

REPORT
of the National Bank of the Republic of Kazakhstan
for 2015

Almaty, 2016

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**Address of the Governor
of the National Bank of the Republic of Kazakhstan**

Dear ladies and gentlemen,

During the past year of 2015, the National Bank was implementing its main goal – ensuring the price stability – in troubled circumstances of a difficult external economic situation: declining world prices for Kazakhstan’s export commodities and slowing economic growth in countries – Kazakhstan’s main trading partners.

With this view as well as by way of meeting one of preconditions for implementing the inflation targeting regime, the Government and the National Bank made the decision to move to the free floating exchange rate regime of the Tenge from August 20, 2015. Apart from that, as part of transition to the inflation targeting regime, on September 2, 2015 the National Bank announced that it introduces the base rate – a target short-term money market rate chosen to achieve its monetary policy goal of ensuring the price stability in the medium term. Ensuring the price stability and reducing the inflation rate to 4% in the medium term remain the main goals of the National Bank.

In addition, the National Bank will continue to safeguard financial stability. While maintaining the counter-cyclical nature of the financial market regulation, we intend to introduce international standards and optimize regulatory requirements concurrently with cancelation of duplicating norms and limits. The purpose of this effort is to increase competitiveness of the domestic financial market which is especially important given Kazakhstan’s accession to the World Trade Organization and functioning of the Eurasian Economic Union.

With a view to ensure soundness and increase returns on pension assets, the National Bank prepares proposals regarding strategic areas of pension asset investments with the involvement of asset management companies. With a view to improve the institutional structure, efforts are made to remove the unified accumulation pension fund and the Problem Loans Fund from the National Bank’s control. Our joint objective with the Government in this area is to create a sound system for functioning of these institutions and an effective asset investment framework.

Promoting confidence in the National Bank is the top priority of our new communication policy which is intended to be implemented in 2016, since it is important for us that our work and its outcomes are open and understandable for people and the business community.

The annual report presented to your attention is congruent to our principle of transparency. It presents the information about the main outcomes of the National Bank’s activities in all areas.

Governor of the National Bank

D.Akishev

Summary of the Annual Performance

1. In 2015, the GDP growth, according to updated information of the Committee on Statistics of the Ministry of National Economy, accounted for 1.2%. In the GDP structure, the main source of the economic growth was still represented by the services segment; its share in the GDP volume increased to 56.8% versus 53.3% in 2014.

2. At the end of 2015, the inflation had been at 13.6% (December 2015 versus December 2014), which represents the maximum value of annual inflation since 2008. The main factor for acceleration of inflationary processes had been significant depreciation of the Tenge in August-September 2015.

3. In 2015, the domestic foreign exchange market was developing in the environment of significant pressure on the exchange rate of the Tenge. Throughout the year, the situation in the foreign exchange market was impacted by the decline in world prices of oil and other primary commodities, by depreciation of domestic currencies in countries – Kazakhstan's main trading partners, and expectations regarding appreciation of the US Dollar.

The weighted average exchange rate of the Tenge in 2015 was KZT 222.6 per 1 US Dollar. Over the year, the Tenge had depreciated in nominal terms versus the US Dollar by 86.5% to KZT 340.01 per 1 US Dollar.

4. During 2015, assets of the banking sector increased by KZT 5.5 trln. or by 30.4% and amounted to KZT 23.8 trln. Total assets of insurance organizations increased by 48.0% to KZT 825.7 bln. The amount of pension accumulations totaled KZT 5.8 trln., having increased by KZT 1.3 trln. or by 29.0% over the year.

5. In 2015, the volume of deposits held by residents with depository institutions increased by 36.6% to KZT 16.0 trln. (in 2014 – by 15.9%). Deposits to GDP increased from 28.7% to 39.2%.

The growth in the deposit base was caused by foreign currency revaluation of deposits denominated in foreign currency. During 2015, deposits of non-bank legal entities increased by 25.8% to KZT 9.2 trln., and deposits of individuals – by 54.5% to KZT 6.8 trln. Dollarization of deposits increased from 55.5% to 69.0%.

6. In 2015, the volume of bank credits to the economy increased by 4.7% (in 2014 – by 7.2%) to KZT 12.7 trln.

During 2015, credits in the domestic currency decreased by 1.9% to KZT 8.4 trln., whereas foreign currency credits increased by 20.7% to KZT 4.3 trln. Dollarization of credits increased from 29.2% to 33.7%.

7. In 2015, 35.2 million transactions amounting to KZT 232.0 trln. had been processed in the Interbank System of Money Transfers and the Interbank Clearing System. Versus 2014, the quantity of payments in the payment systems increased by 1.5%, and the amount of payments increased by 14.5%.

The total number of issued and disseminated payment cards at January 1, 2016 was 17.2 million, and the number of their holders was 14.3 mln. individuals.

8. The volume of gold and foreign currency assets of the National Bank at the end of 2015 amounted to USD 27.9 bln., which is by USD 1.3 bln. less than in 2014.

9. The market value of portfolio held by the National (Oil) Fund of the Republic of Kazakhstan at the end of 2015 was USD 65.7 bln., excluding the Tenge account and the accounts payable in the Tenge.

During 2015, the National (Oil) Fund's return in the base currency accounted for (-)2.44%. However, positive excess return of 0.02% on the savings portfolio versus the established benchmark portfolio was achieved. The National (Oil) Fund's return since its inception up to December 31, 2015 accounted for 66.64%, which makes up 3.56% in annual terms.

10. Based on the financial and economic performance in 2015, the National Bank's loss including expenses related to payment of reimbursements on deposits of individuals amounted to KZT 18.6 bln. The loss including the National Bank's organizations amounted to KZT 48.6 bln.

Chapter 1. Economic Development

1.1. Development of the Global Economy

Throughout 2015, international commodity and financial markets demonstrated high degree of instability. The decline in prices for commodity items and foodstuffs which outlined at the end of 2014 intensified in 2015. So, during 2015, average annual prices of oil (Brent) decreased by 47%, prices of copper – by 20%, steel – by 12%, and of wheat – by 15%.

Deterioration of the situation in the commodity markets had negatively affected the terms of trade of countries-exporters of raw materials. Adverse impact made by the decline in prices in the commodity markets on the development of the Russian economy was aggravated by expansion of reciprocal sanctions between Russia and western countries, and the USA. As a result, foreign funding of Russia decreased and so did export proceeds; capital outflow increased thus increasing pressure on the balance of payments and becoming the trigger for further depreciation of the Russian ruble. So, during 2015 the average annual nominal exchange rate of the Russian ruble versus the US Dollar depreciated by 58% as compared to 2014. In Russia, in the environment of unfavorable foreign economic prerequisites, production volumes and the domestic demand were falling, resulting in the 3.7% decrease in real terms of Russia's GDP for 2015.

In 2015, the economy of the People's Republic of China was developing amidst low domestic consumption, reduced demand for export products and emerging structural imbalances in the economy. At the end of 2015, the GDP growth in real terms accounted for 6.9%, which is the lowest since 1991. Changes in the real sector of the economy affected the Chinese foreign exchange market and stock market. So, given the reducing rates of economic growth, with a view to support exporters, devaluation of the domestic currency was conducted in August 2015. The nominal exchange rate of the Yuan versus the US Dollar depreciated by more than 4%.

Low prices of oil and raw commodities, limited demand on the part of Russia and China had a significant impact on the macroeconomic development of Kazakhstan.

Slight acceleration of the growth rates in the European Union which was among other things ensured by the fall in the world oil prices served as a positive foreign economic factor. So, during nine months of 2015 the rate of economic growth in the European Union accounted for 1.9% versus the corresponding period of 2014. Acceleration of the economy's growth rates as well as some depreciation of the Euro against the US Dollar was to a larger extent associated with the stimulative monetary policy of the European Central Bank as part of the quantitative mitigation program.

The US Federal Reserve System which had been keeping its policy interest rate within 0-0.25% since 2008, in December 2015 raised it to 0.25-0.50%, thus giving a signal to the market that it starts to tighten its monetary policy. At the same time, this decision had a limited influence on Kazakhstan that

was mainly realized through the foreign exchange channel, namely appreciation of the US Dollar in the global financial markets.

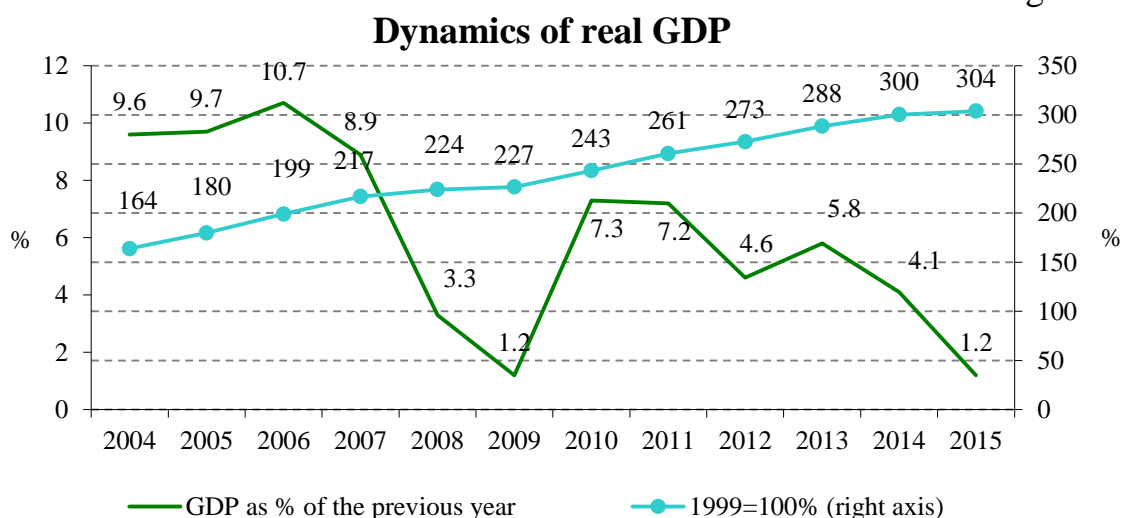
Thus, foreign economic conditions had a constraining effect on the development of the Kazakh economy throughout 2015, mainly because of decreased export revenues and deteriorated foreign economic conditions. The current account had been in deficit of USD 5.3 bln. for the first time over the last 8 years. Deterioration in the balance of payments parameters coupled with depreciation of the Russian ruble increased overvaluation of the Tenge.

1.2. Real Sector of the Economy

In 2015 just like in 2014, the Kazakh economy was developing in the environment of geopolitical tension, slowing growth in countries – Kazakhstan's main trading partners, deteriorating foreign economic conditions and declining world oil prices and prices of metals. Being impacted by external factors and partially by internal factors, the economic activity in the country slowed down, however remaining on the positive growth path.

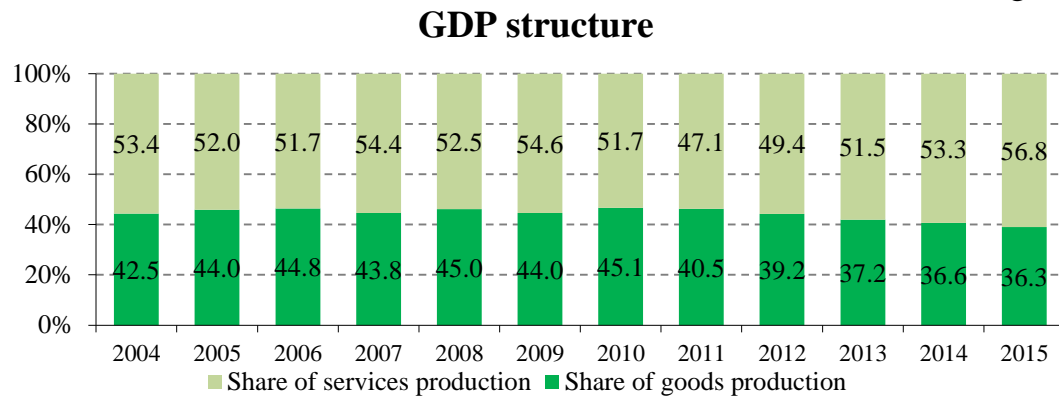
According to updated information, during 2015 Kazakhstan's GDP grew in real terms by 1.2% (in 2014 – by 4.1%), reaching KZT 40.8 trln. in current prices (Figure 1.2.1).

Figure 1.2.1



During 2015, the production of services in the GDP composition increased by 2.3%, while production of goods increased by 0.1%. Thus, in 2015 the segment of services still represented the main driver for the economic growth; its share in the GDP volume reached its historical maximum percentage (Figure 1.2.2).

Figure 1.2.2



The slowdown in the economic growth in 2015 was caused by the 2.5% decrease in the volume of production in the mining industry and quarry operations, by the slowdown in the manufacturing industry, wholesale and retail trade, information and communications, and real estate operations.

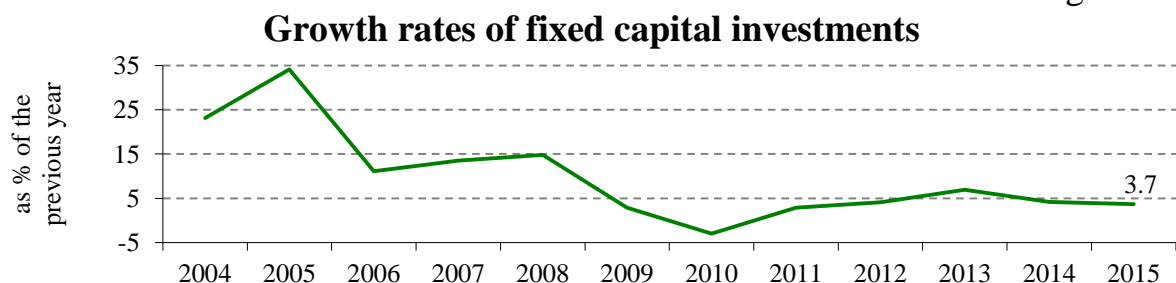
At the same time, acceleration in the growth rates was observed in such sectors as agriculture (by 4.4%), education (by 3.2%), public healthcare and social services (by 3.0%).

The 1.7% reduction in the volume of crude oil production and 2.3% reduction in the production of metal ores appeared to be the most sensitive factor for the industry where the production volume decreased by 1.5%, thus resulting in the 2.5% reduction in the production volumes in the mining industry.

During 2015, the volume of fixed capital investments increased by 3.7% (in 2014 – by 4.2%) (Figure 1.2.3). The growth of investments was mainly secured by increased fixed capital investments in the industry (by 5.6%) and real estate operations (by 18.8%). A significant volume of fixed capital investments falls on the mining industry (32.6%), transport and warehousing (16.6%), and real estate operations (11.4%).

The main source of funding for fixed capital investments is still represented by own funds of enterprises, whose share in the total investment volume increased to 58.1%.

Figure 1.2.3



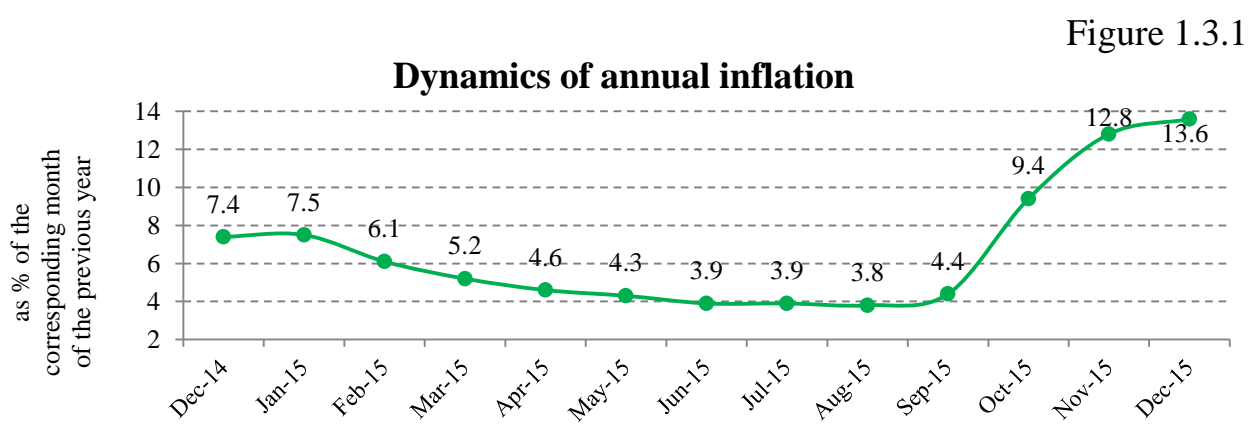
A slowdown in the economic growth resulted in the limited growth in cash income of the population and decreased real wages; this, coupled with depreciation of the domestic currency, had a negative impact on the domestic demand. During

2015, the average per capita nominal cash income reached KZT 798,400, exceeding that of 2014 by 7.3% in nominal terms (in real terms – by 0.7%). The average monthly nominal wage of one employee amounted to KZT 125,300, having increased by 4.1% (in real terms – the decrease of 2.4%).

1.3. Inflation and Inflationary Processes

In 2015, inflationary processes were developing under the impact of various factors, causing the divergent behavior of inflation throughout the year.

From January to August 2015, rates of inflation growth were steadily decreasing (Figure 1.3.1), having reached their minimum values since May 1999 – 3.8%.

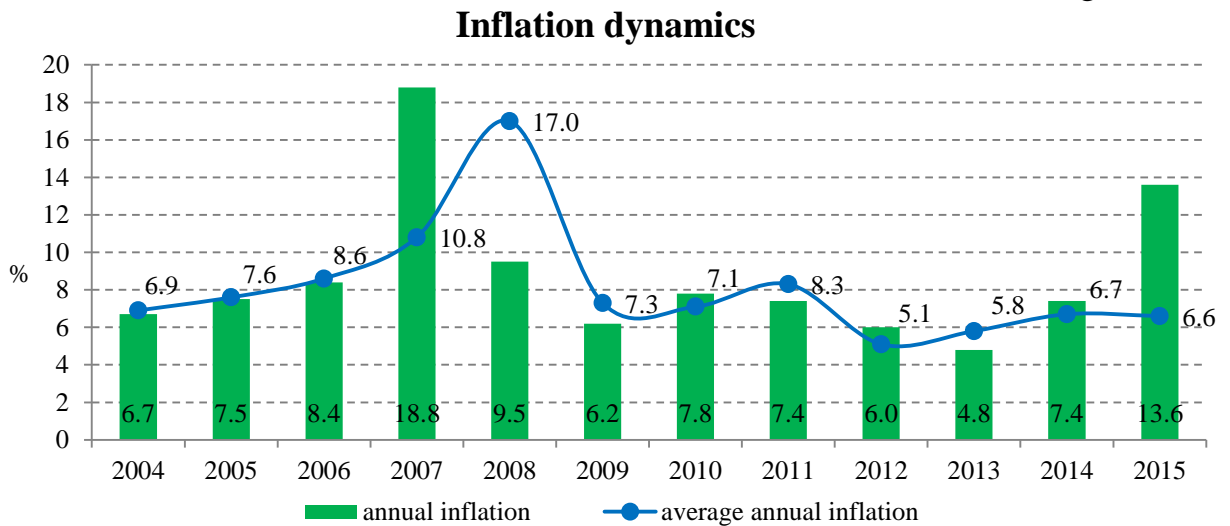


The inflationary background was decreasing until August 2015 in the environment of falling oil prices in the global markets that outlined in May 2015 and depreciation of the Russian ruble versus the Tenge. Decreasing rates of growth in cash income of the population and decreasing purchasing capacity as well as a limited supply of money (the money supply during January-July 2015 increased by 0.9%, and cash in circulation – by 1.2%) helped slowing the inflation down.

Significant depreciation of the Tenge in August-September 2015 became the main factor for acceleration of inflationary processes later on (in September 2015 the annual inflation accounted for 4.4%). The effect from the pass-through of exchange rate depreciation to the domestic pricing began to realize a month later. As a result, the major growth in prices occurred in October-December 2015, when inflation was 10.4%. This constitutes over 76% of the total price growth throughout 2015.

In general, at the end of the year the annual inflation (December 2015 versus December 2014) was at 13.6%, which is the maximum rate of inflation for a calendar year since 2008 (Figure 1.3.2).

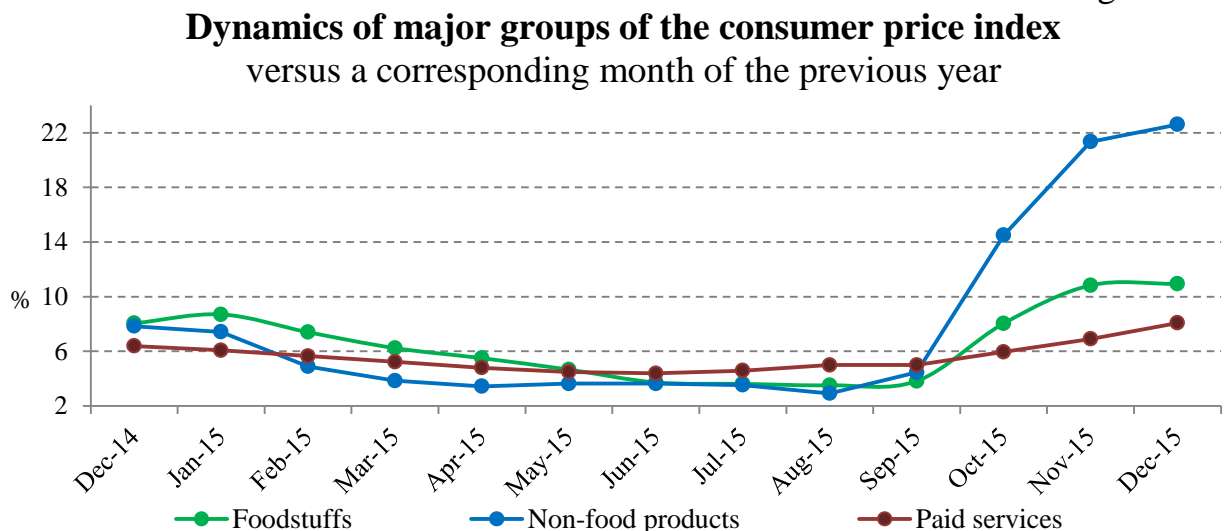
Figure 1.3.2



Despite negative factors which caused the growth in the inflation rate including depreciation of the Tenge, falling world oil prices, depreciation of currencies in the countries – Kazakhstan's main trading partners, existing macroeconomic conditions had constraining influence on inflationary processes. Among other things, these include reduced business activity, decreasing cash income of the population, the decreased consumer demand and volume of credits to the economy.

In the inflation structure, the highest price growth was observed among non-food products where prices went up by 22.6% during 2015. Prices of foodstuffs increased by 10.9%, and paid services increased by 8.1% in terms of price (Figure 1.3.3).

Figure 1.3.3



1.4. Government Fiscal Policy

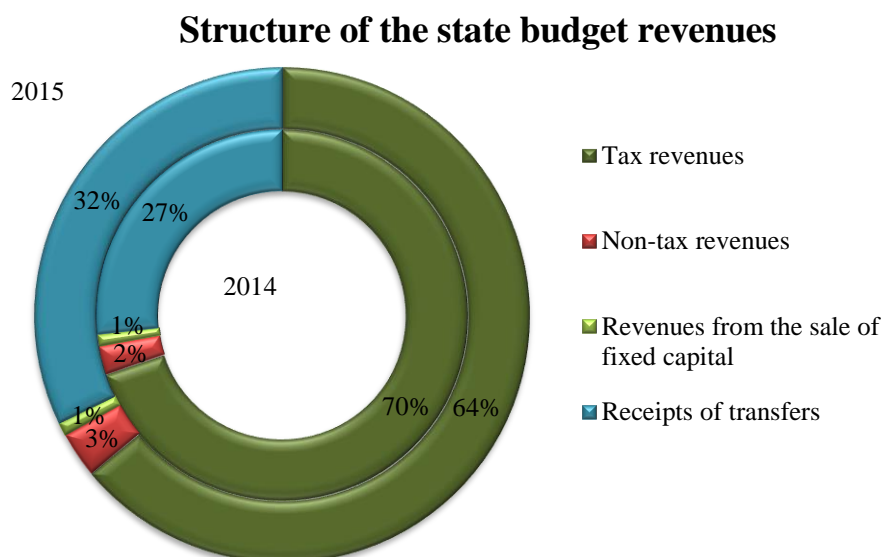
In 2015, in the environment of persistently low prices of raw commodities and slowing economic growth, the Government took measures to support the

Kazakh economy. Government programs were focused on accelerated development of manufacturing industries of the Kazakh economy, on better energy efficiency and productivity as well as on supporting small and medium-sized business.

In 2015, the state budget revenues increased by 4.3% versus 2014 and amounted to KZT 7.6 trln. or 18.7% of GDP according to the updated information (in 2014 – 18.0% of GDP)¹.

In 2015, in the structure of revenues tax revenues and revenues from the sale of fixed capital were decreasing. As of the end of 2015, the growth in revenues to the state budget was secured by the growth in transfers from the National Fund and non-tax revenues. Consequently, the revenue structure had changed towards the growth in the share of transfers and the decrease in the share of tax revenues (Figure 1.4.1).

Figure 1.4.1



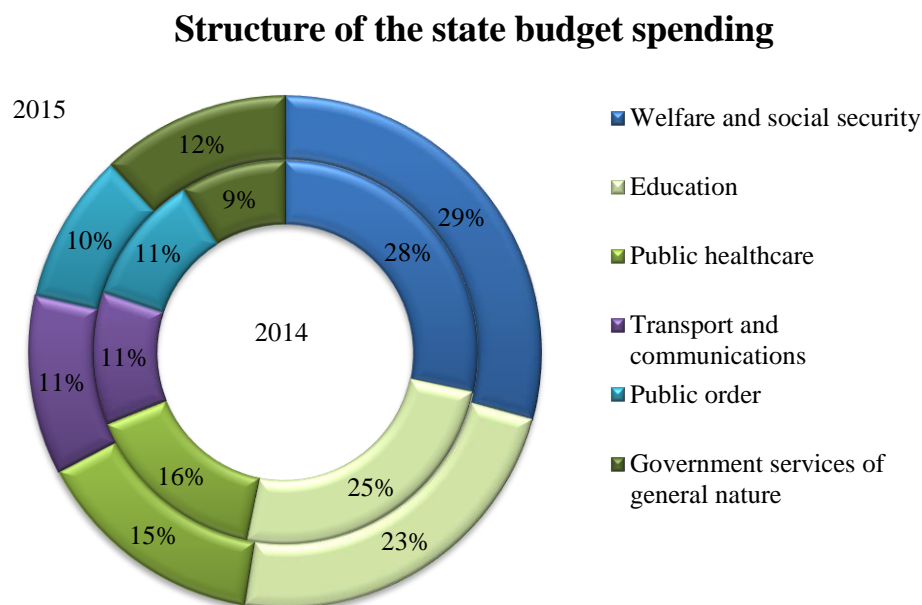
The 4.5% decrease in tax revenues to the state budget occurred mainly because of decreased revenues from the value-added tax (by 21.2%) and taxes on international trade and foreign operations (by 16.5%).

In 2015, the receipt of transfers increased by 25.6%, amounting to KZT 2.5 trln. The amount of the guaranteed transfer from the National Fund was increased by 15%, and of the targeted transfer – by 58.8%. Resources from the targeted transfer were used to finance the “Nurly Zhol” Program which includes implementation of infrastructure projects, development of housing and utilities construction, financing of joint projects with international financial organizations as well as supporting programs in the field of education and science.

During 2015, the state budget spending increased by 5.3% and amounted to KZT 8.2 trln. or 20.1% of GDP (in 2014 – 19.1% of GDP). In the structure of the state budget spending, expenditures for social security and education still prevail (Figure 1.4.2).

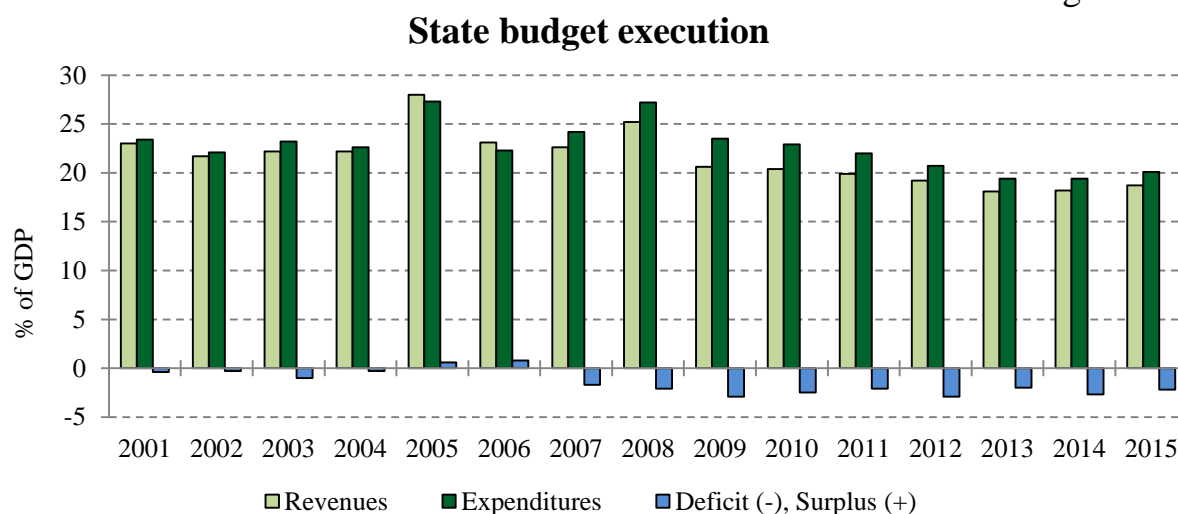
¹ According to the Ministry of Finance of the Republic of Kazakhstan.

Figure 1.4.2



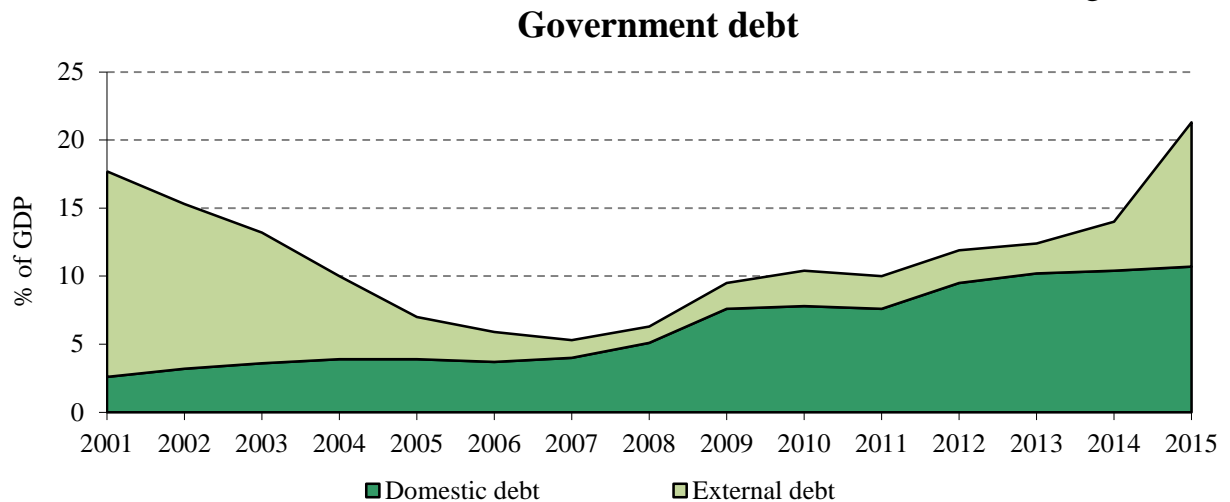
During 2015, the state budget was executed with a deficit of KZT 0.9 trln. or 2.2% of GDP² (Figure 1.4.3). In order to finance the budget deficit, the Government re-focused on foreign borrowings to a larger extent: on loans from development institutes and issuance of sovereign bonds.

