660	2,659,783	-	17,748,443
Fixed and intangible assets, less accumulated depreciation	13,629,469	-	-	13,629,469
Other assets, less allowances for impairment losses	17,972,132	334,500	2,297	18,308,929
Total assets	<u>92,835,684</u>	<u>919,492,788</u>	<u>266,242</u>	<u>1,012,594,714</u>
Liabilities				
Currency in circulation	458,513,603	-	-	458,513,603
Due to banks and other financial institutions				
<i>Foreign</i>	5	6,657,086	254,526	6,911,617
<i>Local</i>	211,734,094	9,631,815	269	221,366,178
Due to the National Fund of the Republic of Kazakhstan	1,856,327	-	-	1,856,327
Due to the Ministry of Finance of the Republic of Kazakhstan	48,595,012	-	-	48,595,012
Reserves of the Guarantee Funds	7,843,816	-	-	7,843,816
Customer accounts	1,696,354	-	-	1,696,354
Debt securities issued	161,132,190	-	-	161,132,190
Other liabilities	1,863,064	1,169,118	-	3,032,182
Total liabilities	<u>893,234,465</u>	<u>17,458,019</u>	<u>254,795</u>	<u>910,947,279</u>
Net position	<u>(800,398,781)</u>	<u>902,034,769</u>	<u>11,447</u>	<u>101,647,435</u>

Geographical analysis of assets and liabilities of the National Bank as of 31 December 2004 is given below:

	<u>Kazakhstan</u> KZT'000	<u>OECD</u> <u>countries</u> KZT'000	<u>Other</u> <u>countries</u> KZT'000	<u>Total</u> KZT'000
Assets				
Gold	35,509,129	68,981,595	-	104,490,724
Due from banks and other financial institutions, less allowance for impairment losses				
<i>Foreign</i>	-	240,367,002	92,010	240,459,012
<i>Local</i>	26,397,532	-	-	26,397,532
Investments available-for-sale, less allowance for impairment losses				
<i>Foreign</i>	-	888,676,880	-	888,676,880
<i>State</i>	12,956,269	-	-	12,956,269
Fixed and intangible assets, less accumulated depreciation	14,096,704	-	-	14,096,704
Other assets, less allowances for impairment losses	8,475,795	457,657	2,040	8,935,497
Total assets	97,435,429	1,198,483,134	94,050	1,296,012,618
Liabilities				
Currency in circulation	410,889,923	-	-	410,889,923
Due to banks and other financial institutions				
<i>Foreign</i>	40,806	27,971,919	-	28,012,725
<i>Local</i>	277,745,752	-	-	277,745,752
Due to the National Fund of the Republic of Kazakhstan	531,059	-	-	531,059
Due to the Ministry of Finance of the Republic of Kazakhstan	76,782,045	-	-	76,782,045
Reserves of the Guarantee Funds	6,429,660	-	-	6,429,660
Customer accounts	717,721	-	-	717,721
Debt securities issued	399,855,634	-	-	399,855,634
Other liabilities	1,646,407	80,049	130,880	1,857,336
Total liabilities	1,174,639,007	28,051,968	130,880	1,202,821,855
Net position	(1,007,203,578)	1,170,431,166	(36,825)	93,190,763

Currency risk

The National Bank is exposed to the risk related to the fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors of Departments sets up limits on the level of exposure by currencies and overnight and daily positions in overall and controls their fulfillment daily.

The National Bank's exposure to foreign currency exchange rate risk by currencies as of 31 December 2005 is presented in the table below:

