

**REPORT**  
**of the National Bank of the Republic of Kazakhstan**  
**for 2017**

Almaty, 2018

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## **Address of the Governor of the National Bank**

Dear Ladies and Gentlemen!

The National Bank is presenting its annual report. The Report shows our performance in 2017.

In the past year, the key focus of the National Bank was to ensure the price stability and the banking sector rehabilitation.

Based on the past year's performance, one may note the transition from stabilization and recovery to the growth. So, the National Bank achieved its inflation target: 7.1%, which is in the middle of the target band of 6-8% that was set for 2017. During the year, the inflation rate was also ranging within the set band.

In the years to come, the National Bank sets sights on a gradual lowering of the inflation band which was set at 5-7% for 2018. We expect that inflation will smoothly go into a new band and will remain there throughout 2018 in the absence of shocks, both in the domestic economy and in the global markets.

The situation in the foreign exchange market remained stable. Fundamental factors determining the domestic currency exchange rate in the medium term had been favorable and the tenge had appreciated against the US Dollar in nominal terms by 0.3% during 2017.

In 2017, the current account deficit decreased nearly by 40% as compared to 2016 and amounted to USD 5.4 bln. In case of favorable developments in foreign markets and the persisting macroeconomic stability, the positive trend will continue in 2018.

The financial system recovery also represents an important factor for the growth of the domestic economy and welfare of Kazakhstani people.

In 2017, as part of its effort to increase soundness of the banking system, the National Bank proceeded to implement the Program for Increasing Soundness of the Banking Sector. Participation of banks in the rehabilitation program is based on the principles of joint participation of shareholders in recapitalization and payback of the government support. After successful implementation of anti-crisis measures, we proceed to strengthen supervision by the National Bank. The purpose of the risk-focused supervision is to encourage banks to pursue a highly prudent policy. The National Bank has already drafted appropriate amendments to the legislation.

To increase attractiveness of the securities market, the Government and the National Bank adopted the Joint Action Plan on the stock market development for 2018-2021; the Plan identifies the top-priority measures with regard to liberalization of the stock market regulation, reducing the government involvement in the economy, building up the market-based competitive pricing environment and establishing the framework of pension asset managers. The National Bank has already implemented some of these measures. So, simplification of procedures for issuers to enter the stock market and access to trades for retail investors, significant liberalization of the broker business and extension of investment opportunities of

bank holding companies resulted in revival of securities trading at the Kazakhstan Stock Exchange.

With a view to develop the insurance market, the draft law was prepared which is aimed to resolve four key objectives: ensuring financial stability of the insurance market, increasing a regional access to insurance services, improving the quality and reducing the cost of insurance products as well as strengthening protection of rights of the insurance services consumers. The draft law provides for introduction of electronic insurance policies and provision of insurance services via the Internet; shifting from the liability insurance of travel agencies to direct tourist insurance; introducing the implicit insurance; expanding the field of expertise of the insurance ombudsman; developing the insurance indemnity guarantee system and the common database for insurance contracts; increasing effectiveness of reinsurance.

Performance of payment systems serves as an indicator of the recovering economic activity. During 2017, 36.6 million transactions were processed through the National Bank's payment systems. The sum of payments reached KZT 850.6 trln., which exceeds the same indicator for 2016 by 44%. Non-cash payments which are made via the Internet and mobile banking continue to demonstrate a dynamic growth, and volumes of transactions with the electronic money are increasing.

Implementation of new technologies in the financial sphere urges us to pay a special attention to cyber security. In 2017, the Information Threats and Cyber Protection Division was established at the National Bank. Its functions include, among others, devising a uniform policy for ensuring information security and cyber security of the financial sector as well as assisting banks in detecting and counter-acting cyber-attacks.

In 2017, we made effort to further fine-tune regulations related to accounting and financial reporting; this effort resulted in designing the Rules for Creating Provisions (Reserves) in Line with IFRS. In addition, draft laws regulating collection business were prepared and adopted.

In 2018, the National Bank will continue its multi-faceted effort aimed at the strengthening and growth of all sectors of the financial market and extending the range of services rendered to the financial service consumers.

One of the focal areas in our activities will be implementation of the initiative of the President of the Republic of Kazakhstan "7-20-25. New Opportunities for Housing-Buying for Each Family", which is aimed to provide an affordable mortgage lending facility for a broad range of working people. As part of these activities, the National Bank will propose necessary changes to the laws and other regulations after which we will proceed to establish a special purpose vehicle of the National Bank to buy out mortgage loans provided by banks.

Another objective of the National Bank is to address the problem of retail mortgage loans in foreign currency.

The National Bank confirms its adherence to a transparent information policy. It is important for us that the people of our country could provide assessment of our performance. Therefore, while adhering to the transparency

principle, we provide information regarding all lines of the National Bank's activities in this Report.

## Summary of the Annual Performance

1. In 2017, the GDP growth, according to the updated information of the Committee on Statistics of the Ministry of National Economy, accounted for 4.0%. The main contribution to the GDP growth was made by the industry, construction and agriculture, which is an evidence of the recovering economic activity.

2. At the end of 2017 inflation reached 7.1% (December over December of the previous year). While implementing its monetary policy in the environment of inflation targeting, the National Bank was ensuring compliance with the inflation target set for 2017 within the band of 6-8% throughout the entire year.

3. The National Bank continues to adhere to the free floating exchange rate regime. In 2017, the tenge exchange rate was building under the impact of fundamental factors and their volatility was determining fluctuations of the tenge exchange rate within the range of KZT 310.40-345.00 per 1 USD. During 2017, the stock exchange rate of the tenge appreciated by 0.3% and made up KZT 332.33 per 1 USD.

4. During 2017, the banking sector's assets amounted to KZT 24.2 trln. The total asset volume of insurance organizations reached KZT 926.7 bln. The amount of pension accumulations increased to KZT 7.8 trln.

5. In 2017, the volume of deposits of residents with depository institutions amounted to KZT 17.5 trln. The increase in domestic currency deposits and the decline in foreign currency deposits resulted in the decreased dollarization of deposits from 54.5% to 47.7%.

6. The volume of bank credits to the economy in 2017 remained unchanged – at KZT 12.7 trln. Loans in the domestic currency increased to KZT 9.4 trln., while foreign currency loans decreased to KZT 3.3 trln. Dollarization of loans decreased from 32.5% to 26.3%.

7. 36.6 million transactions amounting to KZT 850.6 trln. had been processed in the Interbank System of Money Transfers and the Interbank Clearing System in 2017. As compared to 2016, the quantity of payments in the payment systems increased by 3.5%, and the amount of payments increased by 44.0%.

The total number of issued payment cards at January 1, 2018 was 19.4 million. The average number of payment cards in use in 2017 was 8.7 million.

8. Gross foreign exchange reserves of the National Bank at the end of 2017 amounted to USD 30.7 bln. and had increased by USD 1.0 bln. over the year.

9. The market value of portfolio held by the National (Oil) Fund of the Republic of Kazakhstan at the end of 2017 was USD 61.8 bln. The return on the National Fund's portfolio accounted for 7.59%.

## Section 1. Economic Development

### 1.1. Development of the Global Economy

In 2017, a favorable situation in the developed countries (the USA and countries in the European Union) as well as in key developing economies (India and China) had a positive effect on acceleration of the price growth rates in the commodity markets. At the end of 2017, the average price of oil (Brent) reached its three-year maximum and made up USD 64.4<sup>1</sup>; as compared to December 2016, prices of aluminum, copper, zinc and lead increased by over 22%<sup>2</sup>, and wheat prices – by 7%<sup>3</sup>.

Favorable developments in the commodity markets had a positive effect on the terms of trade of countries – exporters of primary commodities, Russia in particular. The Russian economy has been functioning in the environment of imposed sanctions over several years and has generally adapted to the existing realities. Given the improved foreign economic environment as well as the growth of domestic consumption, in 2017 Russia's GDP increased in real terms by 1.5% as compared to the 0.2% reduction in 2016<sup>4</sup>. In 2017, the behavior of the ruble exchange rate against the US Dollar was of a volatile nature, being determined by the behavior of world oil prices to a large extent. As oil prices were recovering and export proceeds were growing, at the year-end the Russian ruble appreciated by 5.3%<sup>5</sup>, and the exchange rate had been RUB 57.6 per 1 USD. Annual inflation in Russia reduced from 5.4% in 2016 to 2.5% at the end of 2017.

In 2017, the economy of the People's Republic of China was developing in the environment of the government stimulus measures, the improving situation in the country's foreign trade, a stable domestic consumer demand and the development of hi-tech industries. At the end of 2017, the GDP growth in real terms accounted for 6.9%<sup>6</sup>.

A significant economic growth in the European Union serves as one of positive foreign economic factors: in 2017 the growth rate accounted for 2.5%, whereas in 2016 – 1.9%<sup>7</sup>. The economic growth was driven by a stable consumer demand and investment demand, low unemployment as well as acceleration of the global economy. In these circumstances, along with depreciation of the US Dollar worldwide, the nominal exchange rate of the Euro against the US Dollar in 2017 appreciated by 14%<sup>7</sup>.

During 2017, the US Federal Reserve System raised its policy interest rate three times: from 0.5-0.75% to 1.25-1.5% per annum. The decision to tighten its monetary policy was dictated by the USA's intention to stabilize the labor market and to accelerate inflation towards the set band as well as by the protectionist and

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<sup>1</sup> According to the U.S. Energy Information Administration.

<sup>2</sup> According to Bloomberg.

<sup>3</sup> According to the Food and Agriculture Organization of the United Nation (FAO).

<sup>4</sup> According to the Federal State Statistics Service of the Russian Federation (Rosstat).

<sup>5</sup> According to the Central Bank of the Russian Federation.

<sup>6</sup> According to the National Bureau of Statistics of China.

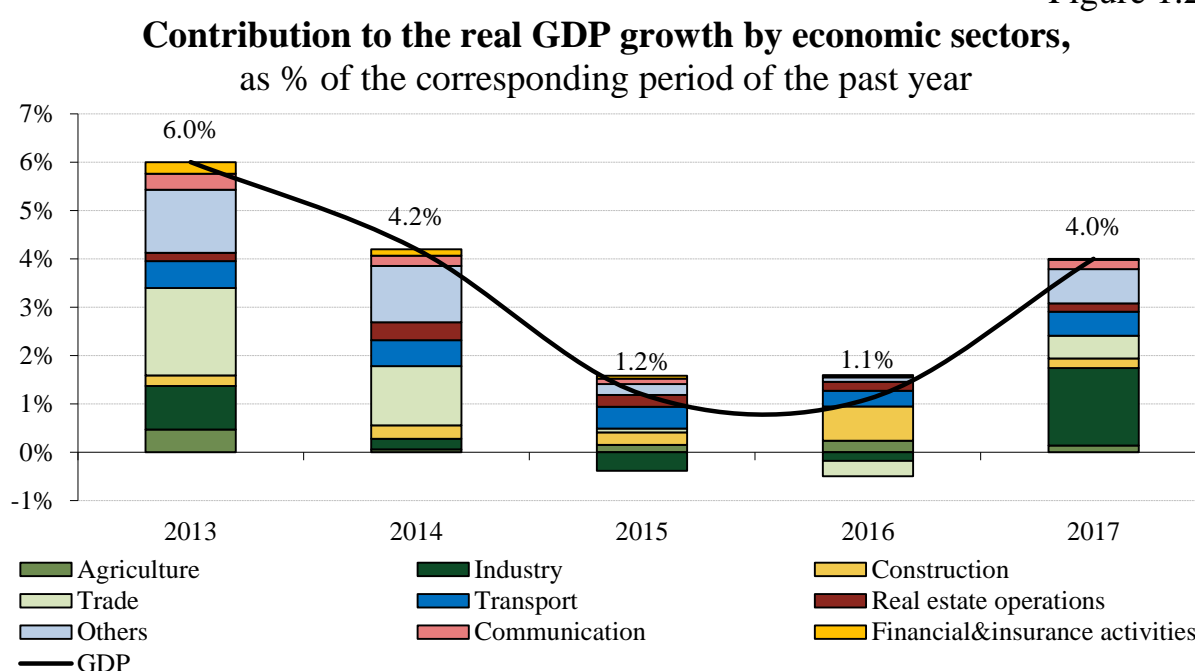
<sup>7</sup> According to Eurostat.

stimulative fiscal policy. It is worth mentioning that developments in the US economy had an indirect impact on the Kazakh economy that was mainly realized via the foreign exchange channel, namely appreciation of the US Dollar against major world currencies.

## 1.2. Real Sector of the Economy

In 2017, there was a significant acceleration in the growth of the Kazakh economy as compared to 2016. According to the most recent data, during 2017 Kazakhstan's GDP reached KZT 51.6 trln. in current prices, having increased by 4.0% in real terms (Figure 1.2.1).

Figure 1.2.1



A significant contribution to the GDP growth was made by the industry, where the growth in output accounted for 7.1% in 2017. Expansion of crude oil extraction in the Kashagan and Tengiz oil fields as well as extraction of ores of ferrous and non-ferrous metals resulted in the 9.3% increase in production volumes in the mining industry. The 5.1% growth in the manufacturing industry was secured by the increased production in the metallurgical industry (5.9%), machine-building (5.6%), oil refining (5.0%), and food production (4.1%).

Implementation of government sector support programs served as a significant growth factor in the construction sector (the growth of 1.9% in 2017) and in agriculture (2.9%). A gradual process of product diversification serves as a positive trend in the agricultural sector. So, given an overall increase in acreage (by 1.7%), the acreage for wheat was decreasing in favor of pulses and oil-bearing crops.

The increase in the volumes of trade accounted for 3.2% as a result of growth in retail sales (by 6.3%) and wholesale turnover (by 1.5%). Revival of



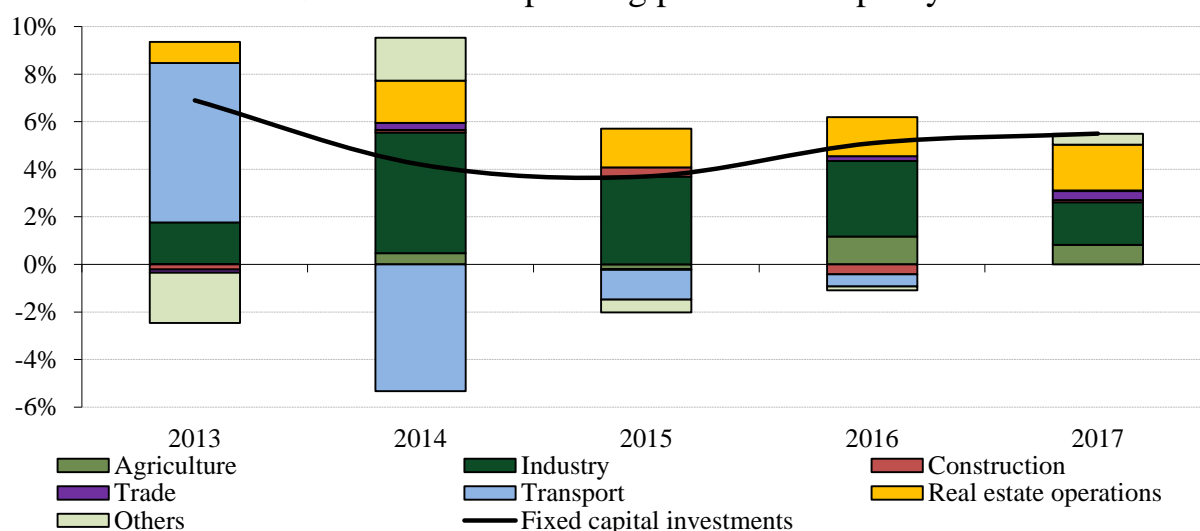
retail trade was secured by moderate recovery of the household spending amidst the growth in consumer lending, despite a continuing decline in real cash income of the population throughout 2017.

In the environment of growing extraction of mineral resources as well as positive trends in trade, the growth in rendering transport and warehousing services accounted for 4.8%. The main source for the increase in volumes in the sector of information and communication (3.3%) was the growth in the volume of services provided via the Internet.

During 2017, the volume of fixed capital investments increased by 5.5% (in 2017 – by 5.1%) (Figure 1.2.2). The increase in volumes of investment receipts was recorded in agriculture (by 29.3%), trade (21.8%), accommodation and catering services (57.3%), real estate operations (18.5%) and in the industry (3.8%). The largest shares in the structure of fixed capital investments fall on the mining industry (34.0%), transport and warehousing (14.1%), and real estate operations (13.0%).

Figure 1.2.2

**Contribution to the growth in fixed capital investments by economic sectors,  
as % of the corresponding period of the past year**

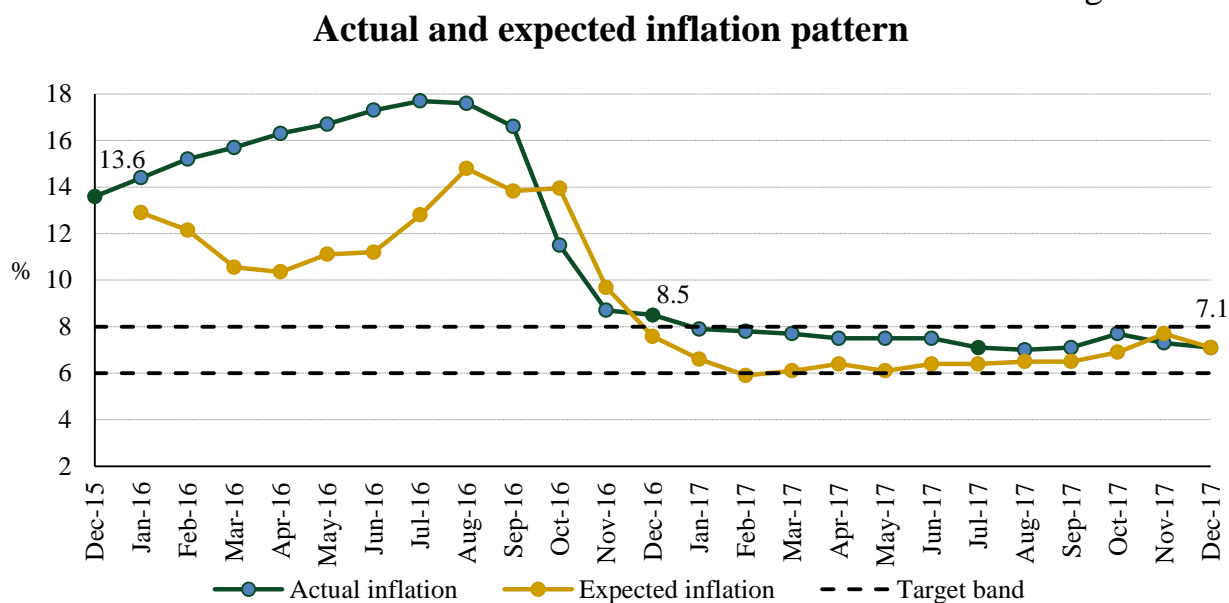


Own resources of enterprises still serve as the main source of funding for fixed capital investments, and their share in the overall investment volume accounted for 68.7%.

### 1.3. Inflation and Inflationary Processes

At the end of 2017, inflation in Kazakhstan reached 7.1% (December over December of the previous year) as compared to 8.5% in the previous year. Throughout the year, the inflation rate had been within the set target band of 6-8% (Figure 1.3.1). The average annual inflation in 2017 accounted for 7.4%, having reduced nearly double-fold as compared to 2016.

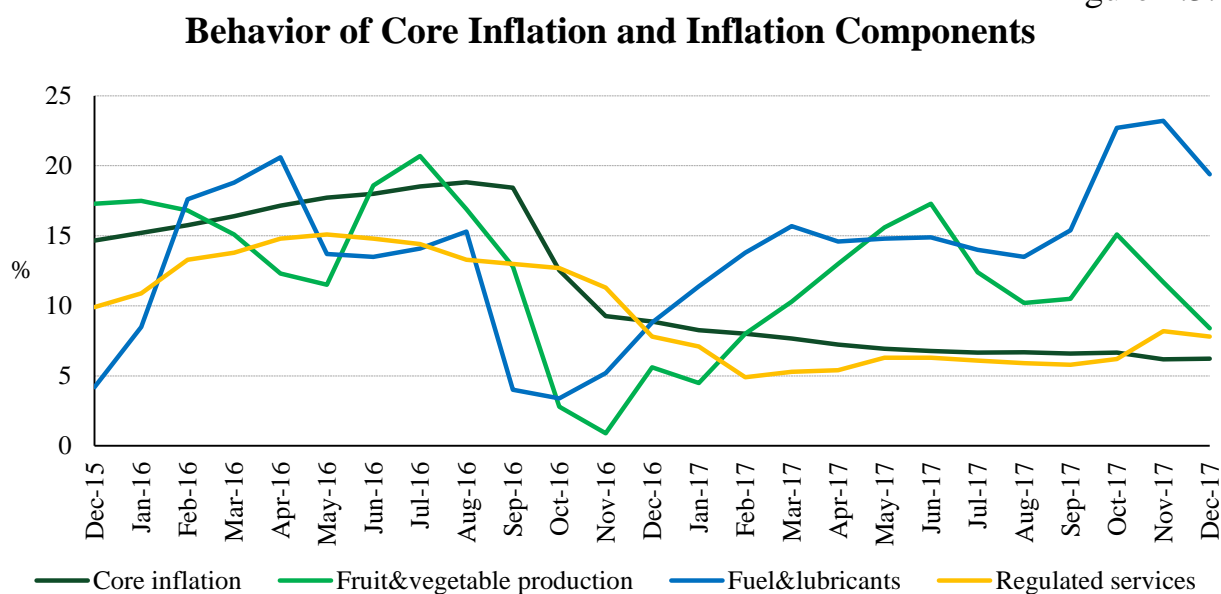
Figure 1.3.1



Deceleration of inflation was driven by mitigation of external inflation background, a stable situation in the global commodity and food markets, and the domestic agricultural market environment. Apart from those, a minor expansion of aggregate demand because of a negative pattern of real income of the population served as a constraining factor for inflationary processes.

The inflation pattern in certain periods of the year was to a large extent influenced by temporary factors (supply shocks in the domestic food market, energy market). The core inflation indicator excluding its volatile components (fruits and vegetables, energy carriers and regulated tariffs) was going down in a more smooth way – from 8.9% in December 2016 to 6.2% at end-2017 (Figure 1.3.2).

Figure 1.3.2

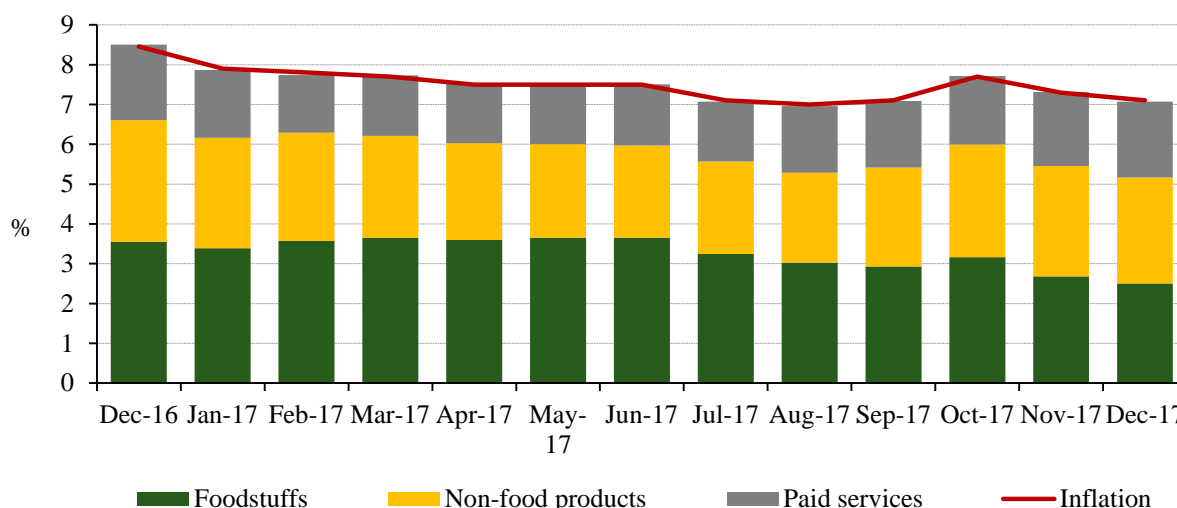


Inflation expectations of the households in 2017 remained volatile and were exposed to impact on the part of situation in the markets of certain goods and services thus creating increased risks for achieving inflation goals. Nonetheless, by the year-end their downward trend outlined and the quantitative assessment of expectations of the households in December 2017 was 7.1%.

In the structure of inflation, the largest contribution (2.7 percentage points) was made by the 8.9% increase in prices of non-food products. Prices of foodstuffs increased by 6.5% (the contribution of 2.5 percentage points). Paid services whose contribution to inflation accounted for 1.9 percentage points had demonstrated moderate growth of 5.9% over the year (Figure 1.3.3).

Figure 1.3.3

**Contribution to the consumer price index by major groups**  
(versus the corresponding month of the previous year)



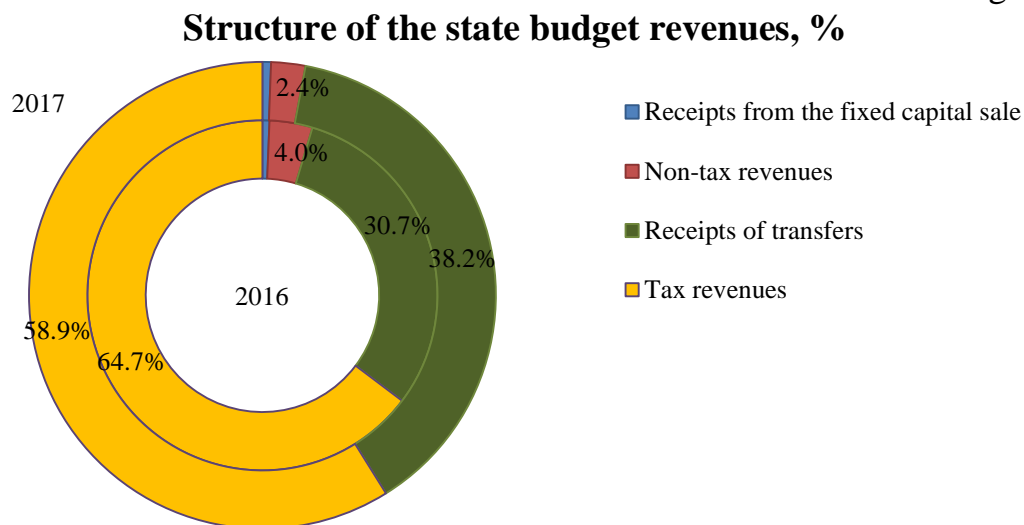
In 2017, the price growth in the real sector of the economy was slowing down. Producer price of products released to the domestic market increased by 9.5% (in 2017 – by 20.6%). The price of agricultural products increased by 2.6% (7.5%). There was a 6.3% (11.8%) growth in prices in the wholesale trade. Within the structure of foreign trade, the price growth rates of import goods in the tenge equivalent reduced by more than two-fold – 6.8% as compared to 16.4% in 2017, including the growth in prices of products from the EAEU member countries – by 14.7% (27.8%). The price of imported products declined in the foodstuff category to the largest extent.

#### 1.4. Government Fiscal Policy

Additional measures to support the economy and the banking sector taken by the Government in 2017 resulted in the necessity to take an additional volume of transfers from the National Fund in order to finance such activities. Hence, as compared to the previous year, the share of a guaranteed and an earmarked transfer

from the National Fund in the structure of the state budget revenues increased (Figure 1.4.1).

Figure 1.4.1



The largest contribution to the structure of tax revenues was made by the value-added tax – 24.4%, corporate income tax – 22.6% and personal income tax – 11%; other revenues accounted for 18.8%.

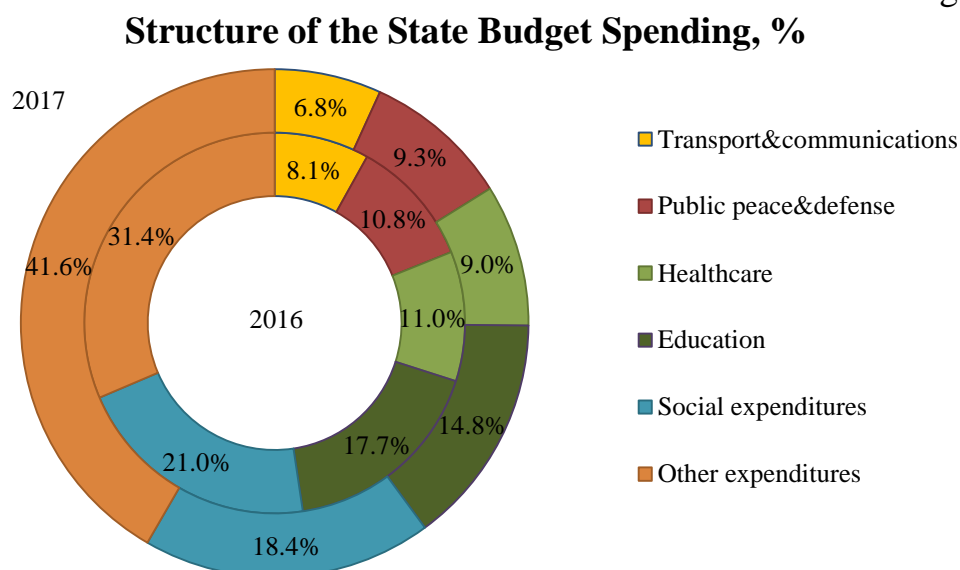
As compared to 2016, the state budget revenues increased by 24.3%, including tax revenues – by 13.1%. In the revenues structure, the most dynamic were the receipts of revenue from the international trade and foreign operations – 25.8% (as a result of the increase in the oil export customs duty from USD 35 to USD 50 per ton), and excises – 24.7% (because of the 24% increase in the rates of excise duty for tobacco and the 45% increase in the rates of excise duty for alcoholic beverages). Revenues from the use of natural and other resources increased by 15.3% (as a result of the improved pricing environment in the global market), and proceeds from the value-added tax increased by 11.3% (due to an increased volume of imports from the territory of the EAEU member countries). The volume of revenues from corporate income tax increased by 7.1%, from personal income tax – by 8.4%, and from social tax – by 8.7%.