Figure 1.4.3



The government domestic debt in 2015 amounted to KZT 4.3 trln. (10.7% of GDP), having increased by 4.1% versus 2014 (Figure 1.4.4). The growth was secured by the issue of long-term treasury bonds and medium-term treasury obligations.

² Updated information.



As of the end of 2015, Government external debt amounted to USD 12.7 bln. (10.6% of GDP), which exceeds the same indicator for 2014 by 1.6 times. The major share in the total amount of Government external debt is comprised of Eurobonds as well as of foreign loans of the International Bank for Reconstruction and Development and the Asian Development Bank.

1.5. Balance of Payments and External Debt

The drop in prices for Kazakhstan's major export commodities – crude oil and metals – had a significant influence on the current account and the balance of payments items in general.

Based on the 2015 performance, the current account deficit amounted to USD 5.8 bln. or 3.1% of GDP as compared to the surplus of USD 6.4 bln. in 2014. The current account deficit was caused by a dramatic (almost triple) reduction in net exports of commodities in 2015 by 65.5% versus 2014 (Appendix 1 to Section 1.5, Table 1.5.1).

The oil price became the main factor for reduction in the commodity exports. The world oil price (Brent) demonstrated almost a 50% drop in average prices – the oil price was USD 52.4 per barrel on average during 2015 (USD 98.9 per barrel on average during 2014), and in the 4th quarter of 2015 the average price of oil was USD 43.4 per barrel.

Exports of goods according to the balance of payments classification amounted to USD 46.3 bln., having decreased by 42.3% versus 2014. Imports of goods according to the balance of payments classification decreased by 22.7% to USD 33.6 bln. As a result, the balance of trade surplus in 2015 amounted to USD 12.6 bln. as compared to USD 36.7 bln. in 2014.

The official exports of goods in 2015 amounted to USD 45.7 bln., which is 42.5% less than in 2014. The decrease was caused by the fact that export value of oil and gas condensate (58.6% of the official exports) decreased by a half to USD 26.8 bln. (USD 53.6 bln. in 2014). It should also be acknowledged that there was a 6.8% decline in physical supplies of oil and gas condensate versus 2014. In 2015,

exports of non-ferrous metals increased by 3.2% to USD 4.0 bln. as compared to those in 2014 due to the growth in physical supplies while at the same time falling contract prices were present. The decrease in export value occurred among other groups of the product range as well, caused both by falling contract prices and decreasing physical supply

The official imports of goods during 2015 decreased by 26.9% versus 2014, amounting to USD 30.2 bln. The value of imports decreased in all groups of the main product range largely because of declined contract prices. Import of investment goods (36.8% of the official imports) reduced by 27.9% and amounted to USD 11.1 bln. Import of intermediate manufactured goods decreased by 19.8% to USD 10.3 bln. The most substantial decrease in the value of official imports was noted among consumer goods –33.2% to USD 8.2 bln. Along with that, import of food products decreased by 21.8% to USD 3.1 bln., and import of non-food products – by 38.6% to USD 5.1 bln.

Despite significant reduction in the balance of trade surplus, the pressure on the current account is going down due to the fact that negative balances on other current account components decreased. The most significant decrease of negative balance occurred in operations with primary income as a result of reduced returns of direct investors on investments into enterprises operating in commodity sector of Kazakhstan. A negative balance on primary income reduced by a half versus 2014 and amounted to USD 11.5 bln., and payouts of return on direct investments to non-residents amounted to USD 8.8 bln., having decreased by 55.3%.

On other current account components, a negative balance on international services and secondary income amounted to USD 5.4 bln. and USD 1.6 bln., respectively.

In 2015, the financial account (excluding operations with the National Bank's reserve assets) had a negative balance of USD 10.6 bln. ((-)6.8 bln. in 2014). The growth in liabilities due to operations conducted in the 3rd quarter of 2015 and the decrease in financial assets caused mainly by operations conducted in the first half of the year and in the 4th quarter of 2015 resulted in a net capital inflow or “net borrowing from the rest of the world” on financial operations in 2015.

There was a negative balance of USD 3.4 bln. on foreign direct investments because of an outstripping growth in liabilities over assets. Net growth in financial assets on foreign direct investments of USD 3.2 bln. was due to the increase in the intercompany debt of non-residents and investments made by Kazakhstani enterprises into the capital of their foreign subsidiaries. Net growth in liabilities on foreign direct investments of USD 6.6 bln. in 2015 was mainly secured by the growth in the intercompany debt of Kazakhstan's residents to their foreign affiliates as well as by the increase in equity of Kazakhstani enterprises made by foreign companies.

According to the directional principle, in 2015 gross inflow of foreign direct investments amounted to USD 14.8 bln. as compared to USD 23.7 bln. in 2014. Based on the principal repayment on mutual intercompany liabilities, net inflow of direct investments to Kazakhstan equaled USD 4.0 bln. (USD 8.4 bln. in 2014),

and net outflow of investments abroad amounted to USD 0.6 bln. (USD 3.6 bln. in 2014).

As for other components of the financial account (portfolio investments and other investments), a net capital inflow was mainly due to operations of the general government associated with the USD8.3 bln. reduction in foreign assets of the National Fund, placement of Eurobonds of the Ministry of Finance totaling USD 4.0 bln. and a loan of USD 1 bln. from the Asian Development Bank.

Part of net capital inflow was also caused by operations of Kazakh banks, largely related to sales of securities by banks that were issued by non-residents and the reduction of bank's assets on foreign accounts.

In 2015, the reduction in reserve assets as a result of operating changes amounted to USD 0.8 bln. versus the growth of USD 4.3 bln. in 2014. At December 31, 2015, international reserves (excluding the National Fund's assets) were estimated at USD 27.9 bln; that covers 7.4 months of Kazakhstan's imports of goods and services.

As of December 31, 2015, the external debt of the Republic of Kazakhstan amounted to USD 153.5 bln., of which 7.9% or USD 12.2 bln. represent the government sector's external debt; 5.2% or USD 8.0 bln. – the banking sector's external debt; 33.5% or USD 51.5 bln. – debt of other sectors not related to direct investments and the remaining 53.3% or USD 81.8 bln. represent the intercompany debt of this sector (Appendix 2 to Section 1.5, Table 1.5.2).

In 2015, active borrowing of debt capital in the international markets by Kazakhstani enterprises and the public sector was combined with the fall in the market value of residents' liabilities. With a net borrowing of USD 1 bln. as a result of conducted operations, the reduction in the existing debt as a result of fluctuations in value and the exchange rate (of USD(-)3.2 bln.) and other fluctuations (USD(-)1.8 bln.) helped reducing the country's external debt by USD 4.0 bln.

The external debt of the general government sector (the Government) increased by USD 4.0 bln. and foreign liabilities of the National Bank and banks (banks and Development Bank of Kazakhstan) decreased by USD 0.1 bln. and USD 2.1 bln., respectively.

With the USD 2.4 bln. growth in the intercompany debt, liabilities of other sectors to non-affiliated creditors decreased by USD 8.1 mainly due to repayment of debts by quasi-government enterprises including redemption of international coupon bonds of "KazMunaiGas" National Company JSC, "Kazatomprom" National Company JSC, "Intergas-Central Asia" JSC and a number of banks as well as because of negative value changes on debt securities of Kazakhstani enterprises in the 3rd quarter of 2015.

As of December 31, 2015, the external debt to GDP was 83.0%, (72.4% at December 31, 2014), and the external debt to exports of goods and services (EGS) accounted for 290.8% (181.3% at December 31, 2014) (Appendix 3 to Section 1.5, Table 1.5.3).

During 2015, net external debt of Kazakhstan increased by USD 13.6 bln. to USD 36.1 bln. or 19.5% of GDP.

At the same time, the public sector still maintains its position of a net creditor to the rest of the world. Given the change in the status of “BTA Bank” JSC and its subsequent reclassification into other sectors, the banking sector moved from its position of a net creditor to the position of a net debtor.

At December 31, 2015, the external debt of the Republic of Kazakhstan amounted to USD 153.5 bln., of which 7.9% or USD 12.2 bln. is the governmental sector’s external debt; 5.2% or USD 8.0 bln. – the banking sector’s external debt; 33.5% or USD 51.5 bln. – debt of other sectors not related to direct investments and the remaining 53.3% or USD 81.8 bln. represents the intercompany lending (Appendix 2 to Section 1.5, Table 1.5.2).

During 2015, active borrowing of debt capital in the international markets by Kazakhstani enterprises and the public sector was combined with the fall in the market value of residents’ liabilities. Net borrowing of USD 1 bln. due to transactional changes was counteracted by revaluation and the exchange rate fluctuations (of USD(-)3.2 bln.) and other changes in volume (USD(-)1.8 bln.). As a result of these changes external debt decreased by USD 4.0 bln.

The external debt of the general government sector (the Government) increased by USD 4.0 bln. and foreign liabilities of the National Bank and banks (banks and Development Bank of Kazakhstan) decreased by USD 0.1 bln. and USD 2.1 bln., respectively.

While there was a growth of USD 2.4 bln. in the intercompany lending, liabilities of other sectors to non-affiliated creditors decreased by USD 8.1 mainly due to repayment of debts by public (state-owned) enterprises including redemption of international coupon bonds of “KazMunaiGas” National Company JSC, “Kazatomprom” National Company JSC, “Intergas-Central Asia” JSC and a number of banks. Another reason of debt reduction was due to negative changes in the prices of debt securities of Kazakhstani enterprises in the 3rd quarter of 2015.

At December 31, 2015, the external debt to GDP was 83.0%, (72.4% at December 31, 2014), and the external debt to exports of goods and services (EGS) accounted for 290.8% (181.3% at December 31, 2014) (Appendix 3 to Section 1.5, Table 1.5.3).

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Chapter 2. Monetary Policy and Safeguarding Financial Stability

2.1. Monetary Policy

Monetary policy is implemented by the National Bank with a view to ensure the price stability. In order to achieve this goal, in 2015 the National Bank undertook measures to regulate liquidity and interest rates where nature of such measures depended on the situation in the money market and foreign exchange market.

In 2015, the situation in the foreign exchange market was developing in a divergent manner. At the beginning of 2015, amidst high devaluation expectations there was an excessive demand for the Tenge liquidity. The Tenge liquidity was provided through refinancing loans, reverse repo operations at the Kazakhstan Stock Exchange and overnight FX swaps. Due to the lack of available collateral for reverse repo operations, the bulk of liquidity was provided through overnight FX swaps.

Owing to active operations of the National Bank, the volatility of interest rates in the money market decreased significantly at the beginning of 2016 as compared to the end of 2014. As the liquidity demand stabilized during the first half of 2015, volumes of the National Bank's participation gradually decreased. In June and July 2015, the National Bank did not conduct any operations to provide/withdraw liquidity.

In 2015, the National Bank made amendments to the framework of minimum reserve requirements. A more detailed classification of liabilities was introduced, not only on the basis of residency and maturity but also with the breakdown by currencies (domestic currency and foreign currency). In addition, the procedure for calculation of minimum reserve requirements was changed while preserving the averaging principle. From June 23, 2015, calculation and maintenance periods of minimum reserve requirements were extended from 14 to 28 calendar days and follow in direct succession. The share of cash in the structure of reserve assets was set at 70% of the average amount of minimum reserve requirements for the period for which they are determined.

In exercising its mandate to ensure the price stability, in August 2015 the National Bank moved to the inflation targeting regime as the most preferable monetary policy regime for Kazakhstan and also introduced the free floating exchange rate regime of the domestic currency – Tenge.

As part of its transition to the inflation targeting regime, on September 2, 2015 the National Bank introduced the base rate – the target short-term interest rate in the money market chosen by the National Bank to achieve its monetary policy goal to promote the price stability in the medium term. The TONIA rate which is the weighted average interest rate on one-day repo transactions concluded in the automatic repo sector at the Kazakhstan Stock Exchange is the target short-term interest rate in the money market. With the introduction of the base rate the National Bank enhanced its role in liquidity regulation through instruments such as open market operations and standing facilities.

Deterioration of situation in foreign markets in the second half of 2015 resulted in increased devaluation expectations in the domestic foreign exchange market and the flow of funds from the money market to the foreign exchange market. An effort to further maintain the base rate and to provide the Tenge liquidity to banks resulted in operations against the domestic currency conducted by the market participants. Under these conditions, in November 2015 the National Bank changed its approaches to the monetary policy implementation and retreated from its earlier commitments to support the interest rate band within a certain range. However, at the end of December 2015 a relative and temporary stabilization of the situation in foreign markets allowed the National Bank to resume its operations in the money market and take measures to restore and maintain the balance in the money market and in the foreign exchange market.

In 2015, the overall volume of reverse repo operations at the Kazakhstan Stock Exchange amounted to KZT 1.1 trln. The maturity of such operations ranged from 1 to 5 days and they were conducted at the market rates, with the weighted average yield of 19.6%. The volume of FX swaps overnight at the Kazakhstan Stock Exchange amounted to KZT 20.8 trln. with the weighted average yield of 22.0% per annum. The volume of refinancing loans provided for the term of up to one month at the rate of 5.5% with a view to maintain financial stability in January-July 2015 amounted to KZT 4.9 trln.

In 2015, no operations related to purchases of securities into the internal portfolio for the monetary policy implementation were conducted. The National Bank sold government securities worth KZT 31.1 bln. from its internal portfolio in the secondary market at their par value.

The demand for the National Bank's instruments for liquidity absorption was minor. In order to increase attractiveness of instruments in Tenge, the interest rate on weekly deposits of the National Bank for banks was revised several times during 2015; it was raised from 3.05% in January 2015 to 12% in December 2015. During 2015, deposits worth KZT 2.7 trln. were taken from banks, which is 1.7 times less than in 2014.

As part of liquidity withdrawal, the National Bank also conducted direct repo operations at the Kazakhstan Stock Exchange. The volume of operations conducted during 2015 amounted to KZT 2.2 trln. At the end of 2015. The National Bank's open position in direct repos amounted to KZT 1.1 trln.

The volume of short-term notes issued during 2015 increased by 13.8 times as compared to 2014, amounting to KZT 1.1 trln. at a discounted price. At the end of 2015, the volume of short-term notes in circulation amounted to KZT 357.3 bln. at par value.

The weighted average effective yield on notes increased from 3.27% in November 2014 to 12.65% in December 2015. In 2015, the National Bank was issuing short-term notes with maturity of 7 and 28 days.

In 2015, the National Bank was withdrawing liquidity also by conducting FX swaps with one-day maturity at the Kazakhstan Stock Exchange. The volume of conducted operations amounted to KZT 128.9 bln.

2.2. Exchange Rate Policy and the Foreign Exchange Market

In 2015, the domestic foreign exchange market was developing in the environment of increased pressure on the exchange rate of Tenge. During the year, the situation in the foreign exchange market was impacted by a significant drop in world prices of oil and other primary commodities, by depreciation of domestic currencies of the main trading partners, and by expectations regarding appreciation of the US Dollar.

In January-July 2015, the exchange rate of Tenge remained stable, with a minor depreciation of 2.8% during the period. In order to support the exchange rate, the National Bank was actively intervening in the market, mainly by selling foreign currencies.

The exchange rate policy aimed to support a stable exchange rate of the Tenge was inevitably leading to imbalances in the economy in the environment of negative long-term impact of external shocks. Therefore, in August 2015 the decision about transition to the freely floating exchange rate regime of Tenge was made. In doing so, the National Bank reserved its right to smooth excess volatility of the exchange rate that does not reflect the real correlation between demand and supply and the impact of fundamental factors.

Due to unfavorable external developments, on August 20, 2015 a transition to the free floating exchange rate of the Tenge was made concurrently with the introduction of inflation targeting. As a result, in the second half of 2015 volatility in the foreign exchange market increased.

Despite significant depreciation of the Tenge as a result of transition to the free floating exchange rate, high devaluation expectations remained, thus causing the growth in speculative demand for foreign exchange. With a goal to stabilize the situation in the domestic foreign exchange market amidst excessive exchange rate volatility, in September 2015 the National Bank started again to actively participate in foreign exchange trading.

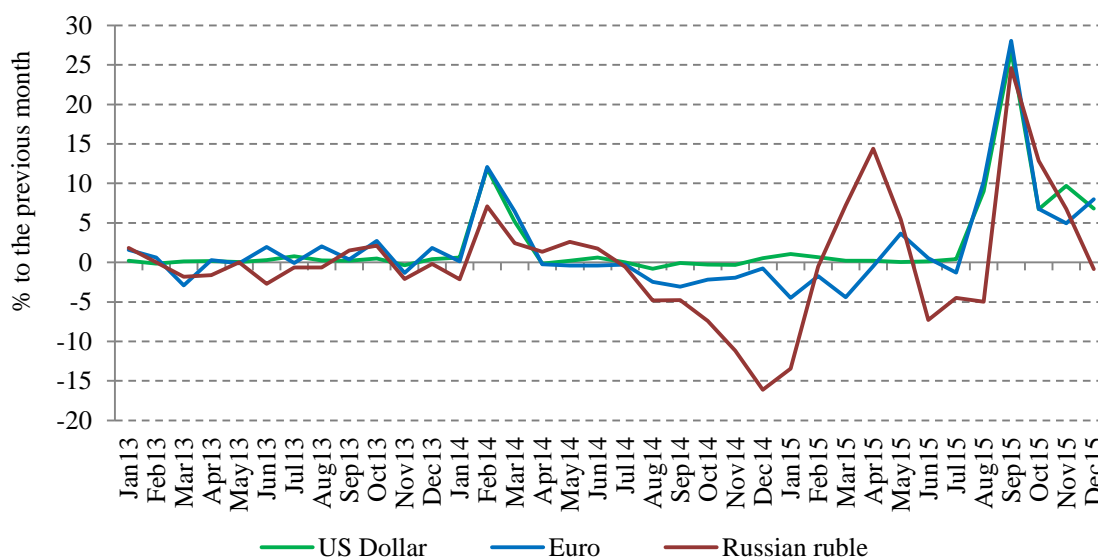
In November 2015, the situation in the external markets deteriorated significantly. Low prices of raw commodities, low value of currencies of Kazakhstan's main trading partners and their slowing economic growth fostered an increase in devaluation expectations in the domestic foreign exchange market that were accompanied by the increased speculative demand. Under these circumstances, starting November 2015 the National Bank has minimized its participation in the foreign exchange market with a view to preserve the gold and foreign currency assets.

The exchange rate of Tenge in 2015 was fluctuating within the band between KZT 182.35 and KZT 349.12 per 1 USD. The weighted average exchange rate of Tenge was KZT 222.6 per 1 USD. The stock exchange rate at the end of the year reached KZT 340.01 per 1 USD. Over the year of 2015 Tenge depreciated by 86.5% in nominal terms versus the US Dollar.

During 2015, the official exchange rate of Tenge versus the Euro depreciated by 67.6%, and versus the Russian ruble – by 47.3% (Figure 2.2.1).

Figure 2.2.1

Behavior of the exchange rate of the Tenge versus the US Dollar, Euro and the Russian ruble³



In 2015, the volume of trading in the USD Dollar position at the Kazakhstan Stock Exchange amounted to USD 55.8 bln., having decreased by 37.5% as compared to 2014. The minimum transaction volume was observed in November, and the maximum – in October.

The volume of trading in the off-exchange market decreased by 45.6% compared to 2014 and amounted to USD 6.5 bln. The minimum transaction volume was observed in June, and the maximum – in January 2015.

Transactions in the Euro and Russian ruble had insignificant shares in the turnover of the stock exchange and off-exchange segments of the foreign exchange market. In the on-exchange currency market, the transaction volumes in the Russian ruble increased by 57.4% to RUB 18.3 bln., and the volume of transactions in the Euro decreased by 53.8% to EUR 38.2 mln. In the off-exchange currency market, the transaction volumes in the Russian ruble increased by 5% to RUB 9.8 bln., and the volume of transactions in the Euro decreased by 3.7% to EUR 106.0 mln.

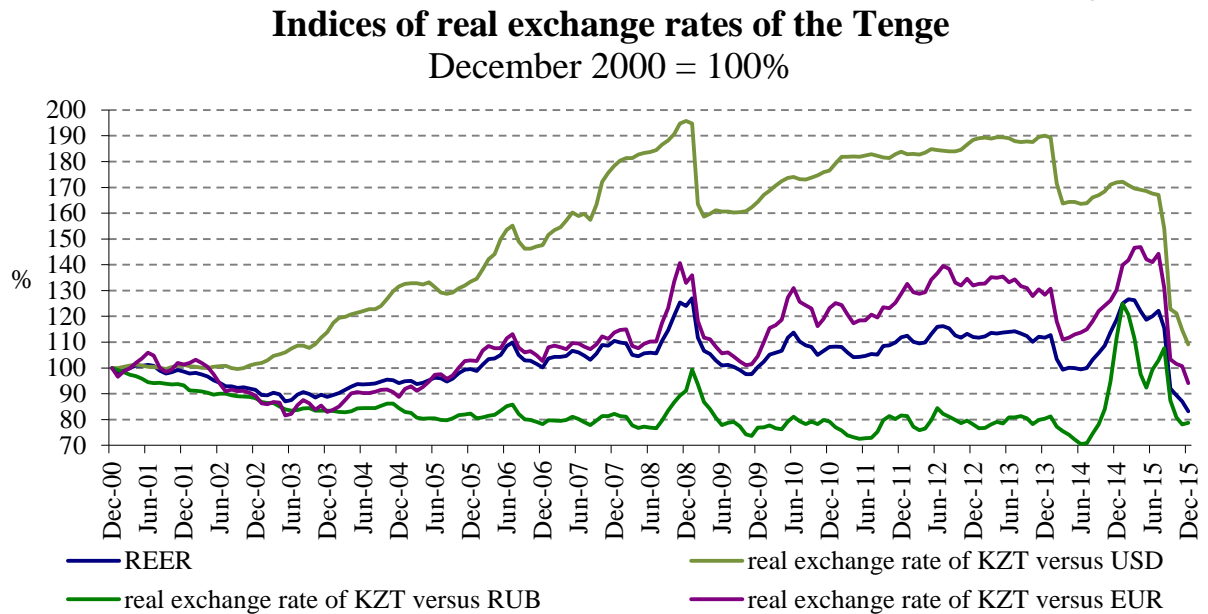
Like in the previous years, the preference in the cash foreign exchange market was made to the US Dollar (about 70% on average during 2015). In 2015, the volumes of net sales of the US Dollars by exchange offices were USD 7.7 bln., they decreased by 45.8% as compared to 2014. The volumes of net sales of the Russian rubles increased by 2.3 times to RUB 176.4 bln. The volumes of the Euro sales decreased by 52.8% to EUR 0.6 bln.

At end-2015, the real effective exchange rate index was by 16.8% lower than the base level of competitiveness (December 2000). Depreciation versus December 2015 accounted for 29.9%.

³ «+» appreciation of the Tenge versus a foreign currency, «-» – depreciation of the Tenge versus a foreign currency.

During 2015, the real effective exchange rate index calculated against the CIS currency basket depreciated by 29.1%, and versus currencies of other countries – by 30.1%.

Figure 2.2.2



2.3. Safeguarding Financial Stability

The external environment that was changing in the negative direction put a strong pressure on the exchange rate of the Tenge. At the same time, the domestic currency remained very much revalued and interest rates in the money market remained high. Altogether, these factors led to non-competitiveness of the country's tradable goods. At the same time, the sectors of trade and services which are the major consumers of banking services kept being the source for the economic growth.

A transition to the free floating exchange rate regime in the second half of 2015 has significantly changed the situation in the economy, particularly the pressure on the exchange rate decreased and the pricing competitiveness of the economy was restored thus creating a potential for the growth in banking assets. However, the sector of non-tradable goods which began to shrink considerably in 2015 as a result of depreciation of the Tenge and was bearing big losses, led to the growing portfolio of non-performing loans of banks as a consequence of losses from the credit risk. Also, because of significant dollarization on the balance sheets of banks a gap in currencies of assets and liabilities developed and banks started to face the shortage of liquidity in the domestic currency.

The National Bank performed the stress-testing of the banking sector, and the stress scenario for the banking sector was partially realized in 2015. The impact of a decline in oil price, similar to that of 2015, was tested; however, the degree of the Tenge depreciation was lesser. Credit risk losses estimated by the National Bank were comparable with the amount of losses which were actually incurred by

banks as a result of increased NPLs at the end of 2015. Given that a negative impact of macroeconomic shocks on the banking sector was not realized to the full extent, additional credit risk losses are anticipated in 2016.

As the result of the lending market survey conducted on the basis of a questionnaire-based interviews among banks⁴, in 2015 banks were somewhat more reluctant to lend in the environment of declining oil prices, shortage of the Tenge liquidity as well as adjustment of the exchange rate of the Tenge. Consequentially, banks tightened their lending policy which resulted in a low growth in demand on the part of borrowers in the credit market.

As of the end of 2015, the growth of the loan portfolio was slowing as a result of non-performing loan write-offs as well as reduced lending activity of the banking sector. A positive growth in the portfolio (9.7% in 2015) was to a larger extent associated with revaluation of foreign currency loans.

Regulatory measures⁵ taken in 2014 reduced the risks of excessive growth of the consumer loan portfolio in 2015. Mortgage lending is characterized by low activity and further prospects of its development in the short term, in the view of banks, are also limited by the absence of growth factors and the shortage of funding. Banks also note that government lending programs had positive influence on the dynamics of credits to the corporate sector.

In general, banks intend to maintain the quality of loan portfolio based on a tight lending policy despite a higher level of credit risk in 2015. As top-priority measures in dealing with problem loans, banks point out the sale to collection agencies, bad debt write-offs, loan rollover, rescheduling, and debt refinancing.

One of the National Bank's strategic areas in ensuring the financial system stability in 2015 was to reduce the percentage of non-performing loans in the banking system. A high percentage of NPLs in the banking system constrains the economy's development, reduces competitiveness of the banking sector, negatively affects the economic development, and decreases resilience to potential upheavals in the global markets.

At the end of 2015, the percentage of non-performing loans, according to regulatory reports submitted by banks, accounted for 8.0% (KZT 1.2 trln.), having decreased from 23.5% at the beginning of 2015 (KZT 3.3 trln.). It should be mentioned that improvement in the quality of the banking system's loan portfolio in 2015 to a larger extent was achieved as a result of a set of measures taken by the National Bank as well as own activities of banks carried out to clean up their balance sheets from problem loans.

So, in the first half of 2015, as part of the measures taken to decrease the percentage of non-performing loans in the banking system, the National Bank made arrangements to implement the draw down of KZT 250 bln. allocated in 2014 to increase the equity of the Problem Loan Fund. This work was implemented concurrently with the transaction for exchange of assets and

⁴ Survey of qualitative credit market parameters based on the interview conducted among banks and entitled "Status and forecast of the credit market parameters".

⁵ Introduction of a direct limitation on the growth rate of the portfolio of unsecured consumer loans at no more than 30% a year, introduction of the borrower's debt burden ratio on unsecured consumer loans at no more than 50%.

liabilities and a subsequent removal of BTA Bank from the banking system; in its turn, it also had a significant influence on the process of decreasing the percentage of problem loans in the banking system.

Further, in order to use the resources allocated from the National Fund in an effective fashion as well as to improve the activity of the Problem Loan Fund, Resolutions of the National Bank's Board as dated May 27, 2015 No.86 and No. 87 made changes to the Concepts of Functioning⁶ and Rules for Operations⁷ of the Problem Loan Fund that provide for additional mechanisms of the Fund's cooperation with banks via the mechanisms of the tied financing for the process of the loan quality improvement and a direct purchase with concurrent sale to an investor as well as expansion of the Fund's capacities for cooperation with banks on more flexible and economically viable conditions.

Additionally, the National Bank jointly with banks will continue to clean up balance sheets with the help of existing mechanisms of asset quality improvement such as the transfer of problem assets to subsidiaries which acquire doubtful and bad assets of their parent bank as well as the procedures for remission/write off of bad debt by banks.

It should be noted that because of a low quality of information provided by banks, it's possible that there would be significant discrepancies between the real levels of non-performing loans in the banking system and the level calculated according to regulatory reports submitted by banks to the National Bank. To this end, one of the areas of the National Bank's activity to clean up the bank balance sheets from NPLs will be the necessary actions taken to increase reliability of information presented by banks in the regulatory reports, including by strengthening control and performing the analysis of the work done by audit firms in their audits of banks' reports.

The transition to the inflation targeting regime resulted in a high volatility of the cost of the funding base and a subsequent liquidity shortage in the domestic currency. In order to maintain the Tenge liquidity, banks had to apply the following risk management instruments: enter into expensive swap and repo transactions, retain and attract corporate depositors against high interest rates, reduce the volumes of lending in the Tenge, and reduce their operating expenses.

State-owned companies continued to support the banks' funding base in the domestic currency, being the main contributors to the Tenge portion of customer deposits as of the end of 2015. The UAPF also took an active part in financing by purchasing bank bonds issued in the domestic currency.

As of the end of 2015, banks managed to keep the funding in the domestic currency at the level of the previous year (0.8% decrease), whereas the funding in foreign currency increased significantly, mainly as a result of foreign exchange

⁶ Resolution of the National Bank's Board as dated May 27, 2014 No. 96 "On Approval of the Concept for Functioning of the Joint-Stock Company "Problem Loan Fund".

⁷ Resolution of the National Bank's Board as dated September 24, 2014 No. 179 "On Approval of the Rules for engagement in the 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 bad assets to be acquired (already acquired) by such organization".

revaluation (the growth of 64.8%, and excluding revaluation – the decrease of 11.6%). At the same time, revaluation of liabilities denominated in foreign currency had a significant negative impact on the profits in the banking sector in 2015, which was reflected in the form of unrealized expense from foreign exchange revaluation.

In 2015, 7 sessions of the Council for Financial Stability and Financial Market Development of the Republic of Kazakhstan were held, where the most relevant issues regarding the development of Kazakhstan's financial system. At these sessions, the following issues regarding activities of the financial market participants had been discussed:

- the necessity of taking counter-cyclical measures (within the framework of prudential regulation) aimed to mitigate macroeconomic shocks in the banking system;

- increasing effectiveness of bank prudential regulation with the approval of measures aimed to improve the methods for calculation of prudential ratios and fine-tuning of the system of early response measures;

- establishing and developing the International Financial Center of Astana;

- providing liquidity to banks by the National Bank against the pledge of non-market assets with a view to support financially sound banks in the period of stress and low liquidity;

- fine-tuning the legislation of the Republic of Kazakhstan in the field of payments and further development of the payment infrastructure as well as implementation of up-to-date payment mechanisms and innovative solutions based on the international practice;

- approaches to regulation of non-resident financial organizations in connection with accession of the Republic of Kazakhstan to the World Trade Organization;

- integration of the financial market of the Republic of Kazakhstan within the EAEU;

- improving the credit history system in Kazakhstan;

- areas of the "Problem Loan Fund" functioning in the future.