	<u>KZT</u>	<u>Gold</u> 1 troy ounce = 68,624.01 KZT	<u>USD</u> 1 USD = 133.77 KZT	<u>EURO</u> 1 EURO = 158.54 KZT	<u>Japanese yen</u> 10 yens = 11.41 KZT	<u>SDR</u> 1 SFR = 191.17 KZT	<u>GBP</u> 1 pound = 231.01 KZT	<u>Other</u>	<u>Allowance for impairment losses</u>	<u>2005 Total</u> KZT'000
Assets										
Gold	-	132,072,384	-	-	-	-	-	-	-	132,072,384
Due from banks and other financial institutions, less allowance for impairment losses										
<i>Foreign</i>	560	-	65,630,466	8,898,249	2,132,357	155,346	19,877,536	2,490,463	(21,143)	99,163,834
<i>Local</i>	119,237	-	39,003,933	-	-	-	-	-	-	39,123,170
Investments available-for-sale, less allowance for impairment losses										
<i>Foreign</i>	-	-	275,955,967	277,148,088	21,895,486	-	72,947,527	44,601,417	-	692,548,485
<i>State</i>	17,748,443	-	-	-	-	-	-	-	-	17,748,443
Fixed and intangible assets, less accumulated depreciation	13,629,469	-	-	-	-	-	-	-	-	13,629,469
Other assets, less allowance for impairment losses	17,645,606	72,407	176,321	342,941	-	-	-	93,113	(21,459)	18,308,929
Total assets	<u>49,143,315</u>	<u>132,144,791</u>	<u>380,766,687</u>	<u>286,389,278</u>	<u>24,027,843</u>	<u>155,346</u>	<u>92,825,063</u>	<u>47,184,993</u>	<u>(42,602)</u>	<u>1,012,594,714</u>
Liabilities										
Currency in circulation	458,513,603	-	-	-	-	-	-	-	-	458,513,603
Due to banks and other financial institutions										
<i>Foreign</i>	134,774	-	6,776,843	-	-	-	-	-	-	6,911,617
<i>Local</i>	193,725,880	-	12,288,960	5,719,346	-	-	9,631,815	177	-	221,366,178
Due to the National Fund of the Republic of Kazakhstan	21,537	-	525	877,533	492,173	-	173,802	290,757	-	1,856,327
Due to the Ministry of Finance of the Republic of Kazakhstan	46,862,360	-	1,227,361	504,138	-	-	-	1,153	-	48,595,012
Reserves of the Guarantee Funds	7,843,816	-	-	-	-	-	-	-	-	7,843,816
Customer accounts	771,685	-	903,637	238	-	-	20,791	3	-	1,696,354
Debt securities issued	161,132,190	-	-	-	-	-	-	-	-	161,132,190
Other liabilities	3,005,559	10,301	15,778	544	-	-	-	-	-	3,032,182
Total liabilities	<u>872,011,404</u>	<u>10,301</u>	<u>21,213,104</u>	<u>7,101,799</u>	<u>492,173</u>	<u>-</u>	<u>9,826,408</u>	<u>292,090</u>	<u>-</u>	<u>910,947,279</u>
Net position	<u>(822,868,090)</u>	<u>132,134,490</u>	<u>359,553,583</u>	<u>279,287,479</u>	<u>23,535,670</u>	<u>155,346</u>	<u>82,998,655</u>	<u>46,892,903</u>	<u>(42,602)</u>	<u>101,647,435</u>

The National Bank's exposure to foreign currency exchange rate risk by currencies as of 31 December 2004 is presented in the table below:

