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EXECUTIVE SUMMARY

1. In 2014, according to the updated information from the Ministry of National Economy, the GDP growth accounted for 4.3%. In the GDP structure, production of goods increased by 1.0%, and production of services – by 6.0%. Thus, in 2014 the segment of services remained the main driver of growth in the economy; its share in the GDP volume increased from 54.2% in 2013 to 55.6% in 2014.

2. In 2014, the annual inflation (December versus December of the previous year) accounted for 7.4%, which corresponds to the established target band of 6-8%.

The increase in the inflation rate at the beginning of 2014 was associated with the adjustment of the domestic currency exchange and inflationary expectations. During subsequent months, the inflationary trend came back to the numbers of the prior years because of absence of fundamental emacroeconomic factors, and the inflation background slightly mitigated by the end of 2014.

3. In 2014, the domestic foreign exchange market was developing under the impact of multidirectional factors which resulted both in appreciation and depreciation of the Tenge exchange rate in some periods.

In 2014, the weighted average exchange rate of the Tenge was KZT 179.49 per 1 US Dollar. At the year-end, the stock exchange rate had been at KZT 182.35 per 1 US Dollar. Over 2014, the Tenge had depreciated versus the US Dollar by 18.4% in nominal terms.

4. At the end of 2014, the overall volume of international reserves of the National Bank amounted to USD 28.9 bln., which exceeds the volume of 2013 by USD 4.2 bln.

5. In 2014, the volume of deposits of residents in depository institutions increased by 15.9% to KZT 11.7 trln. (in 201 – 12.1%). The volume of deposits to GDP increased from 28.6% to 30.7%.

The growth in the deposit base was secured by the growth in deposits both of individuals and legal entities. During 2014, deposits of non-bank legal entities increased by 18.1% to KZT 7.3 trln., and deposits of individuals – by 12.6% to KZT 4.4 trln.

6. In 2014, the volume of bank credits to the economy increased by 7.2% to KZT 12.1 trln.

Intensification of lending to the economy was mainly observed in the Tenge segment of the credit market; as a result, the growth in the percentage of the Tenge loans within total loans increased from 70.3% to 70.8%. During 2014, loans in the domestic currency increased by 7.9% to KZT 8.6 trln., and foreign currency loans increased by 5.5% to KZT 3.5 trln.

7. During 2014, money supply increased by 10.5%, being adequate to the growth rates of the economy (the growth in nominal GDP accounted for 7.8%). At the end of 2014, the level of monetization in the economy grew from 32.9% to 33.7%.

8. In 2014, 34.7 million transactions amounting to KZT 202.6 trln. had been processed in the Interbank System of Money Transfers and the Interbank Clearing System. Versus 2013, the amount of payments increased by 14.1%.

By January 1, 2015, the total number of payment cards in circulation amounted to 17.3 million, thus exceeding the level of 2013 by 4.4%.

9. In 2014, assets of the banking sector increased by 18.0% to KZT 18.2 trln. Assets of insurance organizations increased by 17.1% to KZT 612.9 bln. During 2014, accumulated pension savings increased by 21.0% and amounted to KZT 4.5 trln.

10. The total market value of the National Fund's portfolio amounted to USD 75.2 bln. at December 31, 2014, excluding the Tenge account and the accounts payable. In 2014, the National Fund's return in the base currency accounted for (-)1.19%; however, positive excess return of 0.69% on the savings portfolio and of 0.01% on the stabilization portfolio versus the established benchmark portfolios was achieved. The National Fund's return since its inception up to December 31, 2014 accounted for 70.81%, which makes up 4.02% in annual terms.

11. During 2014, retained profit including the donated public block of shares of the "RFCA Academy" and the revaluation of disposed fixed assets amounted to KZT 86 228.6 mln., having increased by KZT 29 758.9 mln. (52.7%) versus 2013.