Receipts of the guaranteed transfer from the National Fund to the budget increased by 36.5% to KZT 2.9 trln., and receipts of the earmarked transfer increased by 2.1 times to KZT 1.5 trln. The need in transfers was driven by the necessity to provide capital of KZT 2 trln. to the “Problem Loan Fund” JSC in order to support the country’s banking sector as well as by implementation of industrial-innovation and infrastructure projects.

As consequence, the state budget spending in 2017 increased by 32.3% as compared to 2016. A significant growth was observed on such items which have traditionally been main beneficiaries of the government spending. Expenditures on education increased by 10.4%, on healthcare – by 8.5%, and on social aid and security – by 16.4% (Figure 1.4.2). Along with that, expenditures related to the

industry, architectural, urban and construction activities decreased significantly (by 35.7%).

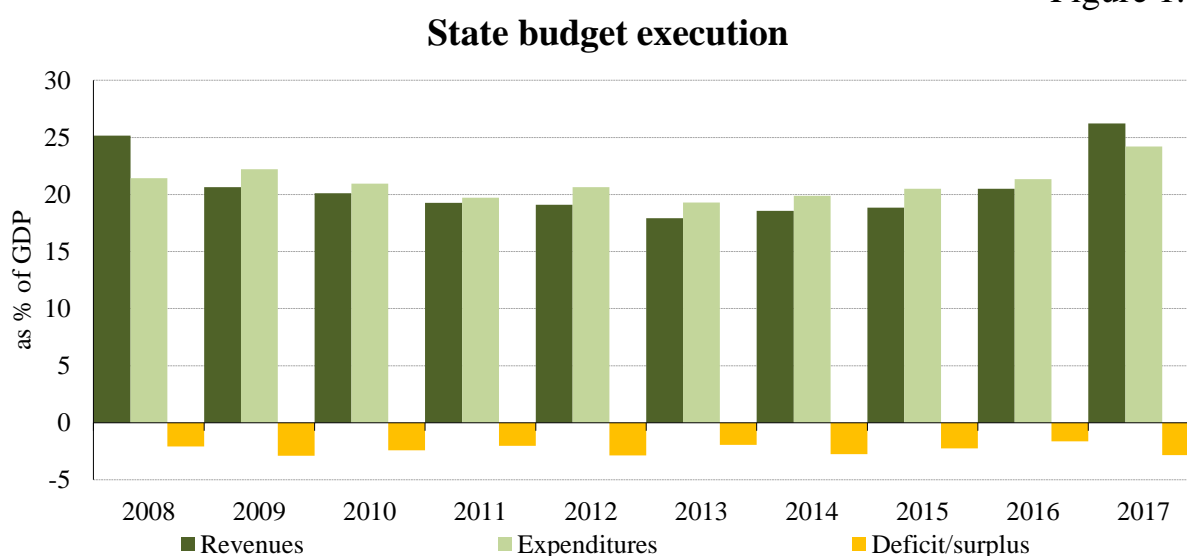
Figure 1.4.2



At the end of 2017, the National Fund's resources amounted to KZT 20.6 trln., having decreased by 4.1% over the year. Transfer withdrawals were not offset by the increase in receipts to the National Fund. Receipts to the National Fund in the form of direct taxes from the oil sector companies increased by 77.1% as compared to 2016 as a result of the growth in proceeds and revenues of oil producing companies given the increasing world oil prices.

The state budget deficit at the end of 2017 amounted to KZT 1.5 trln., or 2.8% of GDP (Figure 1.4.3). The non-oil deficit had been at 11.4% of GDP.

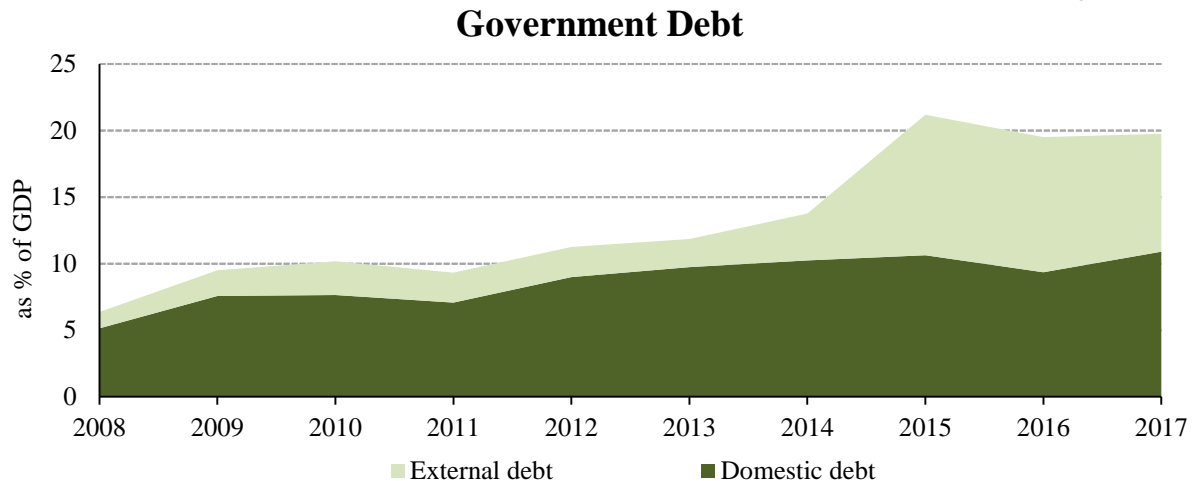
Figure 1.4.3



Based on performance in 2017, external government debt amounted to USD 13.7 bln., having decreased by 0.8% as compared to that of 2016 (Figure 1.4.4).

Eurobonds as well as foreign loans of the International Bank for Reconstruction and Development and the Asian Development Bank constituted a major share in the total amount of the Government external debt. The Government external debt had demonstrated the 32.1% growth, The Government external debt slightly decreased amounting to KZT 5.6 trln., or 10.9% of GDP at the end of 2017.

Figure 1.4.4



### 1.5. Balance of Payments and External Debt

The dynamics of world oil prices, attraction of resources of the National Fund of the Republic of Kazakhstan for the improvement of the banking system, repayment of debt by residents were the determinative factors that affected the balance of payments in 2017.

In 2017, world oil prices remained relatively stable, the average price of oil increased compared to the previous year, resulting in a moderate reduction in the current account deficit. With the resumption of real GDP growth, the current account deficit was 3.4% to GDP, , in 2016 – 6.5%.

Based on results of 2017, the current account deficit amounted to USD 5.4 bln., decreasing by almost 40% against the indicator of 2016 (Annex 1 to Section 1.5, Table 1.5.1).

The improvement of current account was due to a twofold increase in the trade surplus which amounted to USD 17.4 bln (USD 9.2 bln in 2016). In the 4<sup>th</sup> quarter of 2017 the trade surplus for the first time in three years exceeding USD 5 bln (the quarterly trade balance varied from USD 1.8 to USD 4.3 bln from 2015). World prices for Brent crude oil in average in 2017 amounted to USD 54.4 per barrel which is 23.5% higher than in 2016 (USD 44.0 per barrel). As a result exports of goods increased by 32.3% or USD 12.0 billion and amounted to USD 49.3 billion. The cost of exports of oil and gas condensate (55.0% of total exports) increased by 37.8% both due to the growth in contract prices and increase in quantitative supplies including those related to the launch of commercial production on the «Kashagan» oil field. Exports of ferrous and non-ferrous metals increased by 52.2% and 27.3% respectively. Growth rates of exports of goods

were outrunning the growth rates of imports by more than two times; during 2017 the growth of imports increased by 13.5% and amounted to USD 31.8 bln. Based on results of 2017, , the value of imports increased in all groups of primary commodity nomenclature. . The largest increase occurred among imports of consumer non-food goods – by 22.5%. Import of intermediate consumption of manufactured goods increased by 15.4%, imports of investment goods – by 13.9%. Imports of goods from Russian Federation and People's Republic of China (major trading partners of Kazakhstan) increased by 23.5% and by 27.9% respectively. .

Growth of revenues from commodity exports contributed to the growth of income of foreign direct investors by 41.9% to to USD 16.3 bln. More than a third of nonresidents' income from direct investments was directed by them to finance subsidiaries of Kazakhstani enterprises. . Remuneration payments to creditors who are not in direct investment relationship increased by 8.4% and amounted to USD 2.6 bln. In total, the negative primary income balance amounted to USD 17.9 bln (USD 12.9 bln in 2016). The deficit in international services amounted to USD 4.4 bln which is 7.2% lower than in 2016. . The decrease was due to reduction in the imports of services by 1.9% while the export of services increased by 2.1%. Financial account (excluding transactions with reserve assets of the National Bank) for 2017 formed with negative balance in amount of USD 5.7 bln (USD 8.4 bln in 2016). Higher growth rates of liabilities compared to the growth of assets provided for financial transactions net capital inflows or "net borrowing from the rest of the world". However, in the 4<sup>th</sup> quarter of 2017 net outflows (surplus) in amount of USD 0.7 bln were recorded in financial account transactions. .

On foreign direct investment, net capital inflow (negative balance) amounted to USD 3.8 bln (USD 13.3 bln in 2016). Growth of residents' assets on direct investment transactions amounted to USD 695.9 mln. The increase of financial assets occurred during the first three quarters by USD 2.1 bln in total as a result of increase by Kazakhstani enterprises into capital of their foreign subsidiaries and lending by residents of their foreign parent companies. However, in the 4th quarter of 2017, assets decreased by US\$ 1.4 billion due to repayment of debt obligations to Kazakhstani enterprises by foreign affiliated companies as well as sale of foreign company's shareholding by a resident. Net incurrence of liabilities on FDI in 2017 in amount of USD 4.5 bln was ensured mainly by investments of foreign direct investors in capital of subsidiaries and reinvestment of income by direct investors. At the same time in the second half of the year repayment of intercompany lending by Kazakhstani enterprises was registered. Gross inflows of FDI to Kazakhstan in 2017 amounted to USD 20.8 bln (USD 20.9 bln in 2016). Inflow of foreign direct investments to oil and gas industry including mining of crude oil and natural gas and activities of geological exploration and research amounted to USD 9.7 bln, to manufacture of basic metals and fabricated metal product - USD 4.5 bln, to wholesale and retail trade, repair of motor transport – USD 3.1 bln. Net inflows of capital (negative balance) was registered in the balance on portfolio investment in amount of USD 5.4 bln (net outflows in amount of USD 0.7 bln in 2016) mainly ensured by sale of foreign issued securities of the National Fund of the Republic of Kazakhstan as well as by issues of Eurobond by

Kazakhstani companies and banks for a total sum of USD 4.6 bln. In the 4th quarter of 2017, growth of residents' foreign assets (including the National Fund and JSC "Unified Accumulative Pension Fund") placed in foreign issued securities was registered at amount of USD 2.3 bln. In 2017 on medium-long-term debt instruments recorded under "Other investment", net inflows of capital is caused by reduction of assets of residents due to repayment by nonresidents of their liabilities on credits and loans to residents and amounted to USD 0.5 bln (USD 4.2 bln in 2016). For short-term debt instruments, net capital outflows amounted to USD 3.9 bln (USD 8.4 bln in 2016). The outflow was due to growth of assets of nonbanking companies in foreign accounts as well as a growth of foreign currency held by individuals. Reserve assets (excluding assets of the National Fund of Kazakhstan) on balance of payments transactions decreased by USD 1.6 bln in 2017 and as of January 1, 2018, the reserve assets amounted to USD 30.7 bln, which cover 8.6 months of import of goods and services of Republic of Kazakhstan. As of January 1st, 2018, external debt of the Republic of Kazakhstan amounted to USD 167.5 bln., from which the public sector external debt accounts for 7.8%, or USD 13.0 bln.; external debt of "Banks" sector accounts for 3.9%, or USD 6.5 bln.; debt of "Other sectors" not related to direct investments - 26.0%, or USD 43.5 bln.; and the remaining 62.4%, or USD 104.5 bln. is intercompany debt of "Other sectors" (Annex 2 to Section 1.5, Table 1.5.2).

During 2017, the country's external debt increased by USD 3.9 bln. (during 2016 by USD 10.2 bln.) mainly due to the growth by USD 4.7 bln. of foreign liabilities of "Other sectors". This growth was caused placement of Eurobonds by oil and gas companies as well as by attraction of external loans by mining and construction companies.

External debt of the Government almost did not change during 2017, since repayment of government foreign loans was offset by an increase in market value of sovereign Eurobonds. External debt of "Banks" sector (banks and JSC "Development Bank of Kazakhstan") decreased by USD 0.7 bln. due to the scheduled repayment of Eurobonds and foreign loans. External liabilities of the National Bank increased by USD 170.0 mln. due to non-residents' demand on short-term notes.

Decrease of external debt's growth rates, growth of GDP, and increase in exports of goods and services contributed to improvement of external debt relative parameters: as of end of 2017, the ratio of external debt to GDP was 105.9% (as of end of 2016 - 119.2%), while the ratio of external debt to exports of goods and services was 300.5% (as of end of 2016 - 375.6%) (Annex 3 to Section 1.5, Table 1.5.3).

During 2017, Kazakhstan's net external debt increased by USD 7.7 bln. to the value of USD 45.7 bln. and was equal to 28.9% of GDP.

The public sector and "Banks" sector are in the position of net creditors to the rest of the world (USD 55.6 bln. and USD 0.6 bln., respectively), while "Other sectors" - in the position of a net borrower (USD 101.9 bln.).



## Section 2. Monetary Policy and Safeguarding Financial Stability

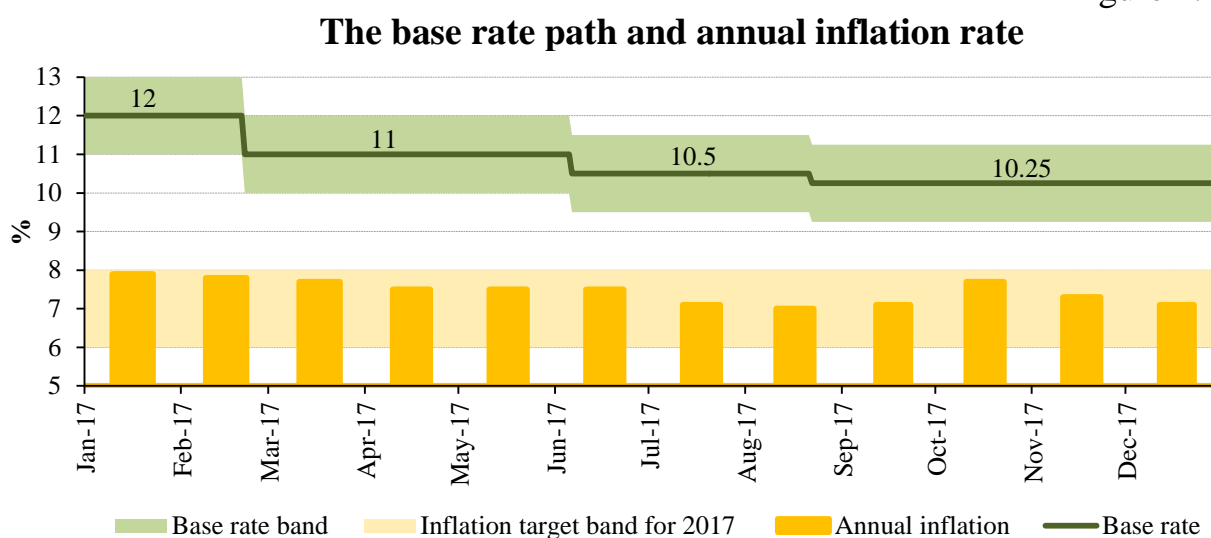
### 2.1. Monetary Policy

The National Bank's primary objective is to ensure price stability in the Republic of Kazakhstan. Hence, major efforts of the National Bank were focused on achieving inflation targets which were set within the target band of 6-8% for 2017.

Monetary policy of the National Bank is implemented under the inflation targeting regime. The base rate remains as a key instrument. In 2017, decisions about the base rate were made based on the inflation pattern, its goodness of fit with projections as well as its medium-term estimates. Fluctuations in inflation rates caused by supply shocks (in the domestic food market and energy market) did not lead to the decision-making about changing the base rate since they were of a temporary nature. In certain periods, especially in the second half of the year, because of a short-term inflation boost, the National Bank, basing on a conservative approach, held over the decision to continue with the policy of lowering the base rate.

In 2017, the National Bank's monetary policy, given the existing and forecasted trend of decelerating inflation processes, was aiming to gradually reduce the base rate. As a result, over the year it has been reduced from 12.00% to 10.25%: from February 21 – from 12% to 11%, from June 6 – to 10.5%, and from August 22 – to 10.25%. However, the interest rate band was not changed throughout the year and was +/-1% of the base rate (Figure 2.1.1).

Figure 2.1.1



During 2017, the nature of monetary policy implemented by the National Bank had changed. A moderately tight monetary policy in the first half of the year was later changed for a neutral one. The real base rate (that is, the nominal value of the base rate adjusted for a forecasted inflation rate over a one-year horizon) was maintained at the level comparable with long-term potential rates of the economic growth.

Such policy nature helped to maintain the annual inflation within the target range. A tight policy nature could result in slower rates of the economic growth, deepened stagnation of the credit market and a more dramatic and undesirable decline in the inflation rate in the environment of feeble consumer demand.

The money market, being affected by a continuing overflow of resources from the foreign currency-denominated instruments into the tenge-denominated instruments as well as by a stimulative fiscal policy with a limited growth of lending, was functioning in the environment of a structural liquidity surplus. In order to limit a possible realization of inflation risks, the National Bank conducted operations to withdraw excess liquidity. The bulk of excess liquidity was absorbed through auctions of short-term notes with maturities from 7 days to one year. In addition, such monetary policy instruments as standing facilities were used – 1-day and 7-day deposits of the National Bank and overnight direct repos at the Kazakhstan Stock Exchange.

Monetary policy operating measures ensured stability of interest rates in the money market and also helped to maintain the targeted TONIA rate within the interest rate band of the base rate. In doing so, being influenced by a significant short-term liquidity surplus in banks, the target rate was close to the lower boundary of the set band.

In order to provide a benchmark on the value of money for longer time horizons, the National Bank jointly with the Ministry of Finance made effort to build a risk-free yield curve which is an indicator of market expectations regarding interest rates. In order to build benchmarks for yields on financial instruments for longer maturities (over 10 years), in August 2017 the National Bank sold long-term government securities with maturities of 12, 15 and 17 years from its own portfolio. The Ministry of Finance issued government securities with maturities ranging between 2 and 15 years. As a result, a risk-free yield curve which had an inverted form in 2016 was tending towards normalization in 2017.

In order to increase the effectiveness in management of market expectations, both in respect to economic indicators and the monetary policy orientation, the National Bank continued enhancing its communication policy. The National Bank continued to publish information and analytical material on the monetary policy, regulatory and supervisory policy matters, disclosing its key lines of activities via regular press-conferences, interviews of the National Bank's management at the mass-media as well as meetings with the expert community.

## **2.2. Foreign Exchange Policy and Foreign Exchange Market**

In 2017, the National Bank continued adhering to the free floating exchange rate regime. The situation in the foreign exchange market was influenced by objective domestic and external factors. Daily changes of the tenge exchange rate allowed to immediately absorb external shocks limiting their impact on the domestic economy.

During 2017, volatility of the tenge exchange rate was decreasing. The tenge was fluctuating in the range of KZT 310.40 - 345.00 per 1 USD.

In January-May 2017, given a favorable situation in the foreign markets, after the agreement of the Organization of Petroleum Exporting Countries and countries outside of OPEC to reduce oil production volumes came into effect, the price of oil started to gradually rise. At the beginning of 2017, the price of oil exceeded USD 57 per barrel for the first time since July 2015 and was fluctuating at USD 53-54 per barrel on average during five months. Amid rising oil quotations, the tenge was gradually appreciating and devaluation expectations of the population were subsiding. According to the results of a monthly public poll, the percentage of respondents anticipating appreciation of the tenge grew from 12.0% in December 2016 to 18.4% in May 2017; the percentage of the interviewed who expected depreciation of the tenge decreased from 46.2% to 38.6%. In this setting, the National Bank did not participate in the foreign exchange trades.

In June-July 2017, amidst concerns about a persisting global oversupply in the petroleum product market and efficiency of arrangements regarding reduction in oil production volumes, the price of oil demonstrated its maximum decline since the beginning of the year (to USD 45 per barrel). Deteriorating situation in the commodity markets caused depreciation of the tenge. Existing uncertainty in foreign markets provoked the growth of devaluation expectations and volatility in the domestic foreign exchange market. With a view to decrease volatility in the foreign exchange market, the National Bank decided to take part in FX trades during the period of a peak demand for foreign exchange on June 21 and 22, selling USD 101 mln.

Later, despite a favorable situation in foreign markets, unjustified statements made by some experts regarding a forthcoming significant depreciation of the tenge opened the floodgates for increased inflation expectations among the population. A concurrent reduction in foreign exchange proceeds to the country on the current account of the balance of payments caused imbalance between demand and supply in the foreign exchange market. In the environment of insufficient supply, the growing demand for foreign exchange led to depreciation of the tenge to KZT 345.00 per 1 USD at the beginning of October. In August-October 2017 in order to satisfy the excess demand for foreign currency, the National Bank sold USD 519.4 mln. on a net basis.

As a result of measures taken by the National Bank, from the second half of October 2017 the situation in the foreign exchange market started to gradually stabilize. The pressure of devaluation expectations on the part of economic agents on the tenge weakened, and the exchange rate began to coincide with the behavior of fundamental factors. Volatility of the tenge exchange rate decreased, and fluctuations were occurring within the range of KZT 330.00-336.05 per 1 USD. The fact that the price of oil was steadily increasing above USD 65 per barrel and the Russian ruble was appreciating, created the prerequisites for appreciation of the tenge. The balance between demand and supply of foreign exchange enabled the National Bank not to participate in FX trading until the end of 2017.

At the end of 2017, the tenge had appreciated against the US Dollar by 0.3%, at the year-end the exchange rate at the stock exchange was KZT 332.33 per

1 USD. During 2017, the exchange rate of the tenge against the Euro and the Russian ruble at the stock exchange depreciated by 13.0% and 6.3%, respectively.

In 2017, the volume of stock exchange transactions in the KZT/USD currency pair increased as compared to 2016 by 21.8% and amounted to USD 37.0 bln. The volume of trading in the KZT/USD currency pair in the off-exchange market amounted to USD 116.6 bln. In doing so, 80% of off-exchange trading was comprised of transactions of one bank which are mainly made with a foreign head office with a view to hedge owners' equity from foreign exchange risk. In general, the volume of transactions with the KZT/USD currency pair in the domestic foreign exchange market amounted to USD 153.6 bln.

Transactions with the Euro and Russian ruble had relatively smaller shares in the turnover of the on-exchange and off-exchange segments of the foreign exchange market. During 2017, in the on-exchange market, the transaction volume in the Russian ruble increased two-fold to RUB 27.2 bln, and the volume of transactions in the Euro increased by 2.4 times to EUR 56.6 mln. In the off-exchange currency market, the transaction volumes in the Russian ruble increased by 35.2% to RUB 24.2 bln., and the volume of transactions in the Euro increased by 35.5% to EUR 92.3 mln.

In the cash foreign exchange market, expenses incurred by the population from purchases of foreign cash amounted to KZT 2.4 trln. Along with that, the structure of expenses related to the foreign exchange purchase had undergone changes. So, in 2017, the preference for cash US Dollars was growing; expenses related to purchases of cash US Dollars accounted for 65.0% of all expenses related to foreign cash purchases (in 2017 – 43.8%), because of the decreased share of expense related to purchases of the Russian ruble and the Euro – 25.8% and 9.2% (42.8% and 13.4%), respectively.

### **2.3. Safeguarding Financial Stability**

The National Bank's priority in safeguarding financial stability in 2017 was to go on with the policy of a further multi-faceted rehabilitation of the banking sector and increasing its financial soundness.

An integral phase in this effort is to resolve problem loans since banks failed to restore their quality despite their activities for the loan portfolio cleanup carried out earlier. Therefore, in 2017 the National Bank concentrated on the diagnostics of the real status of the loan portfolio with identification of non-performing loans hidden through restructurings and write-offs. With that view, the National Bank designed and tested the methodology for evaluation of regulatory provisions which provides rationale for loss recognition in the loan portfolio directly via banks' equity. Based on the methodology, a framework of regulatory capital deduction was designed for using regulatory asset quality assessments on a regular basis as part of the supervisory process.

Based on the effort made to evaluate a potential shortage of bank provisions and to ensure a further consistent rehabilitation of banks, the National Bank

adopted the Program for Increasing Financial Soundness of the Banking Sector<sup>8</sup>. One of key areas in the Program was rehabilitation of a systemically-important bank and providing financial support to socially significant banks, with mandatory joint participation of shareholders in additional capitalization and with adherence to the principle of payback of public resources. As a result, total equity and soundness of the banking sector increased, and a potential of lending to the economy was expanded.

Generally, in 2017 the lending policy of banks remained quite conservative, with a persisting trend of tightening of non-price terms of lending<sup>9</sup>. So, banks were tightening their requirements to the financial standing and collateral of borrowers, both in the corporate and retail segments. Along with that, together with the tightened terms of lending, a high competition among banks for good-quality borrowers in both segments helped lowering interest rates on loans throughout the year. Given a gradual recovery of economic activity among creditworthy borrowers, the number of new loans was growing.

In 2017, the National Bank continued a conceptual revision of the legislative infrastructure governing the Bank's authorities as the financial market regulator and an agency responsible for safeguarding financial stability. The National Bank prepared a draft law whose main objectives include:

- increasing effectiveness and efficiency of the National Bank's supervisory function through implementation of risk-focused supervision and a motivated judgment which are widely used internationally, including in identifying related party transactions of banks;

- expanding potential of the mechanism for identification, rehabilitation and resolution of insolvent banks. Legislative changes in this area suggest that the National Bank is given powers to apply the compendium of instruments for resolution of the bank insolvency which are used internationally to protect rights and interests of depositors and creditors, to minimize government expenditures, introduce international principles of effective resolution, fine-tune the framework for providing loans in the capacity of a lender of last resort;

- increasing responsibility of those audit firms and appraisal agencies in the financial market whose work products are widely used in supervisory and regulatory decisions.

The above legislative changes are scheduled to be made in 2018.

In 2017, the National Bank continued addressing the problem of shortage of long-term funding sources in banks. Partly, this problem was related to specifics of the deposit market where time deposits with an unlimited right of runoff at any time prevail. As a result, the possibility of deposit runoff, instability of their volume limits banks in their ability to provide lending to finance long-term projects in the real sector of the economy. In doing so, banks internationally discourage depositors from early withdrawal of their time deposits through penalties in the form of a loss of a substantial part of interest on a deposit or other

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<sup>8</sup> A relevant Board Resolution of the National Bank of the Republic of Kazakhstan was passed on June 30, 2017.

<sup>9</sup> Following the results of a quarterly study of the credit market quality parameters based on the interviewing of banks "The Survey of Banks Regarding Lending" conducted by the National Bank.

conditions. To that end, the National Bank has designed a set of measures aimed to develop the time deposit market with their implementation intended in 2018.

Within the scope of the policy of efficient financial sector development and improvement of the system of regulation of financial organizations, 3 sessions of the Council for Financial Stability and Financial Market Development of the Republic of Kazakhstan were held in 2017. At these sessions, the most relevant issues regarding the banking sector development were discussed, namely:

- the program for increasing financial soundness of the banking sector as well as establishing an effective resolution regime in respect of insolvent banks in line with recommendations of international organizations;

- measures to strengthen activities for counteracting money laundering and terrorism financing aimed to address the problems associated with the risks of involving banks and their clients into doubtful operations (transactions);

- areas of concern of agro-industrial holding companies and their impact on the banking sector, including issues related to determining the real amount of debt, adequacy of bank capital to cover losses as well as barriers preventing from debt resolution;

- introducing the International Financial Reporting Standard No. 9, *Financial Instruments*, which is aimed to increase stability of the banking system, ability of banks to absorb future losses as well as to improve the risk management system.