	<u>KZT</u>	<u>Gold</u> 1 troy ounce = 56,940.00 KZT	<u>USD</u> 1 USD = 130.00 KZT	<u>EURO</u> 1 EURO = 177.10 KZT	<u>Japanese yen</u> 10 yen = 12.53 KZT	<u>SDR</u> 1 SDR = 201,37 KZT	<u>GBP</u> 1 pound = 250,07 KZT	<u>Other</u>	<u>Allowance for impairment losses</u>	<u>2004 Total</u> KZT*000
Assets										
Gold	-	104,490,724	-	-	-	-	-	-	-	104,490,724
Due from banks and other financial institutions, less allowance for impairment losses										
<i>Foreign</i>	-	-	199,721,762	38,742,007	568,633	588	576,243	944,577	(94,798)	240,459,012
<i>Local</i>	26,242,291	-	155,241	-	-	-	-	-	-	26,397,532
Investments available-for-sale, less allowance for impairment losses										
<i>Foreign</i>	-	-	479,944,608	313,249,771	9,354,536	-	23,793,940	62,373,285	(39,260)	888,676,880
<i>State</i>	12,956,269	-	-	-	-	-	-	-	-	12,956,269
Fixed and intangible assets, less accumulated depreciation	14,096,704	-	-	-	-	-	-	-	-	14,096,704
Other assets, less allowance for impairment losses	8,418,488	56,532	318,681	138,517	-	-	458	37,918	(35 097)	8,935,497
Total assets	<u>61,713,752</u>	<u>104,547,256</u>	<u>680,140,292</u>	<u>352,130,295</u>	<u>9,923,169</u>	<u>588</u>	<u>24,370,641</u>	<u>63,355,780</u>	<u>(169 155)</u>	<u>1,296,012,618</u>
Liabilities										
Currency in circulation	410,889,923	-	-	-	-	-	-	-	-	410,889,923
Due to banks and other financial institutions										
<i>Foreign</i>	40,806	-	247,399	27,724,520	-	-	-	-	-	28,012,725
<i>Local</i>	183,571,093	-	94,174,463	18	-	-	-	178	-	277,745,752
Due to the National Fund of the Republic of Kazakhstan	44,858	-	272,877	1,695	51,451	-	23,311	136,867	-	531,059
Due to the Ministry of Finance of the Republic of Kazakhstan	52,755,486	-	23,872,350	128,522	-	-	20,006	5,681	-	76,782,045
Reserves of the Guarantee Funds	6,429,660	-	-	-	-	-	-	-	-	6,429,660
Customer accounts	531,055	-	171,289	15,305	-	-	-	72	-	717,721
Debt securities issued	399,855,634	-	-	-	-	-	-	-	-	399,855,634
Other liabilities	1,640,009	6,398	79,433	616	-	-	-	130,880	-	1,857,336
Total liabilities	<u>1,055,758,524</u>	<u>6,398</u>	<u>118,817,811</u>	<u>27,870,676</u>	<u>51,451</u>	<u>-</u>	<u>43,317</u>	<u>273,678</u>	<u>-</u>	<u>1,202,821,855</u>
Net position	<u>(994,044,772)</u>	<u>104,540,858</u>	<u>561,322,481</u>	<u>324,259,619</u>	<u>9,871,718</u>	<u>588</u>	<u>24,327,324</u>	<u>63,082,102</u>	<u>(169 155)</u>	<u>93,190,763</u>

Liquidity risk

Liquidity risk refers to non-matching of claim terms to the maturity dates on liabilities operations. Assets and liabilities maturity dates and ability of the replacement at the acceptable cost of interest accrual liabilities at the date of their maturity is an important factor within assessment of liquidity of the National Bank and its exposure to the interest rate and exchange rates risk.

The following table presents monetary assets and liabilities of the National Bank as of 31 December 2005 by contractual maturity dates.

	Up to 1 month KZT'000	1 month to 6 months KZT'000	6 months to 1 year KZT'000	1 year to 5 years KZT'000	Over 5 years KZT'000	Total KZT'000
Assets						
Gold	93,557,249	38,515,135	-	-	-	132,072,384
Due from banks and other financial institutions, less allowance for impairment losses						
<i>Foreign</i>	99,163,834	-	-	-	-	99,163,834
<i>Local</i>	39,028,486	94,684	-	-	-	39,123,170
Investments available-for-sale, less allowance for impairment losses						
<i>Foreign</i>	20,919,147	84,889,214	123,560,357	412,837,580	50,342,187	692,548,485
<i>State</i>	12,525,149	1,194,179	87,639	3,941,476	-	17,748,443
Fixed and intangible assets, less accumulated depreciation	13,629,469	-	-	-	-	13,629,469
Other assets, less allowance for impairment losses	17,250,558	1,058,371	-	-	-	18,308,929
Total assets	296,073,892	125,751,583	123,647,996	416,779,056	50,342,187	1,012,594,714
Liabilities						
Currency in circulation	458,513,603	-	-	-	-	458,513,603
Due to banks and other financial institutions						
<i>Foreign</i>	6,911,617	-	-	-	-	6,911,617
<i>Local</i>	221,021,092	345,086	-	-	-	221,366,178
Due to the National Fund of the Republic of Kazakhstan	1,856,327	-	-	-	-	1,856,327
Due to the Ministry of Finance of the Republic of Kazakhstan	47,054,948	1,540,064	-	-	-	48,595,012
Reserves of the Guarantee Funds	7,843,816	-	-	-	-	7,843,816
Customer accounts	1,696,354	-	-	-	-	1,696,354
Debt securities issued	161,132,190	-	-	-	-	161,132,190
Other liabilities	2,980,965	51,217	-	-	-	3,032,182
Total liabilities	909,010,912	1,936,367	-	-	-	910,947,279
Net position	(612,937,620)	123,815,216	123,647,996	416,779,056	50,342,187	101,647,435
Accumulated gap	(612,937,620)	(489,121,804)	(365,473,808)	51,305,248	101,647,435	

The following table presents monetary assets and liabilities of the National Bank as of 31 December 2004 by contractual maturity dates.