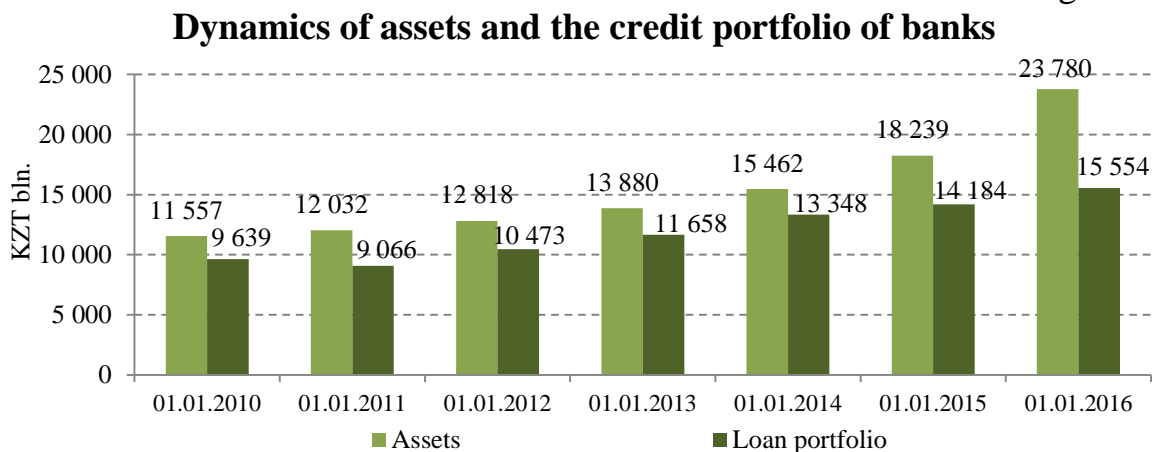
Chapter 3. Financial System Outlook

3.1. Banking Sector

At January 1, 2016, there were 35 banks and 8 organizations engaged in certain types of banking operations, including 3 mortgage companies, in the Republic of Kazakhstan.

During 2015, assets of the banking sector increased by KZT 5.5 trln. or by 30.4% and amounted to KZT 23.8 trln. (Figure 3.1.1).

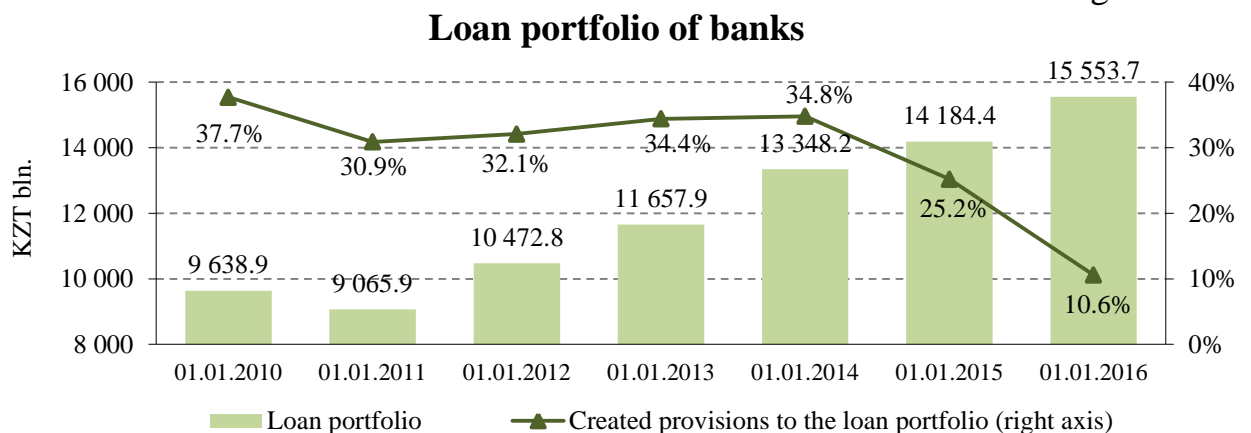
Figure 3.1.1



As of the end of 2015, the banking sector's loan portfolio totaled KZT 15.6 trln., having increased on the year-to-date basis by 9.7% or by KZT 1.4 trln.

At January 1, 2016, provisions created in line with the requirements of international financial reporting standards for the loan portfolio of the banking sector amounted to KZT 1.6 trln. or 10.6% of the total loan portfolio (Figure 3.1.2).

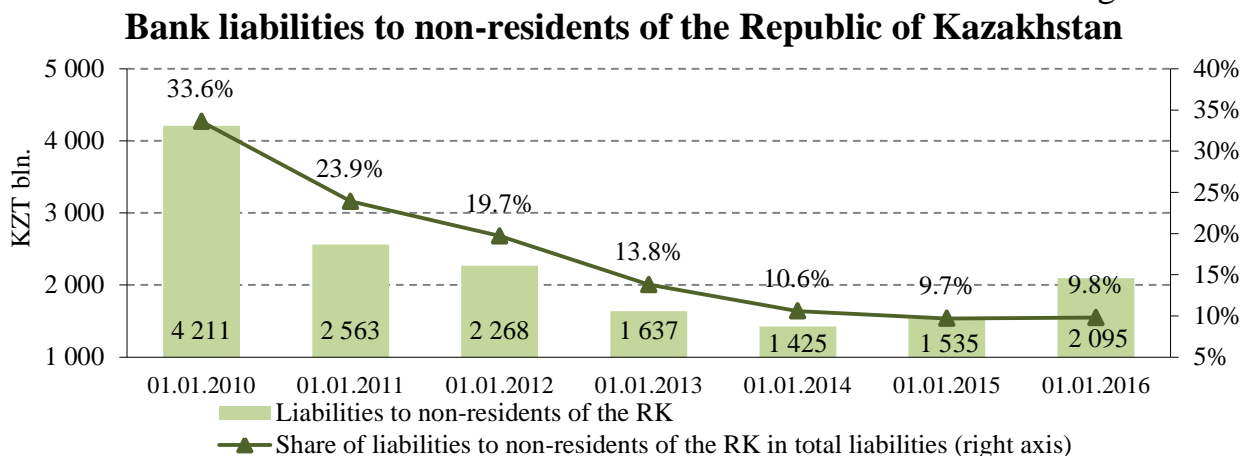
Figure 3.1.2



Loans which are past due on the principal amount and/or accrued interest more than 90 days, at January 1, 2016 amounted to KZT 1.2 trln. or 8.0% of the total loan portfolio of banks.

During 2015, bank liabilities increased by KZT 5.4 trln. or by 34.1% and amounted to KZT 21.3 trln. During 2015, foreign liabilities increased by KZT 0.6 trln. or by 36.5% and amounted to KZT 2.1 trln., and their share in total liabilities increased from 9.7% to 9.8% (Figure 3.1.3).

Figure 3.1.3

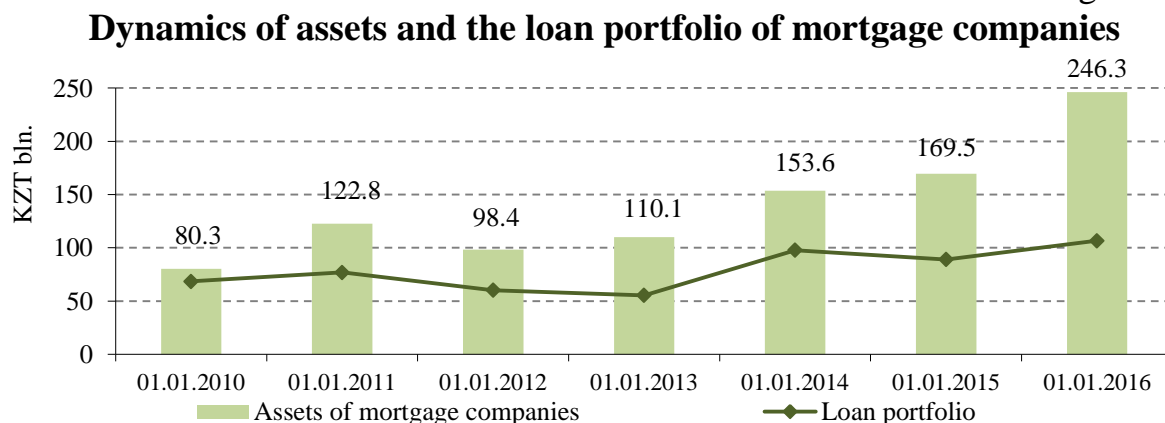


Mortgage Companies

As of the end of 2015, assets of mortgage companies totaled KZT 246.3 bln., exceeding the size of assets in 2014 by KZT 76.8 bln. or by 45.3%.

The total loan portfolio of mortgage companies was KZT 106.7 bln., exceeding the same indicator for 2014 by KZT 17.6 bln. or by 19.7% (Figure 3.1.4).

Figure 3.1.4



The largest share in the total loan portfolio of mortgage companies is comprised of loans provided by the Kazakhstan Mortgage Company – 99.8%.

At January 1, 2016, the relative share of past due loans in the total loan portfolio of mortgage companies was 10.4% or KZT 11.0 bln., including loans which are past due more than 90 days – 4.7% or KZT 5.0 bln.

As of the end of 2015, the amount of provisions created by mortgage companies made up KZT 4.2 bln., and the relative share of created provisions in the loan portfolio accounted for 3.9%.

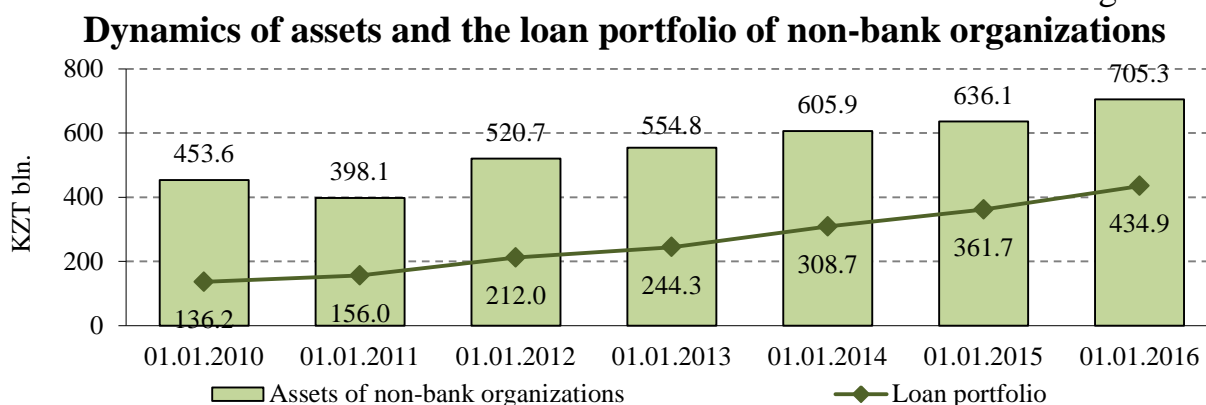
Other Non-Bank Organizations

As of the end of 2015, total assets of non-bank organizations⁸ amounted to KZT 705.3 bln., having increased by 10.9% over the year.

As of the end of 2015, the loan portfolio⁹ of subsidiaries of the national management holding company in the agro-industrial sector amounted to KZT 434.9 bln., having increased by 20.2%.

At January 1, 2016, the relative share of past due loans in the total loan portfolio of subsidiaries of the national management holding company in the agro-industrial sector accounted for 27.1% (KZT 128.0 bln.), with the relative share of loans past due more than 90 days accounting for 16.5% (Figure 3.1.5).

Figure 3.1.5



Interbank Money Market

In 2015, the overall volume of placed interbank deposits increased by 7.6% as compared to 2014 and amounted to the equivalent of KZT 40.8 trln.

The volume of placed interbank deposits in the Tenge decreased by 35.5%, amounting to KZT 3.4 trln. (7.8% of the total volume of deposits placed in 2015). The weighted average interest rate on interbank deposits placed in the Tenge increased from 16.0% in December 2014 to 21.6% in December 2015. Depreciation of the exchange rate of the Tenge in the foreign exchange market against a limited supply of the Tenge liquidity resulted in the growth of interest rates in the interbank money market.

In 2015, the volume of placed deposits in the US Dollars amounted to USD 170.1 bln. (88.7% of the total volume of deposits placed in 2015), having decreased by 3.2%. The weighted average interest rate on deposits placed in the US Dollars in December 2015 accounted for 0.16%, whereas in December 2014 it accounted for 0.07%. The share of deposits placed in the US Dollars with maturity less than 30 days accounted for 98.6%.

The volumes of deposit placements in the Euro and Russian rubles are insignificant – less than 0.1% and 3.4% of the total volume of placed deposits, respectively.

⁸ Subsidiaries of the national management holding company in the area of agro-industrial complex and the National Postal Operator of the Republic of Kazakhstan.

⁹ Including the financial lease provided less the reserves.

The main portion of foreign currency deposits (90.6% of the total volume of deposits) was placed with non-resident banks.

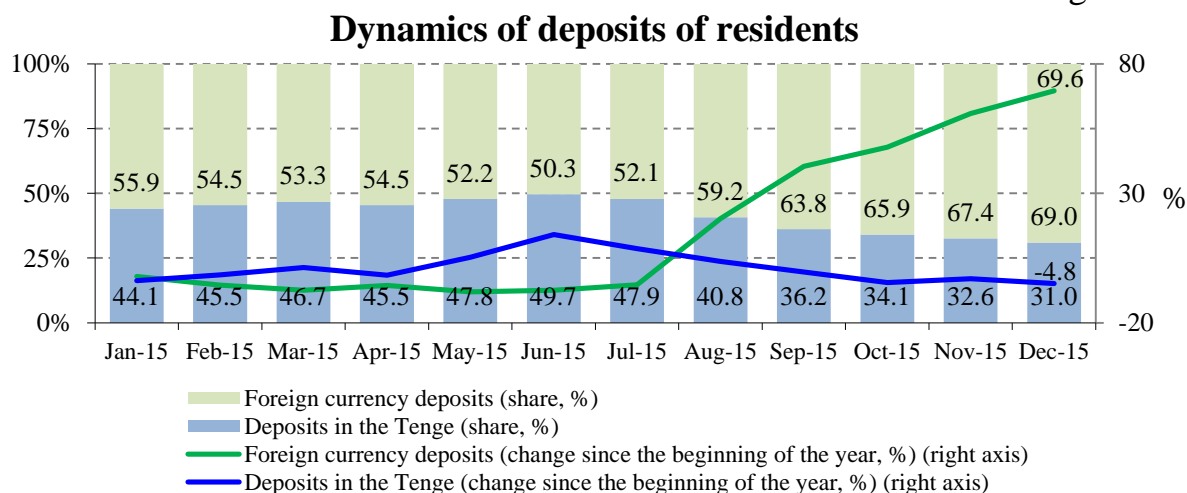
In 2015, the volume of deposits taken by the National Bank from banks decreased by 41.5% and amounted to KZT 2.7 trln.

Deposit Market

During 2015, deposits of residents with depository institutions increased by 36.6% as compared to their growth of 15.9% in 2014 and reached KZT 16.0 trln. The growth of the deposit base was determined by foreign exchange revaluation of foreign currency deposits caused by depreciation of the Tenge.

The structure of deposits by types of currencies had undergone changes. The increase in foreign currency deposits and decreased deposits in the domestic currency led to the decrease in the relative share of deposits in the Tenge from 44.5% to 31.0%. During 2015, deposits in the domestic currency decreased by 4.8% to KZT 5.0 trln., and foreign currency deposits increased by 69.6% to KZT 11.0 trln. (Figure 3.1.6).

Figure 3.1.6



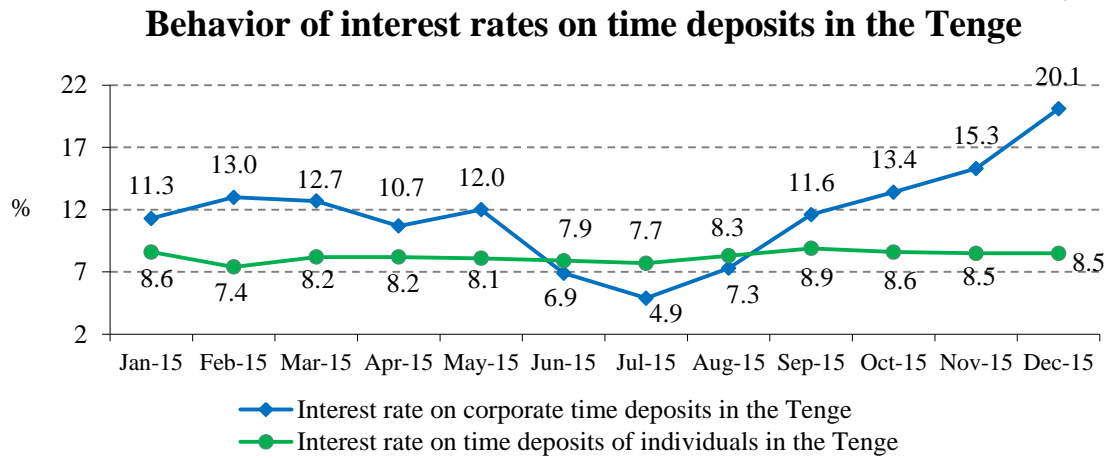
During 2015, deposits of non-bank legal entities increased by 25.8% to KZT 9.2 trln., and deposits of individuals – by 54.5% to KZT 6.8 trln.

During 2015, household deposits with banks (including accounts of non-residents) increased by 55.5% to KZT 6.9 trln. Household deposits in the Tenge decreased by 0.7% to KZT 1.4 trln., while foreign currency deposits increased by 81.8% to KZT 5.4 trln., which resulted in the increased degree of dollarization of household savings from 67.5% to 79.2%.

During 2015, interest rates on corporate deposits in the domestic currency increased, whereas rates on household deposits in the Tenge remained virtually unchanged. So, in December 2015, the weighted average interest rate on the time deposits in the Tenge of non-bank legal entities increased significantly and accounted for 20.1% (in December 2014 – 8.8%), and on deposits of individuals – 8.5% (in December 2014 – 8.1%) (Figure 3.1.7). Setting of a maximum interest rate on newly taken deposits of individuals helps limit the growth in interest rates

on this banking product whereas there are no limitations of interest rates on corporate deposits.

Figure 3.1.7



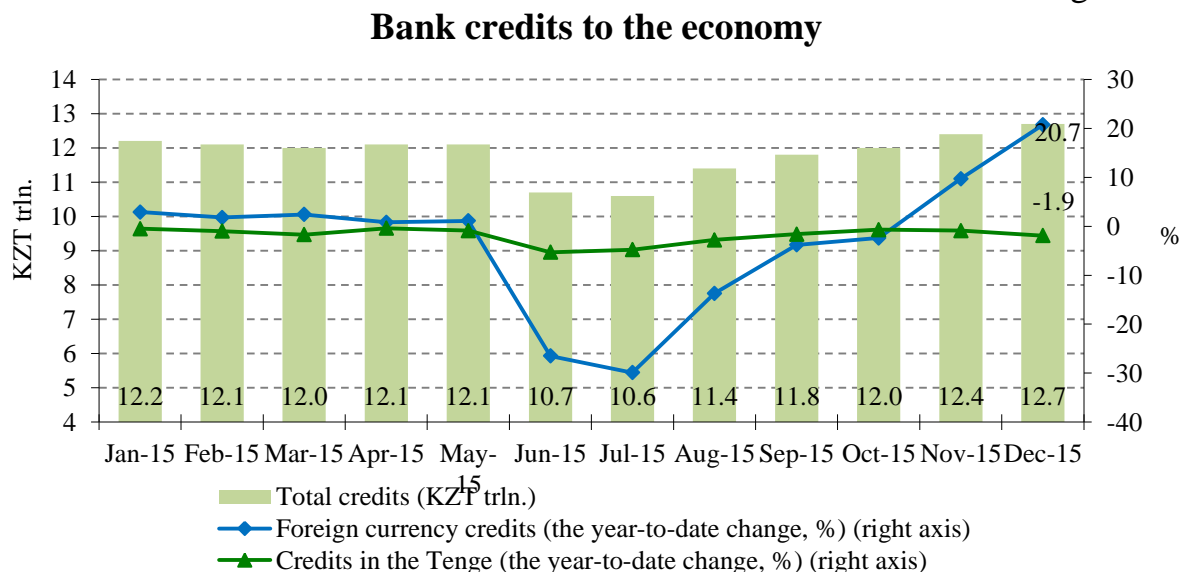
Credit Market

In 2015, the volume of bank credits to the economy increased by 4.7% versus 7.2% in 2014, amounting to KZT 12.7 trln. The growth of credits was mainly determined by the foreign exchange revaluation of foreign currency credits that was caused by depreciation of the Tenge.

During 2015, credits in the domestic currency decreased by 1.9% to KZT 8.4 trln., whereas foreign currency credits increased by 20.7% to KZT 4.3 trln. as a result of revaluation (Figure 3.1.8). In total, the relative share of credits denominated in the Tenge in the overall volume decreased from 70.8% to 66.3%.

At end-2015, credits to corporate entities increased by 5.2%, amounting to KZT 8.5 trln., and credits to individuals increased by 3.7% to KZT 4.2 trln. The relative share of credits to individuals decreased from 33.2% to 32.9%.

Figure 3.1.8



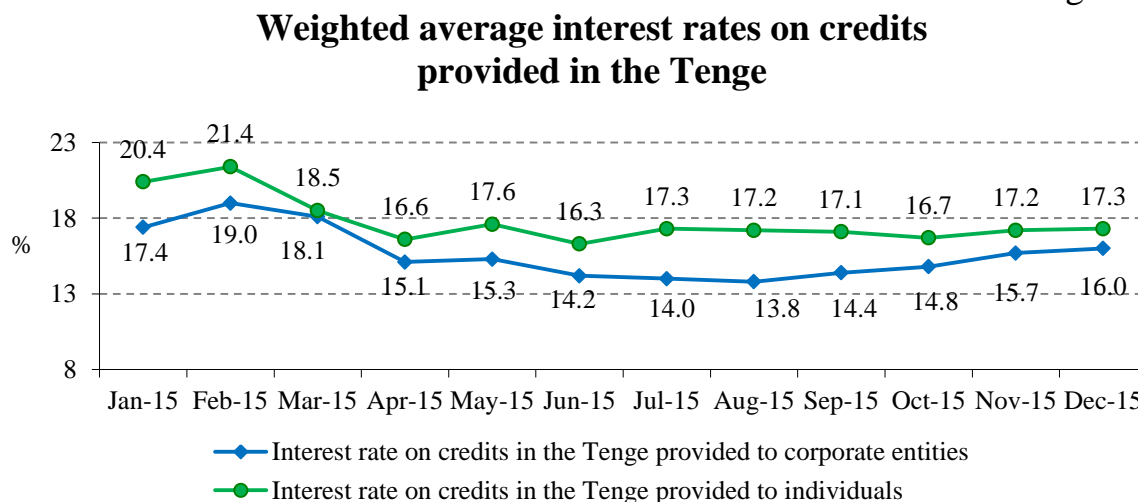
The decreased activity in the segment of short-term lending resulted in the increased share of long-term credits. Long-term lending in 2015 increased by 9.5% to KZT 10.5 trln., and short-term lending decreased by 13.7% to KZT 2.2 trln. Respectively, over the year the relative share of long-term credits had increased from 79.4% to 83.0%.

Credits to small businesses in 2015 increased by 15.2% to KZT 2.1 trln., which accounts for 16.3% of the total volume of credits to the economy.

In an industry-based breakdown, the most significant amounts of bank credits to the economy falls on the sector of trade – 20.9%, industry – 13.4%, construction – 7.8%, and agriculture – 5.2%.

In December 2015, the weighted average interest rate on credits in the domestic currency provided to non-bank legal entities accounted for 16.0% (in December 2014 – 14.4%), and to individuals – 17.3% (18.7%) (Figure 3.1.9).

Figure 3.1.9



Consolidation of the Banking Sector

In 2015, a number of transactions were conducted to consolidate the banking sector with a view to safeguard financial stability and to increase banks' capitalization. In particular, liabilities of JSC "Astana-Finance" and JSC "Alliance Bank" had been restructured; JSC "Alliance Bank", JSC "Temirbank" and JSC "ForteBank" were merged into one bank, and the concurrent transfer of assets and liabilities between JSC "Kazkommertsbank" and JSC "BTA Bank".

So, in 2015 the restructuring of debt of JSC "Astana-Finance" to foreign and domestic creditors was completed; this process had lasted since 2009 due to inability of the bank to service its debt. The debt which was subject to restructuring amounted to KZT 334.9 bln.; payments were made both in money terms and with notes and global depository receipts. The debt write-off as a result of restructuring accounted for 75%. Also, the restructuring resulted in the loss of the status of a bank holding company by the Bank of Astana.

With a view to ensure stability of the banking sector, on June 15, 2015 the agreement on the concurrent transfer of assets and liabilities between Kazkommertsbank and BTA Bank under the principle of a "good bank-bad bank"

was signed. As a result of transfer of assets and liabilities, the share of NPLs in the banking system decreased from 22.1% to 8.9% by the end of 2015. Along with that, BTA Bank surrendered its banking license and exited from the banking system of Kazakhstan.

During 2015, Kazkommertsbank increased its share in the banking sector from 16.1% to 21.2% due to the concurrent transfer of assets and liabilities and also reached leading positions on the loan portfolio with the share of 24.8% (17.6% at the beginning of 2015) and on customer deposits with the share of 20.2% (15.0% at the beginning of 2015).

With a view to protect interests of depositors, the restructuring of Alliance Bank was conducted, which was also completed in 2015. As a result of restructuring, the written-off debt amounted to KZT 79.8 bln. (or 49% of liabilities subject to restructuring). One of the key elements of restructuring of the Alliance Bank was the merger of the Alliance Bank, Temirbank and ForteBank and establishment of a united bank with a high level of capitalization. Restructuring and a merger of two other banks enabled eliminating the features of unsound financial position, ensuring compliance with prudential ratios as well as an ongoing operation of banks.

In October 2015, the Eurasian Financial Company – a sole shareholder of the Eurasian Bank – made the decision to approve the acquisition of the Eurasian Bank with the help of own funds - 100% shares of BankPositive Kazakhstan¹⁰. The Eurasian Bank obtained the National Bank's permission to get the status of a bank holding company and purchase shares of the BankPositive Kazakhstan¹¹.

A joint decision of sole shareholders of the Eurasian Bank and the EU Bank (a Eurasian Bank's subsidiary) in December 2015 approved a voluntary reorganization of the bank in the form of a merger of the EU Bank (a Eurasian Bank's subsidiary) to the Eurasian Bank no later than at the end of 2016.

Regulation

In 2015, the National Bank made arrangements to enhance depositor rights including by increasing the guaranteed amount of reimbursement paid by the Kazakhstan Deposit Insurance Fund to depositors on deposits in the Tenge from KZT 5 mln. to KZT 10 mln.

With a view to strengthen the internal potential of credits to the economy, banks are required to invest at least 85% of their owners' equity into domestic assets.

A set of measures had been taken as part of the counter-cyclical regulation, including:

inclusion of preferred stock issued by banks, perpetual financial instruments and subordinated bonds denominated in the Tenge in the calculation of bank owners' equity, in 2015-2016;

¹⁰ A new name of "EU Bank" (Subsidiary of the Eurasian Bank).

¹¹ The Resolution of the National Bank's Board as dated December 19, 2015 No. 243, the Eurasian Bank acquired the status of a bank holding company of BankPositiv Kazakhstan (Subsidiary of Bank Hapoalim B.M.), the Resolution of the National Bank's Board as dated December 19, 2015 No.244 gave permission to the Eurasian Bank to purchase shares of a subsidiary BankPositiv Kazakhstan (Subsidiary of Bank Hapoalim B.M.).

enabling banks to hold and purchase securities of Kazakhstani issuers with the rating of not below “B” due to revision of sovereign ratings and corporate credit ratings by international rating agencies;

applying a diversified approach to accounting for correspondent account balances when calculating a single borrower exposure by weighting them depending on the rating of a resident bank or a non-resident bank;

adjusting foreign currency liquidity by including foreign currency liabilities at discount to enable banks manage their liquidity in case of a high US Dollar component of the deposit base, conduct swaps and lend in the domestic currency;

discouraging lending in foreign currency, setting the requirement from 2016 to create additional double-size reserves when providing a foreign currency loan for the term over one year, including those instances if a borrower is a legal entity not earning foreign exchange proceeds or where foreign exchange risks on a FX loan are not hedged;

eliminating early response factors in respect of the capital adequacy and associated early response measures in connection with duplication of prudential requirements to capital adequacy which already exist;

canceling indicators for non-performing loans which are past due on their principal debt or interest from 30 to 90 days (indicators for non-performing loans which are past due more than 90 days remain in force);

increasing the amount of claims of the banking conglomerate participants in respect of intragroup transactions between participants from 15% to 30% of the bank conglomerate’s equity.

In addition, the common procedure was established for the transaction involving the concurrent transfer of bank assets and liabilities in part or in full to another bank (banks) as well the concurrent transfer of assets and liabilities between a parent bank and a subsidiary bank in respect of which the restructuring was conducted. The main purpose is to resolve the situation in problem banks through concurrent transfer of assets and liabilities of a troubled bank to another bank. With a view to neutralize risks in the economy associated with the introduction of the floating exchange rate of the Tenge and volatility in the external markets the following additional measures were taken that provide for:

adjusting the transition to the Basel III by retaining minimum levels of capital adequacy of banks in 2016 at the level of 2015 and in 2017 – at the level of 2016;

reducing capital adequacy requirements regarding loans to small and medium-sized businesses, mortgage loans as well as past due loans in respect of which banks have already recognized losses by creating reserves in line with requirements of international financial reporting standards;

canceling the requirement to increase the minimum bank capital amount to KZT 100 bln. by January 1, 2019;

canceling the requirement to increase the consumer loan portfolio and introducing a new category of unsecured consumer loans with the increased risk weighting from 100% to 150%;

implementing the requirement to reach the share of NPLs at the level below 10% of a bank loan portfolio as part of submission of action plans to reach the level below 10% no later than in 2018. When action plans are violated, an additional charge to the capital adequacy ratio will be set or the chairperson or the deputy chairperson of a bank's board will be removed from his/her position.

With a view to increase capacities of lending to the economy, in 2016 the amount of the dynamic reserve will be further preserved within the volume built up in 2013 (based on the adjustment of the amount of the dynamic reserve made in 2014).

Also, in order to reduce the debt burden and protect rights of borrowers, amendments to the laws of the Republic of Kazakhstan have been made that provide for:

- prohibition to make mortgage loans in foreign currency to an individual who does not have earnings in foreign currency;

- repayment of an overdue principal in the first instance and repayment of penalties and fines – in the last instance, when payments are seriously delinquent. In doing so, the creditor retains its right to take measures in respect of unfaithful borrower by early repayment of the remaining amount of the loan item together with the due interest as well as foreclose on the pledged property;

- establishing a mandatory automatic write-off in respect of interest and cancellation fee accrued after 180 days of the past due on the liability under the mortgage loan agreement;

- the deadline of 90 days for accruing an increased cancellation fee (penalty and fine) when the liability on a loan;

- a limit for foreclosure on the individual borrower's account not to exceed 50% of the amount of money kept and/or credited to the account;

- a prohibition for capitalization (summing up) of interest and cancellation fee to the principal debt on a residential mortgage loan;

- a prohibition to change the terms and conditions of bank loan agreements on a unilateral basis, unless the Laws of the Republic of Kazakhstan provide for instances of improvement for a borrower when notifying the borrower;

- a lump-sum payment of reimbursement on deposits of individuals opened in the domestic currency (Tenge), in connection with the transition to free floating exchange rate regime;

- tax exemptions on income of individuals which arise in case of payment of reimbursement on deposits of individuals opened in the domestic currency (Tenge), in connection with the transition to free floating exchange rate regime;

- tax exemptions on income of individuals which arise in case of payment of reimbursement on housing construction savings, in connection with the transition to free floating exchange rate regime;

- establishing the National Bank's competence in refinancing residential mortgage loans and mortgage loans of individuals, including by placing deposits with banks;

- a possibility of voluntary reorganization of a bank in the form of its conversion into an Islamic bank.