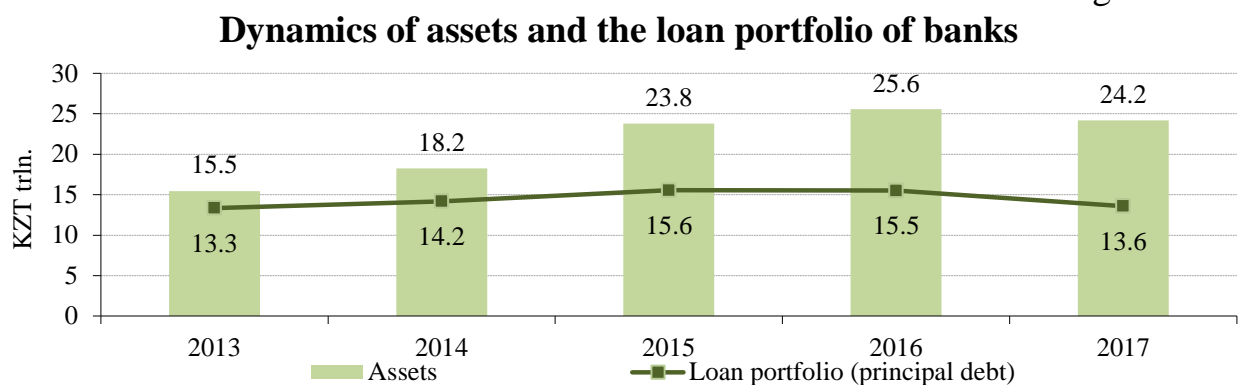
## Section 3. Financial System: Status, Regulation and Supervision

### 3.1. Banking Sector

As at January 1, 2018, 32 banks and 6 organizations which engage in certain types of banking operations, including 2 mortgage organizations (at the beginning of 2017, 33 banks and 8 organizations which engage in certain types of banking operations, including 3 mortgage organizations) were functioning in the Republic of Kazakhstan.

During 2017, the banking sector's assets decreased by KZT 1.4 trln., or by 5.5% and amounted to KZT 24.2 trln. (Figure 3.1.1).

Figure 3.1.1



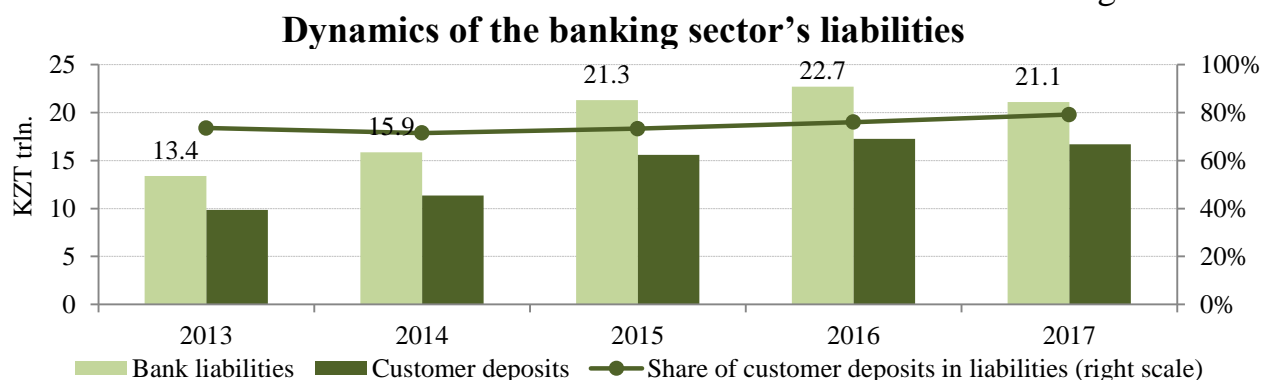
At the end of 2017, the banking sector's loan portfolio amounted to KZT 13.6 trln., having decreased by 12.4% since the beginning of the year.

As at January 1, 2018, provisions created under requirements of international financial reporting standards for the banking sector's loan portfolio amounted to KZT 2.1 trln., or 15.6% of the total loan portfolio.

Loans which are past due on their principal and/or accrued interest more than 90 days amounted to KZT 1.3 trln., or 9.3% of the total loan portfolio of banks.

During 2017, bank liabilities decreased by KZT 1.6 trln., or by 7.0% and amounted to KZT 21.1 trln. (Figure 3.1.2).

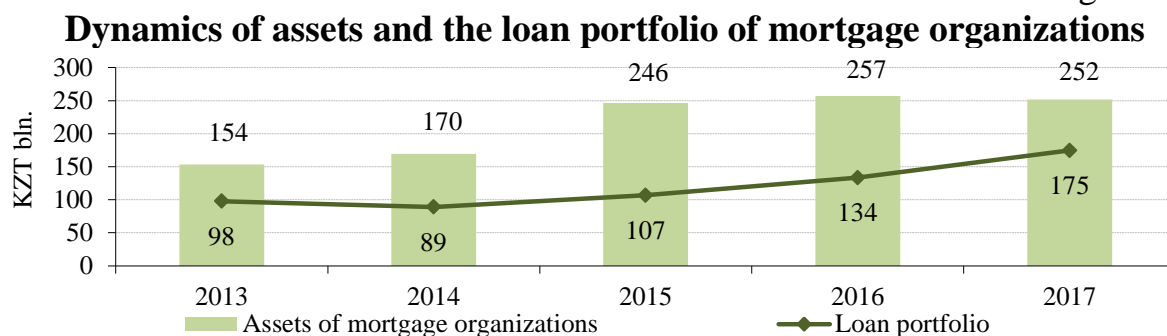
Figure 3.1.2



At the end of 2017, total assets of mortgage organizations amounted to KZT 251.9 bln., which is by KZT 5.2 bln., or by 2.0% less than in 2016.

The total loan portfolio of mortgage organizations amounted to KZT 174.5 bln., which is by KZT 41.0 bln., or by 30.7% greater than the indicator at end-2016 (Figure 3.1.3).

Figure 3.1.3



Loans provided by the “Kazakhstan Mortgage Company” account for the largest share in the total loan portfolio of mortgage organizations – 99.9%.

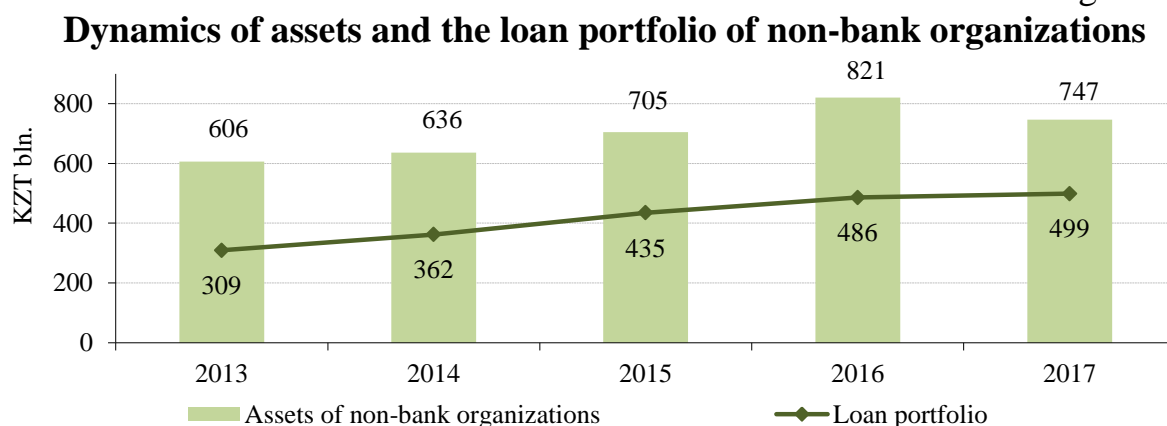
As at January 1, 2018, the relative share of past due loans in the total loan portfolio of mortgage organizations accounted for 8.7%, or KZT 15.2 bln., including loans past due more than 90 days – 1.3%, or KZT 2.2 bln.

At the end of 2017, provisions created by mortgage organizations amounted to KZT 4.3 bln., and the relative share of created provisions in the loan portfolio accounted for 2.5%.

At the end of 2017, total assets of non-bank organizations<sup>10</sup> amounted to KZT 747.3 bln., having decreased by 8.9% over the year.

At the end of 2017, the loan portfolio<sup>11</sup> of subsidiaries of the national management holding company in the area of agro-industrial complex amounted to KZT 499.0 bln., having increased by 2.7% (Figure 3.1.4).

Figure 3.1.4



<sup>10</sup> Subsidiaries of the national management holding company in the area of agro-industrial complex and the National Postal Operator of the Republic of Kazakhstan.

<sup>11</sup> Including the financial lease provided less the reserves.



As at January 1, 2018, the relative share of past due loans in the total loan portfolio of subsidiaries of the national management holding company in the area of agro-industrial complex accounted for 22.5% (KZT 128.0 bln.), where the relative share of loans past due more than 90 days accounted for 13.5%.

At the end of 2017, the number of microfinance organizations which have undergone the record registration with the National Bank was 152, having increased by 29 over the year. The majority of microfinance organizations were carrying out their activities in the city of Almaty (34%), in the South Kazakhstan Oblast (15%) and in the city of Astana (11%).

During 2017, assets of microfinance organizations increased by 33.0% and amounted to KZT 189 bln. In the microfinance sector in general, the share of three largest organizations accounted for 69.0% of total assets of microfinance organizations.

The portfolio of provided microloans comprised the main share in assets of microfinance organizations and accounted for 85.0%, or KZT 160 bln.. Provisions for the portfolio of microloans accounted for 3.3%, and the percentage of microloans past due more than 90 days accounted for 3.4%, or KZT 5.4 bln.

At the end of 2017, total liabilities of microfinance organizations increased by 37.0% and amounted to KZT 127.2 bln., where 95.3% fall on received loans.

As at January 1, 2018, owners' equity of microfinance organizations amounted to KZT 61.3 bln., having increased by 24.5%. Net profit of microfinance organizations increased by 62.0% and amounted to KZT 9.8 bln.

### **Program for Increasing Financial Soundness of the Banking Sector**

With a view to turn around the banking sector, in 2017 the National Bank designed and implemented the Program for Increasing Financial Soundness of the Banking Sector of the Republic of Kazakhstan.

The Program was meant to provide support to "Kazkommertsbank" JSC and five largest banks that are economically and socially important and whose assets in toto accounted for about 45% of total assets of the banking sector.

The problem loan portfolio of "Kazkommertsbank" JSC was bought out by the "Problem Loan Fund" JSC; after that the bank was acquired by a strategic investor and was recapitalized. As a result, the loan portfolio of "Kazkommertsbank" JSC was cleaned up; the bank's capital and its liquidity were increased. Resolution of this problem in 2017 was paramount for ensuring an uninterrupted functioning of the financial system as well as for performance of the economy and social standing of the population. Without the government support, realization of risks associated with the bank could result in systemic implications for the whole economy.

KZT 653.7 bln. was allocated to support the capital of five large banks. In turn, banks committed themselves to reduce the amount of past due loans by about KZT 1.2 trln.

Based on performance in 2017, banks carried out activities to create provisions and write off past due loans ahead of the schedule. Write offs had been made or provisions had been created against more than a half of bank total losses (58%).

Capital support to banks helped increase their lending activity. So, since the time when participating banks obtained the government support, the volume of new loans had amounted to KZT 463 bln.

From the beginning of 2018, no new bank applications for the government support will be reviewed; the Program is accomplished with regard to provision of new resources. However, monitoring of supervisory plans and of repayment of government support resources by the five banks will be continued; the Program will be going on in respect of legislative amendments aimed to strengthen the National Bank's regulatory and supervisory mandate.

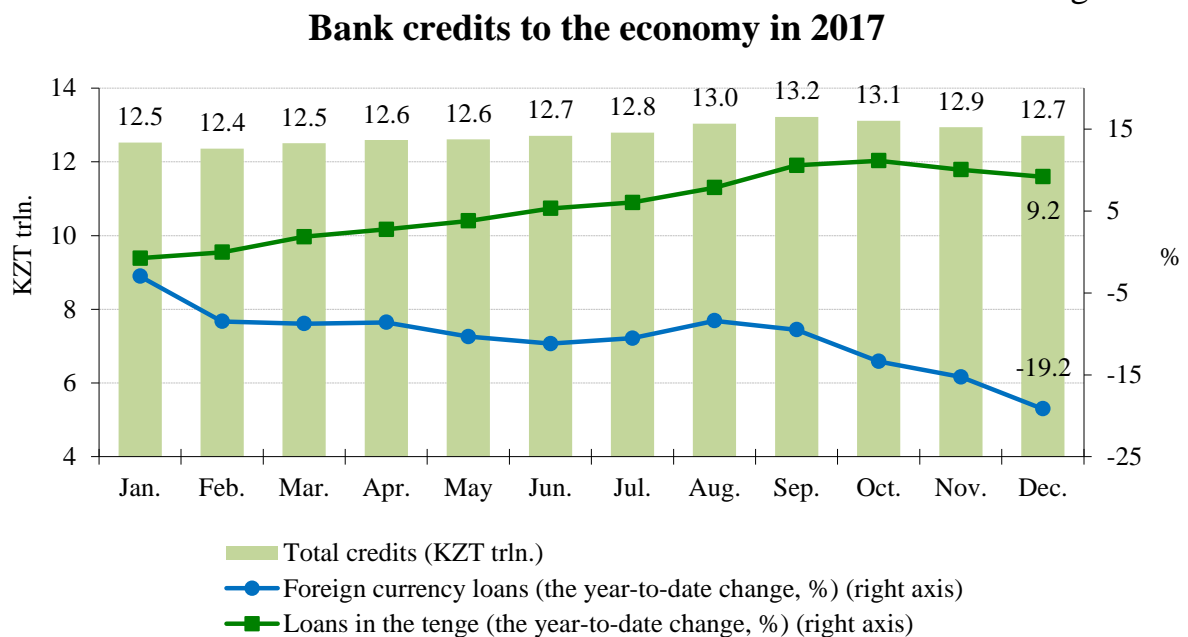
The strengthening of the National Bank's regulatory and supervisory functions will be focused on increasing requirements to the quality of bank assets, to related party transactions, to collateral, and unification of approach to provisioning.

### Credit Market

At the end of 2017, the volume of bank credits to the economy had not changed and amounted to KZT 12.7 trln. Without regard to structural changes in the banking sector associated with the merger of "Kazkommertsbank" JSC and "Halyk Bank of Kazakhstan" JSC, revocation of license of "Delta Bank" JSC for banking and other operations and activities in the securities market as well as rehabilitation of "Bank RBK" JSC, the growth of the banks' loan portfolio accounted for 10.8%.

During 2017, loans in the domestic currency increased by 9.2% to KZT 9.4 trln., whereas foreign currency loans decreased by 19.2% to KZT 3.3 trln. (Figure 3.1.5). As a result, a relative share of loans in the tenge in total loans increased from 67.5% to 73.7%.

Figure 3.1.5



The volume of corporate loans decreased by 5.8%, amounting to KZT 8.2 trln. at the end of 2017, whereas retail loans increased by 12.4% to KZT 4.5 trln. The relative share of retail deposits increased from 31.8% to 35.7%.

In 2017, long-term lending increased by 2.9% to KZT 10.8 trln., and short-term lending decreased by 14.0% to KZT 1.9 trln. The share of long-term loans in the structure of bank loan portfolio accounted for 85.0% (in December 2016 – 82.6%).

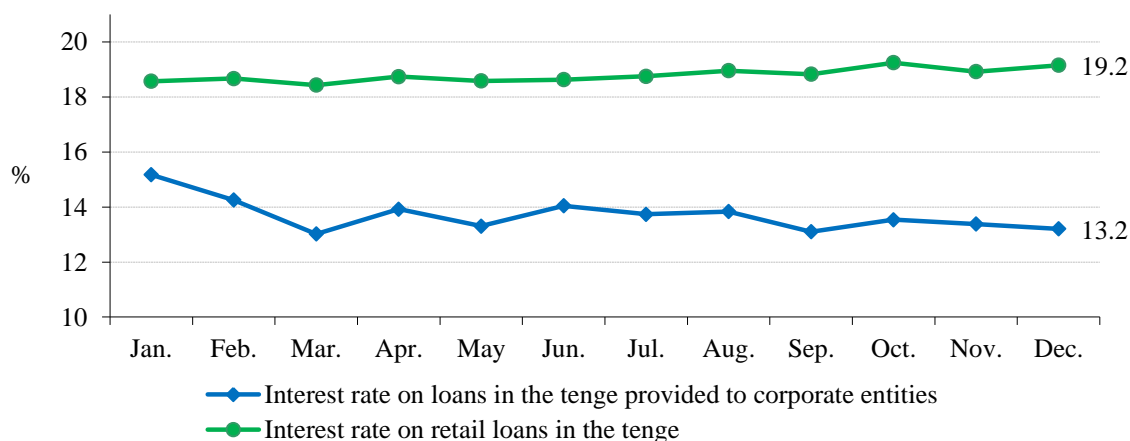
Loans to small businesses in 2017 decreased by 7.1% to KZT 2.8 trln., which accounts for 21.9% of the total volume of credits to the economy.

In an industry-based breakdown, the most significant amount of bank credits to the economy falls on the sector of trade – 15.9%, the industry – 15.6%, construction – 7.2%, agriculture – 5.5%.

In 2017, the weighted average interest rates on loans in the domestic currency provided to non-bank legal entities decreased to 13.6% from 16.8% in 2016, and on retail loans – to 18.8% from 19.0% in 2016 (Figure 3.1.6).

Figure 3.1.6

### Weighted average interest rates on loans provided in the tenge in 2017



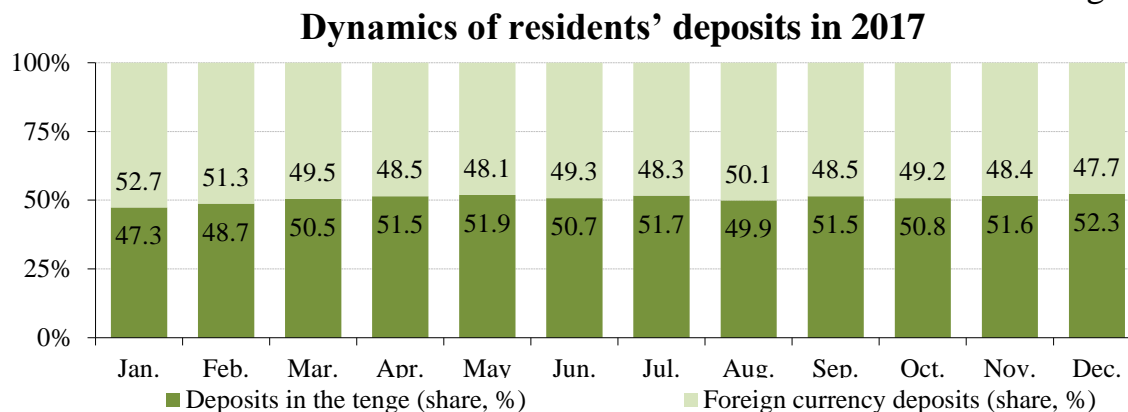
### Deposit Market

In 2017, deposits of residents in depository organizations decreased by 3.0% (in 2016 – the growth of 13.6%), amounting to KZT 17.5 trln. Without regard to the structural changes in the banking sector associated with revocation of license of “Delta Bank” JSC for banking and other operations and activities in the securities market that resulted in the deposit runoff from the banking system for a subsequent inclusion in liquidation mass, rehabilitation of “Bank RBK” JSC and assignment of its liabilities to specialized financial company as well as with rehabilitation of “Kazkommertsbank” JSC which was followed by a deposit runoff, the growth of deposits accounted for 4.7%.

The increase in the domestic currency deposits and the decrease in foreign currency deposits resulted in the decreased degree of deposit dollarization from 54.5% in December 2016 to 47.7% in December 2017. The subsiding devaluation and inflationary expectations coupled with measures taken to increase

attractiveness of the tenge deposits contributed to the growth of deposits in the domestic currency. So, during 2017, deposits in the domestic currency increased by 11.4% to KZT 9.2 trln., whereas foreign currency deposits decreased by 15.1% to KZT 8.3 trln. (Figure 3.1.7).

Figure 3.1.7

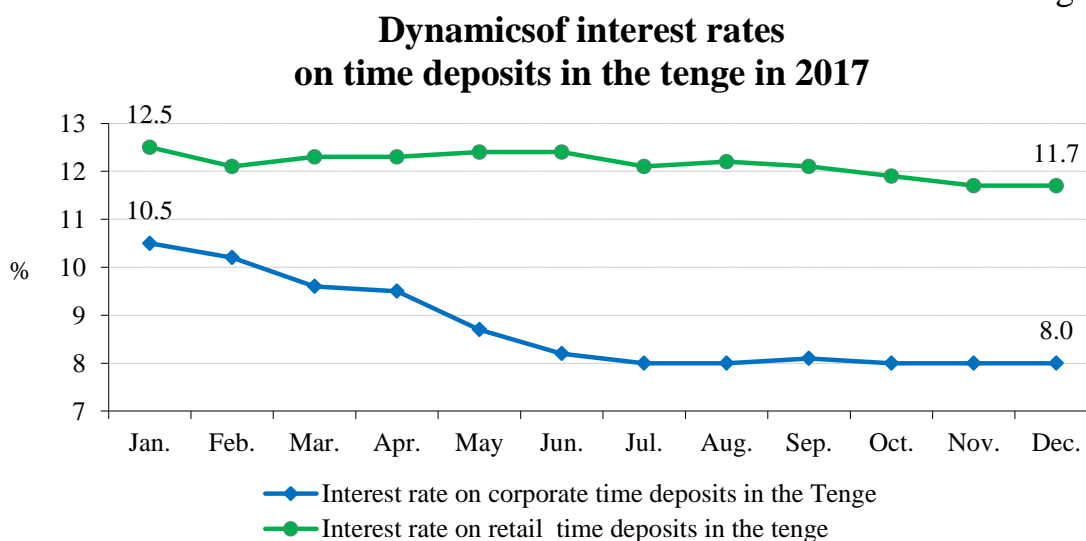


In 2017, corporate deposits decreased by 8.1% to KZT 9.4 trln., where deposits in the domestic currency increased by 0.5% to KZT 5.3 trln., and foreign currency deposits decreased by 17.3% to KZT 4.1 trln. As a result, dollarization of corporate deposits accounted for 43.8% (in December 2016 – 48.7%).

Retail deposits increased by 3.7% to KZT 8.1 trln., where deposits in the tenge increased by 30.7% to KZT 3.9 trln., and foreign currency deposits decreased by 12.8% to KZT 4.2 trln. Dollarization of retail deposits accounted for 52.2% (in December 2016 – 62.0%).

In December 2017, the weighted average interest rate on time deposits in the tenge of non-bank legal entities accounted for 8.0% (in December 2016 – 10.5%), and the interest rate on time retail deposits in the domestic currency – 11.7% (12.2%) (Figure 3.1.8).

Figure 3.1.8



### **Regulation**

In 2017, the National Bank continued its effort of moving its current regulatory regime to core principles of the Basel III. In particular, under Principle 7 of effective liquidity risk management, amendments were made which require banks with a high concentration of liabilities to create a higher level of high-quality liquid assets.

Within the framework of adoption of the international financial reporting standard (IFRS) 9, *Financial Instruments*, in 2017 the review of international experience had been made and banks were interviewed regarding their preparedness to adopt the new standard. This effort resulted in the drafting of the Rules for Creation of Provisions (Reserves) in line with IFRS.

With a view to encourage banks to use a more conservative approach in creating their provisions, in 2017 a deduction from capital of the amount of excess of regulatory provisions over provisions created by banks under IFRS was approved, since regulatory provisions imply a more conservative approach to recognition of a financial asset as impaired. In addition, characteristics for attributing loans to individual ones were determined, and the concept of hard collateral was introduced.

In 2017, the National Bank also was engaged in designing and implementing the risk-focused supervision system. The risk-focused supervision system enables to identify negative changes in the financial condition of organizations at their early stages, to apply necessary supervisory remedial measures in a timely and adequate fashion. To that end, the National Bank prepared legislative initiatives to strengthen supervisory response measures so as to take supervisory measures to increase capital and improve its structure, improve asset quality and operations conducted by a bank, liquidity ratios and the structure of liabilities, profitability ratios and expense optimizations, to limit asset- and liability side operations of banks as well as to improve the system of risk management and internal control and corporate governance.

With a view to strengthen stability of the bank funding base and encourage long-term savings at a more attractive return, the National Bank approved a new version of the Rules for issuance and circulation of bank certificates of deposit. The Rules provide for simplification of issuance of certificates of deposit by allowing the issuing banks to maintain their record-keeping themselves. In addition, with a view to manage liquidity risks in an effective manner, the payment of a nominal value and interest on a certificate of deposit before its maturity date shall be made by the issuing bank after thirty calendar days from the application date.

### **Licensing**

In 2017, as part of the licensing and authorization activity, 180 applications/petitions for government support were reviewed in respect of 5 public services, with positive decision being made on 131 services, including:

8 permissions to open/acquire a bank subsidiary were issued;

10 approvals to acquire the status of a large participant of a bank/a bank holding company were given;

5 licenses were issued (re-issued) (of which 1 license was issued to engage in additional types of banking and other operations conducted by banks, 1 license was issued to an Islamic bank in connection with completion of its conversion and 3 licenses were re-issued in connection with the change in the registered office address); in addition, 2 licenses were terminated in connection with their voluntary surrender;

143 applications were reviewed in relation to approval of nominees for executive positions in banks and bank holding companies; on the basis of such review 108 nominees were approved;

Apart from those, 3 permissions to acquire a subsidiary, 3 approvals to acquire the status of a large participant, 3 approvals to acquire the status of a bank holding company, and 1 permission for significant equity participation were cancelled.

In 2017, the following notifications of financial organizations were processed:

228 notifications about opening/closure/relocation of additional premises, bank branches;

7 notifications about closure/opening of bank representative offices, including non-residents;

95 notifications about the change in the composition of managerial staff of banks, bank holding companies and non-bank organizations;

33 amendments to constituent documents of banks and non-bank organizations were made.

In addition, as part of conversion of “Zaman Bank” JSC into “Islamic Bank “Zaman Bank” JSC, the National Bank approved the report on implementation of activities provided in the action plan for conversion of the bank into an Islamic bank and granted a license for banking and other operations of an Islamic bank.

In 2017, the National Bank’s official Internet resource provided regular updates on issued permissions to open or acquire a subsidiary by a bank, on issued banking licenses, given approvals/denials to approve the status of a large participant of a bank or a bank holding company as well as for significant equity participation in organizations, and approved managerial staff.

### **Supervisory Activities**

With a view to identify existing and potential risks and problems in activities of supervised entities, the National Bank performed the analysis of financial condition of banks, non-bank organizations, bank conglomerates and activities of credit bureaus on a monthly and quarterly basis.

During 2017, based on supervision of banks, bank conglomerates, organizations engaged in certain types of banking operations (except organizations whose only activities are arranging exchange operations with foreign cash), including mortgage organizations, subsidiaries of the national management holding company in the area of agro-industrial complex, National Postal Operator, credit bureaus, the National Bank applied the following remedial actions:

60 restricted remedial actions, including 36 written warnings, 23 written mandates, and 1 written agreement concluded.

552 sanctions in the form of imposed and collected penalty in respect of banks;

3 sanctions in the form of suspending a banking license;

1 sanction in the form of the banking license revocation.

The following factors had been identified in the course of an off-site supervision:

a low level of reserves against loan debts in three largest Kazakhstani agricultural holding companies in the absence of an adequate level of collateral;

removal of financial resources to the Russian Federation by affiliated entities of Kazakhstani agricultural holding companies;

a heavy reliance of funding sources of banks on resources of quasi-government entities;

payment of suspicious agency fees by banks on the funding raised.

Based on these factors, in 2017 the National Bank conducted documentary examinations of agency fees paid by banks as well as examinations for existence and the size of loans where grain receipts serve as collateral. Based on the National Bank's review of the limitation system existing in banks, relevant letters of criticism were sent to 11 banks. Banks changed their limitation system in respect of credit risk management by making changes to the lending policy and/or bank's internal regulations.

In 2017, 13 examinations of activities of banks and organizations engaged in certain types of banking operations were conducted, including 8 examinations based on the assessment of the degree of risk and 5 unscheduled examinations of banks conducted on the basis of filings from government authorities, individuals and corporate entities. Apart from those, in 2017 four documentary examinations were conducted on the basis of filings from law enforcement authorities and government authorities as well as corporate entities.

Based on the results of conducted examinations, 9 restricted remedial actions were taken in respect of banks and organizations engaged in certain types of banking operations in the form of written mandates and 452 protocols of administrative offense totaling KZT 245.3 mln. were prepared.

In 2017, the National Bank conducted examinations of 21 microfinance organizations, or 13.8% of the total number of microfinance organizations that had undergone the record registration. Based on identified violations, 30 sanctions in the form of imposed and collected penalty were applied and 59 restricted remedial actions were taken.