	Up to 1 month KZT'000	1 month to 6 months KZT'000	6 months to 1 year KZT'000	1 year to 5 years KZT'000	Over 5 years KZT'000	Total KZT'000
Assets						
Gold	76,734,245	27,756,479	-	-	-	104,490,724
Due from banks and other financial institutions, less allowance for impairment losses						
<i>Foreign</i>	240,473,387	-	(14,375)	-	-	240,459,012
<i>Local</i>	26,282,281	-	115,251	-	-	26,397,532
Investments available-for-sale, less allowance for impairment losses						
<i>Foreign</i>	-	350,573,804	63,613,585	432,806,633	41,682,858	888,676,880
<i>State</i>	7,957,370	727,408	16,317	4,255,174		12,956,269
Fixed and intangible assets, less accumulated depreciation	14,096,704	-	-	-	-	14,096,704
Other assets, less allowances for impairment losses	8,935,487	-	-	-	10	8,935,497
Total assets	374,479,474	379,057,691	63,730,778	437,061,807	41,682,868	1,296,012,618
Liabilities						
Currency in circulation	410,889,923	-	-	-	-	410,889,923
Due to banks and other financial institutions						
<i>Foreign</i>	28,012,725	-	-	-	-	28,012,725
<i>Local</i>	198,179,549	79,566,203	-	-	-	277,745,752
Due to the National Fund of the Republic of Kazakhstan	531,059	-	-	-	-	531,059
Due to the Ministry of Finance of the Republic of Kazakhstan	76,782,045	-	-	-	-	76,782,045
Reserves of the Guarantee Funds	6,429,660	-	-	-	-	6,429,660
Customer accounts	717,721	-	-	-	-	717,721
Debt securities issued	31,474,475	279,095,098	89,286,061	-	-	399,855,634
Other liabilities	1,857,336	-	-	-	-	1,857,336
Total liabilities	754,874,493	358,661,301	89,286,061	-	-	1,202,821,855
Net position	(380,395,019)	20,396,390	(25,555,283)	437,061,807	41,682,868	93,190,763
Accumulated gap	(380,395,019)	(359,998,629)	(385,553,912)	51,507,895	93,190,763	

Interest rate risk

The National Bank is exposed to risk related to changes in prevailing market interest rates to its financial position and cash flows. Such changes may increase a level of interest margin, however, in the event of sudden change of the interest rate the interest margin may also be reduced and sustain losses.

The management sets up limits on the acceptable level of difference of interest rates and controls the compliance to the stated limits daily. These limits restrict potential affect of change of the interest rate to the interest margin and value of assets and liabilities sensitive to the change of interest rate.

The following table presents general analysis of the interest rate risk by main instruments.

	Kazakhstani tenge %	USD %	2005 Other currency %
Assets			
Gold	-	-	0.019
Due from banks and other financial institutions, including			
<i>foreign</i>	-	1.94-3.62	1.37-4.53
<i>local</i>	1.97-2.53	1.50-3.58	-
Investments available-for-sale, including			
<i>foreign</i>	-	4.35-4.56	-
<i>State</i>	5.60-8.35	-	-
Liabilities			
Due to the Ministry of Finance	1-2.9	1 - 1.50	-
Due to banks and other financial institutions, including local banks	1.8 - 3.5	0.5-1.5	-
Debt securities issued	2.20-2.69	-	-
	Kazakhstani tenge %	USD %	2004 Other currency %
Assets			
Gold	-	-	0.01
Due from banks and other financial institutions, including			
<i>foreign</i>	-	1.31-6.86	2.04-4.36
<i>local</i>	4.95-8.04	3.47-4.8	-
Investments available-for-sale, including			
<i>Foreign</i>		2.0-4.75	2.0-9.0
<i>State</i>	3.28-6.40		
Liabilities			
Due to the Ministry of Finance of the Republic of Kazakhstan	2.91	1.04	-
Due to banks and other financial institutions, including local banks	2.5	0.46	-
Debt securities issued	4.44	-	-

31. TRANSACTIONS WITH RELATED PARTIES

For the purposes of preparation of these consolidated financial statements the parties are considered to be related parties if one of them controls another party or significantly influence financial and operating decisions as disclosed in IFRS 24 “Related Parties disclosure”. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The National Bank provides financial and other banking services to the Ministry of Finance of the Republic of Kazakhstan.