Licensing

In 2015, the following actions were taken in the area of licensing and authorization activity of the National Bank:

11 licenses were issued (re-issued) to banks, where 2 licenses were issued for additional banking and other operations conducted by banks and 9 licenses were re-issued in connection with the change in the name and/or legal address as well as a type and/or sub-type of the bank's activity;

2 applications for licenses for additional banking and other operations conducted by banks were rejected;

115 applications were reviewed in relation to approval of nominees for managerial positions in banks, bank holding companies; on the basis of such review, 109 nominees were approved and 6 nominees were rejected;

2 approvals for acquisition of a bank holding company status were issued; 4 approvals for acquisition of a large participant of a bank status were issued; 3 authorizations for banks to acquire (establish) their subsidiaries were provided.

Off-site Supervision, Inspection and Supervisory Response

Off-site supervision of banks and non-bank organizations, inter alia, subsidiaries of the national management holding company operating in the area of agro-industrial complex, mortgage companies and the National Postal Operator of the Republic of Kazakhstan is based on compliance with requirements established by the laws of the Republic of Kazakhstan for such entities, including compliance with prudential ratios and other established ratios and limits and analysis of regulatory reports.

Based on the review of regulatory reports as part of the off-site supervision, the following reports had been prepared: 428 monthly reports of the current financial position of banks, 176 quarterly reports in respect of the bank rating system - CAELS and a bank conglomerate, 428 monthly check-lists of compliance with provisions of the existing legislation of the Republic of Kazakhstan, 12 consolidated monthly reports of the banking sector's position, and 4 consolidated quarterly reports of bank conglomerates' position.

Based on the review of regulatory reports of organizations engaged in certain types of banking operations, as part of the off-site supervision, the following reports had been prepared: 36 monthly reports of the current financial position, 20 quarterly reports and 16 consolidated reports of current position of mortgage companies and organizations engaged in certain types of banking operations.

Based on the off-site supervision, in respect of facts of violation of the legislation of the Republic of Kazakhstan the following measures had been taken against banks: 89 restricted remedial actions were taken, including the requirement to submit the letters of commitment in 28 cases, written warnings were made in 58 cases, an improvement notice was sent in 1 case, and written agreements were concluded in 2 cases. In respect of non-bank organizations, the National Bank applied 3 restricted remedial actions – written warnings were made.

In 2015, 22 inspections of banks and organizations engaged in certain types of banking operations had been conducted, including 12 inspections on the basis of

risk assessment (including 10 inspections of banks and 2 – of organizations engaged in certain types of banking operations) and 10 unscheduled inspections.

Inspections on the basis of risk assessment in the activities of banks and organizations engaged in certain types of banking operations were conducted with the view to check their compliance with the banking legislation and other laws of the Republic of Kazakhstan including the legislation on accounting and financial reporting, laws on counteracting the money laundering and terrorist financing, as well as for reliability of regulatory and other reports/information submitted to the National Bank.

Inspections included the assessment of systems of risk management, corporate governance and internal control in a bank under the CAMELOS system (evaluation of capital adequacy, quality of assets and contingent liabilities, liquidity, effectiveness of management and the corporate governance system as well as the bank's exposure to operating risk and market risk).

Based on the results of inspections, 30 restricted remedial actions were applied to banks and organizations engaged in certain types of banking operations (14 letters of commitment were requested, 16 written warnings were made), and 151 administrative protocols were formalized. The total amount of imposed administrative penalties made up KZT 53.1 mln., including KZT 11.9 mln. on administrative cases handed over to courts for their consideration (for violations of the Law of the Republic of Kazakhstan “On Counteracting the Money Laundering and Terrorist Financing”).

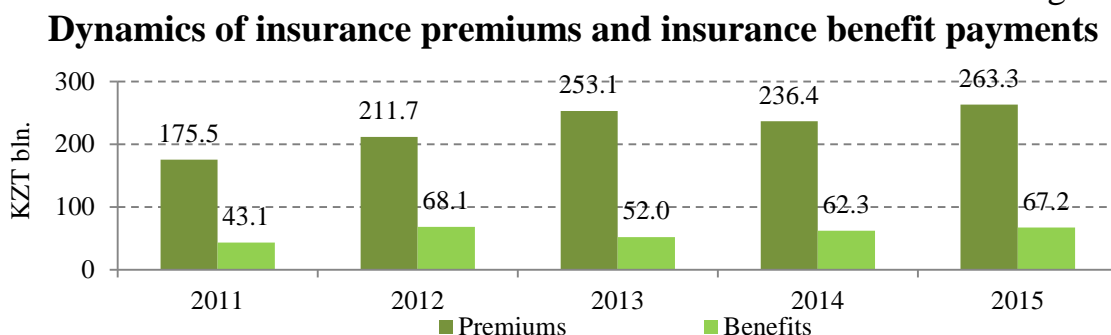
3.2. Insurance Sector

At January 1, 2016, the insurance sector of the Republic of Kazakhstan was represented by 33 insurance organizations, 15 insurance brokers and 61 actuaries.

During 2015, the overall volume of assets of insurance organizations increased by 48.0% and amounted to KZT 825.7 bln. at January 1, 2016. During 2015, the total owners' equity increased by 55.8% and amounted to KZT 406.4 bln. Liabilities of insurance organizations amounted to KZT 419.3 bln., which exceed the amount of liabilities at end-2014 by 41.1%. Insurance reserves amounted to KZT 376.9 bln. or 89.9% of total liabilities, which exceed the amount of liabilities at end-2014 by 39.1%. The total volume of insurance premiums increased by 8.3% and amounted to KZT 288.3 bln., where the amount of insurance premiums under direct insurance contract was KZT 263.3 bln.¹², which exceeds the volume of 2014 by 11.4% (Figure 3.2.1).

¹² The amount of insurance premiums is given excluding insurance premiums written under reinsurance contracts.

Figure 3.2.1



Within the structure of insurance premiums, the major portion falls on voluntary property insurance – KZT 118.9 bln. or 45.2% of total insurance premiums, KZT 80.4 bln. or 30.5% was collected on voluntary personal insurance, and KZT 64.0 bln. or 24.3% falls on compulsory insurance.

Total insurance benefit payments made during 2015 amounted to KZT 67.2 bln., having increased by 7.9% versus the previous year. The structure of insurance benefit payments by lines of insurance is as follows: personal insurance accounts for 45.5%, compulsory insurance – 37.9%, and voluntary property insurance – 16.6%.

The volume of insurance premiums ceded to reinsurance amounted to KZT 89.9 bln. or 34.1% of total insurance premiums. In doing so, 28.6% of total insurance premiums were ceded to reinsurance to non-residents of the Republic of Kazakhstan.

In 2015, the National Bank appointed its representatives in 11 insurance organizations. These representatives checked the adequacy of created insurance reserves, fulfillment of action plans for prevention of deterioration in financial position of insurance organizations, justification of payments of high fees to insurance agents under insurance contracts, and other matters.

Regulation

In 2015, the National Bank made effort to improve the system of compulsory worker accident insurance by making the following amendments to the insurance framework within the scope of the Law of the Republic of Kazakhstan as dated April 27, 2015 “On Amendments to Some Legislative Acts of the Republic of Kazakhstan Regarding Insurance and Islamic Finance”:

insurance benefit payments were optimized and synchronized by reducing them for the amount of social payments that have already been designated, by making payments till the retirement age with the deduction of pension contributions, transfer of an employee to an easier work in case of disability (to 30%), limiting the maximum monthly earnings (income) in the amount of 10 minimum wages to determine the amount of insurance benefit;

a uniform procedure was established for indexation of the amount of damages caused to life and health of an individual in accordance with the expected level of the consumer price index;

insurance tariffs were revised, including the approach which provides for a fixed amount separately by classes of a professional risk, without setting a

maximum and a minimum amount and without breakdown by the staff categories; also, a system of correction ratios was designed to be applied to enterprises with a historically high loss ratio;

lump sum payments on indemnities are excluded as well as the procedure for indemnities on actually incurred expenses was established with the submission of proving documents;

a new financial institute was introduced – an Islamic insurance (reinsurance) organization (takaful).

Also, the work has been done to change the institutional structure for building up and maintaining the unified insurance data base system with a view to hand its functions over to the state-owned credit bureau in future.

In order to minimize expenses of insurance organizations, the requirement to have a branch and/or insurance agents in the capital city, cities of national, regional and district status on all lines of compulsory insurance except compulsory worker accident insurance, was excluded.

With a view to prevent fraudulent actions, measures have been taken to segregate exposure units as well as an insured event separately for tour operators and travel agents within the framework of their compulsory civil liability insurance.

In 2015, the National Bank obtained technical assistance from the Asian Development Bank “Enhancing the Efficiency of Insurance Markets and Expanding their Outreach”. As a result, the following assessments were made:

- of shock parameters on various types of risks of insurance organizations (operating, market risks, counterparty default risk, risks in health insurance, life insurance and non-life insurance);

- of Solvency II requirements regarding calculation of insurance reserves of insurance organizations in the Republic of Kazakhstan;

- of required solvency capital per each type of risk by conducting the stress-testing based on various scenarios.

Also, in 2015 the Council for the Insurance Market Development in the Republic of Kazakhstan was established; it is represented by top management of the National Bank, of insurance organizations, National Chamber of Entrepreneurs “Atameken” and the UoLE “Financial Institutions Association of Kazakhstan”. The Council’s activity is focused on providing support and preparing proposals to increase soundness and efficiency of the insurance sector, improve the infrastructure and provide optimal conditions for efficient development of the insurance market, a stage-by-stage implementation of the Solvency II Directive, optimization of existing classes of compulsory insurance, determining the criteria for introduction of compulsory lines of insurance and their specific list at a legislative level, increasing effectiveness of the reinsurance business, improving the insurance statistical data base, establishing a regional system of motor insurance and others.

Licensing

In 2015, as part of the licensing and authorization activity, 287 applications/petitions were considered, of which 239 received positive feedback, including:

3 approvals for acquisition of a status of a large participant of an insurance organization were issued to a natural person and 1 approval to a legal entity for acquisition of a status of an insurance holding company as well as 1 approval for establishment of a subsidiary;

broker license was issued to one insurance broker and a license to one insurance broker was re-issued;

4 authorizations for voluntary reorganization were issued to four insurance organizations;

based on consideration of applications for issue (re-issue) of insurance licenses, 12 licenses were re-issued and 1 life insurance license was issued;

based on consideration of 100 applications filed by natural persons and legal entities, 80 independent experts who make assessments of damage caused to the property of an affected party as a result of vehicle operation, were accredited;

as a result of consideration of 118 applications about approval of nominees for managerial positions in insurance organizations, insurance holding companies and the Insurance Indemnity Guarantee Fund, 108 nominees were approved;

27 actuaries took their qualification exam (test) (24 actuaries passed their qualification exam).

Off-site Supervision, Inspection and Supervisory Response

As part of the off-site supervision, compliance with the legislation of the Republic of Kazakhstan, including in respect of prudential regulation, on the part of insurance organizations, their large participants (insurance holding companies), insurance groups, insurance brokers, and actuaries was monitored.

Financial position of insurance organizations, movement of their assets and liabilities of insurance organizations were analyzed, key performance indicators of insurance organizations, insurance and reinsurance contracts, insurance benefit payments and claims, reinsurance business, compliance with requirements to the risk management and internal control system, and the investment portfolio structure, as well as adequacy of their created reserves, actuarial opinions, calculation of prudential ratios and loss ratios, financial and regulatory reporting, were checked. The activities on the automation of business processes are carried out on an ongoing basis.

The degree of financial soundness of insurance organizations was assessed on the basis of early warning tests and their classification was made according to the Risk Matrix with relevant analytical opinion about their financial position.

In 2015, 49 action plans to increase financial soundness, eliminate shortcomings and violations in submissions to the National Bank, as well as to eliminate shortcomings in the operation detected in 2014, were requested.

As part of the early response measures aimed to increase financial soundness of the insurance sector, 4 insurance organizations accomplished recapitalization totaling KZT 1.1 bln.

In 2015, 12 inspections were conducted on the basis of assessments of risks in the activities of the insurance market entities, including 9 inspections of operations of insurance organizations and 3 inspections 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 activity; accuracy of insurance reserve calculations; credibility and reliability of accounting records.

Based on inspections conducted in 2015 in respect of the insurance market entities, 28 restricted remedial actions were taken (including 14 letters of commitments requested and 14 written warnings made).

Based on the off-site supervision, the National Bank took the following restricted remedial actions in respect of:

insurance organizations: 34 letters of commitment were requested, 31 written improvement notices were sent, 6 written warnings were made, and 3 written agreements were concluded;

large participants of insurance organizations: 2 improvement notices sent, an approval for acquisition of a large participant status of 1 insurance organization was revoked;

actuaries: 5 letters of commitment requested, 7 improvement notices sent;

insurance brokers: 7 letters of commitment requested, 3 improvement notices sent.

The total amount of administrative penalties imposed on the insurance market entities in 2015 was KZT 58.1 mln., of which KZT 5.2 mln. on administrative cases handed over to courts based on 215 formalized protocols of administrative offence. In 2015, the following licenses were suspended: of 1 insurance organization on compulsory motor liability insurance, broker license of one insurance broker and one actuarial license because of incorrect calculation of insurance reserves.

3.3. Securities Market

In the securities market of the Republic of Kazakhstan as of January 1st 2016 there were 47 brokers and/or dealers, 10 custodians, 23 investment portfolio managers, 2 transfer agents, 1 securities trading organizer, 1 organization engaged in clearing on transactions with financial instruments. In addition, there is also a unified securities registrar and central securities depository which are engaged in professional activities in the securities market without a license.

In general, in compare of 2014 the aggregate financial indicators of professional participants in the securities market decreased in 2015: the total assets – by 1.6%, and the equity – by 8.4%. Such a decrease is associated with the decreased number of brokers and/or dealers and investment portfolio managers in 2015 due to voluntary license surrender.

At January 1, 2016, The number of issuers of non-government securities was 1 560, and the overall number of joint-stock companies with effective securities issues was 1 533 as of January 1st 2016. During 2015 the National Bank registered 24 share issues.

The number of effective bond issues was 398 with the total par value of KZT 9.7 trln. as of January 1st 2016, 273 of which were included into the official listing of the stock exchange, 83 of which were listed by Kazakhstan Stock Exchange in the “debt securities of entities of the quasi-government sector” category; 190 issues were included into the “other debt securities” category. Moreover, 18 bond programs were registered in 2015 with the volume of issue equal to KZT 3.0 trln. 67 issues of non-government securities with the total volume of issue equal to KZT 2.9 trln. were registered during 2015.

During 2015 the trend of unsound financial position of earlier defaulted bond issuers has persisted. Thus, as of January 1st 2016 the number of issuers who didn't repay their obligation on coupon payment and repayment of principal debt on the bonds, i.e. the issuers of the defaulted bonds, amounted 24, in case of 22 out of those have their bonds' maturities expired and the holders of such bonds has now a right to claim.

AtAs of January 1st 2016 78 unit investment funds (57 of which are close-end funds, 10 – open-end funds and 11 – interval funds) and 27 joint-stock investment funds operate in the securities market.

Stock Market

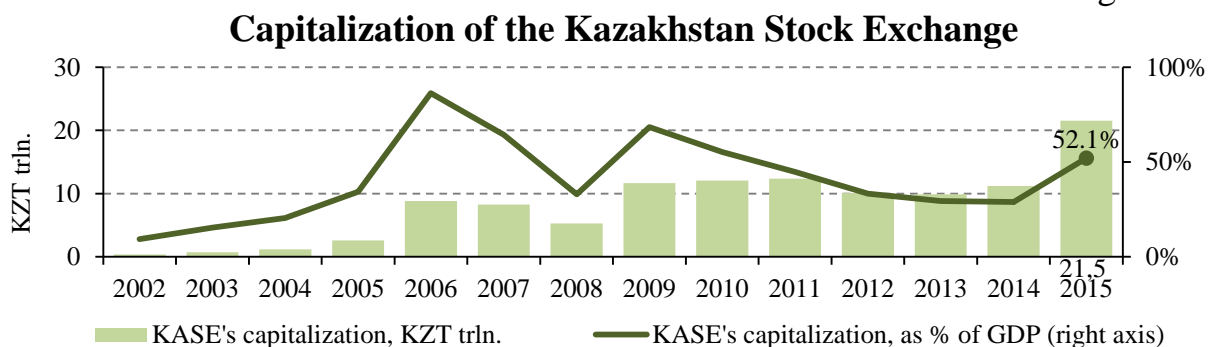
The main indicator of the state of the fund market of Kazakhstan is the organized market represented by the Kazakhstan Stock Exchange.

debt securities market has majored with weight of 48.4% (or 273 issues); whereas government securities sector has smaller weight equal to 18.8% (or 106 issues); as well as international financial organizations' issues has counted only 0.9% in weight (or 5 issues).

InThe overall capitalization of the market of non-government securities included into the Kazakhstan Stock Exchange's official listing has increased over 2015 by 92.0% and amounted KZT 21.5 trln. (Figure 3.3.1).

Such a growth was caused by listing of new shares and the admission of new issues of the corporate bonds into circulation in the securities market.

Figure 3.3.1



During 2015, the volume of transactions with non-government securities¹³ in the organized market increased almost by 2.5 times and amounted KZT 2.2 trln., including the secondary securities market – KZT 1.1 trln. Alongside with that, the volume of transactions on initial offering increased significantly – by more than 2.5 times.

In 2015 the volume of stock exchange transactions with government securities¹⁴ in the organized market increased by 95.8% and amounted KZT 23.6 trln.

Moreover, comparing to 2014 the volume of transactions with non-government securities in the unorganized securities market decreased by 11.7% and amounted KZT 1.1 trln. There was not any transaction with the government securities in the unorganized securities market in 2015.

Regulation

In 2015 the following work had been done as part of improving the securities market regulation:

- theThe framework of a central counterparty was implemented and the “T+n” system of settlements in the securities market was implemented;

- theThe custodian’s functions for checking transactions dealt in the organized market were brought in conformity with the international standards;

- theThe structure of the stock exchange list was specified by dividing it into the official list and the “Non-Listing Securities” sector;

A possibility to include derivative securities into the “Non-Listing Securities” sector was introduced which are backed by non-government securities issued according to the laws of the Republic of Kazakhstan and other countries;

The procedure and terms of inclusion of securities into circulation through the “Non-Listing Securities” listing sector as well as the terms of their presence in the named sector and exclusion from it were simplified;

- aA possibility to include securities of international financial organizations and government securities into the official stock exchange listing on a simplified basis was introduced;

- theThe requirements regarding shares that may be purchased by banks, subsidiaries of banks or bank holding companies were simplified by replacing requirements about the existence of an active market with the requirement to be included in the stock exchange index representative list.

Licensing

In 2015 1 license of a professional participant in the securities market was issued to engage in the broker and dealer business with the right to maintain clients' accounts in the nominal holder capacity. Also 2 licenses of professional participants in the securities market to engage in the activities in the securities market were re-issued due to the changes in their names.

In 2015 broker/dealer licenses in the securities market of the following entities were terminated in connection with their voluntary surrender: “Zhetissu”

¹³Including repo transactions.

¹⁴Including repo transactions.

Pension Assets Investment Manager, “GRANTUM Asset Management” Pension Assets Investment Manager, BTA Bank and Temirbank.

Also licenses for investment portfolio management of the following entities were surrendered on a voluntary basis based on their respective applications filed to the National Bank: “GRANTUM Asset Management” Pension Assets Investment Manager, “ZIM Capital” and “Zhetissu” Pension Assets Investment Manager; also, BTA Bank surrendered its custodial license on a voluntary basis.

In addition, the license for investment portfolio management held by the “National Investment Corporation of the National Bank of Kazakhstan” was terminated according to the Law of the Republic of Kazakhstan “On Amendments to Some Legislative Acts of the Republic of Kazakhstan Regarding Insurance and Islamic Finance”, which came into effect from May 10, 2015.

Off-site Supervision, Inspection and Supervisory Response

The National Bank performs an off-site monitoring of financial soundness of professional participants in the securities market which includes the analysis of their financial and regulatory reports on compliance with prudential ratios and capital requirements, the analysis of the procedure of transactions made by brokers and/or dealers in the trading system of the Kazakhstan Stock Exchange, in unorganized and international markets, compliance with the requirements on risk management and internal control systems as well as other ratios and limits established by the National Bank’s regulations.

Control was exercised over how the nominal holding system is maintained and clients’ assets transferred to nominal holding being safeguarded, over compliance with the deadlines of reporting about results of securities placements and over posting of relevant information in the Internet-resource of the financial statements depository by those issuers whose securities are included into the official listing of the Kazakhstan Stock Exchange, and over submission of reports about the results of bond redemptions. The National Bank monitored whether information by representatives of bond holders to the National Bank and to bond holders was provided on a timely basis as well as whether joint-stock companies complied with the disclosure requirements in respect of their affiliated entities. In addition, the National Bank exercised control over compliance with requirements of the laws of the Republic of Kazakhstan by large participants of the investment portfolio managers (direct and indirect), including in relation to the requirement to obtain a prior approval of the National Bank for acquiring a large block of shares of the investment portfolio manager.

Based on the off-site supervision 66 limited measures of influence were taken in respect of professional participants in the securities market. Apart from those 117 administrative penalties totaling KZT 25.1 mln. were imposed in respect of professional participants in the securities market and individuals.

393 restricted remedial actions were taken in respect of issuers (78 written prescriptions were sent and 315 letters of commitments were requested), 1 418 administrative penalties were imposed on 352 issuers, and resolutions regarding imposition of administrative penalties in the sum of KZT 127 mln. were passed.

The largest number of identified violations and, consequently, applied remedial actions in respect of professional participants in the securities market was associated with violation by professional participants in the securities market of the procedure for disclosing information about their activities as well as with violation of the procedure for submission of information to the central depository regarding transactions with financial derivatives. Meanwhile the largest number of detected violations and, consequently, applied remedial actions in respect of issuers were related to disclosure by issuers of issue-grade securities of information about their activities to shareholders and investors in the Internet-resources of the financial reporting depository and the stock exchange, and with the procedure for information disclosure about their activities.

In 2015 11 securities market entities were inspected (8 brokers-dealers combining their activity with an investment portfolio management, 2 brokers-dealers and 1 securities issuer), as well as 1 unscheduled inspection of an issue-grade securities issuer.

The main subject of inspections on the basis of assessment of the risk degree is compliance with requirements of the laws of the Republic of Kazakhstan that govern the procedure for carrying out professional activities in the securities market and activities of issuers of issue-grade securities.

As a result of inspections conducted in 2015 in respect of the securities market entities, 23 restricted remedial actions were taken (12 letters of commitment requested, 11 written prescriptions sent), and 322 protocols of administrative offence formalized. In 2015 the total amount of administrative penalties imposed upon the securities market entities equaled KZT 75.6 mln., including KZT 45.3 mln. on administrative cases handed over to courts for their consideration.

3.4. Accumulation Pension System

As of January 1st 2016 the UAPF was the only organization engaged in taking compulsory pension contributions, compulsory professional pension contributions and voluntary pension contributions.

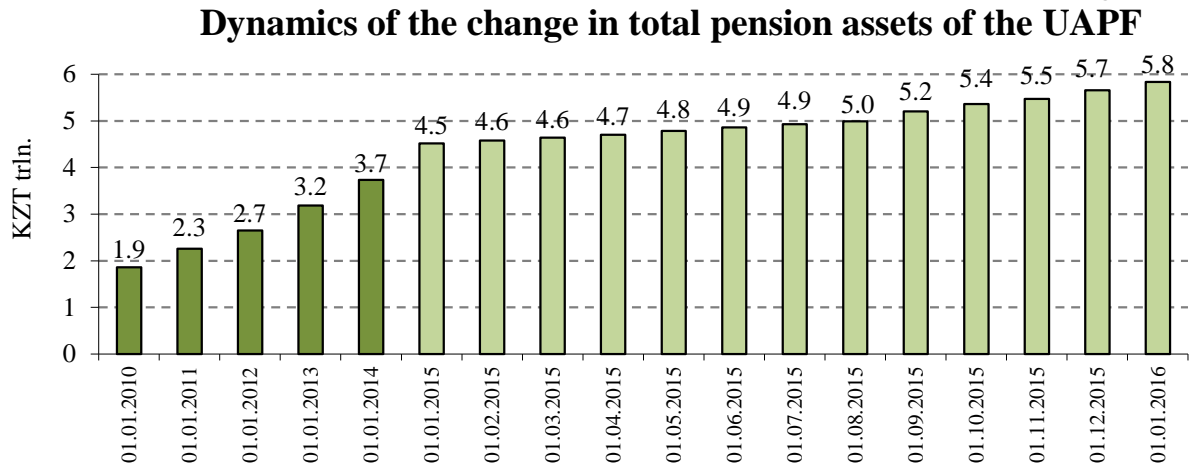
As of the end of 2015 pension accumulations amounted to KZT 5 828.2 bln., having increased by KZT 1 310.4bln. or by 29.0% over the year.

The number of individual pension accounts of contributors (beneficiaries) of the UAPF on compulsory pension contributions was 9 886 623 with the total amount of pension accumulations of KZT 5.8 trln. In turn, the number of individual pension accounts of contributors (beneficiaries) of the UAPF on voluntary pension contributions (including voluntary professional contributions) was 39 045 with the total amount of pension accumulations of KZT 0.2 trln.

During 2015 the net investment return increased by KZT 0.8 trln. or 76.9%, amounting to KZT 1.8 trln. The share of net investment return in the sum of pension accumulations over 2015 increased by 8.2 percentage points from 21.9% as of the end of 2014 to 30.1%.

As of January 1st 2016 the total volume of pension assets in the UAPF amounted to KZT 5 834.6 bln., having increased by KZT 1 315.0 bln. or by 29.1% over the year (Figure 3.4.1). The average monthly increase in pension assets in 2015 was KZT 109.6 bln.

Figure 3.4.1



Regulation

With an aim to implement the Law of the Republic of Kazakhstan “On Amendments to Some Legislative Acts of the Republic of Kazakhstan Regarding Retirement Security” as of August 2nd 2015, amendments to the legislation of the Republic of Kazakhstan were arranged regarding the retirement security which govern the approval of a standard retirement annuity contract, the design of the methodology for calculation of an insurance premium and insurance benefit payment from an insurance organization under a retirement annuity contract, the acceptable level of expenses of an insurance organization related to handling the concluded retirement annuity contracts as well as rates of an insurance benefit indexation.

Licensing

In 2015, In 2015 the National Bank did not receive any application for granting a license of investment portfolio management with the right to take voluntary pension contributions; therefore, no license for such an activity was issued.

Off-site Supervision and Supervisory Response

During 2015 activities of the UAPF were controlled and supervised in the following areas: compliance of the UAPF’s activities, its managerial staff with requirements with the laws of the Republic of Kazakhstan; the procedure under which the UAPF should charge fees from pension assets and investment return; analysis of claim administration by the UAPF in respect of issuers who defaulted on issued financial instruments that form a part of pension assets; review and approval of amendments proposed by the UAPF to its Charter as well as UAPF’s other internal regulations, control over their compliance with the requirements of the laws of the Republic of Kazakhstan on retirement security.

In 2015 no restricted remedial actions had been taken in respect of the UAPF based on the results of its off-site supervision.

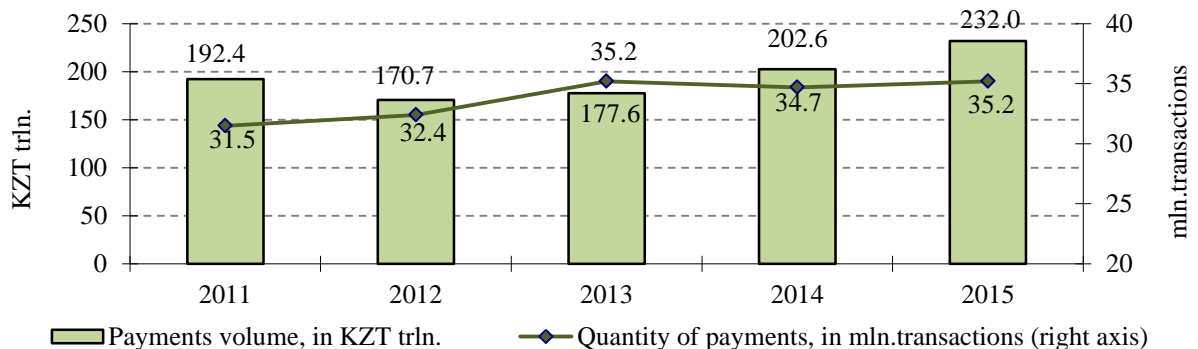
3.5. Payment Systems and the Payment Services Market

The key payment systems of the national scale that process the volume of payments within Kazakhstan are the systems operated by the Kazakhstan Interbank Settlement Center of the National Bank – the Interbank System of Money Transfers and the Interbank Clearing System.

In 2015, 35.2 mln. transactions amounting to KZT 232.0 trln. were processed in the Interbank System of Money Transfers and the Interbank Clearing System. (Figure 3.5.1). As compared to 2014, the number of payments processed through the payment systems increased by 1.5% (by 522.1 thous. transactions), and the amount of payments increased by 14.5% (by KZT 29.4 trln.); this was mainly determined by the 35.9% growth in the volumes of payments on operations with securities of Kazakhstani residents. On average, 143.6 thous. transactions totaling KZT 946.9 bln. were processed in these payment systems every day in 2015.

Figure 3.5.1

Dynamics of Payment Flows in the Interbank System of Money Transfers and Interbank Clearing System



Coefficient of operability of payment systems is one of the key indicators of efficient development of interbank payment systems. Based on generally accepted standards, when such coefficient exceeds 99% it's a characteristic of highly efficient systems functioning in the country. During 2015, there were no cases of failures at the payment systems' software and hardware complex, and the operability coefficient of the Interbank System of Money Transfers and the Interbank Clearing System was 100%.

Interbank System of Money Transfers

In connection with the merger of Alliance Bank, Temirbank and ForteBank, at January 1, 2016 the number of registered users of the Interbank System of Money Transfers decreased to 48 users. 13.5 mln. electronic payment messages amounting to KZT 226.5 trln. were processed in the system in 2015. As compared to 2014, the volume of payments increased by 14.8% (by KZT 29.3 trln.), while

the quantity of electronic payment messages decreased by 3.5% (by 489.8 thous. transactions).

In 2015, an average amount of one electronic payment message in the Interbank System of Money Transfers was KZT 16.8 mln. and it increased versus 2014 by 19.0% (by KZT 2.7 mln.).

Mainly, the system processed payments on securities operations of residents of Kazakhstan (52.7% of the total volume of payments), on operations with foreign currency and precious metals (15.8%) as well as interbank deposits and transfers of banks' own funds and funds of their clients (12.7%). The volume of payments for goods and services in 2015 accounted for 9.7% of the total volume of payments processed in the system.

Interbank Clearing System

At January 1, 2016, the number of participants in the Interbank Clearing System was 36. The number of participants in the Interbank Clearing System also decreased because of the merger of Alliance Bank, Temirbank and ForteBank. 21.7 mln. electronic payment messages amounting to KZT 5.5 trln. were processed in the system in 2015. As compared to 2014, the number of payment messages in the clearing system increased by 4.9% (by 1.0 mln. documents), and the payments amount increased by 2.5% (by KZT 137.0 bln.).

The average amount of one payment message in the Interbank Clearing System in 2015 was KZT 254.6 thous., having decreased by 2.2% (by KZT 5.8 thous.) versus 2014.