### **3.2. Insurance Sector**

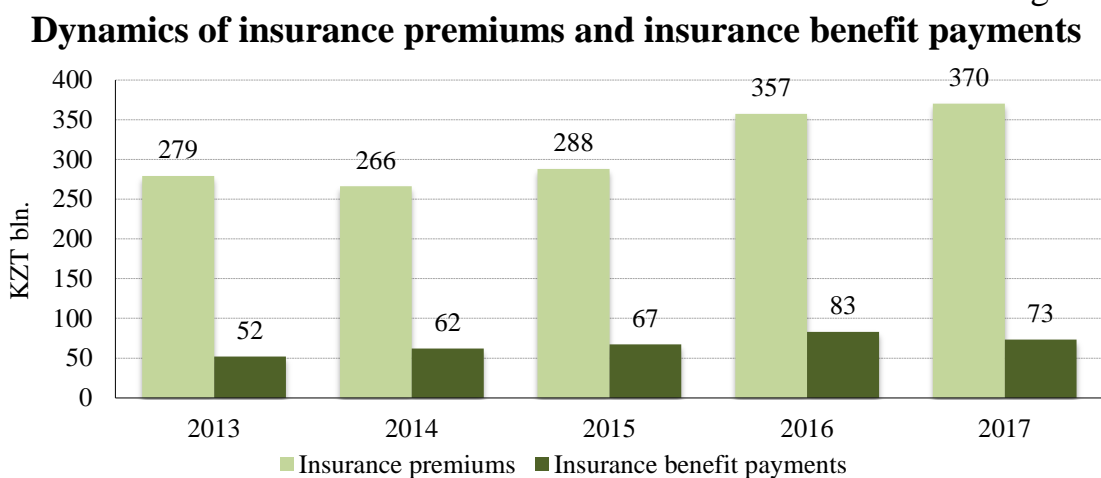
As at January 1, 2018, the insurance sector of the Republic of Kazakhstan was represented by 32 insurance organizations, 16 insurance brokers and 59 actuaries.

During 2017, the overall volume of assets of insurance organizations increased by 8.2% and at January 1, 2018 amounted to KZT 926.7 bln. During 2017, the total owners' equity increased by 2.7% and amounted to KZT 413.0 bln.

Total liabilities of insurance organizations amounted to KZT 513.7 bln., exceeding the amount of liabilities at end-2016 by 13.0%. Insurance reserves amounted to KZT 460.5 bln., or 89.6% of total liabilities, being by 11.6% larger as compared to 2016.

The total volume of insurance premiums increased by 3.7% and amounted to KZT 370.2 bln., where the amount of insurance premiums under direct insurance contract was KZT 332.0 bln., exceeding the volume in 2016 by 2.7% (Figure 3.2.1). Within the structure of insurance premiums, the major portion falls on voluntary property insurance – KZT 172.2 bln., or 46,5% of total insurance premiums; KZT 101.2 bln. or 27.3% was collected on voluntary personal insurance; and KZT 96.8 bln., or 26.2% falls on compulsory insurance.

Figure 3.2.1



Total insurance benefit payments made under insurance contracts during 2017 amounted to KZT 73.1 bln., having decreased by 11.9% as compared to 2016. The structure of insurance benefit payments by lines of insurance is as follows: voluntary personal insurance accounts for 43.9%, compulsory insurance – 39.6%, and voluntary property insurance – 16.5%.

The volume of insurance premiums ceded to reinsurance amounted to KZT 129.7 bln. or 35.0% of total insurance premiums. In doing so, 84.1% of total insurance premiums were ceded to reinsurance to non-residents of the Republic of Kazakhstan.

### **Regulation**

With a view to encourage the development of endowment insurance, in 2017 the approach to taxation was revised by exempting insurance benefit payments from taxation and cancelation of the existing tax abatements for insurance premiums (contributions) thus significantly simplifying tax administration in the endowment insurance.

Changes made to the legislation also provided that the insurance premium amount paid by an employer under the voluntary health insurance for its employees within eight-fold minimum wage shall be excluded from an employee's taxable income.



In addition, in 2017 a provision was introduced that allows entering into compulsory worker accident insurance contract by filing an application via the e-government portal when conducting the state registration of a corporate entity. This provision became effective on January 1, 2018.

However, insurance in the Republic of Kazakhstan still did not gain sufficient momentum. This is contingent upon many factors including a logjam of issues in the area of compulsory lines of insurance, imperfection of insurance products and services in voluntary lines of insurance, a low quality and regional lack of access to service of insurance organizations, a low level of insurance culture and confidence on the part of the population and the business community in insurance instruments.

In 2017, the National Bank prepared the draft Law of the Republic of Kazakhstan “On amendments to some legislative acts of the Republic of Kazakhstan regarding insurance and the insurance business” and submitted it to the Government. The draft law provides for a package of amendments to legislative acts regarding the development of the market and services of voluntary and compulsory insurance, the improvement of activities of professional participants and infrastructure organizations of the insurance market. Specifically, with a view to further develop and improve compulsory and voluntary insurance, the introduction of an on-line insurance (selling insurance services via the Internet) is planned; this will help increasing the geographic access and cheapen the cost of insurance services for the population and the business community. The draft law also provides for transition from the civil liability insurance of tour operators and travel agents to insurance of property interests of a tourist going abroad, thus enabling to build an effective framework of tourist protection. In addition, the draft law provides for introducing an implicit insurance where a flexible terms and conditions of insurance and an individual approach to each client and his/her risks serve as an advantage. Amendments to the legislation are aimed to develop the insurance market infrastructure and include measures intended for streamlining and tightening requirements to intermediary business, extending the list of guaranteed lines of insurance, expanding the scope of insurance ombudsman, fine-tuning the framework for selling insurance policies via the common insurance data base. In addition, the draft law proposes amendments which ensure improving licensing and authorization procedures, increasing the quality of reinsurance business regulation, increasing effectiveness of procedures for forced liquidation of insurance organizations, preventing from entering into doubtful transactions by insurance organizations. All of these measures will allow solving a major part of problems associated with the insurance sector regulation, will help increase confidence in the insurance market on the part of the population and the business community and develop good-quality and affordable insurance services.

### **Licensing**

In 2017, as part of the licensing and authorization activities, the National Bank considered 114 applications/petitions, of which 96 applications for services received positive feedback, including:

two individuals were given an approval for acquiring the status of a large participant of an insurance (reinsurance) organization;

2 actuarial licenses were issued;

2 insurance broker licenses were issued;

12 insurance (reinsurance) licenses were re-issued (including 9 – in connection with the change of location, 1 – in connection with exclusion of classes of insurance, 2 – in connection with the change of an organization's name), 1 reinsurance license and 3 licenses for additional insurance classes were issued;

licenses of two insurance brokers were re-issued;

as a result of consideration of 67 applications about approval of nominees for executive positions in financial organizations, insurance (reinsurance) organizations, bank holding companies and insurance holding companies, and the "Insurance Indemnity Guarantee Fund" JSC, 58 nominees were approved;

14 actuaries took their qualification exam (14 actuaries passed their qualification exam).

### **Supervisory Activities**

In 2017, ten examinations were conducted on the basis of assessments of risks in the activities of the insurance market entities, including 6 examinations of operations of insurance organizations and 4 examinations of operations of insurance brokers.

The key issues covered in the course of inspections were: the procedure for entering into and execution of compulsory and voluntary insurance contracts; accuracy of prudential ratio calculations; activities of insurance agents; reinsurance business; assessing effectiveness of the risk management system; investment activities; accuracy of insurance reserve calculations; credibility and reliability of accounting records.

As part of the off-site supervision, the following aspects were analyzed: the financial condition of insurance organizations and insurance brokers, movement of assets and liabilities of insurance organizations, quantitative and qualitative risk assessment in insurance organizations in order to determine the level of risk-focused supervisory consideration. The following areas were examined: the procedure of calculation of prudential ratios was checked for compliance with legislative requirements; existence of factors causing deterioration in the financial condition of insurance organizations as part of the early response measures; correct record-keeping in the financial and regulatory reports; adequacy of created provisions of insurance organizations, and actuarial opinions. Control was exercised over plans of actions submitted by insurance organizations and insurance brokers, including those taken to eliminate violations identified based on inspections.

In 2017, as part of the supervisory response in respect of the insurance market entities, 77 restricted remedial actions were taken, specifically in relation to:

insurance organizations: 28 written mandates, 26 written warnings, 8 written agreements concluded;

actuaries: 6 written mandates, 3 written warnings;

insurance brokers: 3 written mandates, 3 written warnings.

During 2017, 378 protocols of administrative offense were prepared. The total amount of administrative penalties imposed on the insurance market entities under 352 administrative offense cases was KZT 103.1 mln. One administrative penalty was imposed on a large participant of an insurance organization.

The following licenses were suspended for violation of the insurance legislation: on compulsory and voluntary lines of insurance - in respect of 1 insurance organization, on compulsory line of insurance – 1 insurance organization, on voluntary line of insurance – 1 insurance organization, and licenses of 2 actuaries; also, 1 insurance broker was deprived of its license.

In 2017, the National Bank's representatives were appointed to examine 13 insurance organizations; they examined adequacy of insurance reserves created, fulfillment of action plans aimed to prevent deterioration in the financial condition of insurance organizations, validity of high fees paid to agents under insurance contracts, and other aspects.

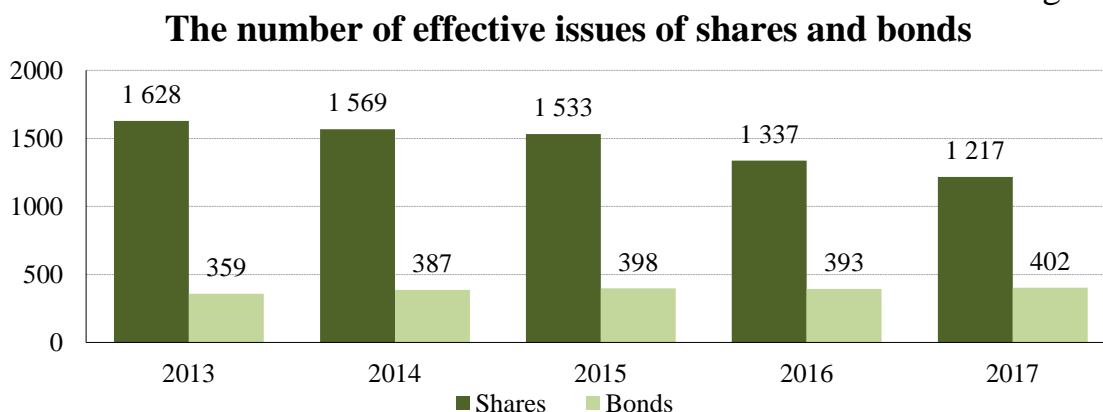
### **3.3. Securities Market**

As at January 1, 2018, the securities market of the Republic of Kazakhstan was represented by 45 brokers and/or dealers, 10 custodian banks, 21 investment portfolio managers, and 2 transfer agents. Also, three infrastructure organizations carry out their activities in the securities market: “Kazakhstan Stock Exchange” JSC which carries out licensed activities related to organization of trading with securities and other financial instruments and clearing on transactions with financial instruments in the securities market; “Central Securities Depository” JSC and the “The Integrated Securities Registrar” JSC which carry out exclusive types of professional activities in the securities market without a license.

At the end of 2017, the aggregate financial indicators of brokers and/or dealers and investment portfolio managers increased as compared to 2016: in terms of assets – by 34%, and in terms of owners' equity – by 21%. The growth in assets is related to the increase in the cost of the securities portfolio. The increase in owners' equity was caused by the increase in retained earnings in 2017 in connection with revaluation of securities as well as by a significant increase in owners' equity of one of professional participants of the securities market. Total liabilities also increased by 56%, and their growth occurred because of repo operations.

At January 1, 2018, the number of issuers of non-government issue-grade securities was 1 619, where the number of joint-stock companies with effective securities issues was 1 217 (Figure 3.3.1). Gradual reduction in the number of effective issues of shares occurs because joint-stock companies where the amount of registered capital was not brought in compliance with requirements of the Joint-Stock Company legislation of the Republic of Kazakhstan were liquidated under a voluntary or forced procedure.

Figure 3.3.1



During 2017, the National Bank registered 21 issues of shares and 141 issues of shares were cancelled, of which 70 issues were cancelled based on the National Bank's claims based on decisions made by territorial specialized economic courts about a forced liquidation of joint-stock companies whose owners' equity was not in compliance with the legislative requirements, and 9 issues of shares were cancelled based on letters from the Ministry of Justice regarding liquidation and reorganization of joint-stock companies. The remaining 62 issues of shares were cancelled based on decisions of general shareholder meetings about reorganization or liquidation of these joint-stock companies.

As at January 1, 2018, the number of effective bond issues was 402 with the total nominal value of KZT 11.5 trln., of which 262 issues were included into the official listing of the "Kazakhstan Stock Exchange" JSC, including 19 bond issues of an alternative platform.

In 2017, 40 issues of non-government bonds with a total volume of KZT 1.6 trln. and 8 bond programs with the issuance volume of KZT 0.6 trln. were registered.

During 2017, 4 issuers defaulted on the payment of principal and accrued interest on issued bonds: "Doszhan Temir Zholy (DTZh)" JSC, "Buzgul Aurum" LLP, "APK-Invest Corporation" LLP, and "ComTrade Product" LLP. Also, during 2017 "Kazakhstan Kagazy" JSC was still in default regarding the payment of principle and accrued interest on issued bonds.

As at January 1, 2018, 28 unit investment funds whose assets are managed by investment managers (14 – close-end, 1 – open-end and 13 – interval funds) as well as 18 joint-stock investment funds including 9 real estate trusts were operating in the securities market. Total assets of investment funds amounted to KZT 647.6 bln., where assets of unit investment funds amounted to KZT 584.8 bln., and assets of joint-stock investment funds – to KZT 62.8 bln., including KZT 36.4 bln. in assets of real estate trusts.

### **The Organized Securities Market**

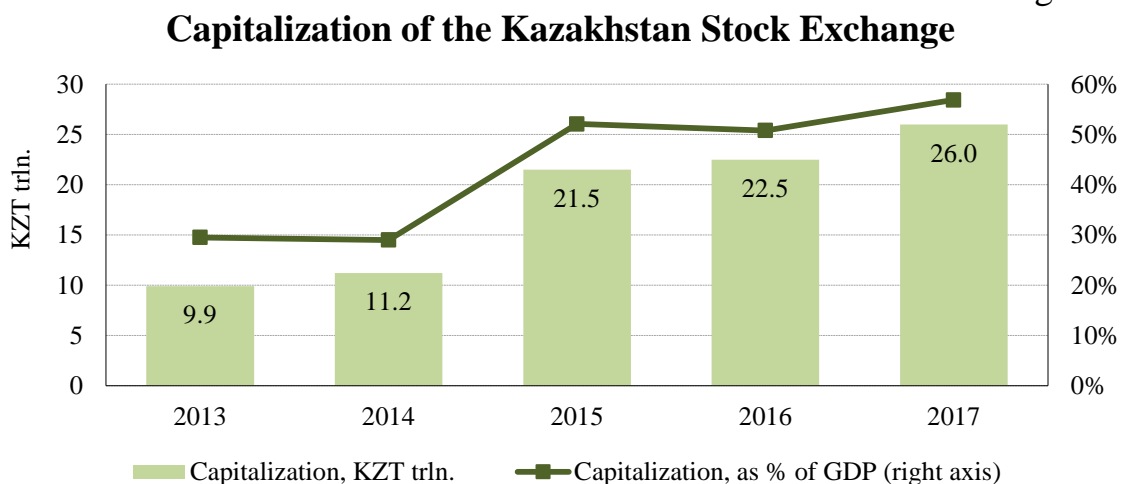
The organized securities market in the Republic of Kazakhstan is represented by the "Kazakhstan Stock Exchange" JSC.

As at January 1, 2018, the structure of the Kazakhstan Stock Exchange's official listing is represented by 120 stock issues of corporate issuers (18.8% of the

total number of securities issues included into the official list), including 46 issues of shares of an alternative platform; by 262 bond issues of corporate issuers (41.1%), including 19 bond issues of an alternative platform; 234 issues of government securities (36.7%); 8 issues of securities of international financial organizations (1.3%) and 6 issues of securities of investment funds (0.9%).

During 2017, the overall capitalization of the market of non-government securities included into the Kazakhstan Stock Exchange's official listing increased by 15.4% and amounted KZT 26.0 trln. (Figure 3.3.2).

Figure 3.3.2



During 2017, the volume of transactions with non-government securities (including the repo sector) in the organized market decreased by 6 times and amounted to KZT 6.6 trln., including KZT 0.8 trln. in the secondary market, KZT 0.6 trln. in the primary market and KZT 5.2 trln. in the repo sector.

In 2017, the volume of stock exchange transactions with government securities (including the repo sector) in the organized market amounted to KZT 70.4 trln. and increased by 22.9% as compared to 2016 because of the increased volume of repo operations.

### Regulation

With a view to increase the access to the market funding for business entities, in 2017 the structure of official listing of the “Kazakhstan Stock Exchange” JSC was revised by dividing it into three stock exchange platforms: main, alternative and mixed.

An alternative stock exchange platform was established on the basis of the “Kazakhstan Stock Exchange” JSC, primarily for small and medium-sized businesses which are interested in attracting investments in the stock market. The alternative platform has minimal requirements to participants, lower tariffs as compared to the main platform, and no supervision of manipulations on transactions, i.e. it has conditions which are aimed to popularize capital raising and investment in the stock market. Establishing an alternative stock exchange platform on the basis of the “Kazakhstan Stock Exchange” JSC had a purpose of involving a larger number of companies in the stock market in a faster way.

With a view to create an additional source of long-term funding, in 2017 investment opportunities of bank holding companies in the bond market were expanded by establishing a uniform list of bonds eligible for purchasing by banks and bank holding companies.

With a view to further develop and liberalize the securities market, in 2017 the Joint Plan of Actions of the Government and the National Bank for Development of the National Stock Market for 2018-2021 was devised. The Plan is aimed to establish an effective and competitive securities market, which promotes the business activity, ensures a further institutional development of the financial sector, financing of the top-priority sectors of the economy and a long-term economic growth in general. To achieve the goal, objectives in the following areas should be met: improving the stock market infrastructure and regulation; encouraging the demand and supply in the stock market; widening international cooperation.

As part of improvement of infrastructure of the securities market, the Integrated Registrar was merged with the Central Depository; this will allow consolidating all information about securities holders in a common data base, simplifying procedures and reducing the registration time of transactions and cutting customer costs owing to the tariff optimization. In order to increase transparency of the off-exchange securities market and encourage the demand for financial instruments in the market, an integrated information system of the off-exchange securities market will be established thus enabling the market participants to share securities quotations and enter into transactions.

In 2017, procedures for entering the stock market by issuers were simplified and requirements regarding registration of a securities issue and the information disclosure to investors were optimized; in particular, the scope of information which should be submitted by issuers to the National Bank and disclosed in prospectuses for securities was reduced, the number of authorization procedures related to changes to prospectuses for securities was reduced, the investor access to information about activities of issuers was simplified and systemized. A further optimization of authorization procedures associated with the securities issuance will be providing for a transition to an electronic form of a prospectus for securities and its automatic updating on the basis of information posted by issuers in the depository of financial statements.

With a view to increase the number of participants in the foreign exchange market and design additional instruments of foreign exchange risk hedging for brokers, changes to the legislation were drafted providing access to the currency exchange market for brokers.

### **Licensing**

In 2017, one license for broker and dealer activities in the securities market was surrendered on a voluntary basis.

In 2017, as part of the licenses and authorization activities 79 applications/petitions for public services were considered in respect of 13 public services, where a positive feedback was received in respect of 66 public services, including:

1 approval was given to a corporate entity to acquire the status of a large participant of an investment portfolio manager and 1 approval was given to an individual to acquire the status of a large participant of an investment portfolio manager;

4 licenses for activities in the securities market were re-issued (1 license was re-issued in connection with the change in the name, 1 – in connection with the change in location and 2 – in connection with the change in the name and registered office address), and 1 license for activities in the securities market was issued;

Based on consideration of 66 petitions about approval of nominees for executive positions of the professional securities market participants and the “UAPF” JSC, 59 nominees were approved.

### **Supervisory Activities**

In 2017, 10 examinations of activities of the securities market entities were conducted on the basis of risk assessments, including 3 brokers-dealers which combine their main activities with those of investment portfolio management, 2 investment portfolio managers, and a trade organizer as well as 4 issuers of issue-grade securities.

The main topics of examination were: to check compliance with the requirements of legislation which govern the procedure for engaging in the professional activities in the securities market, legislation on accounting and financial reporting, laws on counteracting the money laundering and terrorism financing, as well as the legislation which establish the procedure for disclosures by the securities market entities about corporate events as well as about changes in their activities that affect interests of securities holders.

As a result of inspections conducted in 2017 in respect of the securities market entities, 9 restricted remedial actions in the form of written mandates were taken, 47 protocols of administrative offence formalized, and 25 administrative protocols were submitted to courts for their consideration. The total amount of administrative penalties imposed upon the securities market entities in 2017 equaled KZT 23.7 mln., including KZT 4 mln. on administrative cases in respect of a non-commercial organization.

The purposes of off-site supervision include ensuring efficient and timely control over activities of the securities market entities aimed to avoid prejudicing investors; ensuring financial soundness of the professional securities market participants; monitoring the discharge of their obligations to investors by securities issuers. The off-site supervision of the professional securities market participants includes the analysis of their financial and regulatory reports for compliance with prudential ratios, of requirements to the amount of registered capital, control over provision of services to clients as part of the professional lines of business, compliance with requirements to availability of risk management and internal control systems as well as compliance with other norms and limits as established by the legislation of the Republic of Kazakhstan on the securities market.

Based on the off-site supervision in respect of the professional securities market participants, in 2017 fifteen early response measures were taken aimed to

prevent from deterioration in their financial condition and to ensure compliance with prudential requirements as set forth by the legislation of the Republic of Kazakhstan. The reasons for taking early response measures were reduction in capital adequacy ratio of certain professional securities market participants, the decreased volume of their liquid assets as well as loss-making operation.

In 2017, as part of the off-site supervision, 47 documentary examinations were conducted in respect of the professional securities market participants. Based on documentary examinations and other forms of control and supervision in respect of the professional securities market participants 37 restricted remedial actions were taken, 33 protocols of administrative offence were prepared and administrative penalties totaling KZT 12.5 mln. were imposed.

In respect of an organization which possesses the license for investment portfolio management and which violated the capital adequacy prudential ratio, the decision to suspend its license for one month was made; and later, because of the organization's failure to remove the causes for license suspension, in January 2017 the decision about the license revocation was made (the "Gold Investment Group" JSC).

The major breaches that entailed application of restricted remedial actions and sanctions in respect of the professional securities market participants were errors in the internal accounting systems of the professional securities market participants, non-compliance with deadlines for submission of reports to the National Bank, and shortcomings in the risk management and internal control system.

As part of the monitoring of securities issuers, in 2017 the analysis of reports of bond holders' representatives was made to check whether issuers of securities discharge obligations and covenants set forth in prospectuses as well as whether the issuers use the money received from the bond offering as designated. Based on reports from the issuers which failed to discharge or unduly discharged their obligations on bonds, the discharge of obligations to investors by such issuers was monitored. With a view to furnish investors with full and timely information about the state of the securities market and activities of issuers, control was exercised over disclosures by issuers regarding corporate events and other information affecting interests of securities holders that is posted on the Internet-resources of Financial Statements Depository and the "Kazakhstan Stock Exchange" JSC.

In 2017, based on the monitoring of securities issuers, the National Bank applied 353 restricted remedial actions, prepared 144 protocols of administrative offence and imposed administrative penalties totaling KZT 29.3 mln.

Major violations that entailed application of restricted remedial actions and sanctions in respect of the securities issuers were non-compliance with the procedure and deadlines for provision of information to investors; violation of the procedure and terms of securities offering; failure by issuers to discharge obligations imposed on them through application of restricted remedial actions.



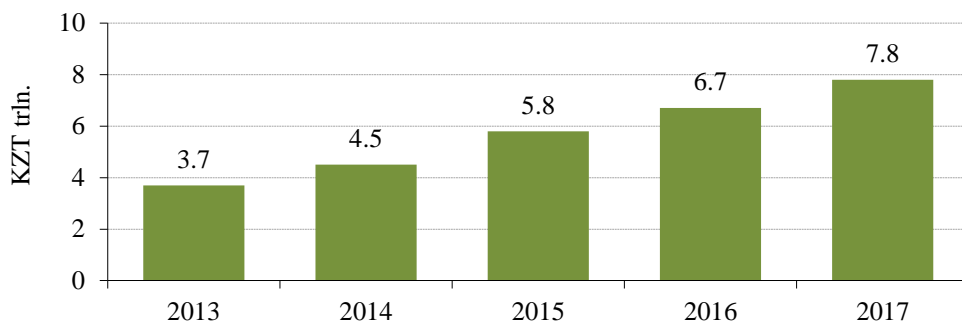
### 3.4. Accumulative Pension System

As at January 1, 2018, the “Unified Accumulative Pension Fund” JSC (UAPF) was the only organization engaged in taking compulsory pension contributions, compulsory professional pension contributions and voluntary pension contributions. The Government is a sole shareholder in the “UAPF” JSC. The National Bank is a fiduciary manager of the UAPF’s shares which belong to the Government and is engaged in pension asset management.

As at January 1, 2018, pension assets amounted to KZT 7.8 trln., having increased by KZT 1.1 trln., or by 16.4% over the year (Figure 3.4.1).

Figure 3.4.1

#### Dynamics of the change in total pension assets of the UAPF JSC



At January 1, 2018<sup>12</sup>, the number of individual pension accounts of contributors (beneficiaries) of the “UAPF” JSC was: on compulsory pension contributions – 9.4 million accounts with the total amount of pension accumulations of KZT 7.6 trln., on compulsory professional pension contributions – 0.4 million accounts with the total amount of pension accumulations of KZT 142.4 bln. and on voluntary pension contributions – 35.5 thousand accounts with the total amount of pension accumulations of KZT 1.7 bln.

On the year-to-date basis, the total volume of pension contributions of contributors, having increased by KZT 754.4 bln. or by 15.3%, at January 1, 2018 amounted to KZT 5.7 trln.

At January 1, 2018, payments of retirement benefits amounted to KZT 1.1 trln., including transfers to insurance organizations.

#### Regulation

In 2017, the National Bank prepared proposals about reform of the accumulative pension system and removal of the “UAPF” JSC from the National Bank’s control and the transfer of pension assets to be managed by private and/or foreign management companies. The proposed model for reforming the accumulative pension system will enable to:

<sup>12</sup> The number of individual pension accounts of contributors (beneficiaries) is presented excluding individual pension accounts which do not have a balance of pension accumulations at January 1, 2018.

involve contributors in the process of their pension accumulations management by giving them an opportunity to choose a pension asset manager and an investment strategy;

reduce concentration of systemic risks and resolve the conflict of interest of government authorities in the course of private pension accumulations management;

ramp up the domestic stock market through appearance of new “anchor” investors in the form of management companies.

It is expected that pension asset management will be carried out by several large private management companies. Operation in a competitive environment will require from management companies to generate a larger investment return, since the level of profitability and the quality of financial instruments will serve as their competitive advantages. The National Bank, in its turn, will remain as a pension asset manager for those contributors who would not make the choice of a management company and will also manage pension accumulations of individuals of retirement age and pre-retirement age under a conservative investment strategy. The “UAPF” JSC will function as a unified administrator of all financial and information flows across the accumulative pension system including the taking of pension contributions and payment of retirement benefits, will handle contributors (beneficiaries) under the “single window” principle providing advisory and information services to them.

Proposals regarding the accumulative pension system reform were reviewed at the sessions of the Economic Policy Council and were discussed with stakeholder government agencies and the business community. To implement the above proposals, amendments to provisions of the existing laws had been drafted and submitted to the Government for consideration.

### **Supervisory Activities**

Goals of the off-site supervision include ensuring efficient and timely control over activities of the accumulative pension system entities aimed to safeguard pension accumulations of contributors (beneficiaries), preventing and precluding violations of requirements of the retirement legislation of the Republic of Kazakhstan by the accumulative pension system entities, furnishing contributors (beneficiaries) with reliable information about the status of their pension accumulations and ensuring protection of other rights and lawful interests of contributors (beneficiaries). As part of the off-site supervision of the “UAPF” JSC, the composition of the UAPF’s executive body and management body as well as of its executive officers is monitored for compliance with the laws and the UAPF’s Charter; the fee charging procedure of the UAPF is checked for compliance with the laws; the UAPF’s investment portfolio made of pension assets is monitored for compliance with the UAPF’s investment declaration; control is exercised over how the “UAPF” JSC discloses information to contributors (beneficiaries) and other persons in the amount required by the legislation and the UAPF’s retirement regulations; control is exercised over the UAPF’s compliance with requirements regarding carrying out activities by the “UAPF” JSC.

A priority in the field of control and supervision of the “UAPF” JSC is strengthening the risk management and internal control system.

In 2017, no restricted remedial actions and sanctions had been taken in respect of the “UAPF” JSC based on the results of its off-site supervision.

In 2017, the National Bank gave approvals to 11 managerial staff of the “UAPF” for appointment (election) to an executive position. There were no denials for approval.

### **3.5. Payment Systems and the Payment Services Market**

In 2017, there were persisting trends of growth in volumes of non-cash payments and money transfers, of expansion of payment services offered to clients and improvement of their quality, and of transition to the remote service channels.