The National Bank had the following transactions outstanding with related parties:

	<u>31 December 2005</u>		<u>31 December 2004</u>	
	<u>Related party transactions</u>	<u>Total category as per financial statements caption</u>	<u>Related party transactions</u>	<u>Total category as per financial statements caption</u>
	KZT'000	KZT'000	KZT'000	KZT'000
Investments available-for-sale, less allowance for impairment losses	17,748,443	710,296,928	12,956,269	901,633,149
Other assets, less allowance for impairment losses	340,101	18,308,929	323,254	8,935,497
Due to the Ministry of Finance of the Republic of Kazakhstan	48,595,012	48,595,012	76,782,045	76,782,045

Included in the consolidated profit and loss account for the years ended 31 December 2005 and 2004 are the following amounts which arose due to transactions with related parties:

	<u>Year ended 31 December 2005</u>		<u>Year ended 31 December 2004</u>	
	<u>Related party transactions</u>	<u>Total category as per financial statements caption</u>	<u>Related party transactions</u>	<u>Total category as per financial statements caption</u>
	KZT'000	KZT'000	KZT'000	KZT'000
Interest income	772,343	29,611,169	1,324,836	13,918,875
Interest expense	2,462,583	13,625,326	1,740,571	17,407,380

Transactions with related parties entered by the NBK during the years ended 31 December 2005 and 2004 and outstanding as of 31 December 2005 and 2004 were made in the normal course of business and under arm-length conditions.

32. COMMITMENTS AND CONTINGENCIES, DERIVATIVE FINANCIAL INSTRUMENTS

Current economic environment

Though the economic environment of the Republic of Kazakhstan is improving, the national economy continues to have indications of developing countries, which include, but are not limited to the existence of the national currency which is not- convertible freely abroad and the low level of securities market liquidity.

The activities of the National Bank undertaken jointly with the Government of the Republic of Kazakhstan in 2005, further strengthened the positive macroeconomic tendencies achieved in 2004 in the Kazakhstani economy. The National Bank concentrated its efforts in two main directions: building confidence in the banking system, and strengthening the credit activities of commercial banks in the real sector.

The prospects for future economic stability in the Republic of Kazakhstan are largely dependent upon the effectiveness of economic measures undertaken by the Government and the National Bank, together with legal, regulatory and political developments in the Republic of Kazakhstan.

In addition, economic conditions continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values for financial instruments which would be determined in an efficient, active market involving willing buyers and willing sellers. The National Bank has therefore used the best available information to adjust market quotations to reflect their best estimate of fair values, where considered necessary.

Legal proceedings

From time to time and in the normal course of business, claims against the National Bank are received from customers and counterparties. Based on their own estimate and also recommendations of internal and external professional advisors the management of the National Bank is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

Derivative financial instruments

Foreign exchange and other derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions.

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the National Bank's exposure to credit or price risks.

The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The following table represents analysis of contractual amounts and fair value of derivative financial instruments. This table includes total position before offset by each counter-party by types of the financial instrument, as well as contracts with the dates of currency after 31 December 2005.

	Contracts with Kazakhstani counter-parties			Contracts with the foreign counter-parties		
	Net fair value			Net fair value		
	<u>Nominal</u> KZT'000	<u>Asset</u> KZT'000	<u>Liability</u> KZT'000	<u>Nominal</u> KZT'000	<u>Asset</u> KZT'000	<u>Liability</u> KZT'000
2005						
Forward contract with currency supply	181	-	-	1,473,373	-	-
Total	181	-	-	1,473,373	-	-
	Contracts with Kazakhstani counter-parties			Contracts with the foreign counter-parties		
	Net fair value			Net fair value		
	<u>Nominal</u> KZT'000	<u>Asset</u> KZT'000	<u>Liability</u> KZT'000	<u>Nominal</u> KZT'000	<u>Asset</u> KZT'000	<u>Liability</u> KZT'000
2004						
Forward contract with currency supply	166	-	-	-	-	-
Total	166	-	-	-	-	-