The major volume of payments in the clearing system falls on payments of economic entities on settlements for goods and intangible assets (their share in the overall payment volume in the system accounted for 28.0%), for provided services (the share accounted for 26.3%); payments to the budget and payments from the budget accounted for 18.9% of the total payment volume.

International remittances

In 2015, 2.8 mln. transactions totaling KZT 382.3 bln. were carry out (transmitted) through international remittances which are designated for instant money transfers by the population both within Kazakhstan, and abroad (Golden Crown, Western Union, UNISStream, Faster, the Universal Postal Union system and others). As of the end of the year, the volume of money transmitted via the international remittances increased by 19.0%.

In most cases, the population of the country uses the international remittances to make transfers abroad (the share of payments and money transfers transmitted abroad via the systems accounted for 78.2% of the total quantity and 87.0% of the total amount of transactions transmitted via the systems).

The volume of money transfers transmitted via the international remittances in 2015 exceeded the volume of received transfers by 2.6 times and amounted to KZT 332.6 bln.; the volume of received money transfers amounted to KZT 130.0 bln. The volume of money transfers transmitted abroad via the international remittances increased by 18.6%, and that of transfers from abroad – by 7.1%.

Payment Services Market

By the end of 2015, 28 banks and the KazPost were providing electronic

banking services to the population within the territory of Kazakhstan (information and payment services)¹⁵ with the use of payment cards, via electronic terminals and remote access systems.

In 2015, 417.7 mln. transactions amounting to KZT 9.6 trln. were processed through electronic terminals and remote access systems; their growth versus 2014 accounted for 25.9% in terms of quantity of transactions and 11.6% - in terms of their amount. Of which, non-cash payments and money transfers made up 90.3 mln. transactions in the amount of KZT 1.3 trln., having increased versus 2014 by 28.3% in terms of quantity and by 4.0% in terms of the payment amount.

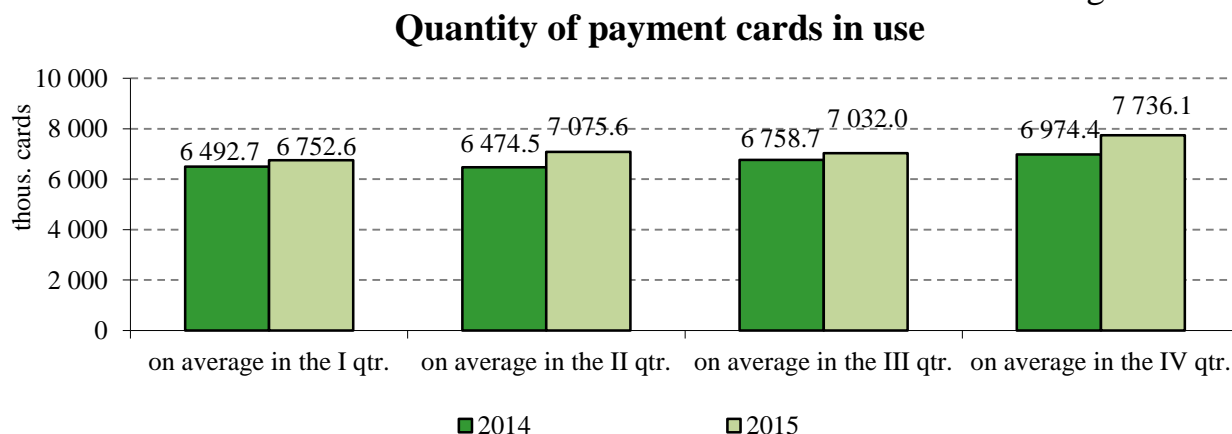
The main portion of non-cash payments was made via POS-terminals (44.8% of the total quantity and 43.7% of the total amount). Also, a large share in the structure of non-cash payments is comprised of payments via the Internet (32.4% of the total quantity and 26.0% of the total amount). Other devices (ATMs, bank kiosks, mobile telephones and others) account for 22.8% and 30.3% of the total quantity and volume of non-cash payments, respectively. At the same time, the volume of transactions made via the Internet is growing. So, in 2015 Internet payments equaled 29.3 mln. transactions in the amount of KZT 342.9 bln., having increased versus 2014 by 58.9% in terms of the quantity of payments and by 33.1% in terms of the payment amount.

Payment Cards

At January 1, 2016, 26 banks and the KazPost were issuing payment cards; and the overall quantity of issued and disseminated payment cards was 17.2 mln., and the number of card holders was 14.3 mln. individuals¹⁶.

Active payment cards (the cards used to make transactions) retain their growth trend. So, in 2015 an average quantity of payment cards in use was 7.1 mln., which exceeds the corresponding indicator for 2014 by 7.1% (Figure 3.5.2). Thus, payment card products are actively used by about 41% of Kazakhstan's population.

Figure 3.5.2



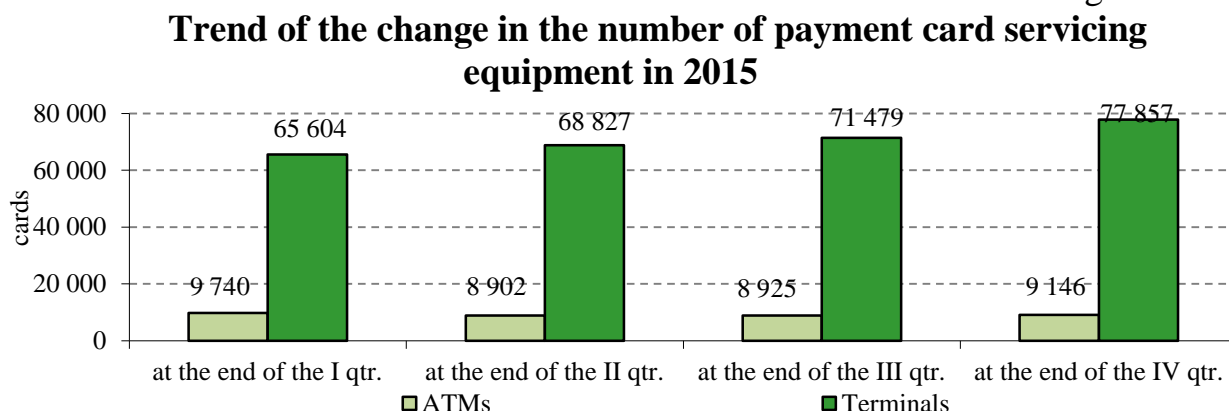
¹⁵ The definition of electronic banking services is contained in the Rules for provision of electronic banking services by the second-tier banks and organizations engaged in certain types of banking operations as approved by the Resolution of the National Bank's Board as dated March 28, 2008 No. 18.

¹⁶ Summarized data about holders of payment cards of each bank.

At January 1, 2016, 44 113 sales outlets that accept payment cards were operating in Kazakhstan, which exceeds their number recorded at January 1, 2015, by 23.9%. In doing so, such businesses installed the payment card servicing equipment in 58 443 points of sale (the growth of 23.7%).

At January 1, 2016, the payment card service network was represented as follows: 9 146 ATMs (the decrease of 0.7% or 60 units as compared to the situation at January 1, 2015), 77 857 POS-terminals (the growth of 24.1% or 15 105 units) and 3 imprinters (Figure 3.5.3). There were 5 terminals and 1 ATM per 1 000 card holders in the country on average.

Figure 3.5.3



During 2015, the volume of operations conducted with the use of payment cards issued by the Kazakh issuers was 271.5 mln. transactions totaling KZT 8.3 trln. (versus 2013, the number of transactions increased by 12.8% and their amount increased by 7.0%). Of which, non-cash transactions account for 31.2% of the total number and 12.5% of the total amount, and cash withdrawals account for 68.8% and 87.5% respectively.

Electronic Money

The use of electronic money as the means of payment becomes more and more popular among the country's population. At January 1, 2016, 7 banks of the Republic of Kazakhstan were engaged in issuing electronic money. The market offers to the population such electronic money systems as E-kzt, Woopay, Visa Qiwi Wallet, Personal Cash, Wallet One, Tau-Tenge, TV – Money, Paypoint.

In 2015, 16.0 mln. transactions amounting to KZT 44.4 bln. were conducted within the territory of Kazakhstan with the use of electronic money issued by Kazakhstani issuers. Versus 2014, the quantity and the amount of transactions doubled. In 2015, electronic money issued amounted to KZT 35.4 bln., and based on conducted transactions the sum of electronic money in circulation amounted to KZT 1.4 bln. at January 1, 2016.

3.6. Astana International Financial Centre

One of the National Bank's objectives is to establish and develop the Astana International Financial Centre which should meet the international standards, as

well as to ensure that by the year 2020 it will be among the best top ten Asian financial centres and among the top 30 leading global financial centres, according to the Global Financial Centres Index¹⁷.

To establish the Centre for global standard, an analysis of international approaches to development of financial centres, of gaining recognition in the international investment environment and attracting the inflow of investors, was made. The analysis resulted in the “Joint Action Plan of the Government of the Republic of Kazakhstan and National Bank of the Republic of Kazakhstan for the Establishment and Development of the Astana International Financial Centre in the Long Term” designed by the National Bank and approved by the Governmental Decree No. 393 of May 30, 2015.

For the purposes of cooperation, communication and information sharing between the National Bank and Dubai International Financial Center, the Memorandum of Understanding regarding the establishment and development of Astana International Financial Centre was signed.

The National Bank established the JSC “Astana International Financial Centre Authority”, the rights of its ownership and the use of the block of shares were transferred to the Ministry of Finance on December 31, 2015.

3.7. Islamic Finance

The market of Islamic financial services demonstrates a high potential and the increasing demand for Islamic financial products not only on the part of Kazakhstan but also the CIS and Central Asian countries.

At present, arrangements are made to utilize the Islamic Development Bank’s technical assistance grant to fine-tune legislation on Islamic finance in the Republic of Kazakhstan. Upon the agreement with the Islamic Development Bank, a consultant was hired – an international law firm Norton Rose Fulbright. Within the framework of the grant, meetings were held and draft recommendations were prepared which include amendments to the existing laws of the Republic of Kazakhstan on Islamic finance.

Arrangements are made to implement the Road Map for Islamic Finance development until 2020; these arrangements include fine-tuning the legislation of the Republic of Kazakhstan, awareness raising efforts and research and education work, development of Islamic financial infrastructure, international cooperation as well as attracting investors.

With a view to develop the Islamic finance industry, the Memorandum of Cooperation was signed with the Association for Islamic Finance Development; based on it, arrangements were made to involve the Association in the capacity of a consultant and the brochure about Islamic finance was issued.

¹⁷ Global Financial Centers Index (GFCI) was launched in March 2007; it is designed for the municipal body of Corporation of London managing the London City as well as for many clients and partners of Z/Yen company with a view to analyze and to present the standpoint of the London Financial Center regarding alternative international financial centers. GFCI is a specialized rating methodology used to rate 84 international financial centers.

In addition, arrangements were made to include Islamic financial organizations into the “Road Map of Business-2020” Program.

International Cooperation

On May 19-21, 2015, for the first time in the CIS and Central Asia, Almaty city hosted the 12th Summit of the Islamic Financial Services Board. The Summit represented a dialogue platform for key players of the Islamic finance industry, where the following topics were discussed: current development of Islamic finance in the world, regional and global cooperation in safeguarding financial stability as well as the prospects and plans in the industry.

As part of its cooperation with the Islamic Financial Services Board, the National Bank took part in the studies conducted by the Board on the basis of questionnaires and also prepared proposals and comments regarding the drafts of the Board’s Standards for Regulation of the Islamic Finance Market.

The National Bank, jointly with the Islamic Research and Training Institute, CIBAFI and Thomson Reuters were involved in the preparation of the Country Report, “Kazakhstan Islamic Finance 2016: a new frontiers for Islamic finance”. The Report was presented in the form of a “round table discussion” as part of the World Islamic Banking Conference on December 1, 2015 in Manama (Bahrain). About 200 delegates from different countries took part in the “round table discussion” which was attended by high-ranking officials from regulatory and supervisory authorities, international financial institutions, the financial market participants, and representatives from the research and academic industry.

With a view to use the best practices in the development of Islamic finance, the National Bank, as part of the President’s official visit, signed the Memorandums of Understanding with the Qatar Central Bank and the Qatar Financial Centre Regulatory Authority; also, meetings with Islamic banks and financial institutions of Qatar were arranged for further cooperation with a view to develop Islamic finance.

Research and Academic Work in the Field of Islamic Finance

With a view to build a capacity of qualified staff in the financial system of the Republic of Kazakhstan, the National Bank jointly with the Islamic Financial Services Board arranged a seminar for bankers from the CIS and Central Asian countries entitled “the Certified Islamic Banker”. A workshop for executive officers of financial institutions was arranged with participation of the leading shariah advisor Daud Bakar.

The Islamic Research and Training Institute, a member of the Islamic Development Bank, opened the Islamic finance library on the basis of the Academy of the Regional Financial Center of Almaty City.

3.8. Protecting Rights of the Financial Services Consumers

One of the National Bank’s objectives is to ensure proper level of protection of rights and lawful interests of the financial services consumers and consumers of services of microfinance organizations .

This objective is implemented by way of:

considering communications from natural persons and legal entities and providing legal support;

controlling and examining financial organizations for compliance with statutory requirements of the Republic of Kazakhstan in the course of financial services provision;

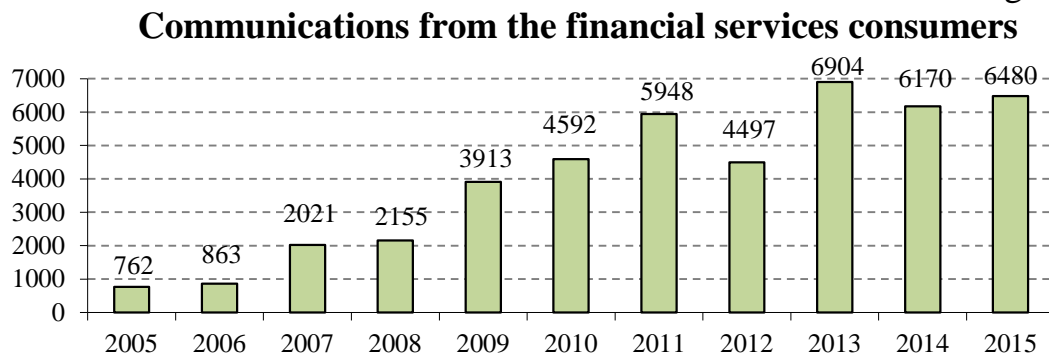
detecting violations of rights of the financial services consumers and taking restricted remedial actions and sanctions in respect of financial organizations;

arrangements to increase financial literacy among financial services consumers;

fine-tuning the legislation of the Republic of Kazakhstan on protection of the rights of financial services consumers.

During 2015, 6 480 communications from natural persons and legal entities concerning activities of financial organizations were received by the National Bank for its consideration (Figure 3.8.1).

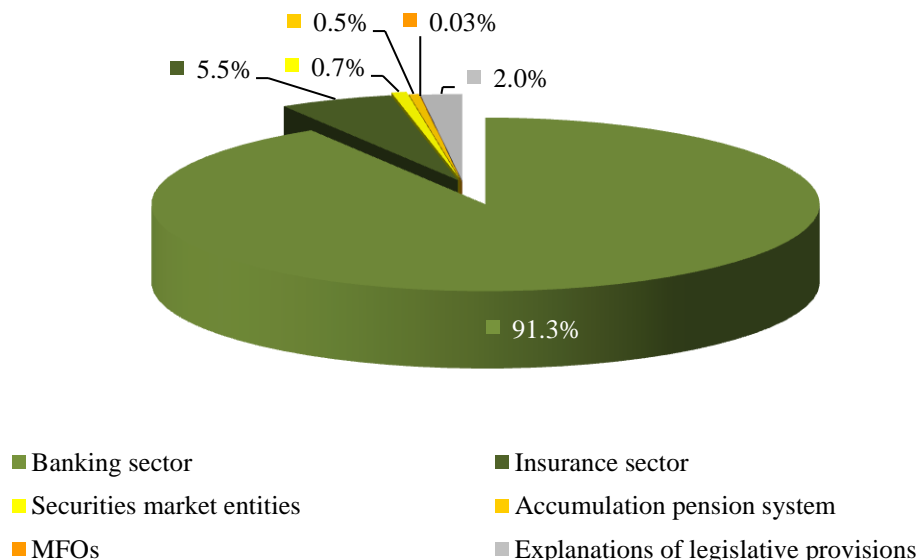
Figure 3.8.1



In 2015, a significant portion of communications was in respect of the banking sector and organizations engaged in certain types of banking operations – 91.3%, and in respect of other sectors – 8.7% (Figure 3.8.2).

Figure 3.8.2

Structure of communication by the financial market segments



As for communications regarding activities of banks and organizations engaged in certain types of banking operations, the main topics of communications and complaints in this sector were related to:

- remission (write-offs) of debt on residential mortgage loans/mortgage loans of individuals at the public expense, loan debt restructuring;

- explanations about the Procedure for payment of reimbursements on deposits of individuals opened in the domestic currency (Tenge), in connection with transition to the free floating exchange rate;

- transfer of monies made in foreign currency on the Tenge accounts (foreign exchange difference);

- foreclosure without recourse (acceptance-free) for the monies held on accounts of borrowers/pledgers with other banks;

- commissions charged for keeping a loan account;

- verification of accuracy in calculation of the amount of a monthly payment, loan debt, fine, interest, fee, and annual effective interest rates;

- a procedure for the sale of collateral.

The subject matters of communications and complaints about activities of insurance (reinsurance) organizations were related to:

- non-payments, untimely payments or payments of insurance benefits which were not made in full, on compulsory and voluntary lines of insurance;

- verification of accuracy in calculation of the insured amounts and insurance premiums.

Communications regarding activities of the securities market entities related to the following matters:

- non-payment of dividends and disagreement about their amount;

- distribution of shares;

- violation of the procedure under which the general shareholders meeting was convened and conducted;

- obtaining information that affects interests of a company's shareholders including the information about activities of joint-stock companies;

- explanations regarding provisions of regulations governing the securities market.

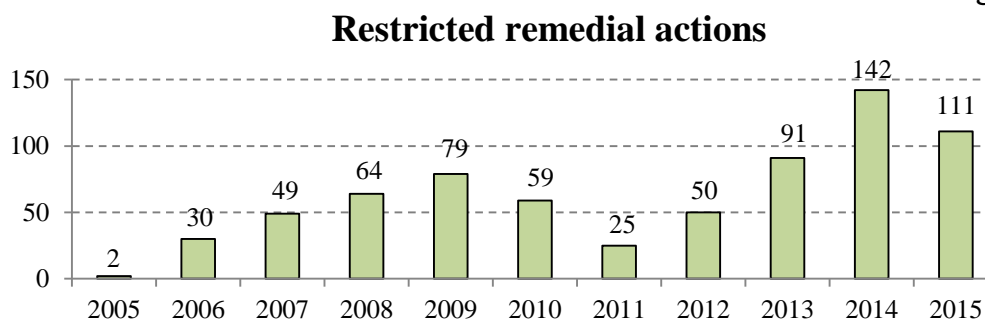
As for matters regarding the UAPF's activities, the percentage of reviewed communications accounted for 0.4%; mainly, these were related to refusals to pay out pension accumulations and a lower investment return.

Communications regarding actions of the microfinance organizations referred to verification of correct calculation of a monthly payment amount, debt, fine, interest, and fee.

Besides, over 1 500 electronic inquiries of individuals and legal entities were received via the "Feedback" function of the National Bank's Internet-resource, via the e-Government portal, blog-platform of the government authorities' officials of the Republic of Kazakhstan; relevant explanations were provided with regard to these inquiries.

Based on infringements of rights of the financial services consumers which were identified as a result of review of communications as well as in pursuance of determinations made by judicial authorities, in 2015 the National Bank applied 111 restricted remedial actions in respect of financial organizations, including 93 actions in respect of banks, 16 – in respect of insurance organizations, and 2 – in respect of microfinance organizations (Figure 3.8.3).

Figure 3.8.3



During 2015, the staff of the National Bank took part in 68 court sessions and judicial expert reviews related to civil cases on lawsuits filed by the financial services consumers against financial organizations as well as by financial organizations against the financial services consumers.

As part of functions assigned to the National Bank to protect rights of the financial services consumers, in 2015 the National Bank focused on providing support to problem borrowers with a view to mitigate social tensions.

At the extended session of the Government held on February 11, 2015, the Leader of the State instructed the National Bank jointly with the Government to design a set of measures to address problems of mortgage borrowers. With a view to fulfill this task, the Government and the National Bank made the decision to allocate KZT 130 bln. out of the National Bank's resources to solve problems of mortgage borrowers.

With a view to design the program for the residential mortgage loans refinancing, an interdepartmental working group was established comprising representatives of the National Bank, government authorities, political parties of Kazakhstan, the Problem Loan Fund, five public associations which represent interests of borrowers, the Financial Institutions' Association of Kazakhstan and the banking ombudsman.

In order to promote transparency in implementation of the program for the residential mortgage loans refinancing, oblast akimats, akimat of Astana, Almaty oblast and city branch of the National Bank established commissions to review borrower complaints related to refusals to refinance a residential mortgage loan/mortgage loan; such commissions were composed of representatives from the National Bank, law enforcement authorities and public associations which represent interests of mortgage borrowers.

During 2015, over 15 000 applications were filed under the program for the residential mortgage loans refinancing. Positive decisions on refinancing were

made in respect of 9 810 applications amounting to KZT 57.8 bln., loans were refinanced in respect of 6 759 applications totaling KZT 33.7 bln.

With a view to explain the terms and conditions of the program for the residential mortgage loans refinancing in order to assist problem borrowers in finding an acceptable option for debt repayment, the National Bank was regularly holding meetings with borrowers, public associations and banks. During 2015, over 700 meetings of borrowers with representatives of banks were organized and conducted, over 1 200 individuals were received in person to address the matters of provision of services by financial organizations and explanation of the terms and conditions of the program for the residential mortgage loans refinancing.

The National Bank's Community Liaison Office is involved in counseling individuals and in rendering legal support on the matters associated with the provision of services by financial organizations. In 2015, 1 067 individuals that addressed the National Bank's Community Liaison Office received counseling.

Based on outcomes of sessions devoted to systemic measures of economic policy and conducted on August 19 and 20, 2015, the Leader of the State entrusted the National Bank to design and implement the framework for compensation of time deposits of individuals in the Tenge because of the changed exchange rate. The framework provides that the following conditions should be met:

- the account balance should be up to KZT 1 mln. at August 18, 2015;

- a depositor should file an application about compensation of his/her Tenge deposit before October 1, 2015 and should commit himself/herself to retain such deposit at a special account for the term of at least one year;

- the compensation amount shall be calculated as the difference between the official exchange rates of currencies as set by the National Bank at August 18, 2015 and at the maturity date of the deposit on a special account and the resulting coefficient is multiplied by the remaining deposit amount;

- compensation shall be credited to a depositor's account upon expiry of one year by October 10, 2016.

In line with this mandate, the Resolution of the National Bank's Board approved the Procedure for payment of compensations on deposits of individuals opened in the domestic currency (Tenge), in connection with the transition to the free floating exchange rate regime.

With a view to create optimal conditions for depositors in the course of implementation of the framework for compensation of time deposits of individuals, the Resolution of the National Bank's Board as dated September 30, 2015 No. 177 approved changes to the Procedure for compensation payments regarding the extension of deadlines for taking depositor applications by banks to December 1, 2015 and the timeframe for crediting the compensation to depositor accounts to December 10, 2016.

At December 1, 2015 (the last day for taking applications), 191 969 individuals applied to banks; out of those, deposits were rescheduled on 162 846 applications and relevant contracts were entered into, and 28 629 depositors opted out of compensation.

The Resolution of the National Bank's Board as dated December 31, 2015 No. 265, approved the payment of compensation of deposits of individuals opened in the domestic currency (Tenge), in connection with the transition to the free floating exchange rate from resources used for monetary operations of the National Bank.

On November 24, 2015, the Law Republic of Kazakhstan "On Amendments to Some Legislative Acts of the Republic of Kazakhstan Regarding Non-Performing Loans and Assets of Banks, Provision of Financial Services and Activities Carried Out by Financial Organizations and the National Bank of the Republic of Kazakhstan" drafted by the National Bank was adopted. Provisions aimed to prevent the growth of the borrowers' debt were fixed in the law, including:

establishing a special order of priority in distribution of the payment which is insufficient for an individual borrower to discharge his/her obligation;

prohibiting to require an interest and a cancellation fee accrued after 180 days of default on a residential mortgage loan agreement;

limiting the amount of penalty: to 90 days – not more than 0.5% a day of the amount of overdue payment; after 90 days – not more than 0.03% a day of the amount of overdue payment. In general the cancellation fee should not exceed 10% of the amount of provided loan for each year of past due;

limiting the foreclosure of money from an account of an individual borrower at no more than 50% of the amount kept and/or received;

prohibiting capitalization (summing up) of interest and a cancellation fee to the principal debt on a residential mortgage loan.

3.9. Liquidation of the Financial Market Entities

At January 1, 2016, 2 banks and 3 insurance organizations were undergoing forced liquidation.

The information about settlements with creditors of financial organizations undergoing liquidation is presented in Table 3.9.

Table 3.9

#	Financial Organizations under Liquidation	Percentage of Payouts to Creditors, as of January 1, 2016
Banking sector		
1.	"Valut-Transit Bank" JSC	62.5% – claims of creditors under the 3 rd order of priority (claims of the Kazakhstan Deposit Insurance Fund in respect of the amount of payout made (payable) on insured deposits)
2.	"Nauryz Bank Kazakhstan" JSC	88% – claims of creditors under the 3 rd order of priority (claims of individuals on deposits and money transfers,

		claims of the Kazakhstan Deposit Insurance Fund 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 accumulation pension fund).
Insurance sector		
1.	"Altyn Policy" Insurance Company	67% – 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)
2.	"Premier Insurance" JSC	26% – 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)
3.	"EcoPolicy" Insurance Company JSC	100% – settlements with all creditors of the insurance company have been made. Settlements with shareholders of the insurance company are in progress.

In 2015, 6 scheduled inspections of activities of liquidation commissions of banks were conducted.

With a view to improve the liquidation process of insurance (reinsurance) organizations in Kazakhstan, 2 regulations had been drafted and adopted.

Chapter 4. National Bank's Activities

4.1. Currency Exchange Regulation and Control

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

With a view to collect statistical information, the existing foreign 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.

As part of registration of large capital movement operations related to capital movement, in 2015 the National Bank issued 1 963 registration certificates. As part of notification of foreign currency operations related to capital movements opening of accounts with foreign banks, in 2015 the National Bank issued 331 certificates of notification.

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

In 2015, the National Bank made arrangements to implement a set of measures to improve the technology of export-import currency control with a view to increase its effectiveness.

Export-import currency control is exercised on the basis of procedures of record registration of foreign trade contracts and electronic information exchange for the purposes of control over how the requirements to repatriation are met between authorized banks, the National Bank and the state revenue collection authority – the Fiscal Revenues Committee with the Ministry of Finance.

In 2015, based on the National Bank's proposals changes were made to the Tax Code of the Republic of Kazakhstan, which allow the Fiscal Revenues Committee to transfer tax applications containing information about movement of goods within the EAEU customs territory to the National Bank and to authorized

banks to exercise export-import currency control. With a view to improve the procedures of communications with the Fiscal Revenues Committee works had been done to resume the process of on-line information exchange about movement of goods across the EAEU customs border to the third countries; specifically, a comprehensive testing of the information exchange was done to determine the data content and format.

The National Bank's permit (license) in the area of currency exchange regulation is required only to carry out activities related to cash foreign exchange transactions (activities of exchange offices).

In 2015, the National Bank made arrangements to implement a set of measures aimed to strengthen control and supervision of activities in the organized market of foreign exchange.

In 2015, the National Bank made changes to the regulations which provide for stricter requirements to the technical equipment of bank and non-bank exchange offices, awareness service to customers of exchange offices, regarding the procedure for exchange transactions with foreign cash as well as regarding accounting for and reporting on such transactions.

As part of the licensing of exchange operations with foreign cash, in 2015 43 licenses were issued to new authorized organizations, 30 licenses were surrendered on a voluntary basis. In addition, by February 1, 2015, the work related to re-issuance and issuance of renewed licenses to existing authorized organizations as well as issuance of certificates of exchange offices of authorized banks to replace the earlier existing permits, was completed.

At January 1, 2016, 2 979 exchange offices were operating within the Republic of Kazakhstan, including 1 979 bank exchange offices, 948 exchange offices of authorized organizations (non-bank legal entities) and 52 exchange offices of the KazPost.

As compared to the beginning of 2015, a total number of exchange offices decreased by 51, while the number of exchange offices of authorized banks decreased by 75, and the number of exchange offices of authorized organizations and the KazPost increased by 19 and 5, respectively.

The situation in the domestic market of cash foreign exchange and the situation with exchange rates in the exchange offices of Kazakhstan are monitored on an ongoing basis.

In 2015, efforts to detect and preclude administrative violations of the foreign currency legislation were continued, 841 cases of administrative offence were initiated during the year:

- 1) penalties were imposed in respect of 779 cases of administrative offense, most of which were in the form of warnings – 476; in doing so, in respect of 303 cases of administrative offence the amount of fines imposed by the National Bank (196 cases) and courts (107 cases) was over KZT 380 mln.;
- 2) proceedings on 31 cases of administrative offence were terminated;
- 3) 31 cases are being under review (at January 1, 2016,).

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

Matters pertinent to currency control are examined by using a risk-based approach. In 2015, the National Bank conducted 356 inspections regarding compliance with currency exchange legislation of the Republic of Kazakhstan, of which 302 entities subject to inspection were identified on the basis of risk assessment (295 authorized organizations, 6 authorized banks and 1 insurance organization).

4.2. Management of the National Bank's Gold and Foreign Currency Assets

The total volume of gold and foreign currency assets of the National Bank at the end of 2015 amounted to USD 27.9 bln., which is by USD 1.3 bln. less than in 2014.

The change in the foreign currency portion of assets in 2015 was determined by net sales of foreign currency by the National Bank at the Kazakhstan Stock Exchange and in the interbank market; by increased overall volume of foreign cash at the Center of Cash Operations and Custodianship of the National Bank; by net purchases of gold in the domestic and foreign markets; by the receipt from Eurobond issue transaction of the Ministry of Finance and by conversions and reconversions of the National (Oil) Fund's resources.

At the same time, on a year over year basis world prices for gold had declined by 12.1% from USD 1 206.0 at January 1, 2015 and to USD 1 060.0 per oz at January 1, 2016, according to the LBMA fixing.

Thus, based on transactions performed by the National Bank (excluding closing turnovers), net gold and foreign currency assets decreased by USD 1.3 bln. as of the end of 2015 and amounted to USD 27.0 bln.

During 2015, amendments were made to the Investment Strategy for Gold and Foreign Currency Assets Management, inter alia:

- the investment portfolio had undergone a change in the terms of distribution by currency: portfolios of the Hong Kong Dollar, Singapore Dollar, Danish Krone and Swedish Krona were closed, and the share of the Euro was decreased in favor of the US Dollar;

- the strategic portfolio had undergone a change in terms of the target distribution of the portfolio, maximum deviations by instrument types, minimum credit rating of securities had been raised and the benchmark portfolios also had undergone changes;

- the target distribution was changed for alternative instruments and equities in the alternative instrument portfolio.

In 2015, the volume of net purchases of gold in the domestic market as part of the government's priority right amounted to 962 999 oz.

Performance Results of the National Bank's Gold and Foreign Currency Asset Management

As of the end of 2015, the market value of the investment portfolio of gold and foreign currency assets was USD 4.1 bln., whereas at the beginning of 2015 it was USD 4.3 bln.