From February 201, the National Bank, as part of its control and supervisory functions, keeps the registers of payment systems functioning within the country’s territory as well as the registers of payment institutions and significant payment service providers and posts such information on the National Bank’s Internet resource.

There are 19 systems included into the payment system register; two of which – the Interbank System of Money Transfers (ISMT) and the Interbank Clearing System (ICS) – are the National Bank’s payment systems. These payment systems are oriented at making payments in the domestic currency within the territory of the Republic of Kazakhstan and process 97% of the total volume of non-cash payments in the country. Private payment systems are also operating in the market and are represented by the card payment systems and money transfer systems.

Payment services are provided by banks, organizations engaged in certain types of banking operations, and non-bank payment organizations.

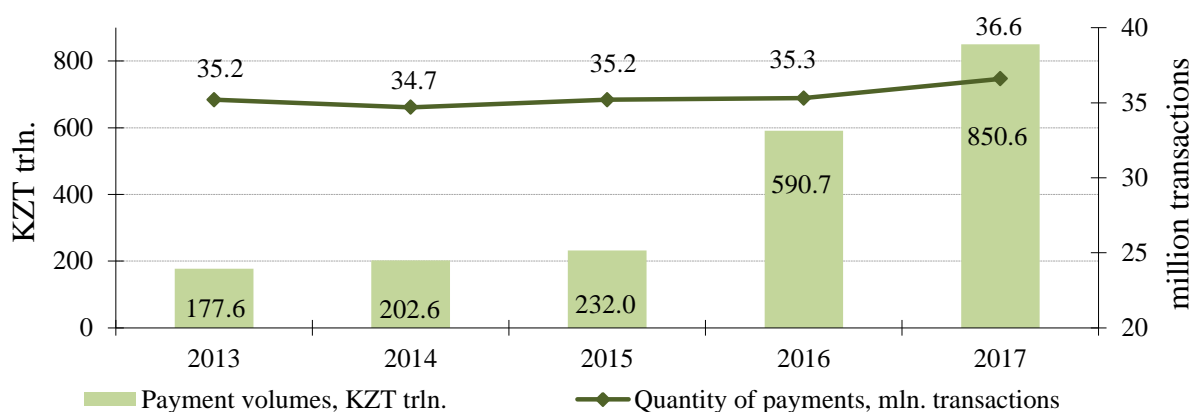
#### **Payment Systems of the National Bank**

The level of uninterrupted operation of payment systems, the system productivity and volumes of payments processed by the systems are indicators of efficient functioning of payment systems.

Operability coefficients of the National Bank’s payment systems speak for a high level of their uninterrupted operation: during 2017, the average coefficient of the ISMT was 99.99%, and that of the ICS was 100%.

The volume of payments processed in 2017 through the National Bank’s payment systems was 36.6 million transactions totaling KZT 850.6 trln. (Figure 3.5.1). As compared to 2016, the quantity of payments in the payment systems increased by 3.5%, or by 1.2 million transactions, and the amount of payments increased by 44.0%, or by KZT 259.9 trln. The growth in payment volumes is driven by the 41.6% growth in volumes of interbank payments related to placement of short-term deposits. On average, 149,200 transactions totaling KZT 3.5 trln. were processed through the National Bank’s payment systems during a day in 2017.

Figure 3.5.1

**Dynamics of payment flows in the National Bank's payment systems**

As at January 1, 2018, 36 financial organizations participated in the ISMT including all infrastructural financial market entities. In 2017, the system processed 15.1 million payments totaling KZT 844.2 trln. As compared to 2016, the volume of payments increased by 44.4%, or by KZT 259.5 trln., and the number of electronic payment messages processed in the system increased by 7.8%, or by 1.1 million transactions.

In 2017, an average amount of one payment in the ISMT was KZT 55.9 mln., it increased by 34.0%, or by KZT 14.2 mln. as compared to 2016. Mainly, the system processed payments on securities operations of residents of Kazakhstan – 55.8% of the total volume of payments in the ISMT, on interbank operations with short-term deposits (17.3%) and on operations with foreign currency and precious metals (8.4%). The share of payments for goods and services in 2017 accounted for 6.2% of the total volume of payments processed in the system.

At January 1, 2018, 36 financial organizations participated in the ICS. In 2017, the system processed 21.5 million electronic payment messages totaling KZT 6.4 trln. As compared to 2016, the number of payment messages in the clearing system increased by 0.7%, or by 159,100 payment documents, and the amount of payment increased by 6.9%, or by KZT 417.1 bln.

An average amount of one payment in the ICS in 2017 was KZT 299,700; as compared to 2016, it increased by 6.1%, or by KZT 17,300. The major volume of payments in the clearing system fell on payments of economic entities on settlements for goods and intangible assets (their share in the total volume of payments in the system accounted for 29.1%), provided services (share – 26.8%), payments to and payouts from the budget (share – 18.7%).

**International Remittances**

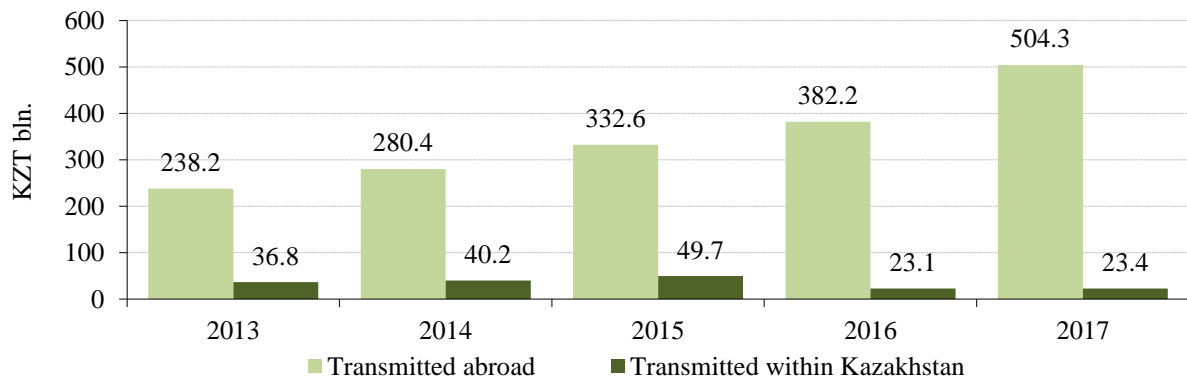
Services of express money transfers are available to the population of Kazakhstan through such international remittances as the Gold Crown, Western Union, Unistream and others. During 2017, 2.7 million transactions totaling KZT 527.7 bln., were conducted (transmitted) via international remittances; the amount of money transmitted via international remittances increased by 30.2% compared to 2016.

In most cases, the population of the country uses the international remittances to make transfers across the border of the Republic of Kazakhstan. So, in 2017 the share of payments and money transfers transmitted abroad accounted for 95.6% of the total amount of transactions made through the money transfer system. Having said that, transfers from Kazakhstan via international remittances significantly exceed the receipts: the volume of money transmitted abroad amounted to KZT 504.3 bln., and money transfers from abroad amounted to KZT 309.4 bln. The average amount of one transfer transmitted from the country was KZT 202,000, and of the transfer to the country – KZT 224,400.

In 2017, remittances across Kazakhstan with the use of remittance systems amounted to KZT 23.4 bln., with an average amount of one transfer being KZT 104,800 (Figure 3.5.2).

Figure 3.5.2

### Dynamics of the change in money transfers transmitted via remittance systems



### Payment Services Market

In the payment card market, non-cash payments continued to grow, including payments via the Internet and mobile banking and the payment card service network was also expanding.

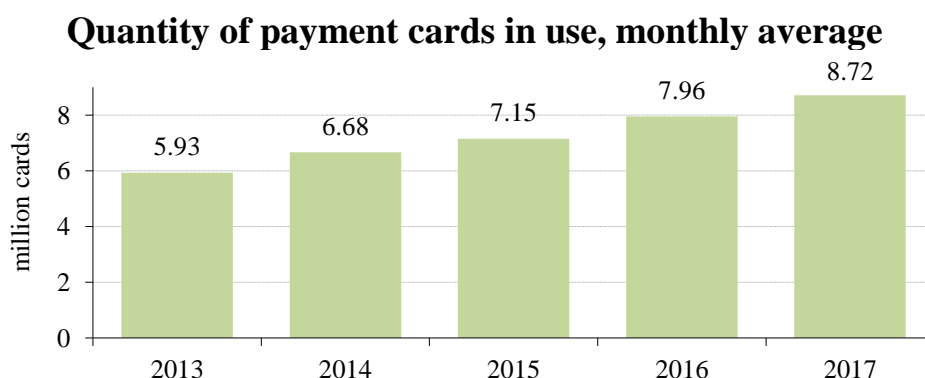
As at January 1, 2018, 26 banks and the “KazPost” JSC were issuing payment cards in Kazakhstan. The overall quantity of issued and disseminated payment cards was 19.4 million (the growth of 23.6% as compared to 2016), of which debit cards accounted for 15.6 million cards, credit cards – 3.1 million cards, debit cards with a credit limit – over 0.5 million cards, and pre-paid cards – about 0.2 million cards.

The main portion of payment cards in circulation is comprised of cards of international payment systems – 99.6%, which are represented by payment cards of VISA International, MasterCard Worldwide, China Union Pay and American Express International. Local systems account for 0.4% of the market and are represented by such systems as Altyn Card and local cards of CitiBank Kazakhstan.

In 2017, active payment cards (the cards used to make transactions) retain their growth trend; in 2017 the average quantity of payment cards in use was 8.7

million cards which exceeds the corresponding indicator of 2016 by 9.5% (Figure 3.5.3). Therefore, payment card products are actively used by about 48% of Kazakhstan's population.

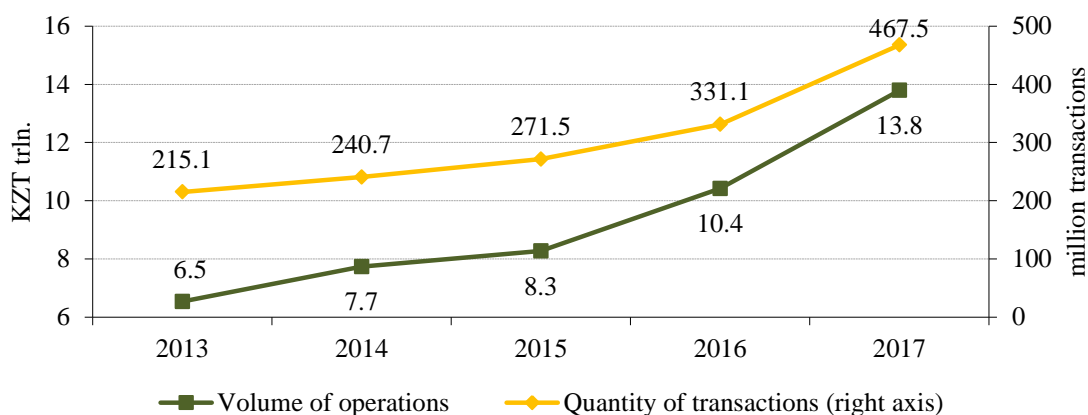
Figure 3.5.3



In 2017, 467.5 million transactions were conducted with payment cards (as compared to 2016, the growth of 41.2%) totaling KZT 13.8 trln. (the growth of 32.3%) (Figure 3.5.4).

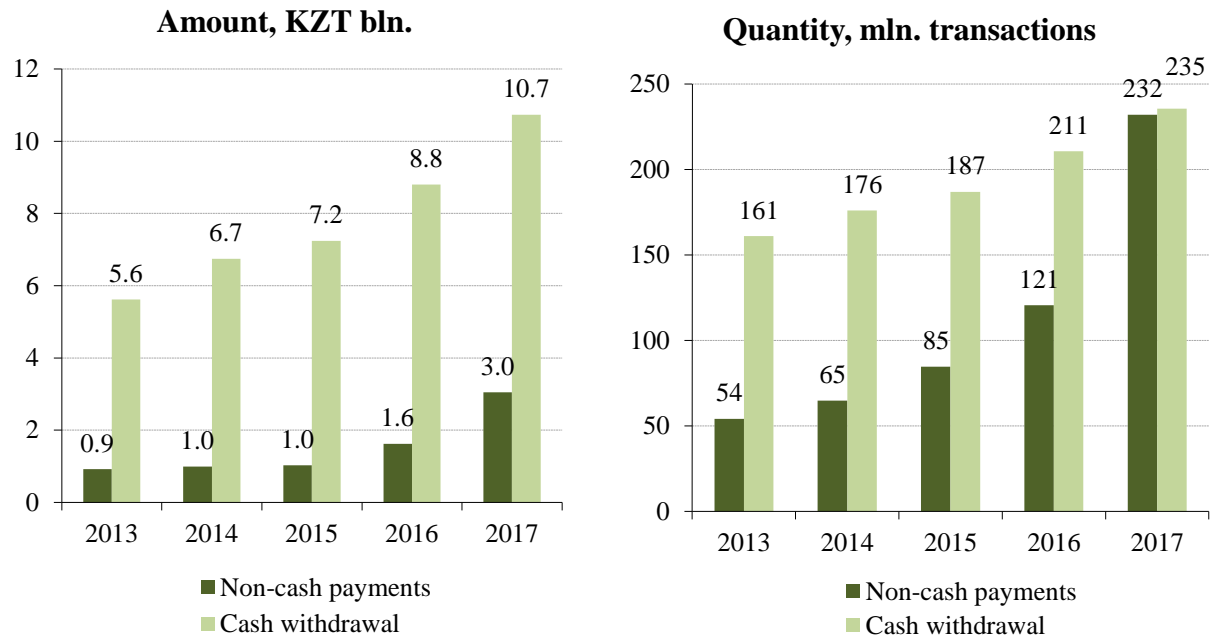
Figure 3.5.4

**Quantity and the volume of operations with the use of payment cards of Kazakhstani issuers**



In doing so, due to active development of the remote service, payment cards are increasingly used for non-cash payments. So, as compared to 2016, the number of transactions on non-cash payments with the use of payment cards of Kazakhstani issuers increased by 92.5% in terms of quantity and by 88.2% in terms of the amount, making up 232.0 million transactions amounting to KZT 3.0 trln., with the average amount of one payment being KZT 13,100. Operations on cash withdrawal increased by 11.8% in terms of quantity and by 22.0% in terms of amount, making up 235.5 million transactions amounting to KZT 10.7 trln. (Figure 3.5.5).

**Dynamics of operations with the use of payment cards  
of Kazakhstani issuers**



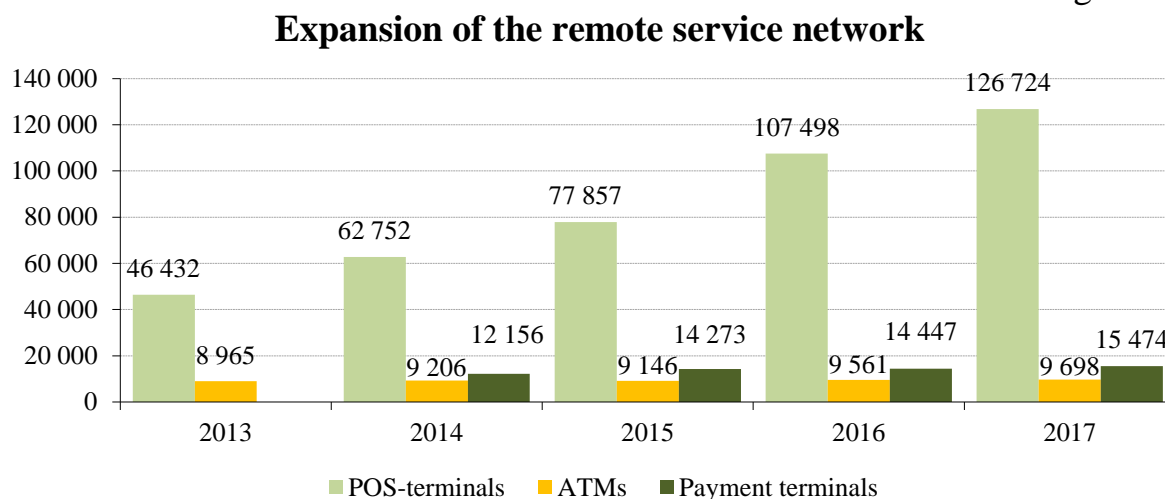
Internet/mobile banking systems are the most burgeoning line of remote payment services. In 2017, 39.5% of the total quantity and 39.1% of the total amount of non-cash payments and money transfers were conducted through these systems with the use of cards of Kazakhstani issuers, which equal 91.8 million transactions of KZT 1.2 trln.

The equipment used to accept and service payment cards is represented by 23 banks and “KazPost” JSC, of which 17 banks were providing settlement services with the use of payment cards at the sales/service outlets.

As at January 1, 2018, 78,700 retail outlets were accepting payment cards in Kazakhstan, exceeding their number in 2016 by 19.1%. These entrepreneurs placed the payment card servicing equipment at 99,500 sales outlets (the growth of 18.2%).

As for the payment card servicing network, the largest growth is observed in respect of POS-terminals; over the year, their number increased by 17.9% and as at January 1, 2018 it amounted to 126,700 POS-terminals, of which 92.1% are serviced at the entrepreneurs. The number of ATMs was 9,700 (the growth of 1.4%), and the number of payment terminals –15,500 (the growth of 7.1%) (Figure 3.5.6).

Figure 3.5.6



As at January 1, 2018, the National Bank registered 31 payment organizations which are entitled to provide certain types of payment services to clients (payment via payment terminals; advancing electronic money and processing of operations with its use; processing operations with the use of payment cards via Internet and mobile applications). During 2017, the volume of operations conducted by clients via services of payment organizations made up 346.7 million operations totaling KZT 732.5 bln.

A dynamic growth is also observed in the use of electronic money, whereas at January 1, 2018 settlements in Kazakhstan were made through 17 Kazakhstani systems. The electronic money is issued by 13 banks which issued electronic money worth KZT 331.6 bln. during 2017.

In 2017, the total volume of operations with electronic money of Kazakhstani issuers made up 81.4 million transactions totaling KZT 361.5 bln., having increased by 88.1% in terms of quantity of operations and by 2.3 times in terms of their amount as compared to 2016.

In 2017, electronic money transfers in favor of corporate entities and individual entrepreneurs made up 73.1 million transactions totaling KZT 306.8 bln., electronic money transfers in favor of individuals made up 8.3 million transactions totaling KZT 54.7 bln.

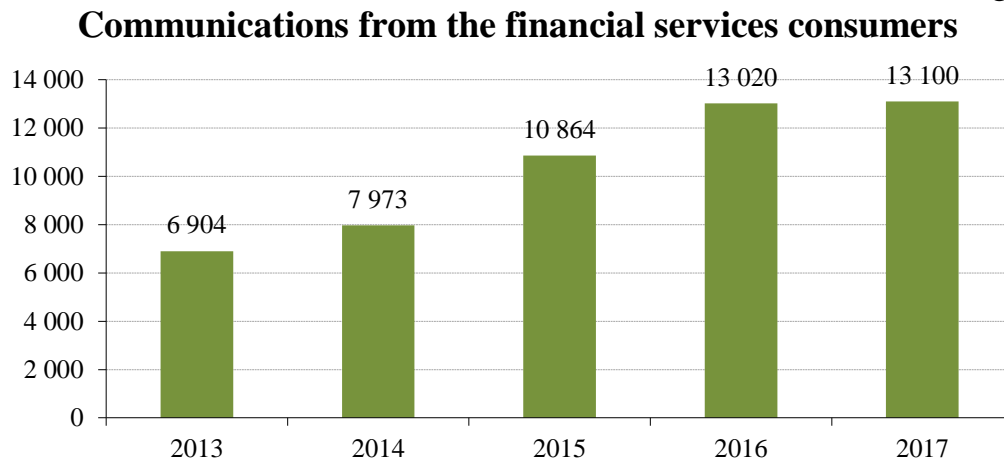
### 3.6. Protecting Rights of the Financial Services Consumers

Protection of rights of the financial services consumers constitutes an integral and important part of the National Bank's effort to ensure stability of the financial system. The necessity to provide real and adequate protection increases as the consumer demand intensifies and new IT-based financial products appear in the market.

In 2017, 13 100 communications concerning protection of rights of the financial services consumers and consumers of services of microfinance organizations were received by the National Bank for its consideration (Figure 3.6.1).

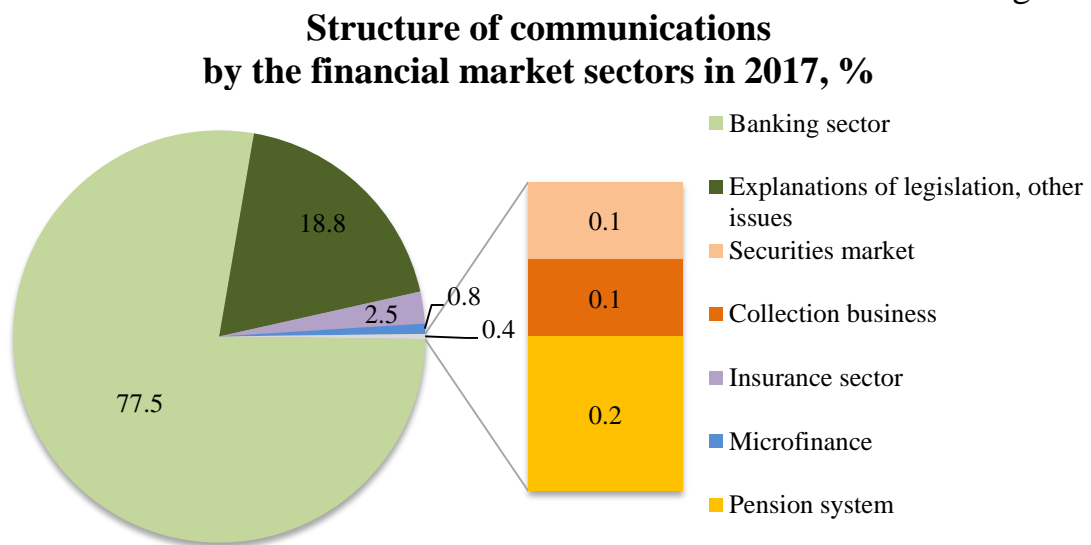


Figure 3.6.1



A significant portion of communications was in respect of the banking sector (banks and organizations engaged in certain types of banking operations) and it accounts for 77.5%, of the total number of communications considered (Figure 3.6.2).

Figure 3.6.2



Pressing topics in communications regarding the banking sector were as follows:

- debt refinancing under the Refinancing Program;
- making changes to a bank loan agreement;
- reviewing terms and conditions of a bank loan agreement for their compliance with the banking legislation;
- verifying whether banks were acting in a lawful manner when servicing a bank loan (involvement of third parties in debt collection, assignment of rights to claim to third parties, changing the interest rate and currency of a loan, collection of monies from borrowers' accounts without recourse (without acceptance) by banks, etc.);

- checking whether the amount of a monthly payment, debt, penalty, interest, fees, annual effective interest rate was calculated correctly;

- checking banks' compliance with the collateral sale procedure, terms of collateral policy as well as validity of denials to release collateral;

- retaining collateral on a loan;

- executing court decisions regarding loan debt collection;

- checking banks' actions taken when servicing bank accounts, payments and money transfers.

In the sector of insurance services, the most pressing topics of communications were:

- disputes arising in compulsory motor civil liability insurance and relating to the disagreement about the insurance organization's assessment of the amount of caused damage, to delays in payments of insurance benefit as well as to a failure to make an insurance benefit payment;

- refusals by insurance organizations to make an insurance benefit payment on voluntary lines of insurance;

- a failure to furnish the requested information by insurance organizations;

- requests to check accuracy of calculations of insurance premiums and the insured amount.

The following matters regarding activities of the securities market entities remain current:

- non-payment of dividends;

- explanation of requirements of the laws of the Republic of Kazakhstan "On Joint-Stock Companies" and "On the Securities Market";

- checking validity of distribution of shares among shareholders and the pricing of shares.

Communications regarding actions of microfinance organizations were related to:

- explanation of requirements of regulations regarding activities of microfinance organizations;

- checking whether the amount of a monthly payment, debt, fine, interest, fees, annual effective interest rate was calculated correctly;

- checking the terms and conditions of an agreement for their compliance with the legislation.

Communications that related to activities of the "Unified Accumulative Pension Fund" JSC included the issues related to explanation of requirements of the retirement legislation and denials to pay out pension accumulations.

Communications regarding activities of debt collection agencies were related to cases of unlawful actions taken by employees of debt collection agencies and provisions of regulations governing debt collection activities.

In 2017, based on violations of the existing laws that were revealed as a result of the review of communications, 11 restricted remedial actions were taken in respect of financial organizations and microfinance organizations. Besides, as a result of reviewed communications from the financial services consumers, 60 administrative cases were initiated, of which 30 cases were initiated in respect of

microfinance organizations, 26 – in respect of banks, and 4 – in respect of insurance organizations. The National Bank's staff participated in 67 court sessions that were related to civil cases on lawsuits filed by the financial services consumers against financial organizations and by financial organizations against the financial services consumers.

Throughout 2017, 3 485 individuals were received on a personal basis regarding provision of financial services and 321 individuals that applied to the National Bank's Community Liaison Office received legal support; 356 meetings of borrowers with representatives of banks and mortgage organizations were arranged, whereby banks provided possible terms of restructuring to their borrowers.

In 2017, the National Bank received 499 notifications from financial organizations and microfinance organizations regarding approval of financial services and services related to provision of microloans, including: 155 from microfinance organizations, 269 – from banks and 75 – from insurance organizations.

In March 2017, as part of the deposit product monitoring process, 88 bank deposits with 29 banks were analyzed for their terms and conditions, including 3 deposits placed under the government educational savings system that are offered to individuals by banks. The analysis included the following issues:

- the procedure for entering into the bank deposit agreement with depositors by banks;

- ensuring that no provisions which contradict to the laws and prejudice the rights and lawful interests of the financial services consumers are included in the terms and conditions of deposit agreements;

- an advertisement of deposits published, inter alia, on the bank's official website and official page in the social media is in compliance with legislative requirements as well as with the terms and conditions of a deposit.

Based on the monitoring performed, 17 restricted remedial actions were taken in respect of breachers.

In addition, the National Bank monitored 55 official web-sites of banks and insurance organizations, based on which requests to submit relevant documents and justifications of the failure to notify the National Bank about approval of financial products were sent to 28 financial organizations.

### **Program for Residential Mortgage Loans/Mortgage Loans Refinancing**

As one of the measures to resolve problems of mortgage borrowers, since April 2015 the National Bank has been implementing the Program for Residential Mortgage Loans/Mortgage Loans Refinancing. Resources in the amount of KZT 130.0 bln., allocated as part of the Refinancing Program, were used to refinance loans provided by banks within the period from 2004 to 2009, with the balance of debt as at January 1, 2015 not exceeding KZT 36.5 mln. and being secured by a sole residential property.

On April 1, 2017, the period of utilization of allocated resources by banks had ended. The Program is not terminated with the end of utilization period, since it provides that within 120 months from the date of allocation of resources banks

can refinance loans with the monies coming from repayment of loans which were refinanced earlier (a revolving facility).

At January 1, 2018, banks received 29,800 applications, of which 23,600 applications totaling KZT 146.2 bln. were approved, and 20,900 loans totaling KZT 118.6 bln. were refinanced.

From April 2017, implementation of the Program was delegated to the Ministry of Finance acting through the “Problem Loan Fund” JSC.

In 2017, the National Bank jointly with the “Problem Loan Fund” JSC conducted examinations of “Bank CenterCredit” JSC, “Kazkommertsbank: JSC and the “Investment Astana Group” JSC regarding their adherence to the Program.

In 2017, with a view to reduce social strain among mortgage borrowers, the National Bank jointly with local executive authorities conducted meetings of borrowers and public associations with banks in order to find mutually acceptable ways of repayment of problem debts. In addition, the National Bank provided explanations regarding the terms and conditions of the Refinancing Program to banks on a regular basis.

The performed system analysis showed that borrowers who obtained foreign currency loans before January 1, 2016 (from January 1, 2016 a statutory provision was brought into effect prohibiting to provide foreign currency loans to individuals who do not have revenues in that currency) as well as borrowers who belong to the socially vulnerable groups of the population are the most vulnerable in the existing economic situation. The amount of debt owed by the existing borrowers with foreign currency loans irrespective of their payment discipline is exposed to a significant impact of changes in foreign exchange rates. So, the amount of debt of hard currency borrowers increased in the tenge equivalent by more than 2.5 times on average.

On top of that, over the last 10 years the price of housing in the US Dollar equivalent had lost more than half of its value; hence, a possible sale of collateral does not cover liabilities of hard currency borrowers to the full extent. In turn, the massive foreclosures would cause social instability and would also have a negative impact on the real estate market. According to estimates, over 20 thousand families are facing the risk of losing their housing as a result of the growth in the debt burden.

According to information from banks, about 10% of loans refinanced under the refinancing Program are past due; their major portion falls on those borrowers who belong to the socially vulnerable groups of the population. Government transfer payments and benefits are virtually the only source of income for this category of individuals and these benefits are used for loan debt repayments.