Pensions and retirement plans

In accordance with the Law of the Republic of Kazakhstan "On provisions of pensions of the Republic of Kazakhstan" dated 20 June 1997 # 136-1 the National Bank contributes pensions of employees to the accumulating pension funds at a percentage of employees salary payments in the appropriate terms. As of 31 December 2005 and 2004 the National Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

33. FOREIGN CURRENCY RESERVES MANAGEMENT

In accordance with the Investment Strategy, as approved by the National Bank's Governing Board, the tasks of maintaining the safety and liquidity of reserve assets, as well as the profitability of reserve assets management transactions, are achieved by applying the portfolio theory of investments management, through active diversification of investment and hedging risks by entering into transactions in international capital and money markets. Analysis of risks, applied by the National Bank in the process of managing its currency reserves is maintained by comparing factual risks level with set limits. Credit risks are additionally limited by the minimum acceptable credit ratings and operational limits.

For these purposes the National Bank's reserve assets are grouped into portfolios – an operational portfolio and an investment portfolio. The National Bank Investment Strategy and internal instructions determine the parameters of the currency reserves operational and investment portfolios, as well as the procedure for calculating and applying the profitability benchmark.

The investment portfolio is essentially formed from medium-term and long-term instruments, which ensure an increase in the yield from the placement of reserve assets. Part of the investment portfolio resources (investment portfolio cash) is invested in highly liquid money market instruments. The National Bank practices the active management of its investment portfolio and regularly carries out operations for the purchase and sale of securities that make up the investment portfolio.

The operational portfolio comprises investments in highly liquid money market instruments less the National Bank's foreign currency denominated short-term liabilities and the balance of funds in the investment portfolio's cash desk. The operational portfolio supports the National Bank's short-term liquidity and the continuity of its current currency operations, including currency intervention of the National Bank.

The main objective of currency reserves management activity is to ensure the optimal combination of safety, liquidity and profitability for reserve assets. In this regard, the maximisation of the reserves' profitability is a secondary priority in relation to ensuring their safety and liquidity.

34. NOTE AND COIN ISSUE EXPENSES

	Year ended 31 December 2005	Year ended 31 December 2004
	KZT'000	KZT'000
Note production expenses	1,695,029	1,130,384
Coin production expenses	1,216,348	612,124
Other expenses	54,521	235,994
Total	2,965,898	1,978,502

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

Due to the absence of an active market for a part of the financial instruments of the National Bank, their estimated fair values have been determined by the National Bank using available market information, where it exists, and appropriate valuation methodologies including the discounted cash flow method. However, judgement is required to interpret market data to determine the estimated fair value. While the National Bank has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

As of 31 December 2005 and 2004 the following methods and assumptions were used by the National Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and cash equivalents, gold and investment securities available for sale are carried on the balance sheet at their fair value. The fair value of certain investment securities available for sale were determined by Management using discounted cash flows.

Due from banks and other financial institutions - The fair value of floating rate placements is their carrying amount. The estimated fair value of fixed interest bearing placement is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit risk and remaining maturity. Management has estimated that as of 31 December 2005 and 2004 the fair value of due from banks and other financial institutions was not materially different from respective carrying value. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Financial liabilities - The fair value of currency in circulation and correspondent accounts of credit institutions is assumed to be the carrying amount (nominal amount). As a result of the general market conditions, the National Bank does not believe it is practical to estimate the fair value of these instruments.

For other financial liabilities, Management estimates that fair value approximates the carrying value.

36. CASH AND CASH EQUIVALENTS

	<u>31 December 2005</u> KZT'000	<u>31 December 2004</u> KZT'000
Correspondent accounts and deposits in foreign banks	47,880,832	127,223,338
Petty cash in foreign currency	366,174	430,923
Current account in local banks	94,835	271,294
	<hr/>	<hr/>
Total cash and cash equivalents	48,341,841	127,925,555
	<hr/>	<hr/>

37. RESTATEMENT RESULTED FROM IFRS APPLICATION

As a result of application of the restated IAS 39 Financial Instruments: Recognition and Measurement, net loss for 2004 was restated and presented as follows:

	<u>Year ended</u> <u>31 December 2004</u> KZT'000
Net loss as previously reported	57,181,945
Unrealised income from revaluation of investments available-for-sale	1,103,962
	<hr/>
Net loss	58,285,907
	<hr/>