Return on the investment portfolio of gold and foreign currency assets in 2015, denominated in the currency basket, was 0.95%. Given the return on the benchmark portfolio of 0.55%, excess returns made up 40 basis points.

Return on the investment portfolio of gold and foreign currency assets in 2015, denominated in the US Dollars, was (-)4.18%. Given the return on the benchmark portfolio of (-)4.56%, excess return made up 38 basis points.

At the end of 2015, the distribution of assets in the investment portfolio by instruments had the following structure: cash and cash equivalents – 5.7%, government securities – 73.0%, agency securities – 14.5%, and corporate securities – 6.8%. The distribution of assets in the investment portfolio on the yield curve had the following structure: less than 1 year – 33.67%, 1-2 years – 39.78%, 2-3 years – 19.72%, over 3 years – 6.83%.

During 2015, the market value of the strategic portfolio of gold and foreign currency assets changed from USD 3.8 bln. to USD 2.6 bln.

In 2015, shares of assets in the strategic portfolio were brought to the targeted distribution in line with the Investment Strategy for Gold and Foreign Currency Assets Management. A significant decrease in the volume of resources was caused by the transfer of USD 1.2 bln. of assets from this portfolio to the liquidity portfolio in October 2015. In 2015, return on the strategic portfolio accounted for 0.03%.

During 2015, the market value of the liquidity portfolio of gold and foreign currency assets increased from USD 12.1 bln. to USD 12.2 bln. In 2015, return on the liquidity portfolio accounted for 1.46%.

The liquidity portfolio of gold and foreign currency assets is held for the purpose of the monetary policy implementation, for maintaining a high level of liquidity as well as for servicing government's external debt. This portfolio is not included in the evaluation of returns on portfolios of gold and foreign currency assets and it is not benchmarked.

The market value of the alternative instruments portfolio of gold and foreign currency assets managed by the JSC "National Investment Corporation of the National Bank of Kazakhstan" had changed during 2015 from USD 799.9 mln. to USD 798.6 mln.

During 2015, the market value of the emerging markets portfolio increased from CNY 314.4 mln., which is equivalent to USD 50.7 mln., to CNY 647.1 mln., which is equivalent to USD 99.7 mln. The increase in the volume of resources is caused by the transfer of assets of USD 50 mln. from the liquidity portfolio in November 2015. In 2015, return on this portfolio in its own currency was 4.01%.

According to the market estimate, during 2015 the value of gold portfolio increased from USD 7.4 bln. to USD 7.6 bln.

In 2015, the return on the external portfolio of gold denominated in troy ounces accounted for 0.19%, while return on the portfolio in US Dollars accounted for (-)11.94%.

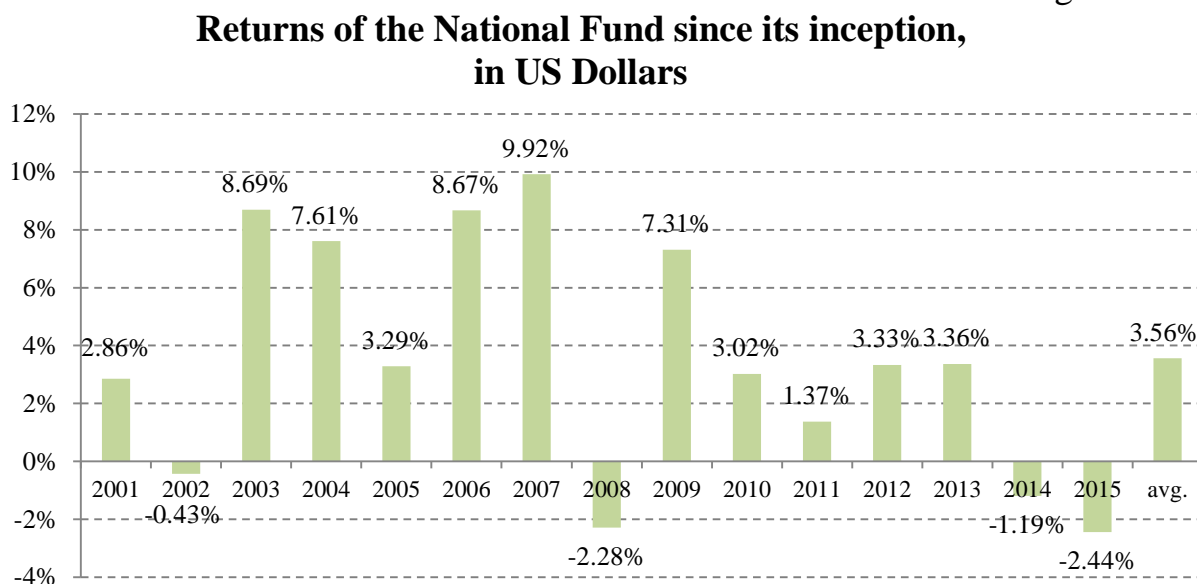
4.3. National (Oil) Fund Management

As of the end of 2015, the total market value of the National Fund's portfolio amounted to USD 65.7 bln.¹⁸, including foreign currency portfolio – USD 63.4 bln. (96.4%) and the Tenge portfolio which includes bonds of the National Wealth Fund “Samruk-Kazyna”, National Management Holding Company “KazAgro”, and National Management Holding Company “Baiterek” – in the equivalent of USD 2.3 bln.¹⁹ (3.6%). The market values of the stabilization and savings portfolios within the foreign currency portfolio of the National Fund equaled USD 17.8 bln. (28.1%) and USD 45.6 bln. (71.9%), 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.

According to the global custodian of the National Fund, in 2015 an investment loss (realized and unrealized) calculated in base currency – US Dollars was incurred, which amounted to USD 1.7 bln.

Return on the National Fund's portfolio in 2015 accounted for (-)2.44%. Return of the National Fund since its inception till December 31, 2015 was 66.64%, which accounts for 3.56% in annual terms (Figure 4.3.1). The return is calculated in the base currency of the National Fund - the US Dollars.

Figure 4.3.1



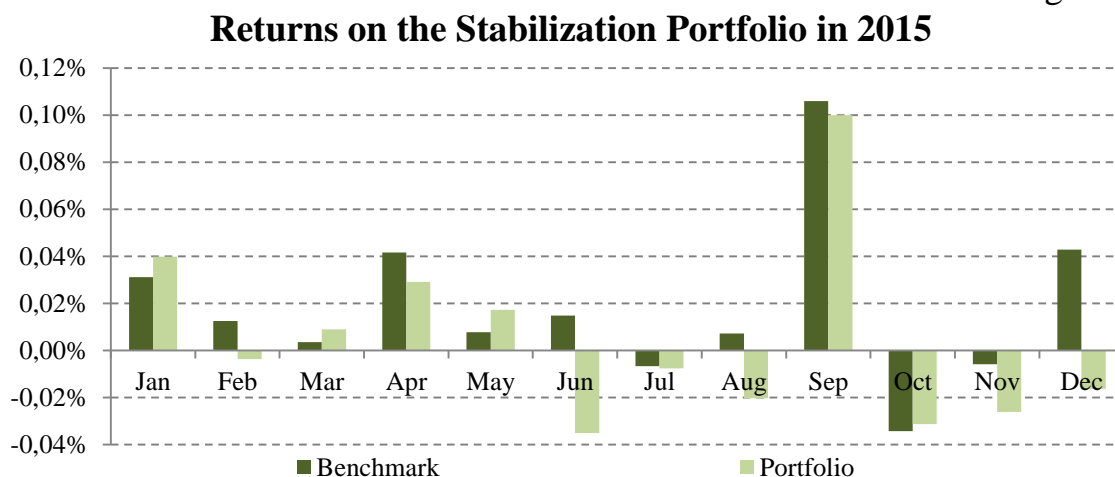
In 2015, assets in the stabilization portfolio under internal management were invested in the money market instruments and fixed income securities, mainly the US Treasury securities.

¹⁸ Excluding the balance of the Tenge account and payables in the Tenge.

¹⁹ At the rate of 1USD=340.01KZT.

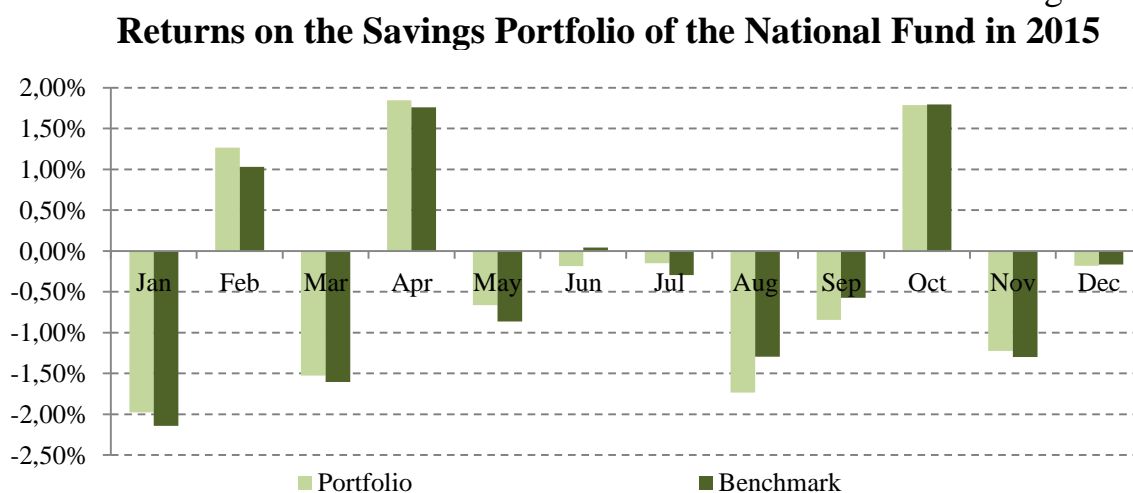
In 2015, the return on the stabilization portfolio was 0.05%, during the same period the return on the benchmark portfolio (Merrill Lynch 6-month US Treasury Bill Index) accounted for 0.22%. Thus, in 2015 negative excess returns of (-)0.17% were achieved as a result of asset management of the stabilization portfolio (Figure 4.3.2).

Figure 4.3.2



In 2015, the return on the savings portfolio was (-)3.62%, the return on the savings portfolio consisting of: 80% – composite bond index (45% – Merrill Lynch US Treasuries; 20% – All Euro Government Index, DE, FR, NL, AT, LU, FI; 10% – Merrill Lynch UK Gilts; 10% – Merrill Lynch Japan Governments; 5% – Merrill Lynch Australian Governments; 5% – Merrill Lynch Canadian Governments; 5% – Merrill Lynch South Korean Government Index) and 20% – developed markets stock index MSCI World) accounted for (-)3.64% (Figure 4.3.3). Thus, positive excess returns on the savings portfolio of 0.02% were generated.

Figure 4.3.3



Assets in the savings portfolio for the Global Bond Mandate type are managed both by the National Bank itself and by external managers. In 2015,

assets in the savings portfolio for this type of mandate managed by the National Bank accounted for 72.3% whereas the remaining 27.7% were transferred to the external managers.

In 2015, the return from the management of the bond sub-portfolio accounted for (-)5.99%. The return on the benchmark portfolio of this sub-portfolio accounted for (-)6.19%. Thus, management of this type of mandate resulted in excess returns of 0.20%.

Assets in the savings portfolio for the Global Equities Mandate type are managed by 4 external managers. The return from the asset management for this type of mandate was (-)0.89%, whereas the return on the benchmark portfolio was (-)0.25%. Thus, excess returns generated as a result of asset management for this type of mandate accounted for (-)0.64%.

At present, assets in the savings portfolio for the Global Tactical Asset Allocation mandate are managed by one external manager. The return from the asset management for this type of mandate was (-)3.48%, whereas the return on the benchmark portfolio was (-)4.77%. Thus, the return on the savings portfolio asset management of the National Fund for this type of mandate versus the benchmark portfolio was positive, and excess returns accounted for 1.29%.

4.4. UAPF's Pension Asset Management

As of January 1, 2016, the total volume of the UAPF's pension assets under management of the National Bank amounted to KZT 5.8 trln. (99.9% of the volume of pension accumulations), having increased by 29.1% during 2015.

The structure of the UAPF's pension assets under management of the National Bank was represented by government securities of the Republic of Kazakhstan, including reverse repo operations, in the amount of KZT 2.7 trln. (46.0%), securities of issuers of the Republic of Kazakhstan – KZT 2.3 trln. (39.9%), securities of foreign issuers – KZT 0.4 trln. (6.3%), deposits with Kazakh banks – KZT 0.4 trln. (6.2%), cash – KZT 0.08 trln. (1.3%) and other assets – KZT 0.01 trln. (0.3%).

The weight of cash and financial instruments denominated in the Tenge accounted for 83.0% or KZT 4.8 trln., and those denominated in foreign currency – 17.0% or KZT 1.0 trln.

In 2015, the main investment volume was in government securities of the Republic of Kazakhstan, bonds of Kazakh banks and the national management holding company as well as in Eurobonds.

The weighted-average yield to maturity of debt financial instruments as of January 1, 2016 accounted for 10.1%.

As of the end of 2015, the return on the UAPF's assets distributed to customer (beneficiary) accounts made up 15.7% with the inflation rate accumulated during the period accounting for 13.6%.

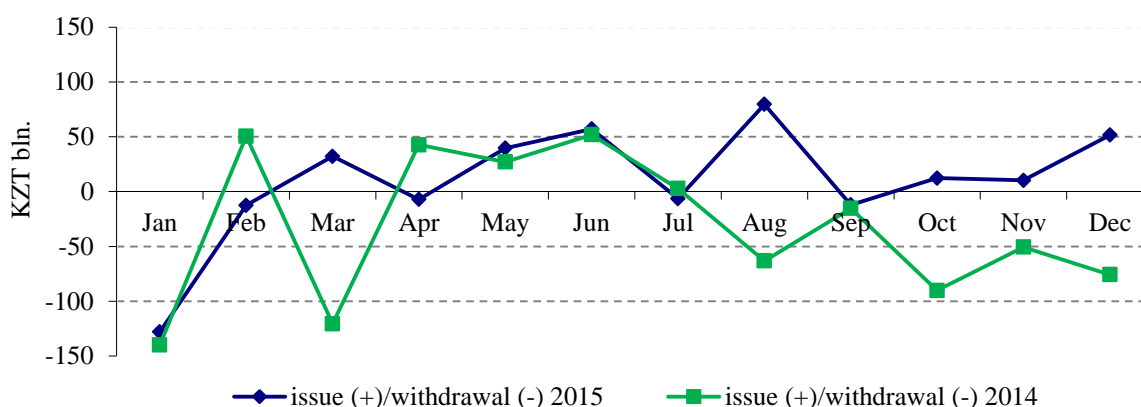
4.5. Issuing Operations and Cash Circulation

In 2015, the volumes of cash issued in circulation were growing while cash withdrawals from the circulation decreased. As a result, the issuing balance has changed its downward trend which was typical for the last four years and increased to have a positive value.

During 2015, KZT 3 124.2 bln. were issued into circulation from the National Bank's reserve funds, which is by KZT 153.5 bln. (5.2%) greater than the issue of cash into circulation in 2014 (KZT 2 970.7 bln.). The volume of cash withdrawn from circulation during the same period decreased versus that of 2014 (KZT 3 351.5 bln.) by KZT 340.3 bln. (10.2%) and amounted to KZT 3 011.2 bln. Thus, there was a positive issuing balance of KZT (+)113.0 bln., versus KZT (-) 380.7 bln. in 2014 (Figure 4.5.1).

Figure 4.5.1

Dynamics of the Change in Issuing Balance for 2014-2015



In 2015, the issuing balance was forming up against the decreased cash turnover of banks²⁰ and the slowing speed of cash turnover through the bank cash departments – from 20 times in 2014 to 15.8 times in 2015. In general, the rates at which the debit section of banks' cash turnover was decreasing (14.6%) exceeded the rates at which receipts were decreasing (11.6%). Since receipts to the bank cash departments decreased, the volumes of cash withdrawn from circulation decreased, thus causing the change in the issuing balance.

During January 2015, cash withdrawals decreased as compared to January 2014 by KZT 11.8 bln. or 9.5%. In February 2015, the issuing balance had been lower versus February 2014 by KZT 63.2 bln. and amounted to KZT (-)12.6 bln. (in February 2014 a significant growth in cash withdrawals from circulation occurred as a result of the “sms-attack” directed against a number of banks). In March 2015, on the contrary, the issuing balance increased by KZT 152.7 bln. as compared to March 2014 and amounted to KZT 32.1 bln. (the level of issuing balance for March 2013).

²⁰ According to the data in the Cash Turnovers Report of banks and organizations engaged in certain types of banking operations (No. 10-SB).

In April 2015, the issuing balance decreased by KZT 49.9 bln. as compared to April 2014 because of devaluation expectations among the general public. In May-June 2015, the issuance increased by KZT 17.7 bln. versus the issuance during the corresponding period of 2014 as a result of decreased volumes of cash withdrawals from circulation associated mainly with the reduced demand for the Russian ruble as a result of its gradual appreciation. In July 2015, the issuing balance decreased by KZT 9.2 bln. compared to July 2014, whereas during the next five months the issuance increased by KZT 433.8 bln. versus the issuance in the corresponding period of 2014.

As the currency band was cancelled and the transition to the free floating exchange rate of the domestic currency was initiated in August 2015, the issuance of cash into circulation increased significantly (by KZT 52.3 bln.) and cash withdrawal from circulation decreased dramatically (by KZT 87.6 bln.), resulting in the growth in the cash issuance of KZT 139.9 bln. As a result, a negative value of the issue in August 2014 had changed to the positive value and the issuing balance amounted to KZT 76.7 bln. During four subsequent months, the issuance increased by KZT 293.9 bln.

Therefore, in 2015 the issuing balance had been greater than the same indicator in 2014 as a result of a significant decrease in the amount withdrawn in January and in September, as well as due to the growth of cash issued into circulation in March, May, June, and August and in the 4th quarter of 2015.

Cash Turnover

The volume of cash receipts to the bank cash departments during 2015 amounted to KZT 19.9 trln., having decreased by 11.6% versus 2014 (cumulatively – KZT 2.6 trln.); the volume of cash payouts also decreased by 14.6% (KZT 3.3 trln.) and amounted to KZT 19.2 trln. As a result, it was the first time for the last 15 years that the indicators of cash turnover through the bank cash departments showed the excess of amounts coming to the bank cash departments over the volume of paid out cash.

As Table 4.5.1 shows, despite the overall decrease in the debit and credit section of cash turnovers, payouts for foreign exchange purchases increased significantly – 40.1% (KZT 397.4 bln.), and payouts to support ATMs also demonstrated growth – 4.5% (KZT 356.4 bln.). Payouts to support ATMs represent the dominating item on the debit side of the cash turnover of banks, in 2015 their share in the total volume of payouts accounted for 42.7% versus 34.8% in 2014.

It should be mentioned that during 9 months of 2015, the credit section of cash turnovers demonstrated growth in proceeds from foreign exchange sales of 9.4% (KZT 227.9 bln.), whereas in the 4th quarter of 2015 such receipts decreased by KZT 528.7 bln. or 32.5%.

Cash Flows in Banks

Cash Flows through Cash Departments of Banks	During 2015 (mln.)	During 2014 (mln.)	Change over the Period	
			mln.	%
Receipts to the Bank Cash Departments	19 861 633.9	22 480 300.4	-2 618 666.6	-11.6
from sale of goods, services and works	4 562 504.2	4 768 183.8	-205 679.6	-4.3
to deposit accounts of individuals	3 908 950.8	4 482 180.1	-573 229.3	-12.8
from foreign exchange sales	3 737 689.2	4 038 467.1	-300 777.9	-7.4
from individuals on one-time transfers	192 428.2	221 880.0	-29 451.9	-13.3
loan repayments	429 220.6	500 518.9	-71 298.3	-14.2
other receipts	7 030 840.9	8 469 070.5	-1 438 229.6	-17.0
Payouts from the Bank Cash Departments	19 209 426.5	22 493 318.1	-3 283 891.6	-14.6
payments for goods, services and works	1 314 100.3	1 696 757.6	-382 657.3	-22.6
from deposit accounts of individuals	3 720 350.3	4 764 648.4	-1 044 298.1	-21.9
for foreign exchange purchases	1 387 659.7	990 282.8	397 376.9	40.1
for one-time transfers	64 153.5	77 553.2	-13 399.7	-17.3
for wages, retirement benefits and allowances	826 756.7	917 877.9	-91 121.2	-9.9
to support ATMs	8 192 338.7	7 835 943.2	356 395.5	4.5
loans to individuals and corporate entities	295 104.3	363 392.1	-68 287.8	-18.8
other payouts	3 408 963.1	5 846 862.9	-2 437 899.8	-41.7

The cash return ratio to the bank cash departments was higher than that in 2014 and made up 103.4%.

Banknotes and Coins

During 2015, the following commemorative coins and banknotes were issued into circulation:

1) a banknote of 20 000 Tenge denomination;

2) coins from nickel-silver alloy of 50 Tenge denomination:

“70 years of the Great Victory” – a coin dedicated to the 70th anniversary of Victory in the Great Patriotic War;

“550 years of the Kazakh Khanate”;

“Taikazan” from the “Step Treasures” Series;

“Buran” from the “Cosmos” Series;

“20 years of Kazakhstan’s Constitution”;

“The Year 2015 – the Year of the Assembly of the Kazakh Nation”;

“Abay” from the “Portraits on the Banknotes” Series;

a coin dedicated to the 100th anniversary of M.Gabdullin;

“The Ustyurt Moufflon” from the “Red Book of Kazakhstan” Series;

“Bata” from the “Rituals, national games of Kazakhstan” Series;

“Khodzha Nasreddin” from the “Tales of the Kazakh Nation” Series;

“Venus-10” from the “Cosmos” Series;

a coin dedicated to the 100th anniversary of I.Essenberlin;

a coin dedicated to the 100th anniversary of Zh.Tashenov;

a coin dedicated to the 100th anniversary of E. Bekmahanov;

“Kyzylorda” from the “Cities of Kazakhstan” Series;

- “Oral” from the “Cities of Kazakhstan” Series;
- “Astana” from the “Cities of Kazakhstan” Series;
- “Almaty” from the “Cities of Kazakhstan” Series;
- “Kokshetau” from the “Cities of Kazakhstan” Series;
- “Shymkent” from the “Cities of Kazakhstan” Series;
- 3) coins from silver of 100 Tenge denomination:
 - “Basketball. Olympic Games-2016”;
 - “Amir Timur: from the “Great Commanders” Series;
 - “8th of March” from the “Coin as a Present” Series;
 - “Happy New Year” from the “Coin as a Present” Series;
- 4) coins from silver of 500 Tenge denomination:
 - “Taikazan” from the “Step Treasures” Series;
 - “Buran” from the “Cosmos” Series;
 - “Shaken Aimanov” dedicated to the 100th anniversary of Shaken Aimanov;
 - “70 years of the Great Victory” – a coin dedicated to the 70th anniversary of Victory in the Great Patriotic War;
 - “550 years of the Kazakh Khanate”;
 - “The Year 2015 – the Year of the Assembly of the Kazakh Nation”;
 - “Abay” from the “Portraits on the Banknotes” Series;
 - “The Year of Monkey” from the “Oriental Calendar” Series;
 - “Paradise flycatcher” from the “Fauna and Flora” of Kazakhstan” Series;
 - “100 years of M.Gabdullin from the “Outstanding Events and People” Series;
 - “Eurasian Economic Union”;
 - “Tazy” from the “Patrimony of the Republic” Series;
 - “The Ustyurt Moufflon” from the “Red Book of Kazakhstan” Series;
 - “Bata” from the “Rituals, national games of Kazakhstan” Series;
 - “Khodzha Nasreddin” from the “Tales of the Kazakh Nation” Series;
 - “Venus-10” from the “Cosmos” Series;
 - “Pendant” from the “Step Treasures” Series;
- 5) coins from gold of 500 Tenge denomination:
 - “Abay” from the “Portraits on the Banknotes” Series;
 - “The Year of Monkey” from the “Oriental Calendar” Series.

On June 25, 2015, Moscow city hosted an awarding ceremony of the Ninth International Commemorative Coins Contest “Coin Constellation-2015”. Kazakhstan’s coin “Mother” presented by the National Bank was the third best in the “Coin of the Year” nomination.

In December 2015, the National Museum of the Republic of Kazakhstan (in Astana city) opened a permanent exposition of the domestic currency of the Republic of Kazakhstan. Coins and banknotes presented at the exposition were donated by the National Bank to National Museum of the Republic of Kazakhstan.

4.6. Regulatory Activities

In 2015, the National Bank continued to make efforts to strengthen legality and ensuring compliance of the National Bank's regulations with requirements of the laws of the Republic of Kazakhstan; to ensure that the National Bank and the financial market entities are applying the legislation in a proper and uniform manner; to protect rights and lawful interests of the National Bank and its staff; to promote legal awareness and training on legal matters within the system of the National Bank; to coordinate the monitoring work in respect of by-laws and regulations of the Republic of Kazakhstan and analysis of the policy-making activities of the National Bank.

With a view to refine the legislation, the National Bank continued to fine-tune regulations governing such key aspects (areas) as activities of the financial market and financial organizations, currency exchange regulation and control, payments and money transfers, public procurements, etc.

During 2015, the National Bank drafted the following legislative acts:

the Constitutional Law of the Republic of Kazakhstan as dated December 7, 2015 "On the Astana International Financial Center";

the Law of the Republic of Kazakhstan as dated April 27, 2015 "On Amendments to Some Legislative Acts of the Republic of Kazakhstan Related to Insurance and Islamic Finance";

the Law of the Republic of Kazakhstan as dated July 17, 2015 "On Amendments to Some Legislative Acts of the Republic of Kazakhstan Related to Strengthening the Ownership Right, Guaranteeing Protection of Contractual Obligations and Tightening the Liability for Their Violation";

the Law Republic of Kazakhstan as dated November 24, 2015 "On Amendments to Some Legislative Acts of the Republic of Kazakhstan Regarding Non-performing Loans and Assets of the Second-Tier Banks, Provision of Financial Services and Activities of Financial Organizations and the National Bank of the Republic of Kazakhstan».

The National Bank also drafted the following legislature:

1) Presidential Edicts of the Republic of Kazakhstan:

as dated November 16, 2015 No. 113 "On Amendments to the Presidential Edict of the Republic of Kazakhstan as dated December 28, 2004 No. 1509 "Regarding Some Matters of the Council for the National Fund Management " and Repealing the Presidential Edict of the Republic of Kazakhstan of February 14, 2014 No. 753 "Regarding Some Matters of the Council for the Pension Asset Management of the Unified Accumulation Pension Fund" and paragraph 25 of amendments which are made to some Presidential acts of the Republic of Kazakhstan, as approved by the Presidential Edict of the Republic of Kazakhstan as dated September 17, 2014 No. 911 "On Amendments to Some Presidential Acts of the Republic of Kazakhstan and Repealing Some Implementing Orders of the President of the Republic of Kazakhstan";

as dated December 25, 2015 No. 144 "On Amendments to the Presidential Edict of the Republic of Kazakhstan as dated May 19, 2015 No. 24 "On the Astana

International Financial Center and relocation of the National Bank of the Republic of Kazakhstan to Astana city”;

as dated December 31, 2015 No. 160 “On Approval of the Regulation about the Council for the Astana International Financial Center Management and its Composition”;

as dated December 31, 2015 No. 161 “On Determining the Borders of the Astana International Financial Center”;

2) Governmental Decrees of the Republic of Kazakhstan:

as dated June 24, 2015 No. 476 “On Amendments to the Governmental Decree of the Republic of Kazakhstan as dated September 18, 2013 No. 984 “Regarding Approval of the Rules for the Unified Accumulation Pension Fund”;

as dated July 24, 2015 No. 583 “On Amendments to the Governmental Decree of the Republic of Kazakhstan as dated June 30, 2005 No. 652 “Regarding the Approval of the Rules for Attributing the Types of Economic Activities to the Professional Risk Classes”;

as dated July 24, 2015 No. 584 :On Approval of the List of international commodity exchanges where commodities are purchased and sold as part of financing of individuals and legal entities in the capacity of an intermediate seller by providing a commercial loan subject to conditions of a subsequent sale of such commodity to a third party”;

as dated October 28, 2015 No. 846 “On Changes to the Governmental Decree of the Republic of Kazakhstan as dated September 18, 2013 No. 984 “Regarding Approval of the Rules for the Unified Accumulation Pension Fund”.

According to the Law-drafting Plan of the Government of the Republic of Kazakhstan for 2015, the National Bank prepared the following draft laws of the Republic of Kazakhstan and submitted them to the Mazhilis of the Parliament of the Republic of Kazakhstan:

“On Payments and Payment Systems” and “On Amendments to Some Legislative Acts of the Republic of Kazakhstan Regarding Payments and Payment Systems”;

“On Collector Activities” and “On Amendments to Some Legislative Acts of the Republic of Kazakhstan Regarding Collector Activities”.

In addition, the National Bank made effort to get approval for draft laws of the Republic of Kazakhstan to ensure implementation of five institutional reforms of the Nation’s Plan initiated by the Leader of the State N.Nazarbayev “100 Concrete Steps: Modern State for All”.

As part of implementation of the mandate given by the Leader of the State to design and introduce the framework for compensation of time deposits of individuals in the Tenge because of the changed exchange rate, the Resolution of the National Bank’s Board as dated September 9, 2015 No. 157 “On approval of the Procedure for payment of the exchange rate difference on deposits of individuals opened in the domestic currency (Tenge), in connection with the transition to free floating exchange rate” was drafted.

Besides, amendments to the legislation of the Republic of Kazakhstan were drafted in order to improve Kazakhstan’s position in the World Bank’s Doing

Business rating under “Protecting minority investors” and “Getting credit” indicators.

The National Bank adopted 88 resolutions of the National Bank’s Board, 73 of which were registered with the Ministry of Justice (Appendix 1 to Section 4.6.). Also, the National Bank reviewed and provided its opinions on 55 draft laws submitted by the government authorities of the Republic of Kazakhstan for approval.

In 2015, the National Bank continued to further fine-tune regulations and guidelines regarding accounting and financial reporting for financial organizations, special purpose vehicles, Islamic special purpose vehicles, microfinance organizations, the Development Bank of Kazakhstan and investment funds in line with requirements of international financial reporting standards and changes in the laws of the Republic of Kazakhstan.

With a view to implement the Law of the Republic of Kazakhstan as dated April 27, 2015 “On Amendments to Some Legislative Acts of the Republic of Kazakhstan Related to Insurance and Islamic Finance”, the Instruction on Accounting for Insurance and Reinsurance Operations by Islamic Insurance (Reinsurance) Organizations” was approved.