With that in mind, the National Bank prepared proposals regarding support to the above categories of individuals to be provided through:

conversion of foreign currency loans of individuals that are secured with residential property and were provided before January 1, 2016, into the tenge at the National Bank’s exchange rate which was in effect on August 18, 2015;

drafting of legislative provisions allowing banks to let property on long-term lease with recourse to the socially vulnerable groups of the population within the framework of government programs.

### 3.7. Liquidation of the Financial Market Entities

As at January 1, 2018, 2 banks and 3 insurance organizations were undergoing liquidation.

In 2017, the forced liquidation procedures in respect of the "Altyn Policy" Insurance Company JSC and "EcoPolicy" Insurance Company JSC were fully completed.

The information about settlements with creditors of financial organizations undergoing liquidation is presented in Table 3.7.

Table 3.7

No.	Financial Organizations under Liquidation	Percentage of Payouts to Creditors as at January 1, 2018
Banking Sector		
1.	"Valut-Transit Bank" JSC	52.6% – claims of creditors under the third order of priority (claims of the "Kazakhstan Deposit Insurance Fund" JSC in respect of the amount of payout made (payable) on insured deposits).
2.	"Nauryz Bank Kazakhstan" JSC	100% – claims of creditors under the third order of priority (claims of individuals on deposits and money transfers, claims of the "Kazakhstan Deposit Insurance Fund" JSC in respect of the amount of payout made (payable) on insured deposits as well as claims on deposits made with the pension assets at the accumulative pension fund); 100% – claims of creditors under the fourth order of priority (claims of non-for-profit organizations engaged solely in the charity activities; organizations of World War II veterans and persons with equal status; Voluntary Society of Invalids of the Republic of Kazakhstan, Kazakhstan Association of the Blind, Kazakhstan Association of the Deaf and production organizations which are owned by these associations and were established at their expense; other organizations of disabled persons in respect of their monies held with bank accounts and placed as deposits);

		100% – claims of creditors under the fifth order of priority (claims of insurance organizations in respect of their monies held with bank accounts which were opened at the bank undergoing liquidation).
Insurance Sector		
1.	“Premier Insurance” JSC	25% – claims of creditors included into the category of extraordinary payouts (in respect of insured events which occurred before the court’s decision about liquidation of an insurance (reinsurance) organization takes legal effect).

In 2017, the liquidation commission of “Nauryz Bank Kazakhstan” JSC continued to make settlements on claims of creditors under the seventh order of priority (arrears on taxes, duties and other mandatory payments to the budget as well as on repayment of loans provided from the national budget).

## **Section 4. National Bank's Activities**

### **4.1. Currency Regulation and Currency Control**

Top-priority objectives in the currency regulation still include building up the information base on currency operations and capital flows as well as the analytical monitoring of currency operations as the basis for the decision-making regarding the economic policy.

With a view to collect statistical information, the existing currency legislation of the Republic of Kazakhstan set requirements to registration or notification of foreign currency operations associated with the capital movement (financial loans, direct investments, commercial credits, and accounts with foreign banks). Registration and notification regimes account for large capital movement operations which provide for the inflow of capital (property, monies) to the Republic of Kazakhstan in the amount exceeding the equivalent of USD 500 000 or the transfer of capital (monies, property transfer) from the Republic of Kazakhstan in the amount exceeding the equivalent of USD 100 000.

Export proceeds are the main source of foreign exchange supply in the domestic foreign exchange market of Kazakhstan, therefore currency legislation establishes the requirement to repatriate proceeds from exports of goods (works, services) and repay the advance payment for imports of goods (works, services) unused by a non-resident to the bank accounts with kazakhstani banks. The time frame during which the repatriation should be carried out is determined by the terms and conditions of a foreign trade contract. In respect of foreign trade transactions in the amount exceeding the equivalent of USD 50 000 the control over execution of the repatriation requirement is exercised through the registration of a foreign trade contract with a designated bank of resident involved in a foreign trade transaction.

With a view to determine the completeness of coverage of foreign trade operations by the currency control, there was performed the analysis, the results of which showed that the existing threshold for control is optimal from the point of operations coverage, interests of businesses and expenses of currency control agents related to administration of control.

Exports-imports currency control is realized on the basis of registration of foreign trade contracts procedures and electronic information exchange for the purposes of control over the execution of repatriation requirement, between authorized banks, the National Bank and the national revenue authority – the National Revenues Committee of the Ministry of Finance of the Republic of Kazakhstan.

Within the framework of the Law Drafting Plan of the Government for 2017, the National Bank prepared and introduced to the Parliament the draft law of the Republic of Kazakhstan “On Currency Exchange Regulation and Currency Control” in a revised version.. The main objective of the draft law is to expand coverage of the statistical monitoring of foreign currency operations and to reduce the use of foreign currencies in payments within Kazakhstan's territory.

Implementations of these provisions will give opportunity to expand the coverage of information on currency operations, and to increase efficiency of currency control, also for the combating the outflow of money out of the country. Also, non-bank exchange offices will be given the right to buy and sell refined gold in bullions produced by the National Bank, and the professional participants of securities market will be given the right to buy/sell foreign exchange in the domestic foreign exchange market at clients' instruction.

In 2017, the National Bank continued to develop measures required to increase effectiveness of the currency control and combating the capital outflow from the country. In particular, as part of approval of the draft Code "On Taxes and Other Mandatory Payments to the Budget (Tax Code)", in a revised version at the suggestion of the National Bank new provisions enabling the National Bank and the Ministry of Finance to exchange information on the bank secrecy and tax secrecy were introduced.

Under the existing legislation in the sphere of currency regulation, a license of the National Bank is only required for activities related to organization of exchange operations with foreign cash (activities of exchange offices).

With a view to determine further areas in regulation of the foreign cash market, the analysis of activities related to organization of exchange operations with foreign cash was performed, including the volume of operations, location of exchange offices, specifics by the types of market entities, and a number of meetings with the market representatives were held. Based on the findings from the work performed, key approaches for improvement of regulation of this type of activities were identified. So, in a new version of the Tax Code as dated December 25, 2017, a flat tax for non-bank exchange offices instead of a corporate income tax was introduced on a temporary basis (till January 1, 2020); also, collars were determined within which local executive authorities set a tax rate.

Also, based on the analysis of data about turnovers of exchange offices, the decision to increase a minimum capital adequacy ratio for such financial market entities was made<sup>13</sup>:

in the cities of Astana and Almaty – from KZT 5 mln. and KZT 1 mln. for each additional exchange office to KZT 30 mln. for each additional exchange office;

in regional centers – from KZT 5 mln. and KZT 1 mln. for each additional exchange office to KZT 20 mln. for each additional exchange office;

in other locations – from KZT 3 mln. and KZT 600 thous. for each additional exchange office to KZT 10 mln. for each additional exchange office.

In 2017, as part of licensing of activities related to organization of exchange operations with foreign cash, 51 licenses to new authorized organizations (non-bank legal entities) were issued, and 46 licenses were surrendered on a voluntary basis. As of January 1, 2018, 566 authorized organizations have valid licenses for organization of exchange operations with foreign cash; 3 011 exchange offices

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<sup>13</sup> A relevant Resolution of the Board of the National Bank of the Republic of Kazakhstan was passed on September 27, 2017.



were operating in the country, including 1 847 bank exchange offices, 974 exchange offices of authorized organizations and 190 exchange offices of the “KazPost” JSC.

During 2017, a total number of exchange offices increased by 112, while the number of exchange offices of authorized banks increased by 6; the number of exchange offices of authorized organizations decreased by 2 and the number of exchange offices of the “KazPost” JSC increased by 108.

The National Bank continued with the effort to increase transparency in activities of non-bank exchange offices and extension of banking standards to their operation. Particularly, effort was made to connect authorized organizations to the “Fiscal Data Operator” system on a voluntary basis. The system’s objective is to transmit a real-time data to the government revenue authorities when conducting exchange operations with foreign cash on each transaction separately. As of January 1, 2018, nineteen authorized organizations with 25 exchange offices (in the cities of Astana, Almaty and Taraz) were connected to the “Fiscal Data Operator” system on a voluntary basis.

In 2017, as part of the currency control, the National Bank revealed cases of administrative offence in the field of currency legislation, 1 287 cases of administrative offence were initiated. Penalties were imposed in respect of 1 225 cases of administrative offense, of which 570 penalties were in the form of warnings; in respect of 655 cases of administrative offence the amount of penalties imposed by the National Bank (460 cases) and courts (195 cases) was about KZT 341 mln. Proceedings on 49 cases of administrative offence were terminated, and 13 cases are being under review (as at January 1, 2018,).

82 restricted corrective actions were taken in respect of authorized banks and authorized organizations for violations of currency exchange legislation of the Republic of Kazakhstan.

Inspections on currency control are being held by using a risk-focused approach. In 2017, the National Bank conducted 288 inspections regarding compliance with currency legislation of the Republic of Kazakhstan, of which 264 entities subject to examination were identified on the basis of risk assessment.

#### **4.2. Management of the National Bank’s Foreign Exchange Assets**

Gross foreign exchange reserves of the National Bank at the end of 2017 amounted to USD 30.7 bln., which exceeded the end-of-year reserves in 2016 by USD 1.0 bln., or by 3.5%.

The increase in foreign exchange reserves in 2017 was caused by the increased gold prices in the global markets; net purchases of gold in the domestic market within the framework of the government’s priority right to buy refined gold from domestic producers; operations on reconversion of the National Fund’s assets.

World gold price, according to London Bullion Market Association, increased by 11.9% from USD 1 159.1 per oz. at December 30, 2016 to USD 1 296.5 per oz. at December 29, 2017.

In 2017, the volume of net purchases of gold in the domestic market within the framework of the government's exercising of its priority right amounted to 1 342 thous. oz. (41.7 tons).

Within the framework of foreign exchange assets management, the National Bank exercised control over compliance with requirements of the Investment Guideline for Foreign Exchange Assets Management on a daily basis and calculated the return on foreign exchange assets of the National Bank on a daily basis.

During 2017, the following amendments were made to the Investment Guideline for Foreign Exchange Assets Management: improving the process for determining a credit rating; changing the strategic currency allocation of the benchmark portfolio in the investment portfolio; benchmark portfolios for the strategic portfolio were re-defined showing a minimum required credit rating.

At the end of 2017 the market value of the investment portfolio of foreign exchange assets was USD 4.3 bln. In 2017, the return on the investment portfolio expressed in terms of the currency basket was 0.492%, and while the return on the benchmark portfolio was 0.282% the excess return made up 21 basis points. The return on the investment portfolio expressed in the US Dollars accounted for 5.450%, while the return on the benchmark portfolio was 5.230% excess return made up 22 basis points.

At end-2017, allocation of assets in the investment portfolio by types of instruments had the following structure: cash and their equivalents – 13.4%, government securities – 63.2%, agency securities – 13.7%, and corporate securities – 9.7%. Allocation of assets in the investment portfolio based on the yield curve had the following structure: less than one year – 39.4%, 1-2 years – 39.6%, 2-3 years – 17.6%, and over 3 years – 3.4%.

During 2017, the market value of the strategic portfolio of foreign exchange assets increased from USD 3.0 bln. to USD 3.2 bln. The return on the strategic portfolio in 2017 accounted for 5.66%.

With a view to diversify assets in the strategic portfolio and to increase effectiveness of their management, two new external asset managers for the Global Investment Grade Corporates Mandate were appointed.

During 2017, the market value of the liquidity portfolio of foreign exchange assets decreased from USD 10.9 bln. to USD 9.3 bln. In 2017, the return on the liquidity portfolio made up 1.05%.

The liquidity portfolio of foreign exchange assets is held for conducting money market operations for the purpose of the monetary policy implementation, for maintaining a high level of liquidity as well as for servicing government's external debt.

The market value of the alternative instruments portfolio of foreign exchange assets managed by the "National Investment Corporation of the National Bank of Kazakhstan" JSC had increased during 2017 from USD 811.4 mln. to USD 850.4 mln. In 2017, the return on this portfolio was 4.82%. The alternative instruments portfolio is held for the purpose of increasing returns on foreign exchange assets in the long term; assets in this portfolio can be invested in such

areas as private capital, hedge funds, funds of funds, real estate, infrastructure and equities.

At the end of 2017, the market value of the emerging markets portfolio was CNY 1.0 bln., which is equivalent to USD 156.4 mln. In 2017, the return on the emerging markets portfolio expressed in its own currency was 1.31%.

According to the market estimate, during 2017 the value of gold portfolio increased from USD 9.6 bln. to USD 12.5 bln.

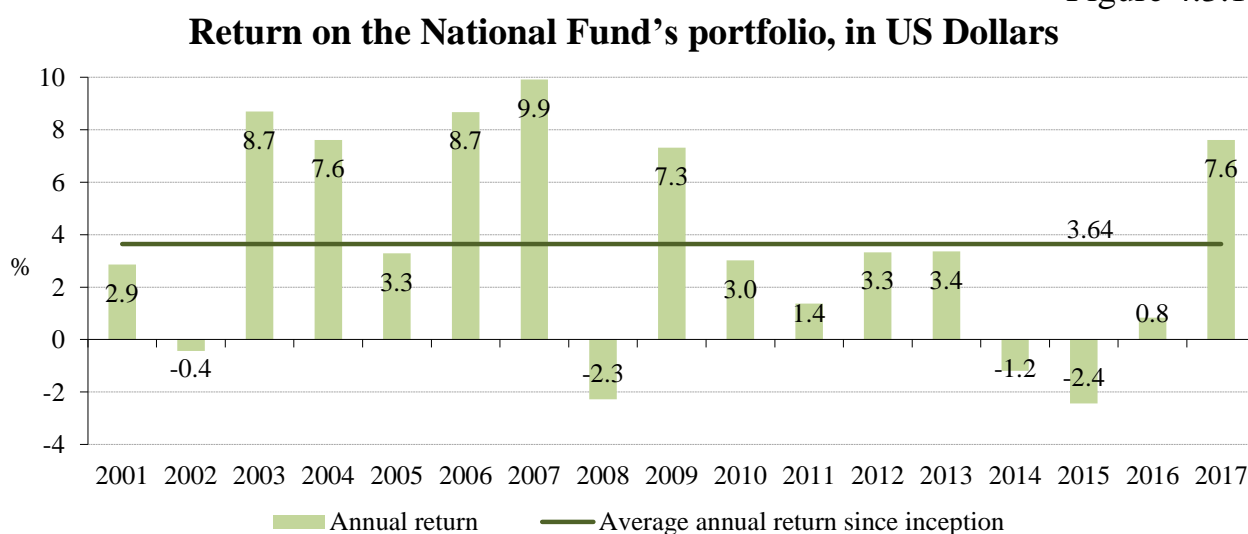
### 4.3. Management of the National (Oil) Fund's Assets

At end-2017, the total market value of the National Fund's portfolio amounted to USD 61.8 bln. The volume of the foreign currency portfolio equaled USD 58.3 bln. Bonds of the "Samruk-Kazyna" National Welfare Fund" JSC, "National Management Holding Company "KazAgro" JSC and "National Management Holding Company "Baiterek" JSC totaled KZT 803.2 bln., and the balance of the tenge account – KZT 337.9 bln. The market values of the stabilization and savings portfolios within the foreign currency portfolio of the National Fund equaled USD 7.9 bln. (13.6%) and USD 50.4 bln. (86.4%), respectively. The market value of securities and other financial instruments within the foreign currency portfolio of the National Fund is based on the data of the global custodian.

In 2017, an investment income (realized and unrealized) calculated in base currency (the US Dollar) made up USD 4.4 bln.

The return on the National Fund's portfolio in 2017 accounted for 7.61%. Return of the National Fund since its inception till December 31, 2017 made up 80.83%, which accounts for 3.64% in annual terms (Figure 4.3.1). The return was calculated in the base currency of the National Fund – the US Dollars.

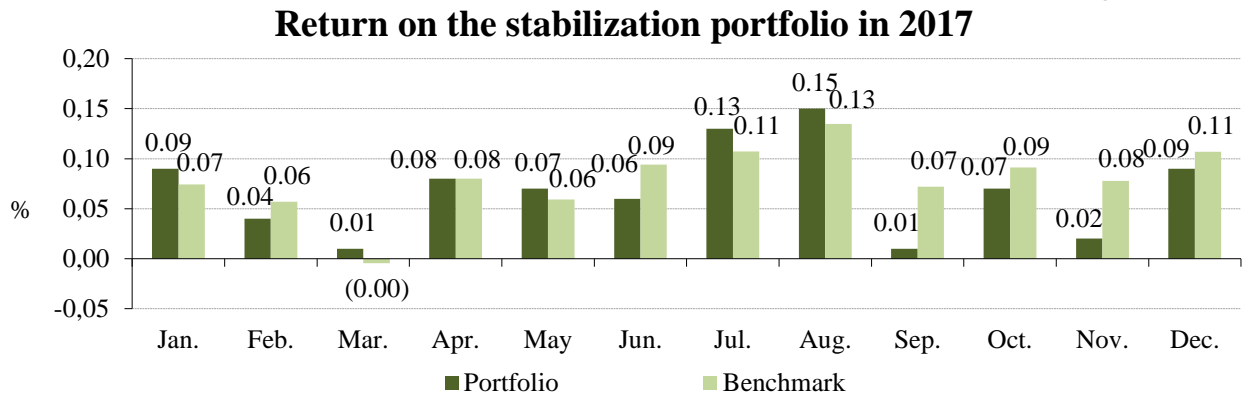
Figure 4.3.1



In 2017, assets in the stabilization portfolio under internal management were invested in the money market instruments and fixed income securities, mainly the

US Treasury securities. In 2017, the return on the stabilization portfolio was 0.83%, during the same period the return on the benchmark portfolio (Merrill Lynch 6-month US Treasury Bill Index) accounted for 0.95%. Thus, in 2017 negative excess returns of (-)0.12% were received as a result of asset management of the stabilization portfolio (Figure 4.3.2).

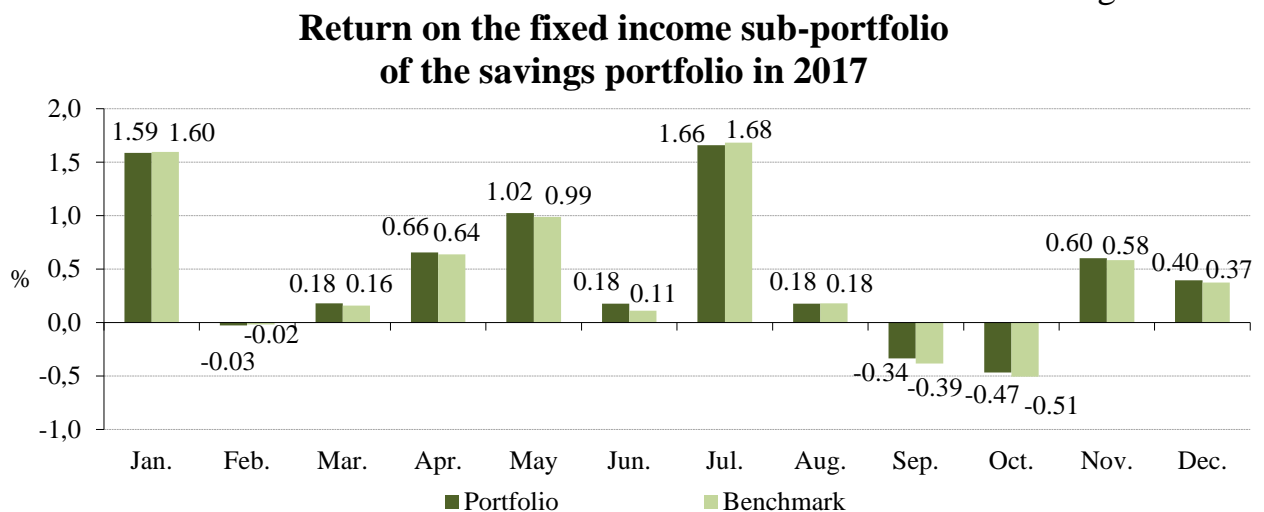
Figure 4.3.2



The return on the savings portfolio in 2017 was 9.41%. Assets in the National Fund's savings portfolio for the Global Fixed Income Mandate are managed both by the National Bank itself and by external managers. In 2017, assets in the savings portfolio for this type of mandate managed by the National Bank accounted for 72.3%, and the remaining 27.7% of this sub-portfolio were managed by external managers.

In 2017, the return from the management of the bond sub-portfolio accounted for 5.75%. The return on the benchmark portfolio of this sub-portfolio accounted for 5.51%. Thus, management of this type of mandate resulted in excess returns of 0.24% (Figure 4.3.3).

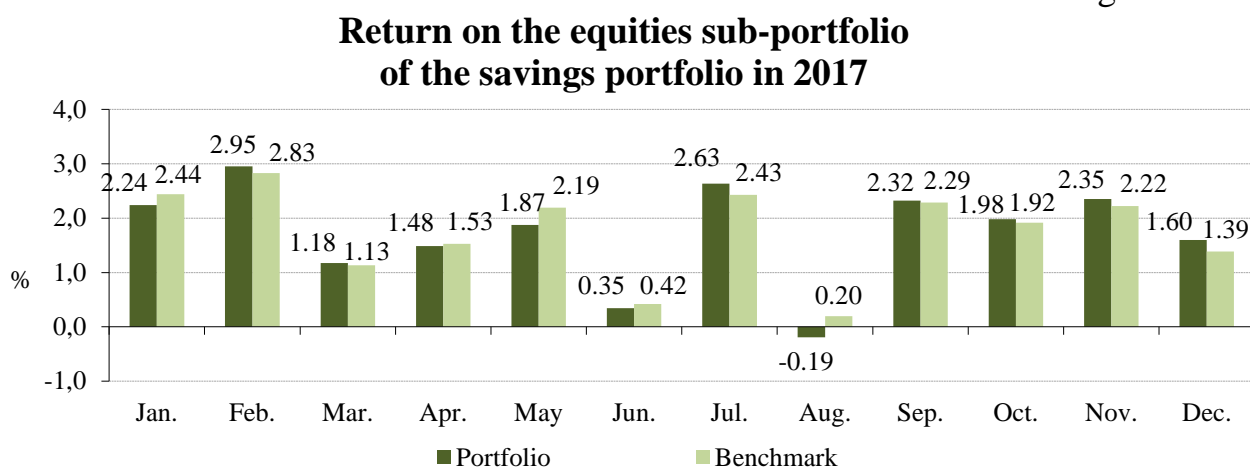
Figure 4.3.3



Assets in the savings portfolio for the Global Equities Mandate were managed by five external managers. The return from the asset management for this

type of mandate was 22.81%, whereas the return on the benchmark portfolio was 23.08%. Thus, excess returns generated as a result of asset management for this type of mandate accounted for (-)0.27% (Figure 4.3.4).

Figure 4.3.4



In 2017, assets in the savings portfolio for Global Tactical Asset Allocation mandate were managed by one external manager. The return from the asset management in the savings portfolio for this type of mandate was 10.43%, whereas the return on the benchmark portfolio was 8.87%.

#### 4.4. UAPF's Pension Assets Management

As of January 1, 2018, the total value of the UAPF's pension assets under the management of the National Bank amounted to KZT 7.8 trln. (99.9% of all pension accumulations), an increase by 16.4% during 2017.

Table 4.4.1

##### Structure of pension assets investment portfolio of the "UAPF" JSC under management of National Bank

Item	Current value as of January 1, 2017, KZT bln.	Weight as of January 1, 2017, %	Current value as of January 1, 2018, KZT bln.	Weight as of January 1, 2018, %	Change during the period, %
Government securities of the Republic of Kazakhstan	2 910.8	43.6	3 587.6	46.1	23.3
Securities of issuers of the Republic of Kazakhstan	2 561.9	38.3	2 280.6	29.3	-11.0
Securities of foreign issuers	639.5	9.6	1 242.8	16.0	94.3
Deposits with banks of the Republic of	399.9	6.0	325.8	4.2	-18.5

Kazakhstan					
Deposits with foreign banks	-	-	277.4	3.6	100.0
Cash on investment accounts	151.8	2.3	32.0	0.4	-78.9
Other assets	16.2	0.2	28.6	0.4	76.5
<b>Total</b>	<b>6 680.1</b>	<b>100.0</b>	<b>7 774.8</b>	<b>100.0</b>	<b>16.4</b>

The percentage of cash and financial instruments denominated in tenge accounted for 72.3%, or KZT 5.6 trln., and in other foreign currencies – 27.7%, or KZT 2.2 trln.

Based on the investment areas, approved by the Council for the National Fund Management for the year 2017, pension assets are invested as follows:

- government securities of the Republic of Kazakhstan were purchased to finance the national budget deficit in the amount of KZT 255.2 bln. with a weighted average return of 9.1%;
- foreign currency in the amount of KZT 500.0 bln was purchased for diversification of the pension assets portfolio;
- bonds of International Financial Institutions (IFIs) denominated in tenge in the amount of KZT 103 bln.;
- project bonds of the quasi-government sector were purchased in the amount of KZT 68.8 bln. with the weighted average yield of 10.9%;
- bank bonds in the amount of KZT 13.0 bln. with the yield of 12.5%.

The investment of pension assets in the above areas was made on a repayable basis at market rates.

From the beginning of 2016, the National Bank, based on recommendations of the Council for the National Fund Management, is taking measures to diversify the pension assets portfolio of the “UAPF” JSC, also by increasing the foreign currency part of pension assets. The presence of foreign currency position ensures a structural diversification of the pension assets portfolio of the “UAPF” JSC. During 2017, the foreign currency part of pension assets was increased from 23.0% to 27.7%.

In 2017, the National Bank developed a new strategic asset allocation of the foreign currency part of pension assets portfolio, based on the experience of the asset management of the National Fund of the Republic of Kazakhstan and Foreign exchange assets. At the end of August 2017, relevant amendments were made to the Investment Policy Statement of the “UAPF” JSC.

Within the framework of a new strategic asset allocation, from November 2017 pension assets were gradually invested into government and quasi-government securities of developing countries with a rating of at least BB and denominated in US Dollars.

The National Bank continues to hire foreign asset managers for the index investing of the foreign currency part of the pension assets into the global equity and fixed-income markets using relevant indices as set by the Investment Policy Statement of the “UAPF” JSC.

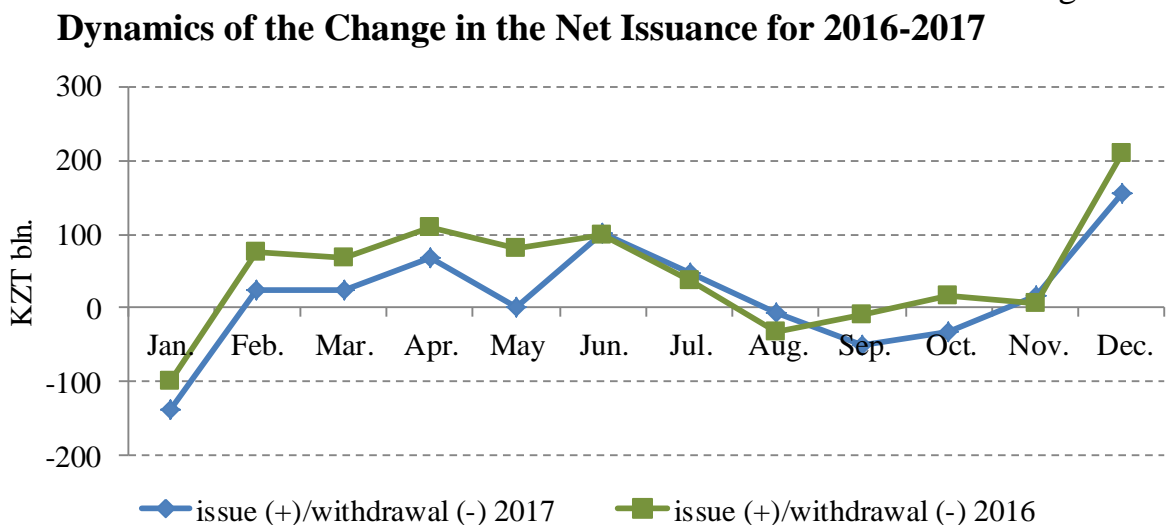
In 2017, the decisions about the transfer of pension assets of the “UAPF” JSC to external asset managers under the “Global Passive Equity” and “Global Emerging Markets Debt” mandates were taken by the National Bank. The National Bank was also seeking new external asset managers for pension assets of the “UAPF” JSC under the “Global Active Equity” and “U.S. Dollar Investment-Grade Large Cap Global Corporate Bonds” mandates.

At the end of 2017, the investment return on assets of the “UAPF” JSC amounted to KZT 597.3 bln. In 2017, the return on pension assets distributed to depositors’ accounts reached 7.92%.

#### 4.5. Issuing Operations and Cash Circulation

During 2017, KZT 4.3 trln. were issued into circulation from the National Bank’s reserve funds, which is by KZT 0.4 trln., or by 9.9% greater than the issue of cash into circulation in 2016. The volume of cash withdrawn from circulation increased versus that of 2016 by KZT 0.7 trln., or by 21.9% and amounted to KZT 4.1 trln. Thus, there was a positive net issuance of (+) KZT 208.7 bln. (Figure 4.5.1).

Figure 4.5.1



In 2017, the net issuance was forming up against the increased cash turnover of the commercial banks<sup>14</sup>.

The volume of cash receipts to the commercial banks cash desks amounted to KZT 24.3 trln., having increased by 6.9%, or by KZT 1.6 trln. versus 2016. The volume of cash withdrawals increased by 8.2%, or by KZT 1.9 trln. and amounted to KZT 24.6 trln. (Table 4.5.1). The positive value of the net issuance increased due to the excess of the growth rate of the withdrawal section over the growth rate of the lodgment section of commercial banks' cash turnover.

<sup>14</sup> According to the data in the Cash Turnovers Report of commercial banks and organizations engaged in certain types of banking operations (No. 10-SB).

Despite the growth both the lodgment section and the withdrawal section of cash turnovers, cash withdrawals from the commercial banks cash desks for the purchase of foreign exchange reduced significantly – by 34.8%, or by KZT 629.4 bln.

In addition, withdrawals from the commercial banks cash desks for corporate and retail loans increased significantly – by 51%, or by KZT 164.7 bln.

Table 4.5.1

### Cash Flows in Banks

Cash Flows through Cash Desks of Commercial Banks	In 2017 (KZT bln.)	In 2016 (KZT bln.)	Change over the Period	
			KZT bln.	%
<b>Lodgments to the Commercial Bank Cash Desks</b>	<b>24 282.0</b>	<b>22 720.5</b>	<b>1 561.5</b>	<b>6.9</b>
from sale of goods, services and works	5 862.2	5 776.7	85.5	1.5
to deposit accounts of individuals	7 073.6	5 641.9	1 431.7	25.4
from foreign exchange sales	3 857.1	2 883.9	973.1	33.7
from individuals on one-time transfers	247.0	224.0	23.0	10.3
loan repayments	377.4	385.2	-7.8	-2.0
other receipts	6 864.8	7 808.8	-944.0	-12.1
<b>Withdrawals from the Commercial Bank Cash Desks</b>	<b>24 609.3</b>	<b>22 743.3</b>	<b>1 866.0</b>	<b>8.2</b>
payments for goods, services and works	1 587.8	1 177.9	409.9	34.8
from deposit accounts of individuals	6 347.8	4 757.1	1 590.7	33.4
for foreign exchange purchases	1 181.3	1 810.7	-629.4	-34.8
for one-time transfers	86.3	76.5	9.8	12.9
for wages, retirement benefits and allowances	850.8	797.3	53.5	6.7
to support ATMs	11 050.9	9 452.6	1 598.3	16.9
loans to individuals and corporate entities	487.5	322.8	164.7	51.0
other disbursements	3 016.9	4 348.4	-1 331.5	-30.6

The cash return ratio to the commercial banks cash desks was lower than that in 2016 and made up 98.7%.

#### Banknotes and Coins

On November 22, 2017, the National Bank issued into circulation a banknote with face value of 500 tenge from the “Kazakh Yeli” series.

For period of 2017, the following collectible coins were issued into circulation:

1) from copper-nickel alloy with face value of 100 tenge:

“A German Tale” (Die bremer stadtmusikanten) from the “Tales of the people of Kazakhstan” series of coins;

“Abylai Khan” from the “Portraits on banknotes” series of coins;



“Coin devoted to the 100th anniversary of A.Galimbayva” from the “Outstanding Events and People” series of coins;

“Shashu” from the “Customs, national games of Kazakhstan” series of coins;

2) “Tumar” – a thematic collection coin of the “Antic silver” quality made of silver with face value of 100 tenge from the “Magic of symbols” series of coins;

3) “The Well - being coin (A Turtle)” – a thematic collection coin of the “proof” quality made of silver with face value of 100 tenge from the “Magic of symbol” series of coins;

4) thematic collection coins of the “proof” quality made of silver with face value of 500 tenge:

“A German Tale” (Die bremer stadtmusikanten) from the “Tales of the people of Kazakhstan” series of coins;

“Altyn Dan Dalasy” from the “Heritage of Kazakhstan” series of coins;

“Abylai Khan” from the “Portraits on banknotes” series of coins;

“The Greigi Tulip” from the “Fauna and Flora of Kazakhstan” series of coins;

“Year of Dog” from the “Oriental Calendar” series of coins;

“Ybray Altynsarin” from the “Arts of Kazakhstan” series of coins;

“Dombyra” from the “Treasures of the Steppe” series of coins;

“Shashu” from the “Customs, national games of Kazakhstan” series of coins;

“Why the Swallow Has the Tail with Little Horns” from the “Heritage of Kazakhstan” series of coins;

5) thematic collection coins of the “proof” quality made of gold with face value of 500 tenge:

“Abylai Khan” from the “Portraits on banknotes” series of coins;

“Year of Dog” from the “Oriental Calendar” series of coins.

Coins “Kultegin” and “Venera-10” became finalists in the nominations “Best New Commemorative or Test Coin” and “New Coin Innovation”, respectively within the IACA Excellence in Currency 2017 Coin Conference Awards held in Warsaw, Poland on October 24, 2017.

#### **4.6. Regulatory Activities**

In 2017, the National Bank continued to make efforts to fine-tune regulations which govern such areas as operation of the financial market and financial organizations; currency exchange regulation and currency control; payments and payment systems; protection of rights of the financial service consumers; government statistics; promoting the strengthening of validity and ensuring consistency of the National Bank’s regulations to the laws of the Republic of Kazakhstan. The National Bank also worked on a proper and uniform application of laws by the National Bank and the financial market entities; on alignment of the existing legislation and relieving it from out-dated and duplicating provisions; on filling the gaps in the regulatory environment; on elimination of internal controversies in the existing laws and minimization of reference rules in

the legislature of the Republic of Kazakhstan. Also, effort was made within the framework of protection of the National Bank's rights and lawful interests.

In 2017, the National Bank drafted the following laws which were passed by the Parliament of the Republic of Kazakhstan:

of May 6, 2017 "On Collection Business";

of May 6, 2017 "On amendments to some legislative acts of the Republic of Kazakhstan regarding the collection business".

In 2017, the National Bank also drafted:

the Presidential Edict of the Republic of Kazakhstan as dated April 1, 2017 No. 452 "On making a change to the Presidential Edict of the Republic of Kazakhstan as dated February 7, 2001 No. 549 "On some aspects of functioning of the domestic currency of the Republic of Kazakhstan";

the implementing order of the Prime Minister of the Republic of Kazakhstan as dated May 25, 2017 No. 62-r "On measures for implementation of the laws of the Republic of Kazakhstan as dated May 6, 2017 "On Collection Business" and "On amendments to some legislative acts of the Republic of Kazakhstan regarding the collection business".

Also, in 2017 the National Bank drafted the following laws and submitted them to the Majilis (lower chamber) of the Parliament as applicable:

"On amendments to some legislative acts of the Republic of Kazakhstan on the matters pertinent to insurance and the insurance business";

"On currency exchange regulation and currency control";

"On amendments to some legislative acts of the Republic of Kazakhstan on the matters pertinent to currency exchange regulation and currency control".

Apart from that, the National Bank drafted amendments to legislative acts of the Republic of Kazakhstan regarding:

authorizing the National Bank to exercise the day-to-day control and apply risk-focused supervision, to increase responsibility of audit firms and appraisal companies, ensure transparency of shareholders and improve corporate governance, and fine-tune the bank resolution framework;

taking measures to mainstream the domestic stock market.

In 2017, the National Bank passed 70 resolutions of the National Bank's Board (Annex 1 to Section 4.6.); 74 resolutions of the National Bank's Board had been registered with the Ministry of Justice, 24 of which are those passed in 2016, and 50 – passed in 2017.

In addition, in 2017 the National Bank, as part of its powers, approved and provided opinions on 58 concepts of draft laws, 50 draft laws, 70 draft by-laws, of which: the Presidential Edicts – 2; Governmental Decrees – 26; implementing orders of the Prime Minister – 12; and orders and resolutions of the government authorities – 30.

In 2017, the National Bank continued to further fine-tune regulations and guidelines regarding accounting and financial reporting for financial organizations, special purpose vehicles and microfinance organizations in line with requirements of international financial reporting standards (IFRS).

In connection with transition to IFRS 9, *Financial Instruments*, the National Bank's regulations related to accounting and financial reporting were brought in conformity with requirements of IFRS 9, *Financial Instruments*, namely:

- names of accounts for financial assets were changed in connection with the change in classification of financial assets;

- the recognition procedure in respect of amounts of provisions for financial assets recorded at fair value through other comprehensive income was changed;

- the provisioning procedure for banks (except for the bank which is the national development institute and whose controlling block of shares belongs to the national management holding company) and organizations engaged in certain types of banking operations was changed.

Since the International Accounting Standards Board postponed the transition of insurance organizations to IFRS 9, *Financial Instruments* till 2021, the Standard Chart of Accounts and the Accounting Instruction which specify how financial instruments should be recorded under IAS 39, *Financial Instruments: Recognition and Measurement*, were designed for insurance (reinsurance) organizations.

#### **4.7. Communications Policy**

In 2017, the communications policy of the National Bank was focused on an on-going awareness-raising of the society, mass media, and financial institutions regarding the regulator's actions and ensuring a dialogue by all means available and suitable for the target audiences.

In 2017, the awareness-raising effort of the National Bank was made across the following key areas:

- arranging and covering press conferences, briefings, interviews with participation of the National Bank's top officials and the staff;

- preparing information materials for the mass media;

- filling the National Bank's Internet-resource as well as disseminating information about the National Bank via social media and new communication technologies.

In 2017, 74 events were held where the National Bank's management and the staff took part, including press-conferences, briefings, round table discussions, public hearings, sessions of the government authorities, and international meetings. These include 5 press-conferences devoted to the situation in the financial market, 2 meetings with editors-in-chief of leading mass media in Kazakhstan, 16 industry-specific briefings with participation of the National Bank's senior management regarding the base interest rate, a situation in the financial and foreign exchange markets, the program for increasing financial soundness of the banking sector, on the matters pertinent to development of the payment systems market, the gold bullion sales program, drafts of the National Bank's legislative acts, and outcomes of participation in the domestic and international events.

In 2017, the National Bank continued practicing round table discussions with the mass media to explain key areas of its focus. Six round table discussions

with the mass media were conducted on the following topics: a situation in the banking sector, the implemented monetary policy, inflation targeting policy, management of pension assets of the “UAPF” JSC, situation in the foreign exchange market, and protection of rights of the financial services consumers. Also, 2 sessions of the Community Council of the “UAPF” JSC with participation of the National Bank’s Deputy Governors were held.

With a view to strengthen communication with the expert community, six meetings were arranged and covered in the mass media where the decisions regarding the setting of the base rate level and the current monetary policy guidelines of the National Bank were explained.

In 2017, with a view to explain the National Bank’s legislative initiatives, public hearings devoted to the draft laws in progress were arranged with involvement of the mass media. So, 3 public hearings were held to explain the draft laws of the Republic of Kazakhstan “On currency exchange regulation and currency control” and “On amendments to the Law of the Republic of Kazakhstan on insurance and the insurance business”.

The National Bank is making a public awareness effort about the National Banks; activities in various mass media (such as the print media, TV, and the web-based mass media) on a regular basis. In 2017, 47 interviews of the National Bank’s senior management and the staff for the Kazakh TV, print media and web-based media and 5 interviews for foreign publishers were arranged. Apart from those, the National Bank’s staff was providing comments for the TV and print media on a regular basis. Specifically, in 2017 the National Bank’s employees were acting as speakers for the “Finances” project on the local TV channel Khabar on a regular basis.

A great attention was paid to covering the National Bank’s activities in the regions of Kazakhstan. As part of this effort, in 2017 the following activities were carried out: 174 events with participation of the mass media including press-conferences, briefings and round table discussions; 104 interviews of the National Bank’s staff in the regional TV mass media were prepared; 165 working meetings with the mass media representatives, regional authorities and people were conducted on the matters of concern; 719 information materials were posted in the print media; and 53 speeches of the National Bank’s employees over the radio were organized.

In pursuance of the policy of transparency in communication, the National Bank in 2017 organized a press-tour with participation of editors-in-chief of the TV mass media and newspapers to the Center of Cash Operations and Safekeeping of Valuables of the National Bank.

In 2017, 40 press releases, 408 news items were disseminated in the mass media, and responses to 340 inquiries from the mass media were prepared. As part of the specialized project, “The National Bank informs, explains, comments”, the nationally distributed newspapers “Egemen Kazakstan” and “Kazakhstanskaya Pravda” Publishers prepared and posted 14 special pages for the National Bank. 78 resolutions of the National Bank’s Board were forwarded for official publications in periodicals of the Republic of Kazakhstan.

In 2017, much attention was given to develop and fill the content of the National Bank's Internet-resource as well as to propagate the National Bank in Facebook, Twitter and Instagram social media. In 2017, the total of 603 posts on the official web-page in Facebook was posted in the Kazakh and in the Russian languages, 913 twits, and 270 posts in Instagram. On its Facebook page, the National Bank posted video-materials based on the feedback from activities, presentations, infographics as well as video clips and comics aimed to increase financial literacy of the population. In 2017, the National Bank started to disseminate information about its activities via YouTube.

In 2017, the Bank continued to operate the "NBK Online" mobile application which was launched in 2017 for efficient communication of the National Bank with the population. In 2017, responses were provided to over 3 500 questions which had been received via the application.

In 2017, the Governor of the National Bank delivered lectures in universities: a lecture about key functions and areas of focus of the National Bank was delivered in the Kazakhstan Institute of Management, Economics and Strategic Research; a lecture as part of the opening of the "Master of Science in Finance" was delivered in the Nazarbayev University".

#### **4.8. International Cooperation**

In 2017, the National Bank continued to build up a long-term and mutually beneficial cooperation with the main partners – international financial organizations – by maintaining an on-going dialogue.

The National Bank's senior management participated in the Spring and Annual Meetings of the Boards of Governors of the World Bank Group and the IMF. The National Bank organized a visit of the IMF Mission to the Republic of Kazakhstan for consultations under Article IV of the IMF's Articles of Agreement; also, presentation entitled "Regional Economic Outlook: Caucasus and Central Asia" was organized jointly by the National Bank and the IMF.

The National Bank continued to bring in technical assistance from international financial organizations for further development of the country's financial sector. So, in 2017 advisory services related to procurements based on the best practice in the area were received from the IMF. Also, an additional request for technical assistance related to the designing of methods and models to determine an equilibrium exchange rate, devising of the rules for FX interventions under the inflation targeting regime, the fine-tuning of forecast models was filed to the IMF. Jointly with the European Bank for Reconstruction and Development, the National Bank started to design the technical assistance program entitled "Reforms of the Laws and Regulations of the Republic of Kazakhstan which Govern Operations with Financial Derivatives".

In 2017, the Asian Development Bank started to provide a technical assistance to the National Bank on increasing soundness of the financial sector that will be implemented during three years. This work is aimed to improve supervisory functions, procedures and skills required to assess risk management processes in

banks, strengthen the system of bank regulation and control and support implementation of the risk-based approach.

As for cooperation with central banks of European countries, the agreement reached with Deutsche Bundesbank in 2017 regarding assistance to the National Bank in fine-tuning the mechanisms of cash circulation in Kazakhstan is worth mentioning. Concurrently with this, as part of the technical assistance implementation between the National Bank of Kazakhstan and the Swiss National Bank, the agreement was reached to conduct a joint research in 2018 and provide a peer review of economic studies conducted by the National Bank, as well as to provide advisory assistance regarding procurements in a central bank and the budgeting. Also, an agreement was reached with the National Bank of Poland and the Bank of Italy regarding technical assistance in key areas of central bank activities in 2018.

In 2017, central (national) banks of the CIS member states adopted Recommendations on harmonization of legislation of the EAEU member-states that govern operation of joint-stock companies and disclosures with a view to protect shareholder and investor rights, and also on harmonization of legislation that governs the procedure for prudential regulation in the securities market of the CIS member states.

In 2017, a comprehensive effort was initiated to approve the Concept for building up a common financial market in the EAEU. The National Bank took part in a number of sessions and meetings devoted to the drafting and discussion of this document. In 2017, a round table discussion was held in the city of Almaty to discuss the content of the Concept together with the heads of central (national) banks of the member states as well as with the Eurasian Economic Commission and the academic community of the EAEU member states.

During the year, the work on intra-state procedures required to adopt and sign the agreements drafted as part of implementation of the EAEU Treaty was going on.

The National Bank's representatives took part in the work of the Sub-Commission on Interbank and Investment Cooperation between the Russian Federation and the Republic of Kazakhstan and Kazakhstan-Chinese Sub-Committee on Financial Cooperation.

With a view to implement the Agreement on additional restructuring of debt of the Georgian Government under government-backed loans provided to the Government of Georgia by the Government of the Republic of Kazakhstan as signed on June 13, 2017, the National Bank drafted the Interbank Agreement with the National Bank of Georgia on a technical procedure for settlements and account keeping following from the above inter-governmental agreement which was signed on July 13, 2017; under the Agreement, the Georgian side transfers monies to the account of the Treasury Committee of the Ministry of Finance of the Republic of Kazakhstan opened with the National Bank in accordance with the approved schedule, starting from September 2017.

With a view to address the issue of a presence of Kazakhstan subsidiary banks within the territory of the Republic of Uzbekistan, in November 2017 an

official visit of the National Bank's delegation to the Central Bank of the Republic of Uzbekistan took place; during the visit, an agreement about the drafting and conclusion of the international Agreement on cooperation in the bank supervision area was reached.

At present, special attention in the Republic of Kazakhstan is given to deepening of cooperation with the Organization for Economic Cooperation and Development in order to build up a competitive financial sector and increase its effectiveness in the redistribution of resources in the economy on the basis of the Organization's best standards. In June 2017, the National Bank became a member of the International Network on Financial Education. One of advantages of being a member in the organization is in using its experience for reaching synergies in increasing financial literacy of the population. In 2017, a three-year project of technical support in the area of financial education was initiated in Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan. This platform will enable the participating countries to work out recommendations regarding the devising, implementation and assessment of effectiveness of national strategies in the field of financial education.

In June 2017, the National Bank took part in the Annual General Meeting of the Bank for International Settlements. On August 22, 2017, the National Bank subscribed to the General Terms of Business of the Bank for International Settlements by signing the form of acceptance of General terms for establishing cooperation with the Bank in the areas of business, banking and investment (deposit placing, purchases/sales of gold, securities, foreign exchange). These steps had become possible after the National Bank's accession to the Basel Consultative Group with the Basel Committee on Banking Supervision of the Bank for International Settlements in October 2016. By obtaining membership, the National Bank got an opportunity of a more active participation in a broad professional dialogue and in sharing the experience in implementation of the bank regulation and supervision policy. In 2017, the National Bank continued to fine-tune regulation of banking business, particularly in respect of transition of the existing regulatory regime to core principles under the Basel III framework on capital and liquidity adequacy.

With a view to broaden cooperation with the Middle East countries, on February 20, 2017 the Memorandum of Understanding between the National Bank of the Republic of Kazakhstan and the Central Bank of Bahrain in the field of financial supervision was signed.

#### **4.9. Increasing Financial Literacy of the Population**

One of priorities in the financial sector development is to expand the coverage of the population and economic entities with financial services and to increase financial literacy of the financial services consumers.

In May 2017, the National Bank launched an educational TV program entitled "the School of Finance" on the Astana TV channel that presents the basics of financial literacy for children of elementary school and junior high school.

During the year, 46 programs were released both in the Kazakh and Russian languages, in December 2017 a ceremony where the National Bank's letters of appreciation were handed in to the project's participants took place. In addition, in May the TV channel "Seventh Channel" launched an educational TV program "Tengemania Next" for the general public including students and the youth. 50 programs were released both in the Kazakh and Russian languages. The two programs are aimed to increase financial literacy, explain the basics of financial culture, of such concepts as "personal budget", "responsibility for financial decision-making" and tell about the financial system of the Republic of Kazakhstan.

Besides, in 2017 annexes to nation-wide children newspapers "Ulan" and "Druzhnye Rebyata" were issued, where the basics of financial literacy are presented to children of elementary school. Over the year, 12 issues were published both in the Kazakh and Russian languages. For children in the middle- and senior high school, annexes to the nation-wide scientific and educational magazine "Oila" were prepared, 5 issues published both in the Kazakh and Russian languages. In December 2017, winners in the financial literacy competition that took place in the "Ulan" and "Druzhnye Rebyata" newspapers and the "Oila" magazine received their awards.

In Almaty, an annual "Night in the Library" and a guessing game on the topic of economics confined to the National Currency Day was conducted in the Central Children Library named after S.Begalin for children of elementary school and junior high school. One of the stages of the night in the library journey was devoted to financial literacy where children were told about the history of money in Kazakhstan. The purpose of the event confined to the National Currency Day was to build up the foundation of economic knowledge, to get an insight to the history of money and their use as well as their role in modern life. The National Bank's staff delivered lectures about the introduction of the tenge, about its design and denominations.

In 2017, the National Bank also continued to fill its Internet resource, devoted to the financial education of the population ([fingramota.kz](http://fingramota.kz)) with the up-to-date information.

#### **4.10 Providing Public Services**

In 2017, the top-priority activities of the National Bank in providing public services were to make public services more efficient, to strengthen internal control over the quality of public services provided, to optimize public services, and to design standards and rules of procedure on public services.

Due to changes in the legislation which entailed a joinder of two public services and appearance of three new public services, the number of public services rendered by the National Bank increased from 44 to 46, 36 of which are automated and are provided electronically and in hard copy and 10 are provided in hard copy only.



During 2017, the National Bank rendered 3 782 public services, where 733 public services were rendered in an electronic format, including 257 services rendered via the e-government portal, 476 – via the “E-licensing Government Database” information system; and 3 049 public services were provided in hard copy.

As part of enforcement of the changes to the public services register and with a view to further optimize documentation and the timeline for delivery of services, an effort was made to make relevant amendments to the existing standards and rules of procedure for public services.

In order to optimize business processes of public services delivery, the National Bank participated in the sessions of the Inter-agency Commission for selection of public services that should be rendered through the “Government for Citizens” National Corporation. Based on the work performed by the Commission, the decision was made in respect of two public services of the National Bank to optimize the timeline of their delivery and the list of documents to be submitted and to convert them so that they are provided in an electronic form only.

Based on examinations of public services delivery within the framework of internal quality control, recommendations regarding the fine-tuning of procedure for public services delivery and improvement of quality of public services in line with standards and rules of procedure for public services were elaborated.

Based on the public monitoring conducted by an independent research center in respect of the “registration of a FX operation” service, the level of satisfaction was 74.6%, and the average score – 4.71 out of 5. The National Bank was the sixth best in the rating of government agencies participating in the public monitoring. The average level of satisfaction with public services in respect of government agencies on the whole in 2017 accounted for 65.7%.

## Annexes

### Organizational Chart and Staff Numbers

Governor of the National Bank		
Deputy Governors of the National Bank		
Business Units in the Head-Office of the National Bank		
Research and Statistics Department	Balance of Payments and Currency Regulation Department	Department of Financial Stability
Monetary Operations Department	Department of Financial Market Methodology	Bank Supervision Department
Department of Regulation Non-Bank Financial Organizations	Legal Department	Accounting Department
Payment Systems Department	Internal Audit Department	Department of Coordination (Astana city)
International Cooperation Department	Information Threats and Cybersecurity Division	Financial Services Consumers' Rights Protection and External Communication Division
Division of Information Technologies	HR Division	Cash Management Division
Risk Managment Division	Planning and Budget Division	Monetary Operations Accounting Division
Operational Division	Security Division	Administrative Division
State Secrets Protection Division		Division for Organization Work and Control
Branches of the National Bank of the Republic of Kazakhstan		
16 regional branches		The Cash Operations and Valuable Storage Center (branch)
Organizations of the National Bank of the Republic of Kazakhstan		
“Kazakhstan Interbank Settlements Center of the NBRK” RSE	“Kazakhstan Mint of the NBRK” RSE	“Banknote Factory of the NBRK” RSE
Joint-Stock Companies		
“National Investment Corporation of the NBK” JSC	“The Integrated Securities Registrar” JSC	“Kazakhstan Deposit Insurance Fund” JSC
“Central Securities Depository” JSC	“Kazakhstan Stock Exchange” JSC	“The State Credit Bureau” JSC
“Bank Service Bureau of the NBK” JSC	“Kazakhstan Sustainability Fund” JSC	“Center of activities' maintenance of the NBK” JSC
“Training Center of NBRK” JSC	“Rating Agency of the Regional Financial Center of Almaty” JSC	

### Staff Numbers of the National Bank and Its Joint-Stock Companies

	Staff number at the end of the reporting period			
	staffing plan, numbers		staffing plan, numbers	
	2016	2017	2016	2017
1	2	3	4	5
Head office <sup>1</sup>	1 182	1 204	1 196	1 190
Branches	1 316	1 316	1 356	1 366
<b>Total:</b>	<b>2 498</b>	<b>2 520</b>	<b>2 552</b>	<b>2 556</b>
National Bank's organizations (RSOEs)	853	840	849	842
<b>Total in the National Bank:</b>	<b>3 351</b>	<b>3 360</b>	<b>3 401</b>	<b>3 398</b>
Joint-stock companies	1 223	1 173	1 156	1 138
<b>Grand total:</b>	<b>4 574</b>	<b>4 533</b>	<b>4 557</b>	<b>4 536</b>

<sup>1</sup> 2016, including the Head of the National Bank's Representative Office in the Russian Federation

## Annex 1 to Section 1.5

Table 1.5.1

### Balance of Payments of the Republic of Kazakhstan: Analytical Presentation

(USD mln.)

	2016	2017	2017			
			Q1	Q2	Q3	Q4
<b>Current account</b>	-8873.5	-5352.8	-1402.9	-1480.6	-1724.1	-745.1
Trade balance	9193.2	17444.0	4299.1	4265.8	3576.8	5302.3
Exports	37262.5	49293.7	10997.3	12503.3	11690.1	14103.0
Imports	28069.3	31849.8	6698.2	8237.5	8113.4	8800.7
Services	-4756.0	-4412.9	-930.9	-1080.9	-1113.7	-1287.4
Exports	6306.8	6436.6	1462.6	1628.9	1739.2	1605.9
Imports	11062.8	10849.5	2393.5	2709.8	2852.8	2893.3
Primary income	-12917.3	-17927.0	-4675.7	-4553.8	-4070.5	-4627.0
Compensation of employees, net	-1303.4	-1405.9	-323.6	-341.4	-354.0	-386.8
Investment income, net	-11753.7	-16656.2	-4385.9	-4246.1	-3750.3	-4273.9
Income receivable	2101.1	2216.9	495.2	546.2	565.1	610.4
Income on direct investment	587.3	703.9	143.3	169.2	177.3	214.0
Income on portfolio investment	1084.7	1031.4	251.1	267.4	251.4	261.5
Income on other investment	429.0	481.6	100.8	109.5	136.5	134.8
<i>of which interest on international reserves and assets of the National Fund</i>	1119.8	1161.1	269.9	299.3	295.2	296.7
Income payable	13854.8	18873.0	4881.0	4792.3	4315.4	4884.3
Income on direct investment	11500.0	16321.2	4280.4	4134.0	3669.7	4237.1
Income on portfolio investment	1191.6	1198.5	273.6	329.5	288.3	307.2
Income on other investment	1163.3	1353.3	327.0	328.8	357.5	340.0
Other primary income, net	139.8	135.0	33.8	33.8	33.8	33.8
Secondary income	-393.3	-456.9	-95.4	-111.7	-116.7	-133.1
<b>Capital account balance</b>	269.6	288.1	12.3	254.5	13.5	7.9
<b>Financial account (excluding reserve assets of the National Bank)</b>	-8448.8	-5704.1	-1661.3	-786.9	-3907.6	651.8
Direct investment	-13315.4	-3846.5	-1876.8	-1232.0	261.6	-999.2
Net acquisition of financial assets	3464.2	695.9	438.7	1013.3	660.4	-1416.5
Net incurrence of liabilities	16779.6	4542.3	2315.6	2245.2	398.8	-417.3
Portfolio investments	747.1	-5398.2	1229.3	-3362.0	-6107.5	2842.0
Net acquisition of financial assets	-1250.2	-3246.9	1378.3	-1507.9	-5436.3	2318.9
Central bank and general government	-2609.5	-5803.8	967.3	-1057.1	-6826.7	1112.6
Banks	150.6	872.2	-43.4	172.4	269.1	474.1
Other sectors	1208.6	1684.7	454.4	-623.2	1121.4	732.1
Net incurrence of liabilities	-1997.3	2151.3	149.0	1854.1	671.3	-523.1
BankCentral bank and general government	-795.0	-83.2	404.8	-42.8	-111.2	-334.1
Banks	-912.9	-836.7	-379.9	-588.3	-77.3	208.9
Other sectors	-289.5	3071.2	124.2	2485.2	859.7	-397.9
Financial derivatives, net	-24.8	115.5	83.9	59.8	-20.4	-7.8
Other investment	4144.3	3425.0	-1097.7	3747.2	1958.7	-1183.2
Other equity, net	-24.2	38.4	35.4	1.7	1.4	-0.1
Medium- and long-term debt instruments	-4210.9	-472.4	-145.2	885.6	-942.1	-270.7
Net acquisition of financial assets	-1485.4	-457.7	-319.8	244.8	-305.3	-77.4
BankCentral bank and general government	-188.8	-28.8	-14.4	-2.3	-15.3	3.3
Banks	-316.1	-44.9	26.2	-10.6	-19.1	-41.4

Other sectors	-980.5	-384.0	-331.6	257.7	-270.8	-39.3
Net incurrence of liabilities	2725.5	14.7	-174.6	-640.8	636.8	193.2
BankCentral bank and general government	842.6	-173.5	-97.3	-48.7	-42.0	14.5
Banks	52.9	-235.3	-281.2	-48.1	69.9	24.1
Other sectors	1830.0	423.4	203.8	-544.0	609.0	154.6
Short-term debt instruments	8379.4	3859.1	-987.9	2859.9	2899.5	-912.4
Net acquisition of financial assets	8570.5	4791.5	-858.4	3070.7	3331.0	-751.9
Net incurrence of liabilities	191.1	932.4	129.6	210.8	431.5	160.5
<b>Net errors and omissions</b>	-101.3	-2256.8	-831.6	125.4	-904.7	-645.9
<b>Overall balance</b>	256.4	1617.4	561.0	313.8	-1292.3	2034.9
<b>Financing</b>	-256.4	-1617.4	-561.0	-313.8	1292.3	-2034.9
Reserve assets of the National Bank	-256.4	-1617.4	-561.0	-313.8	1292.3	-2034.9
IMF credits	0.0	0.0				
Exceptional financing	0.0	0.0				

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## Annex 2 to Section 1.5

Table 1.5.2

### External Debt: Standard Presentation

(USD mln.)