Anti-Money Laundering and Anti-Terrorism Financing Activities

Pursuant to the Law of the Republic of Kazakhstan “On Amendments to Some Legislative Acts of the Republic of Kazakhstan on Anti-Money Laundering and Anti-Terrorism Financing Effort” as dated August 2, 2015, the following basic amendments were made:

- procedures for freezing operations of entities included into the list of organizations and persons associated with the terrorism financing and extremism, inter alia by including a “humanitarian amendment” aimed to ensure a possibility of accessing the blocked financial resources for providing subsistence;

- payment processors, Lombards, leasing companies, realtors, dealers in precious metals and gems are included into the list of entities subject to the financial monitoring;

- transactions with shares and participation units of mutual funds, except repo operations in the organized market based on the open trading method as well as Lombard operations with cash, securities, precious metals and gems, jewelry made from such metals and gems and with other valuables are included into the list of threshold transactions;

- with a view to ensure accessibility of financial services, a risk-based approach to the customer due diligence procedures is introduced by applying simplified procedures or stricter measures depending on the level of risk a customer poses;

- procedures for the nation-wide assessment of risks associated with money laundering and terrorism financing as well as the competence of government authorities related to such assessment were envisaged.

amendments were made to the National Bank’s regulations aimed to:

providing a possibility of a simplified customer identification based on the contracts of compulsory professional pension contributions, pension annuity contracts as well when issuing, utilizing and repaying electronic money;

simplifying the procedures for examination of truthfulness of information about foreign financial organizations as well as in respect of foreign insurants under compulsory insurance contracts;

establishing requirements to assessment of risks associated with money laundering and terrorism financing by insurance organizations and professional participants in the securities market;

attributing corporate payment cards to products/services which have a higher risk of money laundering and terrorism financing;

excluding the requirement about obtaining information regarding migration cards of nationals of the EAEU member-countries, as part of the customer identification;

prohibiting to open anonymous personal accounts and accounts in fictitious names in the system of nominal holding records;

specifying the procedures for securities blocking in the system of nominal holding records in respect of entities included in the list of organizations and persons associated with the terrorism financing and extremism;

establishing requirements to insurance organizations for ensuring compliance with the laws of the Republic of Kazakhstan on anti-money laundering and anti-terrorism financing by their insurance agents;

increasing the storage period for journals where exchange operations are recorded by authorized organizations to 5 years;

defining more specifically requirements for ensuring compliance with the laws of the Republic of Kazakhstan on anti-money laundering and anti-terrorism financing within the framework of risk management and internal control systems of the stock exchange, central depository, and the unified registrar.

4.7. Communications Policy

In 2015, the communications policy of the National Bank was focused on highlighting the activities aimed to achieve its main goal – ensuring the price stability as well as the National Bank's activities in implementing its monetary policy, ensuring the payment systems functioning, currency exchange regulation and control, safeguarding the financial system's stability, proposals and initiatives of the National Bank as well as creating a positive image of the National Bank.

In 2015, the mass media published over 38 000 materials where the National Bank was mentioned (in 2014 – over 22 000), including based on dissemination of press releases (67 press releases in 2015) and information messages, based on results of press events (28 press events in 2015), official responses for inquiries from the mass media, information materials under contracts concluded during 2015. The nation-wide mass media published 88 regulations of the National Bank registered with the Ministry of Justice. Apart from those, 24 messages of the National Bank (official announcements about commemorative coin issues, letters

of condolence, announcement about public procurements of the National Bank) were published.

With the technical assistance from the International Monetary Fund, the National Bank made efforts to design its communication policy as part of the transition to the inflation targeting regime.

Also, in 2015 measures were taken to strengthen communications with the mass media by conducting briefings with the participation of the National Bank's top management, including in the Central Communications Service with the President of the Republic of Kazakhstan.

4.8. International Cooperation

In 2015, cooperation with international financial organizations was carried out as part of implementation of framework partnership agreements between the Government and international financial organizations.

As part of the Program of cooperation for the development of Kazakhstan with the Asian Development Bank, a draft of a multi-tranche facility to finance the Program for Inclusive Growth Development was approved, which will be implemented through the financial sector development and expansion of information and communication technologies in the amount of USD 410 mln., and USD 2 mln. – for technical assistance; the technical assistance of USD 1.2 mln. to increase stability of Kazakhstan's financial sector was agreed upon with the World Bank; the technical assistance of USD 3.8 mln. to bring down the percentage of NPLs (Phase 2) was agreed with the European Bank for Reconstruction and Development.

In 2015, the World Bank provided technical assistance of USD 500 000 to increase stability of Kazakhstan's financial sector as part of the program for joint economic studies for 2015 between the Government and the World Bank.

Also, the National Bank signed an agreement for opening the Tenge account for the International Development Association.

By drafting and adopting the Law of the Republic of Kazakhstan as dated March 20, 2015 "On Ratification of Amendments to the Articles of Agreement of the International Monetary Fund", the National Bank ratified amendments to the Articles of Agreement of the International Monetary Fund as approved by the Resolution of the Board of Governors of the International Monetary Fund No. 63-2 "Quota and Voice Reform in the International Monetary Fund", No. 63-3 "Expanding Investment Authority of the International Monetary Fund" and No. 66-2 "Fourteenth General Review of Quotas and Reform of the Executive Board.

In 2015, visits of the National Bank's top management to Washington were arranged where they participated in the Spring Meetings of the Board of Governors of the International Monetary Fund and the World Bank, and visits to Lima to participate in the Annual Meetings of the Board of Governors of the International Monetary Fund.

Visits of Mr. Masood Ahmet, Director, Middle East and Central Asia Department of the International Monetary Fund to Almaty and Astana and of the

International Monetary Fund's mission to Kazakhstan in line with Article IV of the Articles of Agreement of the International Monetary Fund were arranged, the International Monetary Fund's presentation about the regional economic outlook on Caucasus and Central Asia was delivered.

Cooperation with the CIS Countries

In 2015, the National Bank took part in drafting the following documents: the draft of the Common Budget of the CIS Bodies, Joint Action Plan to address urgent matters in the financial and economic sphere, Plan of arrangements to implement the third stage (2016-2020) of the CIS Economic Development Strategy till 2020, information on the progress with the Plan of arrangements to implement the second stage (2012-2015) of the Strategy, Convention on interregional cooperation of the CIS member states, Plan of arrangements dedicated to the 25th anniversary of the CIS, Report "On increasing financial literacy and developing financial education in the CIS member states", statistical information for 2014 on payments related to goods turnover between the CIS member states, information about fulfillment of provisions of the Free Trade Zone Treaty concerning adherence to the national regimen, application of customs duties, cancellation of quantitative restrictions, application of anti-dumping, compensatory and special protective measures in reciprocal trade, information about regulatory regimes in the area of bank regulation and supervision in the Republic of Kazakhstan, documents about the establishment of the high-level Working Group to address conceptual issues of the draft Agreement on Free Services Trading.

Apart from those, the top management of the National Bank took part in the regular meeting of the Regional Advisory Group of the Financial Stability Board within the CIS space in Moscow city.

Cooperation with the Russian Federation

The National Bank organized the 15th session of the Sub-commission on the interbank and investment cooperation between the Republic of Kazakhstan and the Russian Federation.

In the course of the session, participants from the Kazakhstan' and Russian sides of the Sub-commission discussed a number of issues related to mutual cooperation and identified the areas for a further perspective development of relations between financial circles of Kazakhstan and Russia. In particular, the following issues were addressed:

- the state of economies and banking sectors of the Republic of Kazakhstan and the Russian Federation;

- regarding the establishment of the repository in the Russian Federation and regarding the experience in establishing the framework of a qualified central counterparty in the Russian Federation;

- regarding development of operations in domestic currencies and cooperation in developing the rating business as well as regulation and supervision of rating agencies;

- regarding consolidated (cross-border) supervision of subsidiaries of Kazakh banks-participants in bank conglomerates located in the Russian Federation and subsidiaries of Russian banks, within the territory of the Republic of Kazakhstan.

The National Bank and the Central Bank of the Russian Federation held a meeting of the joint banking supervisory panel. Within the framework of the supervisory panel, a new Memorandum of Understanding in the field of banking supervision between the Central Bank of the Russian Federation and the National Bank is being drafted.

Cooperation within the EAEU

In 2015, the National Bank took part in working on the following documents: materials to sessions of the Eurasian Economic Commission Panel, Eurasian Economic Commission Board, Eurasian Intergovernmental Council, Supreme Eurasian Economic Council at the presidential level; the drafts of the Treaty on coordinated approaches to regulation of foreign currency legal relations and application of liberalization measures, the Agreement on mutual access of brokers and dealers of the EAEU member states to the national stock exchanges, Agreement on audit activities within the EAEU territory, Agreement on communication between the EAEU member states regarding the exchange of information contained in credit files, Agreement on establishing the Working Group for coordination of the national payment systems development, the Treaty of retirement security for working people of the EAEU member states.

In addition, representatives of the National Bank took part in the following events:

- meetings of the Working Group under the Advisory Board on financial markets with the Eurasian Economic Commission on harmonization of legislation of the EAEU member states;

- meetings of the Sub-committee with the Advisory Committee on Macroeconomic Policy under the Advisory Committee on Macroeconomic Policy;

- meetings of the Working Group related to the drafting of the Methodology for calculation of macroeconomic indicators which determine sustainability of economic development of the EAEU member states;

- a meeting of the Working Sub-group related to fine-tuning of the customs laws of the Customs Union and those of the Republic of Kazakhstan;

- meetings of the Working Group related to currency exchange regulation and currency control within the EAEU territory under the Financial Markets Advisory Board;

- a video-conference at the meeting of sub-groups “Medium-term forecasting”, “Long-term forecasting” and “Short-term forecasting”.

In 2015, the National Bank was involved in the intra-state approval of the following drafts: the Agreement on requirements to carrying out activities in the financial markets, Agreement on information exchange including confidential information in the financial sphere with a view to create conditions for free capital movements in the financial markets, Protocol of accession by the Republic of Armenia to the Agreement on information exchange including confidential information in the financial sphere with a view to create conditions for free capital movements in the financial markets.

The National Bank reviewed the materials to the agendas and minutes of meetings, representatives of the National Bank took part in sessions of the

following advisory committees established with the Eurasian Economic Commission:

- preparing materials for the 10th and 11th sessions of the Advisory Board on foreign exchange policy of the central (national) banks of member states parties to the EAEU Treaty as dated May 29, 2014;

- preparing materials for the 10th and 11th sessions of the Financial Markets Advisory Board;

- finalizing and approving materials for the 4th session of the Advisory Board on customs regulation;

- preparing materials for the 7th session of the Sub-committee on financial statistics under the Advisory Statistics Board.

Also, an effort was made to establish the working group in charge of arranging communication between the central (national) banks of the EAEU member states in the payment systems area. So, the Agreement of December 31, 2015 on establishing the working group to coordinate the development of national payment systems was signed.

Cooperation within the Eurasian Board of Central (National) Banks

In 2015, the National Bank's top management took part in the 32nd session of the Board of Governors of the central (national) banks of the EurAsEC member states.

In addition, the National Bank organized the 33rd session, where the decision was made to reorganize the Board of Governors of the central (national) banks of the EurAsEC member states into the Eurasian Board of the central (national) banks. Apart from that, the session addressed the following matters:

- interaction between the Eurasian Board of the central (national) banks and the Advisory Board on foreign exchange policy of the central (national) banks of the EAEU;

- monetary policy guidelines of member states of the Eurasian Board of the central (national) banks;

- a program of professional training of the staff of the central (national) banks for 2016.

Also, in the course of the session the decision was made to make an inventory of documents adopted by the Board of Governors of the central (national) banks of the EurAsEC member states and to finalize and approve draft minutes about amendments to the following international agreements:

- the Agreement about information and analytical and advisory cooperation between the central (national) banks of the EurAsEC member states;

- the Agreement about cooperation in the field of staff training of the central (national) banks of the EurAsEC member states;

- the Agreement about information cooperation and experience sharing in counteracting the forgery;

- the Memorandum between the central (national) banks of the EurAsEC member states about recommendations related to ensuring transparency of the market of money transfer services and protection of consumers to credit

organizations engaged in making money transfers abroad at the instruction of individuals without opening a bank account.

The above documents are expected to be signed by the National Bank at the next 34th session of the Eurasian Board of the central (national) banks.

Concurrently with that, the National Bank drafted a Regulation on the Advisory Board for protection of the financial services consumers. Based on the outcomes of the 33rd session, the composition and the work plan of the Board for 2016 were approved.

Besides, in 2015 the National Bank prepared materials on the following topics and submitted them to the stakeholders for their consideration: “About the outcomes of a survey of the banking sector’s financial stability for 2014”, “About the outcomes of the analysis of the status and the development trends of the foreign exchange markets of the EurAsEC member states” and “Regarding the use of international approaches to the bank regulation in the banking practice”. Also, throughout the year statistical information about the list of uniform financial market ratios was submitted to the Interstate Bank on a quarterly basis.

The National Bank was involved in formulating a uniform position of the government authorities of the Republic of Kazakhstan regarding the review of the drafts of Core principles of Establishing and Functioning of the Development Fund (Special Account) of the Shanghai Cooperation Organization as well as regarding the establishment of the Shanghai Cooperation Organization’s Development Bank.

As part of work with the Shanghai Cooperation Organization, in 2015 the National Bank reviewed the draft of the Key Action Plan for 2016, prepared information related to implementation of the List of arrangements for further development of drafting activities for 2012-2016 and the Program for multi-lateral trade and economic cooperation among member states of the Shanghai Cooperation Organization.

The National Bank also did work as part of the Interstate Bank activities: the National Bank’s representatives took part in the 50th and 51st sessions of the Interstate Bank Board, the information about amendments to the laws of the Republic of Kazakhstan, regarding currency exchange regulation and control as well as anti-money laundering and anti-terrorism financing was submitted to the Interstate Bank on a quarterly basis.

Cooperation with Foreign Central Banks

As part of bilateral cooperation with foreign central banks, in 2015 the National Bank did the following work.

In 2015, the approval procedures of the draft Regulation “On the Kazakhstani-Vietnamese Working Group for Interbank Cooperation” were finalized.

The National Bank’s representatives visited Iran. As part of the visit, further cooperation of the National Bank with the Central Bank of the Islamic Republic of Iran was discussed, including the matters related to mutual settlements between the two countries and the signing of a bilateral agreement between the central banks. Also, the text of the Memorandum of Understanding between the National Bank

and the Central Bank of Iran was agreed upon in the course of the meeting. The Memorandum provides for cooperation in the banking sphere, in particular, the information exchange regarding the banking activity.

Besides, in the course of an expert meeting of the Kazakhstan-Iran intergovernmental commission on the scientific and technical and cultural cooperation within the framework of the 14th meeting of the Commission, the issues pertinent to financial and banking cooperation between Kazakhstan and Iran were discussed with the representative of the Central Bank of Iran. Representatives of the Central Bank of Iran informed about their willingness to start working on a new draft of the Memorandum of Understanding between central banks in the sphere of banking supervision.

As part of the Kazakhstani-Chinese Sub-committee on financial cooperation, the National Bank is making effort to broaden the use of domestic currencies of Kazakhstan and China for bilateral settlements, to develop cooperation in the area of supervision of the financial market entities, to reinforce relations between commercial banks of the two countries, to develop the payment system and expand cooperation in the area of bank card usage. Within the Sub-committee, a working meeting was held to discuss the matters of bilateral cooperation between the National Bank and the People's Bank of China.

In 2015, the National Bank was involved in drafting and approval of Memorandum drafts with the People's Republic of China. The visit of the National Bank's Governor to Beijing was organized, where the Memorandum of Understanding between the National Bank and the China Securities Regulatory Commission was signed. In terms of cooperation between the stock exchanges of the Republic of Kazakhstan and the People's Republic of China, the meeting of the top management of the National Bank with the delegation of the Shanghai Stock Exchange was arranged. The first Chinese and Central Asian Stock Markets Forum was conducted where representatives of stock exchanges, the National Bank's top management, Shanghai Stock Exchange, and China Securities Regulatory Commission took part. Issues pertinent to financing of infrastructure and other projects in the Republic of Kazakhstan via the stock market instruments and foreign investments were discussed during the Forum; also, the Memorandum of Understanding between the Kazakhstan and Shanghai Stock Exchanges was signed.

In addition, in 2015 the National Bank made arrangements to sign the following international agreements:

- the Memorandum of Cooperation between the National Bank and the Bank of Italy;

- the Memorandum of Understanding between the National Bank and the Qatar Central Bank;

- the Memorandum of Understanding between the National Bank and the Qatar Financial Center Regulatory Authority.

4.9. Increasing Financial Literacy of the General Public

In implementing the objective of increasing the level of financial literacy among the general public, in 2015 the National Bank conducted media events which included participation in various TV programs, responses to inquiries from the mass media, proactive information statements, press releases, postings in the “Protection of rights of the financial services consumers” section of the National Bank’s Internet-resource; also, an awareness-raising effort was made including by conducting the “round table discussions” for the public involving the mass media, providing financial information to the general public within the framework of the work done with the target groups and the community liaison office.

As part of the media events, the National Bank gave 20 interviews for the mass media, conducted 4 press conferences (in the cities of Astana and Almaty), provided 18 written responses to inquiries from editors of periodicals, and prepared 15 proactive information statements to be published in the mass media.

In addition, in 2015 the National Bank designed and posted on its Internet resource booklets for the financial services consumers on most current topics such as: “Insurance as an instrument of financial protection”, and “Savings: How to achieve your target goals”. Also, with a view to increase awareness among the financial service consumers about existing loan and deposit products, the common data base of interest rates on loans and deposits of banks and the KazPost was posted on the National Bank’s official Internet-resource in the “Interest rates and fees of financial organizations” of the “Protection of consumer rights” section and on www.profinance.kz. In order to increase the legal culture of the people, the National Bank designed and posted on its Internet-resource the tables containing provisions of the laws of the Republic of Kazakhstan on protection of rights of the financial services consumers regarding the banking business, the securities market and the insurance business. Tables had been designed based on the practical experience of reviewing communications from the financial services consumers and are intended to be used by the financial services consumers with a view to prevent violation of their rights.

During 2015, the National Bank was engaged in the following awareness-raising initiatives:

- providing applicants with the explanation either in a written form or during personal appointment with the National Bank’s executives and in the community liaison office;

- participating as a jury in the Financial Literacy Academic Olympics for school children entitled “Travelling to the World of Finance” and organized by the JSC “Home and Credit Finance Bank” with a view to draw the public’s attention to the need to increase financial literacy and accessibility of financial information and financial education among children;

- participating in the meeting with the Asian Development Bank dedicated to the need to increase financial literacy;

- preparing information materials based on the analysis of current (challenging) topics causing interest of people in the regions.

To address the problem of loans in the military sector, at the request of the General Military Prosecutor's Office of the Republic of Kazakhstan, the National Bank made the following arrangements as part of joint efforts aimed to increase financial literacy among the military personnel and their family members:

- designed a checklist for borrowers to help enter into the bank loan agreement;

- took part in the training course with the Deputy Commanders-in-Chief of branches of the Armed Forces, commanders of corps, area command troops, heads of departments of defense and heads of military colleges in charge of educational and ideological work, which took place in Astana, on October 15, 2015;

- making joint effort with the military garrisons and banks' branches to address the issue of problem loans in the military sector as well as making awareness effort with the military personnel to increase their financial literacy.

4.10. Providing Public Services

During 2015, the National Bank took measures which were aimed to make public services more efficient, prevent breaches of requirements of standards and procedural rules on public services, and optimize and automate public services.

According to the Public Services Register, in 2015 the National Bank provided 57 types of public services, 43 of which are automated and had been provided in an electronic form and in a hard copy, and 14 public services had been provided in hard copy only.

With a view to fully automate the public services, in 2015 decisions were made about automation of 10 public services in 2016-2017 and about impracticability of automation of 4 public services because of the absence of demand.

In 2015, the National Bank provided 5 365 public services, of which 4 138 public services were provided in hard copy; 172 public services were provided via the e-Government portal; and 1 055 public services were provided via the "E-Licensing" Governmental Data Base information system.

In 2015, the most demanded services of the National Bank were: "FX Transaction Registration" (1 962 public services) and "Approval of the Report on Share Placements" (1 382 public services). The analysis of satisfaction of users of such public services performed by the "Public Opinion" Research Institute demonstrated a high level of public services as well as the leading positions on such indicators as "awareness", "accessibility", "quality", and "the results of the public service provision". Also, respondents noted an efficient and easy mechanism of their provision: the speed of response to a request for service, a simplified procedure, etc.

With a view to inform the recipients of public services about available public services and to popularize the electronic form of public services provision, 19 presentations of the National Bank staff on radio and television were made, and 266 articles were published in periodicals and on Internet-resources of local executive authorities .

Apart from those, in 2015 the National Bank jointly with “National Information Technologies” JSC conducted 19 workshops to teach the service recipients how to obtain public services in an electronic form via the e-Government portal.

The updated information about standards and procedural rules on public services, passports and directories to business-processes of the public services provision, the Report on the National Bank’s activities in the area of the public services provision as well as the public services register, contact information about the service providers, statistical and other information of service recipients, was posted on a timely basis on the National Bank’s Internet-resource, in the section entitled “Public services of the National Bank”.

In exercising its internal control over the quality of provided public services, the National Bank monitored the data of information systems with statistical indicators about provided public services and issued permits, with a view to issue permits and results of the public services provision via the “E-Licensing” Governmental Data Base information system as well as to ensure the timely input of data regarding the stage of the public services provision into the public services monitoring information system. Regulations which govern the procedure for operation in the “E-Licensing” Governmental Data Base information system, in the automated work station of a government authority in the public services monitoring information system regarding the stage of the public services provision and the “Monitoring” information system, were adopted.

In order to solve the problems arising in the information system operation, coordination with the “National Information Technologies” and the Committee for Communication, Informatization and Information with the Ministry of Investments and Development was established; also, working meetings and workshops were conducted.

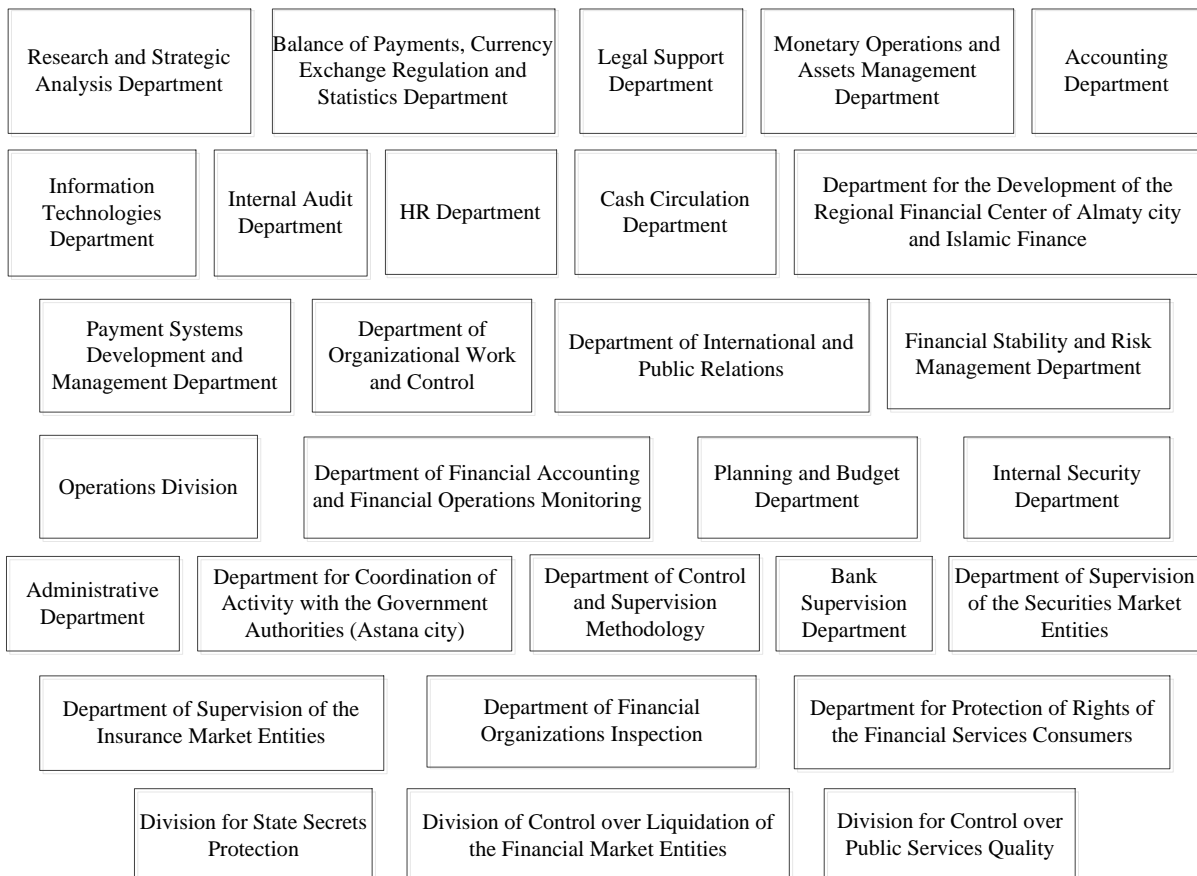
APPENDICES

Organizational Chart and Staff Numbers

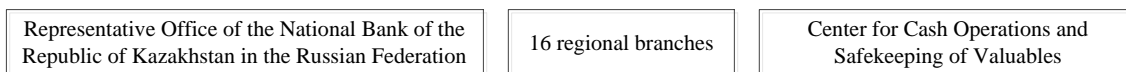
Governor of the National Bank of the Republic of Kazakhstan

Deputy Governors of the National Bank of the Republic of Kazakhstan

Business Units in the Head Office of the National Bank of the Republic of Kazakhstan



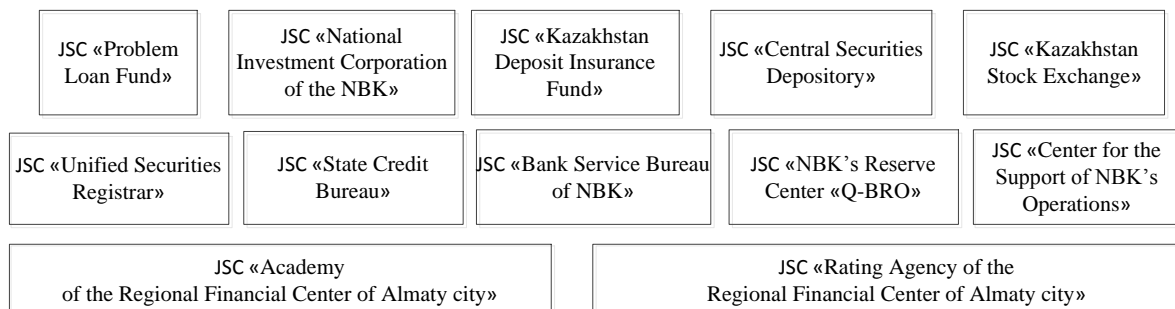
Representative Office and Branches of the National Bank of the Republic of Kazakhstan



Organizations of the National Bank of the Republic of Kazakhstan



Joint-Stock Companies



Staff Numbers of the National Bank
and its Joint-Stock Companies

	Staff number at the end of the reporting period			
	staffing plan, numbers		staff listing, number of people	
	2014	2015	2014	2015
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
Head Office ¹	1 267	1 267	1 287	1 291
Branches	1 311	1 310.5	1 344	1 352
Sub-total:	2 578	2 577.5	2 631	2 643
Organizations of the National Bank (RSOEs)	960	863	945	856
Total in the National Bank:	3 538	3 440.5	3 576	3 499
Joint-stock companies	1 061	1 314	993	1 165
Grand total:	4 599	4 754.5	4 569	4 664

¹ Including the Head of the National Bank's Representative Office in the Russian Federation.

Development of Information Technologies

In 2015, the National Bank with the participation of consulting firm McKinsey&Company, developed and approved the Strategy for Development of Information Technologies in the National Bank of the Republic of Kazakhstan for the period 2015-2020 (hereinafter – IT Strategy). The IT Strategy was designed to form a single systematic approach in the long term to the development of information technologies in the system of the National Bank, to identify a target state in the field of information architecture, the list of necessary projects and initiatives in the field of information technologies on the specified period.

The IT Strategy provides for implementation of 55 projects. In 2015, works on 32 projects started, including in the following areas:

- 1) purchasing and implementing the software and hardware complex “the National Bank’s Gateway” with a view to ensure the data exchange with information systems of the government authorities and to receive information from the government data bases for the National Bank’s needs;
- 2) developing the National Bank’s web-portal with a view to create a common portal for communication with the financial market participants and other organizations;
- 3) automating supervisory functions with a view to establish a common platform for supervision of entities in different segments of the financial market;
- 4) developing the data warehouse and implementing the unified system of modeling and the advanced analytics;
- 5) automating the process of cash management;
- 6) implementing the system of assets and risk management;
- 7) developing the Unified Indicator Gathering System;
- 8) improving the maintenance of the State register of issue-grade securities by reorganizing and upgrading the existing information system.

As part of the IT Strategy implementation, the following arrangements were made on infrastructure projects: consolidation of the server infrastructure, development of the data processing center (in Almaty city), establishment of the distributed data processing center, implementation of the National Bank’s common user data base.

Works had been done to establish a resilient, flexible and scalable network infrastructure, to build a data processing center which is physically distributed and is logically uniform. Trial tests of the distributed data processing center were performed for some information systems.

In 2015 the Commission of the Committee for Communication, Informatization and Information with the Ministry of Investments and Development conducted the audit of the National Bank under the Methods for assessment of efficient use of information technologies in 2014. Based on results of the audit, the final score of the National Bank was 89.7 out of maximum 100, which is by 16 scores higher than in 2013 (73.7 scores). The National Bank improved its positions by 8 points as compared to the score in 2013 and was the

second best among the government authorities that were assessed for their efficiency in using information technologies.

Appendix 1 to Section 1.5

Table 1.5.1

Balance of Payments of the Republic of Kazakhstan: Analytical Presentation

(USD mln.)