	As at January 1 2016	As at January 1 2017	As at April 1 2017	As at July 1 2017	As at October 1 2017	As at January 1 2018
<b>External Debt</b>	<b>153 422.2</b>	<b>163 631.7</b>	<b>165 388.6</b>	<b>167 859.3</b>	<b>168 889.2</b>	<b>167 484.7</b>
Short-term	6 260.3	6 565.2	7 050.8	7 193.1	7 378.5	7 457.7
Long-term	147 161.9	157 066.5	158 337.8	160 666.2	161 510.7	160 027.0
<b>General Government</b>	<b>11 313.2</b>	<b>12 092.1</b>	<b>12 170.2</b>	<b>12 145.2</b>	<b>12 313.3</b>	<b>12 067.5</b>
Short-term	21.7	13.6	11.6	14.0	16.9	19.3
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities <sup>1</sup>	0.0	0.0	0.0	0.0	0.0	0.0
Credits and loans	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits and advances	21.7	13.6	11.6	14.0	16.9	19.3
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	11 291.5	12 078.5	12 158.6	12 131.2	12 296.4	12 048.2
Special Drawing Rights	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities <sup>1</sup>	5 038.0	4 713.7	4 836.9	4 862.4	5 062.5	4 799.7
Credits and loans	6 214.5	7 363.6	7 321.7	7 268.8	7 233.8	7 248.5
Trade credits and advances	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities <sup>2</sup>	39.0	1.1	0.0	0.0	0.0	0.0
<b>Central Banks</b>	<b>898.8</b>	<b>756.3</b>	<b>1 120.4</b>	<b>1 097.8</b>	<b>869.7</b>	<b>926.3</b>
Short-term	76.0	242.5	626.9	593.7	368.3	421.8
Currency and deposits	70.9	17.2	16.8	18.4	15.3	10.6
Debt securities <sup>1</sup>	0.0	220.8	606.0	572.7	350.2	408.1
Credits and loans	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits and advances	0.0	0.0	4.1	2.6	2.7	3.1
Other liabilities	5.0	4.6	0.0	0.0	0.0	0.0
Long-term	822.9	513.8	493.4	504.1	501.4	504.6
Special Drawing Rights	481.8	465.6	472.4	483.1	490.4	493.6
Currency and deposits	340.0	47.2	20.0	20.0	10.0	10.0
Debt securities <sup>1</sup>	0.0	0.0	0.0	0.0	0.0	0.0
Credits and loans	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits and advances	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities <sup>2</sup>	1.0	1.0	1.0	1.0	1.0	1.0
<b>Banks</b>	<b>7 972.8</b>	<b>7 153.3</b>	<b>6 662.3</b>	<b>6 168.1</b>	<b>6 265.2</b>	<b>6 478.4</b>
Short-term	764.4	583.3	646.7	662.7	742.1	672.5
Currency and deposits	575.1	473.8	515.6	496.6	538.9	476.4
Debt securities <sup>1</sup>	0.0	0.0	0.0	0.0	0.0	0.0
Credits and loans	149.1	69.9	85.9	92.9	88.2	116.7
Trade credits and advances	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	40.2	39.6	45.1	73.2	115.1	79.5
Long-term	7 208.4	6 570.0	6 015.6	5 505.4	5 523.1	5 805.9
Currency and deposits	149.4	158.4	162.2	171.4	189.8	199.0
Debt securities <sup>1</sup>	3 999.9	3 316.2	3 044.1	2 567.9	2 532.4	2 780.8
Credits and loans	3 059.1	3 095.4	2 809.4	2 766.1	2 800.9	2 826.1
Trade credits and advances	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities <sup>2</sup>	0.0	0.0	0.0	0.0	0.0	0.0
<b>Other sectors<sup>3</sup></b>	<b>36 558.3</b>	<b>38 862.6</b>	<b>40 052.4</b>	<b>42 142.8</b>	<b>43 287.6</b>	<b>43 549.5</b>
Short-term	5 398.3	5 725.8	5 765.6	5 922.7	6 251.1	6 344.1

Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities <sup>1</sup>	0.0	0.0	0.0	0.0	0.0	0.0
Credits and loans	457.9	422.1	386.2	406.8	371.7	588.7
Trade credits and advances	4 837.5	5 202.5	5 260.2	5 389.6	5 682.4	5 646.1
Other liabilities	102.9	101.2	119.2	126.3	197.0	109.2
Long-term	31 160.0	33 136.8	34 286.8	36 220.2	37 036.5	37 205.4
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities <sup>1</sup>	9 617.8	9 891.6	10 137.5	12 745.1	13 120.4	12 926.3
Credits and loans	18 900.8	20 966.9	21 890.6	21 409.5	21 999.2	22 214.9
Trade credits and advances	2 348.8	1 814.6	1 760.2	1 581.5	1 471.9	1 613.4
Other liabilities <sup>2</sup>	292.5	463.7	498.6	484.1	444.9	450.8
<b>Other financial organizations</b>	<b>2 593.0</b>	<b>2 599.0</b>	<b>2 688.8</b>	<b>2 700.3</b>	<b>2 811.3</b>	<b>2 709.6</b>
Short-term	57.3	76.4	82.8	83.1	158.4	61.7
Long-term	2 535.7	2 522.6	2 606.0	2 617.2	2 652.9	2 647.9
<b>Non-financial organizations, households and non-commercial organizations providing services to households</b>	<b>33 965.3</b>	<b>36 263.6</b>	<b>37 363.6</b>	<b>39 442.5</b>	<b>40 476.3</b>	<b>40 839.9</b>
Short-term	5 341.0	5 649.4	5 682.8	5 839.6	6 092.8	6 282.4
Long-term	28 624.3	30 614.2	31 680.8	33 602.9	34 383.5	34 557.5
<b>Direct investments: Intercompany lending</b>	<b>96 679.1</b>	<b>104 767.5</b>	<b>105 383.4</b>	<b>106 305.3</b>	<b>106 153.4</b>	<b>104 463.0</b>
Debt liabilities of direct investment enterprises to direct investors	76 408.0	78 138.9	79 186.3	80 398.3	81 699.2	80 566.7
Debt liabilities of direct investors to direct investment enterprises (reverse investment)	932.7	7 036.1	7 106.6	6 803.1	6 527.6	6 653.0
Debt liabilities between fellow enterprises	19 338.5	19 592.5	19 090.5	19 104.0	17 926.6	17 243.3

<sup>1</sup> Debt securities are recorded at market value (if available).

<sup>2</sup> Include insurance and pension schemes and standard guarantee programs as well as other long-term liabilities from the structure of an international investment position.

<sup>3</sup> Other sectors do not include intercompany lending which goes as a separate item in the external debt structure.

## Annex 3 to Section 1.5

Table 1.5.3

**External Debt of the Republic of Kazakhstan: Absolute and Relative Parameters**

Items	2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2017
<b>Absolute Parameters (USD mln.)</b>						
1. External debt (estimate at the end-period)	163 631.7	165 388.6	167 859.3	168 889.2	167 484.7	167 484.7
Including intercompany debt	104 767.5	105 383.4	106 305.3	106 153.4	104 463.0	104 463.0
2. External debt, excluding intercompany lending (estimate at the end-period)	58 864.2	60 005.3	61 554.0	62 735.8	63 021.6	63 021.6
3. Long-term external debt service (including intercompany lending)	31 328.9	7 237.3	8 205.9	9 162.0	12 512.3	37 117.5
4. Long-term external debt service (excluding intercompany lending)	14 342.6	2 705.4	3 659.6	2 507.0	5 238.4	14 110.4
<b>Comparative Parameters</b>						
1. External debt per capita (USD, excluding intercompany lending) <sup>1</sup>	3 285.2	3 338.4	3 413.1	3 466.7	3 470.9	3 470.9
2. External debt to GDP ratio (% , including intercompany lending)	119.2	114.8	112.3	108.8	106.2	105.9
3. External debt to GDP ratio (% , excluding intercompany lending)	42.9	41.7	41.2	40.4	40.0	39.8
4. External debt to exports of goods and services for the 12 month ratio (% , including intercompany lending)	375.6	358.9	335.8	324.4	300.5	300.5
5. External debt to exports of goods and services for the 12 month ratio (% , excluding intercompany lending)	135.1	130.2	123.1	120.5	113.1	113.1
6. Long-term external debt service to exports of goods and services for the period ratio (% , including intercompany lending)	71.9	58.1	58.1	68.2	79.7	66.6
7. Long-term external debt service to exports of goods and services for the period ratio (% , excluding intercompany lending)	32.9	21.7	25.9	18.7	33.3	25.3
8. Interest payments to exports of goods and services for the period ratio (%)	12.8	12.4	11.5	12.3	10.6	11.6
9. National Bank's international reserves to short-term external debt (%)	449.8	421.8	417.2	436.5	412.3	412.3
<b>Memo Items:</b>						
Population (thous. individuals) <sup>1</sup>	17 918.2	17 974.1	18 034.4	18 096.9	18 157.1	18 157.1
GDP (bln. KZT), for the period <sup>2</sup>	46 971.2	10 431.4	11 114.9	13 595.8	16 424.7	51 566.8
GDP for 12 months (USD bln.) <sup>3</sup>	137.3	144.0	149.4	155.2	157.7	158.2



Exports of goods and services for the period	43 569.3	12 459.9	14 132.2	13 429.3	15 709.0	55 730.3
Exports of goods and services for 12 months	43 569.3	46 082.9	49 987.1	52 054.7	55 730.3	55 730.3

<sup>1</sup> data of the Committee on Statistics of the Ministry of National Economy.

<sup>2</sup> updated information of the Committee on Statistics of the Ministry of National Economy for 2017 published on February 16, 2018.

<sup>3</sup> GDP in USD for the calendar year is the information of CS MNE. GDP in USD dollars for 12 months for the reasons of calculating relative parameters on quarterly basis is calculated as the sum of quarter data in USD, using corresponding average value of the exchange rate for the quarter

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## **Annex 1 to Section 4.6.**

### **List of Regulations of the Board of the National Bank of the Republic of Kazakhstan Passed in 2017**

1. Resolution of the National Bank's Board as dated January 28, 2017 No. 16 "On changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated September 26, 2016 No. 239 "On approval of the Rules for issuance, placement, circulation and redemption of short-term notes of the National Bank of the Republic of Kazakhstan".
2. Resolution of the National Bank's Board as dated January 28, 2017 No. 17 "On changes to some regulations of the Republic of Kazakhstan on the matters pertinent to regulation of the insurance business".
3. Resolution of the National Bank's Board as dated January 28, 2017 No. 19 "On approval of the Rules for a mandatory buyout of shares of an insurance (reinsurance) organization followed by their resale to a new investor".
4. Resolution of the National Bank's Board as dated January 28, 2017 No. 21 "On approval of the Rules for issuing bank guarantees and sureties by the second-tier banks".
5. Resolution of the National Bank's Board as dated January 28, 2017 No. 22 "On establishing the criteria for an unsecured loan (a blank credit)".
6. Resolution of the National Bank's Board as dated January 28, 2017 No. 23 "On changes to some regulations of the Republic of Kazakhstan on the matters pertinent to the banking business".
7. Resolution of the National Bank's Board as dated January 28, 2017 No. 24 "On approval of the Rules for giving a permission to a bank and/or a bank holding company to open or acquire a subsidiary, giving a permission to a bank to open and/or acquire a subsidiary which purchases doubtful or loss assets of its parent bank; for a significant equity participation of a bank and/or a bank holding company in organizations; as well as for revocation of a permission from a bank and/or a bank holding company to open or acquire a subsidiary, a significant equity participation of a bank and/or a bank holding company in organizations".
8. Resolution of the National Bank's Board as dated February 24, 2017 No. 37 "On amendments to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated April 30, 2015 No. 71 "On approval of the standards of public services of the National Bank of the Republic of Kazakhstan".
9. Resolution of the National Bank's Board as dated March 27, 2017 No. 44 "On changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated October 20, 2015 No. 194 "On approval of the standard retirement annuity contract, determining the Methodology for calculation of the insurance premium and insurance indemnity payment from an insurance organization under the retirement annuity contract, acceptable level of expenses of an insurance organization related to handling of the concluded retirement annuity contracts as well as an indexation rate of insurance benefit payment".

10. Resolution of the National Bank's Board as dated March 27, 2017 No. 45 "On changes to some regulations of the Republic of Kazakhstan on the matters pertinent to regulation of the insurance business".

11. Resolution of the National Bank's Board as dated March 27, 2017 No. 46 "On amendments to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated January 31, 2011 No. 3 "On approval of the Standard Chart of Accounts in the second-tier banks, mortgage organizations and the "Development Bank of Kazakhstan" JSC and on approval of the Accounting Instruction for Islamic banks".

12. Resolution of the National Bank's Board as dated March 27, 2017 No. 47 "On approval of the Rules for automation of the accounting process".

13. Resolution of the National Bank's Board as dated March 27, 2017 No. 48 "On changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated August 24, 2012 No. 261 "On approval of the Rules for appointment to a job and termination of a labor contract with employees of the National Bank of the Republic of Kazakhstan".

14. Resolution of the National Bank's Board as dated March 27, 2017 No. 50 "On amendments to some regulations of the Republic of Kazakhstan on the matters pertinent to regulation of the securities market".

15. Resolution of the National Bank's Board as dated March 27, 2017 No. 53 "On approval of the terms and minimum requirements to the procedure of providing information to credit bureaus by information providers; of the Rules for formalization of consent of borrowers to provide information about them to credit bureaus (except for a credit bureau with the government participation), for formalization of consent to provide a credit report from a credit bureau as well as the Rules and terms and conditions of providing a credit report".

16. Resolution of the National Bank's Board as dated March 27, 2017 No. 54 "On approval of the Requirements to issuers and their securities which are to be listed (are listed) at the stock exchange as well as to certain categories of the stock exchange listing and on making changes to some regulations of the Republic of Kazakhstan on the matters pertinent to regulation of the securities market".

17. Resolution of the National Bank's Board as dated April 28, 2017 No. 67 "On changes to the Order of the Minister of Finance of the Republic of Kazakhstan as dated January 23, 2009 No. 27 and the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated February 27, 2009 No. 16 "On approval of the implementing order formats".

18. Resolution of the National Bank's Board as dated April 28, 2017 No. 69 "On changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated May 8, 2015 No. 76 "On approval of the List of formats and deadlines of reports to be submitted by the second-tier banks of the Republic of Kazakhstan and the Rules of their submission".

19. Resolution of the National Bank's Board as dated April 28, 2017 No. 70 "On changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated January 28, 2016 No. 26 "On approval of the Rules for posting of information about corporate events, financial statements and audit

reports, lists of affiliates of joint-stock companies well as information about overall amount of fees paid to the members of an executive body based on annual performance, on the Internet resources of the financial statements depository and the stock exchange”.

20. Resolution of the National Bank’s Board as dated April 28, 2017 No. 72 “On changes to some regulations of the Republic of Kazakhstan on the matters pertinent to the financial market”.

21. Resolution of the National Bank’s Board as dated April 28, 2017 No. 73 “On making changes and a supplement to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated May 8, 2015 No. 77 “On approval of the Rules for conducting a transaction of concurrent transfer of assets and liabilities of a bank in part or in full to another bank (banks) including a concurrent transfer of assets and liabilities between a parent bank and a subsidiary bank in respect of which restructuring was carried out, and approval of such transactions by a competent authority as well as types of assets and liabilities subject to transfer in conducting such transactions“.

22. Resolution of the National Bank’s Board as dated April 28, 2017 No. 77 “On changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated September 24, 2014 No. 179 “On approval of the Rules for carrying out types of activities by an organization which specializes in improving the quality of bank loan portfolios as well as of the Requirements to doubtful and loss assets being acquired (acquired) by such organization”.

23. Resolution of the National Bank’s Board as dated May 29, 2017 No. 86 “On repealing some of resolutions of the Board of the National Bank of the Republic of Kazakhstan”.

24. Resolution of the National Bank’s Board as dated May 29, 2017 No. 92 “On approval of the Rules for undergoing the record registration and keeping the register of collection agencies”.

25. Resolution of the National Bank’s Board as dated June 14, 2017 No. 102 “On making changes and a supplement to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated May 27, 2015 No. 91 “On approval of requirements to the use of information and communication technologies and ensuring information security when arranging operation of credit bureaus, information providers and recipients of credit reports”.

26. Resolution of the National Bank’s Board as dated June 30, 2017 No. 112 “On approval of the List, formats and deadlines for submission of reports by a collection agency and the Rules for their submission.

27. Resolution of the National Bank’s Board as dated June 30, 2017 No. 119 “On approval of the Rules for calculation and terms of a floating interest rate”.

28. Resolution of the National Bank’s Board as dated June 30, 2017 No. 120 “On approval of the List of main persistent documents of a collection agency and their retention period”.

29. Resolution of the National Bank’s Board as dated June 30, 2017 No. 121 “On approval of the Rules for provision of information by a collection agency about persons who, individually or jointly with other person (persons), directly or

indirectly own and/or use and/or dispose of ten or more per cent of equity interest in the collection agency, or having control thereof”.

30. Resolution of the National Bank’s Board as dated June 30, 2017 No. 122 “On approval of the checklist in the area of government control over activities of collection agencies”.

31. Resolution of the National Bank’s Board as dated June 30, 2017 No. 126 “On amendments to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated July 25, 2006 No. 65 “On approval of the Rules for investment operations of the National Fund of the Republic of Kazakhstan”.

32. Resolution of the National Bank’s Board as dated July 28, 2017 No. 136 “On approval of the Rules for provision of banking services and handling customer requests arising in the course of the banking service provision, by banks and organizations engaged in certain types of banking operations”.

33. Resolution of the National Bank’s Board as dated July 31, 2017 No. 142 “On repealing some of resolutions of the Board of the National Bank of the Republic of Kazakhstan”.

34. Resolution of the National Bank’s Board as dated July 31, 2017 No. 148 “On approval of prudential ratios and other ratios and limits mandatory for a microfinance organization, a methodology for their calculation and well as formats and deadlines for submission of reports on their compliance”.

35. Resolution of the National Bank’s Board as dated July 31, 2017 No. 149 “On approval of the rules of procedure for public services of the National Bank of the Republic of Kazakhstan”.

36. Resolution of the National Bank’s Board as dated July 31, 2017 No. 160 “On amendments to the Order of the Minister of Finance of the Republic of Kazakhstan as dated November 26, 2014 No. 522 and the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated December 24, 2014 No. 240 “On approval of the Requirements to the Internal Control Rules with a view to counteract the money laundering and terrorism financing for the professional securities market participants and the central depository”.

37. Resolution of the National Bank’s Board as dated August 28, 2017 No. 167 “On approval of the list, formats, and deadlines of reports to be submitted by the Unified Accumulative Pension Fund and the Rules of their submission”.

38. Resolution of the National Bank’s Board as dated September 11, 2017 No. 169 “On amendments to some regulations of the Republic of Kazakhstan on the matters pertinent to bank regulation”.

39. Resolution of the National Bank’s Board as dated September 13, 2017 No. 170 “On setting regulatory values and methodologies for calculation of prudential ratios and other mandatory ratios and limits of the size of a bank capital at a certain date and of the Rules for calculation of open currency position and its limits”.

40. Resolution of the National Bank’s Board as dated September 27, 2017 No. 173 “On approval of the Rules for selecting foreign entities engaged in managing pension assets of a Unified Accumulative Pension Fund including

requirements to such entities, in authorizing them to take actions necessary to manage pension assets of a Unified Accumulative Pension Fund”.

41. Resolution of the National Bank’s Board as dated September 27, 2017 No. 187 “On changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated December 19, 2015 No. 237 “On approval of the Rules for purchasing goods, works and services by the National Bank of the Republic of Kazakhstan, its establishments, organizations within its structure and corporate entities where fifty and more per cent of their voting shares (equity participation) belongs to the National Bank of the Republic of Kazakhstan or are under its fiduciary management, and by its affiliated corporate entities”.

42. Resolution of the National Bank’s Board as dated September 27, 2017 No. 188 “On amendments to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated July 16, 2014 No. 144 “On approval of the Rules for organization of exchange operations with foreign cash in the Republic of Kazakhstan”.

43. Resolution of the National Bank’s Board as dated November 2, 2017 No. 196 “On making changes and a supplement to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated September 26, 2016 No. 239 “On approval of the Rules for issuance, placement, circulation and redemption of short-term notes of the National Bank of the Republic of Kazakhstan”.

44. Resolution of the National Bank’s Board as dated November 2, 2017 No. 197 “On changes to some regulations of the Republic of Kazakhstan on the matters pertinent to regulation of the securities market”.

45. Resolution of the National Bank’s Board as dated November 2, 2017 No. 200 “On changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated November 28, 2008 No. 100 “On approval of the Instruction on Accounting by Special Purpose Vehicles”.

46. Resolution of the National Bank’s Board as dated November 2, 2017 No. 207 “On setting a period of parallel circulation of banknotes of the 500 tenge denomination of the 2006 specimen and the 2017 specimen”.

47. Resolution of the National Bank’s Board as dated November 2, 2017 No. 208 “On measures taken by a large participant of an investment portfolio manager to maintain capital adequacy ratios of the investment portfolio manager”.

48. Resolution of the National Bank’s Board as dated November 2, 2017 No. 211 “On changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated April 29, 2016 No. 115 “On approval of the Rules for the state registration of a non-government bond issue (the bond program), review of reports on the results of the non-government bond placements and redemptions as well as cancelation of a bond issue; of the Rules for preparing and formalizing of a non-government bond prospectus (a bond program prospectus, a bond prospectus within the bond program), and the structure of a non-government bond prospectus (a bond program prospectus, a bond prospectus within the bond program); of the Requirements to preparation and formalization of a report on the results of the non-government bond placements and of a report on the results of the non-government bond redemptions“.

49. Resolution of the National Bank's Board as dated November 29, 2017 No. 230 "On approval of the Rules for determining the fitness of banknotes and coins of the domestic currency of the Republic of Kazakhstan for use as currency".

50. Resolution of the National Bank's Board as dated November 29, 2017 No. 234 On making the list of international financial organizations whose bonds are purchased by banks and bank holding companies to get them in possession, and requirements to the bonds purchased by banks and bank holding companies to get them in possession".

51. Resolution of the National Bank's Board as dated November 29, 2017 No. 237 "On making changes and a supplement to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated May 8, 2015 No. 75 "On approval of the list, formats, and deadlines of reports on compliance with prudential ratios to be submitted by banks and the Rules of their submission".

52. Resolution of the National Bank's Board as dated December 22, 2017 No. 244 "On changes to some orders of the Minister of Finance of the Republic of Kazakhstan and resolutions of the Board of the National Bank of the Republic of Kazakhstan".

53. Resolution of the National Bank's Board as dated December 22, 2017 No. 245 "On approval of the list, formats, and deadlines of reports to be submitted by an insurance (reinsurance) organization and an insurance broker and the Rules of their submission".

54. Resolution of the National Bank's Board as dated December 22, 2017 No. 246 "On approval of the List of open source data of the National Bank of the Republic of Kazakhstan as posted on the Internet portal of open source data".

55. Resolution of the National Bank's Board as dated December 22, 2017 No. 247 "On changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated March 20, 2015 No. 38 "On approval of the Rules on minimum reserve requirements including the structure of bank liabilities used to calculate minimum reserve requirements, the procedure for calculation of minimum reserve requirements, compliance with ratios of minimum reserve requirements, creation of reserves and exercising control over compliance with ratios of minimum reserve requirements".

56. Resolution of the National Bank's Board as dated December 22, 2017 No. 248 "On amendments to some resolutions of the Board of the National Bank of the Republic of Kazakhstan on the matters pertinent to payments and payment systems".

57. Resolution of the National Bank's Board as dated December 22, 2017 No. 249 "On amendments to some regulations of the Republic of Kazakhstan on the matters pertinent to collection business".

58. Resolution of the National Bank's Board as dated December 22, 2017 No. 250 "On changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated April 28, 2012 No. 154 "On approval of the Rules for foreign currency operations in the Republic of Kazakhstan".

59. Resolution of the National Bank's Board as dated December 22, 2017 No. 251 "On approval of the Standard Chart of Accounts for insurance

(reinsurance) organizations, Islamic insurance (reinsurance) organizations, mutual insurance associations and insurance brokers, and the Accounting Instruction for insurance (reinsurance) organizations, Islamic insurance (reinsurance) organizations, mutual insurance associations, insurance brokers. and on amendments to some regulations of the Republic of Kazakhstan on the matters pertinent to accounting”.

60. Resolution of the National Bank’s Board as dated December 22, 2017 No. 252 “On amendments to some regulations of the Republic of Kazakhstan on the matters pertinent to accounting”.

61. Resolution of the National Bank’s Board as dated December 22, 2017 No. 254 “On making changes and a supplement to some regulations of the Republic of Kazakhstan on the matters pertinent to retirement security”.

62. Resolution of the National Bank’s Board as dated December 22, 2017 No. 255 “On making a change to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated November 28, 2015 No. 209 “On amendments to some regulations of the Republic of Kazakhstan on the matters pertinent to retirement security”.

63. Resolution of the National Bank’s Board as dated December 22, 2017 No. 256 “On changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated May 30, 2016 No. 144 “On setting prudential ratios and other mandatory ratios and limits for Islamic banks, their regulatory values and the methodology for calculation of prudential ratios and other mandatory ratios and limits for Islamic banks”.

64. Resolution of the National Bank’s Board as dated December 22, 2017 No. 257 “On changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated August 27, 2013 No. 214 “On approval of the Rules for building up a risk management and internal control system for organizations engaged in the broker and dealer business in the securities market, and in the investment portfolio management”.

65. Resolution of the National Bank’s Board as dated December 22, 2017 No. 258 “On making a change to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated January 28, 2016 No. 15 “On approval of the Rules for giving a permission for a voluntary reorganization of a bank in the form of conversion into an Islamic bank and a denial to give such permission”.

66. Resolution of the National Bank’s Board as dated December 22, 2017 No. 259 “On changes to Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated February 29, 2016 No. 69 “On identification of factors which cause deterioration in financial condition of a bank and a bank conglomerate as well as approval of the Rules for application of early response measures and the methodology for identification of factors which cause deterioration in financial condition of a bank and a bank conglomerate”.

67. Resolution of the National Bank’s Board as dated December 22, 2017 No. 260 “On changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated December 26, 2016 No. 305 “On approval of the Rules for giving endorsement for appointment (election) of executive officials of



financial organizations, bank holding companies and insurance holding companies, the “Insurance Indemnity Guarantee Fund” JSC and the list of documents required to obtain such endorsement”.

68. Resolution of the National Bank’s Board as dated December 22, 2017 No. 264 “On approval of the Rules for Issuance and Circulation of Certificates of Deposit”.

69. Resolution of the National Bank’s Board as dated December 22, 2017 No. 268 “On approval of the Licensing Rules for banking operations performed by organizations engaged in certain types of banking operations”.

70. Resolution of the National Bank’s Board as dated December 22, 2017 No. 269 “On approval of the Rules for creating provisions (reserves) in compliance with the international financial reporting standards and requirements of the laws of the Republic of Kazakhstan on accounting and financial reporting”.

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## **List of Abbreviations Used**

JSC	- a joint-stock company
“UAPF” JSC	- Joint-Stock Company “Unified Accumulative Pension Fund”
bank	- a second-tier bank
GDP	- gross domestic product
USD	- the US Dollar
EAEU	- the Eurasian Economic Union
IMF	- the International Monetary Fund
mln.	- million
bln.	- billion
ISMT	- the Interbank System of Money Transfers
IFRS	- International Financial Reporting Standards
RSOE	- Republican State-Owned Enterprise with the Right of Economic Management
ICS	- the Interbank Clearing System
CIS	- the Commonwealth of Independent States
Ltd	- a limited liability partnership
trln.	- trillion
thous.	- thousand

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