	2013	2014	2015	2015 by quarters:			
				I	II	III	IV
Current account	1187.1	6375.0	-5823.2	-125.3	-2251.7	-1799.0	-1647.2
Trade balance	34792.3	36694.7	12649.0	4247.9	3369.5	2778.7	2252.9
Exports f.o.b.	85595.4	80242.8	46294.2	12144.3	12637.0	11372.8	10140.2
Imports f.o.b.	50803.2	43548.2	33645.3	7896.4	9267.4	8594.1	7887.3
Services	-7160.1	-6320.9	-5370.8	-1080.5	-1199.2	-1518.1	-1573.0
Exports	5298.3	6594.4	6480.4	1476.0	1551.4	1730.9	1722.1
Imports	12458.4	12915.4	11851.1	2556.5	2750.6	3248.9	3295.1
Balance on primary income	-25147.7	-22667.9	-11515.3	-3005.6	-3664.7	-2663.9	-2181.0
Compensation of employees balance	-1803.7	-1785.3	-1666.6	-423.2	-416.3	-433.6	-393.5
Investment returns	-23483.8	-21022.3	-9988.4	-2617.4	-3283.3	-2265.2	-1822.5
Income receivable	2176.7	1889.4	1843.4	509.5	465.0	432.7	436.1
Income on direct investments	347.6	127.0	315.9	57.9	82.6	85.5	89.8
Income on portfolio investments	1094.4	1183.0	1035.4	296.4	271.2	236.7	231.1
Income on other investments	734.7	579.5	492.1	155.2	111.2	110.5	115.1
Including interest on reserves and assets of the National Fund	1162.1	1176.8	1027.4	264.9	276.3	249.3	236.9
Income payable	25660.5	22911.8	11831.8	3126.9	3748.4	2697.9	2258.6
Income on direct investments	22510.9	19763.9	8843.1	2454.7	2943.3	1880.8	1564.2
Income on portfolio investments	1590.9	1667.1	1641.3	341.6	465.6	485.6	348.6
Income on other investments	1558.7	1480.8	1347.4	330.7	339.4	331.5	345.8
Other primary income (net)	139.8	139.8	139.8	34.9	34.9	34.9	34.9
Balance on secondary income	-1297.3	-1330.8	-1586.2	-287.1	-757.3	-395.7	-146.0
Capital account balance	-6.4	29.3	131.6	-3.6	44.3	3.6	87.3
Financial account (excluding reserve assets of the National Bank)	-303.2	-6827.3	-10611.0	-2574.7	-1637.5	-3401.6	-2997.1
Direct investments	-8034.4	-4767.1	-3404.9	-1437.6	229.2	-1441.8	-754.6
Net acquisition of financial assets	1976.9	2323.6	3209.8	1120.0	874.4	297.7	917.6
Net incurred liabilities	10011.3	7090.7	6614.7	2557.7	645.3	1739.5	1672.3
Portfolio investments	6033.6	1038.8	-5878.3	-797.6	-1270.4	-5173.8	1363.5
Net acquisition of financial assets	8503.0	6473.8	-9512.9	-2115.6	-2667.3	-1581.2	-3148.8
Government and the National Bank	7779.5	6800.0	-8358.4	-1529.5	-2531.8	-1619.1	-2678.0
Banks	556.6	-218.5	-819.8	-632.2	-36.3	7.0	-158.3
Other sectors	167.0	-107.7	-334.7	46.1	-99.2	30.9	-312.6
Net incurred liabilities	2469.4	5434.9	-3634.6	-1318.0	-1396.9	3592.6	-4512.3
Government and the National Bank	0.9	1969.6	3357.2	47.8	-122.5	3495.1	-63.3
Banks	-631.8	-809.9	-872.3	-51.7	-121.3	-55.7	-643.7
Other sectors	3100.3	4275.2	-6119.5	-1314.1	-1153.2	153.1	-3805.3
Financial derivatives (net)	103.7	-37.1	-115.4	-137.5	58.3	-62.0	25.8
Other investments	1593.8	-3062.0	-1212.5	-201.9	-654.6	3275.9	-3631.8
Other equity participation instruments (net)	195.1	208.7	86.3	26.9	-0.5	0.6	59.5
Medium- and long-term debt instruments	-5273.9	-2511.1	-4259.2	-1427.9	-791.0	515.3	-2555.6
Net acquisition of financial assets	267.5	488.0	-2444.3	-1996.5	222.3	-425.4	-244.6

Government and the National Bank	5.5	235.4	-38.8	29.6	14.3	-71.2	-11.5
Banks	-227.1	-773.5	-179.7	-84.7	-51.4	29.3	-72.9
Other sectors	489.1	1026.1	-2225.8	-1941.5	259.4	-383.5	-160.2
Net incurred liabilities	5541.4	2999.1	1814.9	-568.6	1013.3	-940.7	2310.9
Government and the National Bank	381.2	549.3	923.3	-198.3	29.3	99.3	992.9
Banks	-1104.0	-209.2	-624.5	-78.1	186.2	-747.7	15.1
Other sectors	6264.2	2659.0	1516.1	-292.3	797.8	-292.3	1302.9
Short-term debt instruments	6672.6	-759.6	2960.4	1199.1	137.0	2760.0	-1135.7
Net acquisition of financial assets	8131.1	389.6	1140.5	-10.2	-81.0	2310.8	-1079.1
Net incurred liabilities	1458.5	1149.2	-1819.9	-1209.4	-218.0	-449.2	56.6
Errors and omissions	-3863.7	-8976.8	-5682.8	-1935.5	-49.0	-2325.1	-1373.2
Overall balance	2379.7	-4254.9	763.4	-510.4	618.9	719.0	-64.1
Financing	-2379.7	4254.9	-763.4	510.4	-618.9	-719.0	64.1
Reserve assets of the National Bank	-2379.7	4254.9	-763.4	510.4	-618.9	-719.0	64.1
IMF credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exclusive financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Appendix 2 to Section 1.5

Table 1.5.2

External Debt: Standard Presentation

(USD mln.)

	As of 31.12.2012	As of 31.12.2013	As of 31.12.2014	As of 31.03.2015	As of 30.06.2015	As of 30.09.2015	As of 31.12.2015
External debt	136 918.2	150 032.9	157 428.1	154 409.4	155 540.7	155 649.3	153 456.3
<i>Short-term</i>	9 086.3	9 468.1	9 714.3	8 236.1	8 035.5	6 581.2	6 448.4
<i>Long-term</i>	127 831.9	140 564.8	147 713.8	146 173.3	147 505.1	149 068.1	147 007.9
General Government	4 855.1	5 217.6	7 332.5	7 079.0	6 978.0	10 303.6	11 291.5
<i>Short-term</i>	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Cash and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities ¹	0.0	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	0.0
Trade credits and advances	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Long-term</i>	4 855.0	5 217.6	7 332.5	7 079.0	6 978.0	10 303.6	11 291.5
Special drawing rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities ¹	14.1	14.7	1 887.6	1 870.1	1 768.9	5 007.8	5 038.0
Credits and loans	4 840.9	5 101.0	5 369.7	5 168.9	5 169.3	5 256.5	6 214.5
Trade credits and advances	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities ²	0.0	101.9	75.2	40.1	39.8	39.4	39.0
Central Bank	618.9	546.7	953.7	760.3	779.2	875.3	900.0
<i>Short-term</i>	88.1	10.7	215.6	12.5	10.9	79.9	77.1
Cash and deposits	88.1	6.7	209.3	6.2	4.0	73.5	70.9
Debt securities ¹	0.0	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	0.0
Trade credits and advances	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.0	4.0	6.3	6.3	6.9	6.4	6.2
<i>Long-term</i>	530.8	536.0	738.1	747.7	768.3	795.4	822.9
Special drawing rights	529.8	535.0	503.2	480.7	487.5	488.1	481.8
Cash and deposits	0.0	0.0	233.9	266.1	279.8	306.3	340.0
Debt securities ¹	0.0	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	0.0
Trade credits and advances	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities ²	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Banks	13 524.9	11 160.4	10 120.0	9 293.8	9 667.9	8 575.5	7 972.8
<i>Short-term</i>	1 647.6	1 227.6	1 468.1	838.5	803.8	775.5	764.4
Cash and deposits	1 203.3	829.5	988.5	691.8	649.2	625.9	575.1
Debt securities ¹	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credits and loans	360.9	316.6	351.8	66.9	93.8	89.7	149.1
Trade credits and advances	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	83.3	81.5	127.8	79.8	60.9	59.9	40.2
<i>Long-term</i>	11 877.3	9 932.8	8 651.9	8 455.3	8 864.1	7 800.0	7 208.4
Cash and deposits	428.5	944.6	816.0	795.2	788.0	110.6	149.4
Debt securities ¹	6 639.8	5 739.7	4 704.1	4 594.1	4 812.5	4 589.3	3 999.9
Credits and loans	4 809.0	3 248.5	3 131.9	3 066.1	3 263.5	3 100.1	3 059.1
Trade credits and advances	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities ²	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors³	50 311.0	58 928.7	59 574.0	56 653.5	56 276.4	54 098.4	51 452.5
<i>Short-term</i>	7 350.6	8 229.8	8 030.6	7 385.1	7 220.7	5 725.8	5 606.9
Cash and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities ¹	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Credits and loans	869.3	901.0	1 114.4	683.5	808.1	563.7	463.8
Trade credits and advances	6 307.9	7 218.6	6 810.1	6 592.4	6 339.9	5 093.9	5 040.2
Other liabilities	173.4	110.2	106.2	109.2	72.8	68.1	102.9
<i>Long-term</i>	42 960.5	50 698.9	51 543.4	49 268.4	49 055.7	48 372.7	45 845.6
Cash and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities ¹	11 130.1	12 975.6	15 912.8	14 253.0	13 572.7	12 974.4	9 617.8
Credits and loans	29 883.4	35 615.7	33 284.9	32 629.4	33 126.6	32 413.6	33 349.3
Trade credits and advances	1 947.1	2 019.2	2 159.5	2 204.3	2 107.0	2 762.5	2 678.9
Other liabilities ²	0.0	88.5	186.2	181.7	249.3	222.2	199.6
Other financial organizations	1 982.2	2 897.2	3 461.8	3 269.3	2 523.6	2 362.2	2 520.8
<i>Short-term</i>	90.6	115.6	68.1	75.1	166.3	79.5	55.1
<i>Long-term</i>	1 891.5	2 781.6	3 393.7	3 194.2	2 357.3	2 282.7	2 465.8
Non-financial organizations, households and non-commercial organizations providing services to households	48 328.9	56 031.5	56 112.2	53 384.2	53 752.9	51 736.2	48 931.6
<i>Short-term</i>	7 259.9	8 114.2	7 962.6	7 310.0	7 054.4	5 646.2	5 551.8
<i>Long-term</i>	41 068.9	47 917.2	48 149.7	46 074.2	46 698.4	46 089.9	43 379.8
Direct investments: Intercompany debt	67 608.3	74 179.5	79 447.8	80 622.8	81 839.1	81 796.5	81 839.5
Liabilities of Kazakhstani direct investment companies to foreign direct investors	63 632.6	69 896.5	72 667.2	73 710.8	74 932.9	75 701.6	76 104.6
Liabilities of Kazakhstani direct investors to foreign direct investment companies (reverse investment)	3 429.2	3 392.2	1 402.5	1 215.3	1 237.5	970..	932.7
Liabilities of Kazakhstani enterprises to foreign sister enterprises	546.5	890.7	5 378.2	5 696.7	5 668.7	5 123.9	4 802.3
Memo items:							
Debt securities (at par value)	15 794.4	18 108.2	23 524.1	21 947.5	20 746.1	24 034.3	19 839.8
General Government	14.1	14.7	2 003.4	2 027.2	1 924.7	5 362.9	5 248.8
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks	6 985.4	6 309.7	5 219.9	5 125.2	5 026.3	4 921.8	4 768.7
Other sectors ³	8 794.9	11 783.9	16 300.8	14 795.2	13 795.2	13 749.6	9 822.3

Notes:

¹ - Debt securities are recorded at market value (if available);

² - Includes insurance and pension schemes and standard guarantee programs as well as other long-term liabilities from the structure of an international investment position;

³ - Other sectors do not include intercompany debt which goes as a separate item in the external debt structure.

Appendix 3 to Section 1.5

Table 1.5.3

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

Item	2012	2013	2014	I quarter of 2015	II quarter of 2015	III quarter of 2015	IV quarter of 2015	2015
A. Absolute Parameters (USD mln.)								
1. External debt (estimate at end-period)	136 918.2	150 032.9	157 428.1	154 409.4	155 540.7	155 649.3	153 456.3	153 456.3
<i>Including intercompany debt</i>	67 608.3	74 179.5	79 447.8	80 622.8	81 839.1	81 796.5	81 839.5	81 839.5
2. External debt, excluding intercompany debt (estimate at end-period)	69 310.0	75 853.4	77 980.2	73 786.5	73 701.5	73 852.8	71 616.8	71 616.8
3. Payments for long-term external debt extinction and servicing (including intercompany debt)	31 951.5	31 869.5	31 781.9	10 191.0	8 328.4	7 546.6	11 807.4	37 873.4
4. Payments for long-term external debt extinction and servicing (excluding intercompany debt)	18 902.4	19 317.5	17 891.6	7 237.5	5 471.7	4 535.1	9 052.6	26 296.8
B. Relative Parameters								
1. External debt per capita (USD, excluding intercompany debt)	4 098.8	4 420.2	4 477.1	4 222.1	4 201.6	4 194.2	4 052.8	4 052.8
2. External debt to GDP (% , including intercompany debt)	67.4	64.8	72.4	71.0	70.5	72.5	83.0	83.0
3. External debt to GDP (% , excluding intercompany debt)	34.1	32.8	35.9	33.9	33.4	34.4	38.7	38.7
4. External debt to EGS for the year (% , including intercompany debt)	149.2	165.1	181.3	203.3	226.4	258.5	290.8	290.8
5. External debt to EGS for the year (% , excluding intercompany debt)	75.5	83.5	89.8	97.1	107.3	122.7	135.7	135.7
6. Payments for long-term external debt extinction and servicing to EGS for the period (% , including intercompany debt)	34.8	35.1	36.6	74.8	58.7	57.6	99.5	71.8
7. Payments for long-term external debt extinction and servicing to EGS for the period (% , excluding intercompany debt)	20.6	21.3	20.6	53.1	38.6	34.6	76.3	49.8
8. Interest payments to EGS	5.6	5.5	5.9	9.8	8.6	10.7	10.8	9.9

for the period (%)								
9. International reserves to short-term external debt (%)	311.1	261.0	300.7	353.3	358.9	425.6	432.3	432.3
Memo items:								
Population (thous. individuals) ¹	16 909.8	17 160.8	17 417.7	17 476.1	17 541.2	17 608.2	17 671.0	17 671.0
GDP (bln.) for the period ¹	30 347.0	35 275.2	39 040.9	8 248.0	8 844.1	10 727.2	12 942.1	40 761.4
GDP for 12 months (USD bln.)	203.3	231.5	217.3	217.5	220.5	214.8	185.0	185.0
EGS for the period ²	91 759.3	90 893.8	86 837.2	13 620.3	14 188.3	13 103.6	11 862.3	52 774.6
EGS for the year ²	91 759.3	90 893.8	86 837.2	75 955.6	68 711.2	60 211.7	52 774.6	52 774.6

Notes:

¹ – according to the Committee on Statistics of the Ministry of National Economy;

² – Balance of payments of the Republic of Kazakhstan, National Bank's estimate.

Appendix 1 to Section 4.6

List of the National Bank's Regulations Registered at the Ministry of Justice in 2015

1. Resolution of the Board of the National Bank as dated December 24, 2014 No. 241 "On Changes to the Resolution of the Board of the Agency of the Republic of Kazakhstan on Regulation and Supervision of the Financial Market and Financial Organizations" of October 29, 2008 No. 170 "On Approval of the Rules for Carrying Out Activities of Organizers of Trading in Securities and Other Financial Instruments".
2. Resolution of the National Bank's Board as dated December 24, 2014 No. 242 "On Amendments to Some Legislative Acts of the Republic of Kazakhstan Regarding Regulation of Banking Activities".
3. Resolution of the National Bank's Board as dated December 24, 2014 No. 244 "On Changes to Some Regulations of the Republic of Kazakhstan Regarding the Securities Official List of the Stock Exchange".
4. Resolution of the National Bank's Board as dated December 24, 2014 No. 247 "On Approval of the Rules for Cash Operations with Individuals and Legal Entities at the National Bank of the Republic of Kazakhstan".
5. Resolution of the National Bank's Board as dated December 24, 2014 No. 248 "On Changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated December 26, 2003 No. 477 "On Approval of the Rules for Determining the Fitness for Use as Currency of Banknotes and Coins of the Domestic Currency of the Republic of Kazakhstan».
6. Resolution of the National Bank's Board as dated December 24, 2014 No. 250 "Establishing the Period for Parallel Circulation of Banknotes of 1 000 Tenge Denomination of the 2006 and 2014 Specimen".
7. Resolution of the National Bank's Board as dated December 24, 2014 No. 255 "On Changes to the Some Regulations of the Republic of Kazakhstan Regarding Book-keeping, Timeframes for Preparation and Submission of the Auditor's Report, and Publication of Financial Statements".
8. Resolution of the National Bank's Board as dated December 24, 2014 No. 256 "On Approval of the Rules for Determining the Value of Collateral and Other Security".
9. Resolution of the National Bank's Board as dated December 24, 2014 No. 257 "Regarding the Approval of the Rules for Attributing Financial Organizations to Systemically Important Ones".
10. Resolution of the National Bank's Board as dated December 24, 2014 No. 261 "On Amendments to Some Legislative Acts of the Republic of Kazakhstan Regarding Optimization and Automation of Business-Processes of Public Services Rendered by the National Bank of the Republic of Kazakhstan".
11. Resolution of the National Bank's Board as dated December 31, 2014 No. 265 "On Changes to the Resolution of the Board of the National Bank of the

Republic of Kazakhstan as dated August 24, 2009 No.78 “Regarding the Approval of the Rules for Setting Limits for Deviation of the FX Buying Rate from FX Selling Rate against the Tenge on Transactions Conducted Via Exchange Offices”.

12. Resolution of the National Bank’s Board as dated January 28, 2015 No. 11 “On Changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan of July 25, 2006 No. 65 “Regarding the Approval of the Rules for Investment Operations of the National Fund of the Republic of Kazakhstan”.

13. Resolution of the National Bank’s Board as dated February 25, 2015 No. 22 “Regarding the Approval of the Rules for Licensing of Organizations Engaged in Certain Types of Banking Operations for Collection of Banknotes, Coins and Valuables”.

14. Resolution of the National Bank’s Board as dated February 25, 2015 No. 27 “On Changes to the Some Regulations of the Republic of Kazakhstan Regarding Bank Regulation”.

15. Resolution of the National Bank’s Board as dated February 25, 2015 No. 28 “On Changes to the Some Regulations of the Republic of Kazakhstan Regarding Fundamental Improvement of Conditions for Business in the Republic of Kazakhstan”.

16. Resolution of the National Bank’s Board as dated March 16, 2015 No. 32 “On Amendments to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated April 28, 2012 No. 154 “Regarding the Approval of the Rules for Foreign Exchange Operations in the Republic of Kazakhstan”.

17. Resolution of the National Bank’s Board as dated March 16, 2015 No. 33 “On Changes and a Supplement to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated July 27, 2012 No. 221 “Regarding Approval of the Instruction for Monitoring the Sources of Demand and Supply as well as the Areas where Foreign Exchange will be Used in the Domestic Foreign Exchange Market»”

18. Resolution of the National Bank’s Board as dated March 20, 2015 No. 38 “Regarding the Approval of the Rules for Minimum Reserve Requirements Including the Structure of Bank Liabilities Used for Calculation of Reserve Requirements, Conditions for Compliance with Minimum Reserve Requirements, Reserving Procedure”.

19. Resolution of the National Bank’s Board as dated March 20, 2015 No. 39 “Establishing Ratios on Minimum Reserve Requirements”.

20. Resolution of the National Bank’s Board as dated March 26, 2015 No. 46 “On Amendments to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated July 16, 2014 No. 144 “Regarding the Approval of the Rules for Arranging Exchange Transactions with Foreign Cash in the Republic of Kazakhstan”.

21. Resolution of the National Bank’s Board as dated April 24, 2015 No. 54 “On Submission of the List of a Joint-Stock Company's Affiliated Entities”.

22. Resolution of the National Bank’s Board as dated April 24, 2015 No. 56 “On Changes to the Resolution of the Board of the Agency of the Republic of

Kazakhstan on Regulation and Supervision of the Financial Market and Financial Organizations as dated November 28, 2008 No. 195 “On Requirements to the Organizational Structure of the Trades Organizer and the Composition of the Stock Exchange’s Listing Commission and on Approval of the Rules for Operation of a Business Unit of the Trades Organizer that Supervises Transactions Conducted in the Trades Organizer’s Trading System”.

23. Resolution of the National Bank’s Board as dated April 24, 2015 No. 57 “On Making a Supplement to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated December 24, 2012 No. 386 “Regarding the Approval of the Rules for the Record Registration of Microfinance Organizations and Maintaining the Register of Microfinance organizations ”.

24. Resolution of the National Bank’s Board as dated April 24, 2015 No. 61 “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 Forms of Implementing Orders”.

25. Resolution of the National Bank’s Board as dated April 24, 2015 No. 66 “On Changes and a Supplement to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated April 28, 2012 No. 174 “Regarding Approval of the Rules for Reporting on Loans and Contingent Liabilities by the Second-Tier Banks, the Kazakhstan Development Bank and Organizations Engaged in Certain Types of Banking Operations “.

26. Resolution of the National Bank’s Board as dated April 24, 2015 No. 70 “On Supplements to the Resolution of the Board of the Agency of the Republic of Kazakhstan on Regulation and Supervision of the Financial Market and Financial Organizations as dated February 23, 2007 No. 49 “Regarding Approval of the Rules for Maintaining Loan Documentation”.

27. Resolution of the National Bank’s Board as dated April 30, 2015 No. 71 “On Approval of Standards of Public Services of the National Bank of the Republic of Kazakhstan”.

28. Resolution of the National Bank’s Board as dated May 8, 2015 No. 72 “On Changes to Some Regulations of the National Bank of the Republic of Kazakhstan Regarding Payments and Money Transfers and Maintenance of Bank Accounts”.

29. Resolution of the National Bank’s Board as dated May 8, 2015 No. 73 “On Making a Change and a Supplement to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated December 27, 2010 No. 105 “On Approval of the Instruction on Submission of Information for the Financial Sector Outlook by the Second-Tier Banks, the Kazakhstan Development Bank and Mortgage Organizations to the National Bank of the Republic of Kazakhstan”.

30. Resolution of the National Bank’s Board as dated May 8, 2015 No. 75 “On Approval of the List, Forms, and Deadlines for Reports on Compliance with Prudential Ratios by the Second-Tier Banks and the Rules of their Submission”.

31. Resolution of the National Bank's Board as dated May 8, 2015 No. 76 "On Approval of the List, Forms, and Deadlines for Reports to be Filed by the Second-Tier Banks of the Republic of Kazakhstan the Rules of their Submission".

32. Resolution of the National Bank's Board as dated May 8, 2015 No. 77 "Regarding the Approval of the Rules for Conducting the Transaction of the Concurrent Transfer of Bank Assets and Liabilities in Part or in Full to Another Bank (Banks) as well the Concurrent Transfer of Assets and Liabilities between a Parent Bank and a Subsidiary Bank in Respect of which the Restructuring was Conducted, and Approval by the Competent Authority of Such Operations as well as the Types of Assets and Liabilities Subject to the Transfer in Conducting Such Operations".

33. Resolution of the National Bank's Board as dated May 8, 2015 No. 78 "On Amendments to Some Legislative Acts of the Republic of Kazakhstan Regarding the Concurrent Transfer of Assets and Liabilities between Banks".

34. Resolution of the National Bank's Board as dated May 27, 2015 No. 80 "On Changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated November 26, 2005 No. 153 "On Identifying the Activities Referring to the Monetary Activities".

35. Resolution of the National Bank's Board as dated May 27, 2015 No. 81 "On Approval of the List, Forms, and Reporting Deadlines for Insurance (Reinsurance) Organizations and Insurance Brokers and the Rules of their Submission".

36. Resolution of the National Bank's Board as dated May 27, 2015 No. 83 "On Making a Change to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated July 1, 2011 No. 68 "On Approval of the Instruction for Book-keeping by Certain Financial Market Entities" and on Approval of the Instruction for Book-keeping of Insurance (Reinsurance) Operations by Islamic Insurance (Reinsurance) Organizations".

37. Resolution of the National Bank's Board as dated May 27, 2015 No. 87 "On Changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated September 24, 2014 No.179 "Regarding the Approval of the Rules for engagement in the 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 bad assets to be acquired (already acquired) by such organization".

38. Resolution of the National Bank's Board as dated May 27, 2015 No. 88 "Regarding the Approval of the Rules for Building Up, Accounting, Use and Distribution of the Islamic Insurance Fund".

39. Resolution of the National Bank's Board as dated May 27, 2015 No. 89 "Regarding the Approval of the Rules for the Transfer of Money by an Islamic Insurance (Reinsurance) Organization to an Islamic Insurance Fund".

40. Resolution of the National Bank's Board as dated May 27, 2015 No. 90 "Regarding the Approval of the Rules for Receiving Fees by an Islamic Insurance (Reinsurance) Organization for Managing an Islamic Insurance Fund in the Form of a Portion of Insurance Premium when Entering into an Islamic Insurance

Contract or a Portion of Earnings Generated from Investment of Resources of an Islamic Insurance Fund”.

41. Resolution of the National Bank’s Board as dated May 27, 2015 No. 91 On Approval of Requirements Regarding the Use of Information and Communication Technologies and Safeguarding of Information Security when Organizing the Operation of Credit Bureaus, Information Providers and Credit Report Recipients”.

42. Resolution of the National Bank’s Board as dated May 27, 2015 No. 92 “Regarding the Approval of the Rules for the Use of the Adjustment Factor”.

43. Resolution of the National Bank’s Board as dated May 27, 2015 No. 93 “On Amendments to Some Legislative Acts of the Republic of Kazakhstan Regarding Regulation, Control and Supervision of the Financial Market and Financial Organizations”.

44. Resolution of the National Bank’s Board as dated May 27, 2015 No. 94 “On Approval of Requirements to External Independent Experts in the Area of the Islamic Finance Principles and on Determination of Instances when Lessors Hire External Independent Experts in the Area of the Islamic Finance Principles in Order to Get an Opinion about Compliance of Islamic Leasing Transactions with the Islamic Finance Principles”.

45. Resolution of the National Bank’s Board as dated May 27, 2015 No. 95 “On Approval of the Instruction for Establishing Ratios and the Methods for Calculation of Prudential Ratios of an Islamic Insurance (Reinsurance) Organization and Other Mandatory Ratios and Limits”.

46. Resolution of the National Bank’s Board as dated May 29, 2015 No. 96 “On Approval of Procedural Rules on Public Services of the National Bank of the Republic of Kazakhstan”.

47. Resolution of the National Bank’s Board as dated June 17, 2015 No. 102 “On Changes and a Supplement to Some Regulations of the Republic of Kazakhstan Regarding to Approvals for Executives of Financial Organizations, Holding Companies and the Joint-Stock Company “Insurance Indemnity Guarantee Fund”.

48. Resolution of the National Bank’s Board as dated June 18, 2015 No. 123 “On Making a Change to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated August 24, 2012 No. 272 “Regarding the Approval of the Rules for Automation of Book-keeping”.

49. Resolution of the National Bank’s Board as dated July 17, 2015 No. 129 “On Approval of the List, Forms, and Reporting Deadlines for Mutual Insurance Companies and the Rules of their Submission”.

50. Resolution of the National Bank’s Board as dated July 17, 2015 No. 130 “On Approval of the List, Forms, and Reporting Deadlines for the Central Securities Depository Reporting and the Rules of their Submission”.

51. Resolution of the National Bank’s Board as dated July 17, 2015 No. 131 “On Amendments to Some Legislative Acts of the Republic of Kazakhstan Regarding Book-Keeping”.

52. Resolution of the National Bank's Board as dated July 17, 2015 No. 137 "Regarding the Approval of the Rules for Entering into Retirement Security Contract with the Voluntary Pension Contributions and the Standard Contract Form".

53. Resolution of the National Bank's Board as dated July 17, 2015 No. 138 "On Amendments to Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated October 22, 2014 No. 189 "On Approval of Requirements to Issuers and their Securities that are Going to be Allowed (are Allowed) for Circulation at the Stock Exchange as well as to Certain Categories of the Stock Exchange List".

54. Resolution of the National Bank's Board as dated July 17, 2015 No. 140 "On Amendments to Some Legislative Acts of the Republic of Kazakhstan Regarding Bank Regulation".

55. Resolution of the National Bank's Board as dated July 17, 2015 No. 141 "Regarding the Approval of the Rules for Early Responses Measures and the Methods to Identify Factors which Cause Deterioration in the Bank's Financial Position".

56. Resolution of the National Bank's Board as dated July 17, 2015 No. 142 "Regarding the Approval of the Rules for Early Response Measures and the Methods to Identify Factors which Cause Deterioration in the Bank Conglomerate's Financial Position".

57. Resolution of the National Bank's Board as dated August 21, 2015 No. 155 "On Amendments to Some Legislative Acts of the National Bank of the Republic of Kazakhstan".

58. Resolution of the National Bank's Board as dated September 17, 2015 No. 175 "On Changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated February 24, 2012 No. 42 "Regarding the Approval of the Rules for Export and Import Control in the Republic of Kazakhstan and Assigning Record Numbers for Export-Import Contracts by Residents".

59. Resolution of the National Bank's Board as dated October 12, 2015 No. 180 "On Changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated March 20, 2015 No. 38 "Regarding the Approval of the Rules for Minimum Reserve Requirements Including the Structure of Bank Liabilities Used for Calculation of Reserve Requirements, Conditions for Compliance with Minimum Reserve Requirements, Reserving Procedure".

60. Resolution of the National Bank's Board as dated October 20, 2015 No. 192 "On Changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated August 24, 2012 No. 242 "Regarding the Approval of the Rules for Setting an Official Exchange Rate of the Domestic Currency of the Republic of Kazakhstan against Foreign Currencies".

61. Resolution of the National Bank's Board as dated October 20, 2015 No. 193 "On Changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated January 25, 2013 No. 15, the Order of the

Minister of Finance of the Republic of Kazakhstan as dated February 22, 2013 No. 99 “Establishing the Procedure for Setting and Using the Market Exchange Rate of Currencies”.

62. Resolution of the National Bank’s Board as dated October 20, 2015 No. 194 “On Approval of the Standard Retirement Annuity Contract, Determining the Methodology for Calculation of Insurance Premium and Insurance Benefit from an Insurance Organization under the Retirement Annuity Contract, of an Acceptable Level of Expenses of an Insurance Organization Related to Maintaining a File on Concluded Retirement Annuity Contracts as well as the Rate of Insurance Benefit Indexation”.

63. Resolution of the National Bank’s Board as dated October 20, 2015 No. 195 “On Changes to Some By-Laws of the Republic of Kazakhstan Regarding the Securities Market”.

64. Resolution of the National Bank’s Board as dated 20 октября 2015 а No. 197 “On Amendments to Some Legislative Acts of the Republic of Kazakhstan Regarding Insurance Business”.

65. Resolution of the National Bank’s Board as dated October 20, 2015 No. 198 “Regarding the Approval of the Rules for Purchasing as well as Placement of Shares of the Insurance Indemnity Guarantee Fund”.

66. Resolution of the National Bank’s Board as dated October 30, 2015 No. 200 “On Amendments and a Supplement to Some By-Laws of the Republic of Kazakhstan Regarding Bank Regulation”.

67. Resolution of the National Bank’s Board as dated 28 November 28, 2015 No. 209 “On Amendments to Some Legislative Acts of the Republic of Kazakhstan on Retirement Security”.

68. Resolution of the National Bank’s Board as dated November 28, 2015 No. 210 “Regarding Some Aspects of Parallel Circulation of the Domestic Currency Banknotes of the Republic of Kazakhstan”.

69. Resolution of the National Bank’s Board as dated December 19, 2015 No. 256 “On Approval of the List, Forms and Reporting Deadlines for the Registrar and the Rules of their Submission”.

70. Resolution of the National Bank’s Board as dated December 31, 2015 No. 259 “Regarding the Approval of the Rules for Functioning of the Interbank System of Money Transfers and Making Changes to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated February 3, 2014 No. 14 “Regarding the Approval of the Rules for Establishing Correspondent Relations between the National Bank of the Republic of Kazakhstan and Banks as well as Organizations Engaged in Certain Types of Banking Operations”.

71. Resolution of the National Bank’s Board as dated December 31, 2015 No. 260 “On Amendments to the Resolution of the Board of the National Bank of the Republic of Kazakhstan as dated November 15, 1999 No. 388 “Regarding the Approval of the Rules for Using Codes of Economic Sectors and Payment Purposes and Providing Information about Payments in Line with Them”.

72. Resolution of the National Bank’s Board as dated December 31, 2015 No. 261 “Regarding the Approval of the Rules for Operations with Bills of

Exchange by the Second-Tier Banks and Organizations Engaged in Certain Types of Banking Operations”.

73. Resolution of the National Bank’s Board as dated December 31, 2015 No. 262 “Regarding the Approval of the Rules for the Interbank Clearing System Functioning“.

List of Abbreviations Used

JSC	- a joint stock company
bank	- a second-tier bank
GDP	- gross domestic product
USD	- US Dollar
EAEU	- Eurasian Economic Union
EurAsEC	- Eurasian Economic Community
UAPF	- joint stock company “the Unified Accumulation Pension Fund”
Kazakhstan Stock Exchange	- joint stock company “the Kazakhstan Stock Exchange”
mln.	- million
bln.	- billion
UoLE	- union of legal entities
CIS	- the Commonwealth of Independent States
trln.	- trillion
thous.	- thousand
EGS	- exports of goods and services