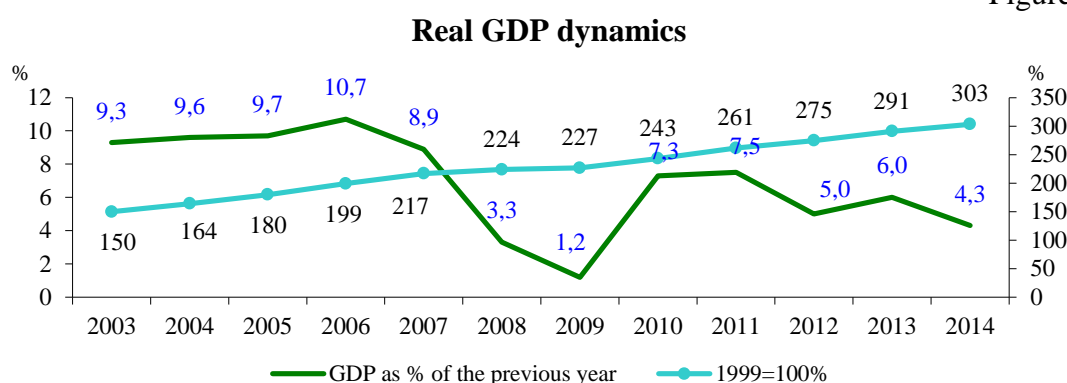
I. ECONOMIC DEVELOPMENT

1.1. Real Sector of the Economy¹

In 2014, the Kazakh economy was developing in the environment of growing geopolitical tension, deteriorated external economic conditions and decreasing world prices of oil and metals. Under the impact of external factors, the economic activity in the country slowed down, nonetheless remaining at the positive growth path.

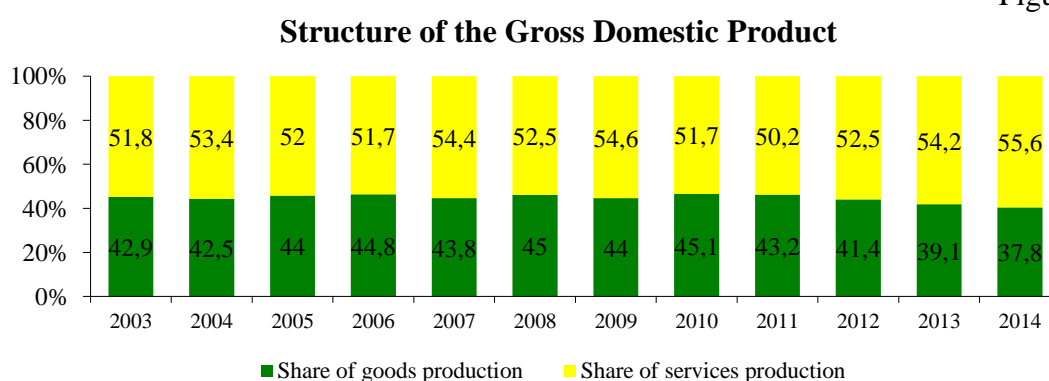
According to updated information, during 2014 Kazakhstan's GDP grew by 4.3% (in 2013 – the 6.0% growth) in real terms, having reached KZT 38 033.1 bln. (Figure 1.1.1).

Figure 1.1.1



During 2014, the production of services in the GDP composition increased by 6.0%, whereas the production of goods increased by 1.0%. Thus, in 2014 the segment of services still represents the main driver for the economic growth; its share in the GDP volume increased from 54.2% in 2013 to 55.6% in 2014 (Figure 1.1.2).

Figure 1.1.2



The slowdown in the economic growth in 2014 was caused by the decreased growth rates in agriculture (the growth of 0.8%), manufacturing industry (the growth of 1.0%), wholesale and retail trade (the growth of 9.0%), information and communications (the growth of 8.5%), and financial and insurance business (the growth of 4.2%).

At the same time, acceleration in the growth rates was observed in such sectors as the construction sector (the growth of 4.1%), catering and accommodation services (4.7%), real estate operations (3.7%), healthcare and social services (2.1%), activities in the area of administrative and ancillary service (5.8%).

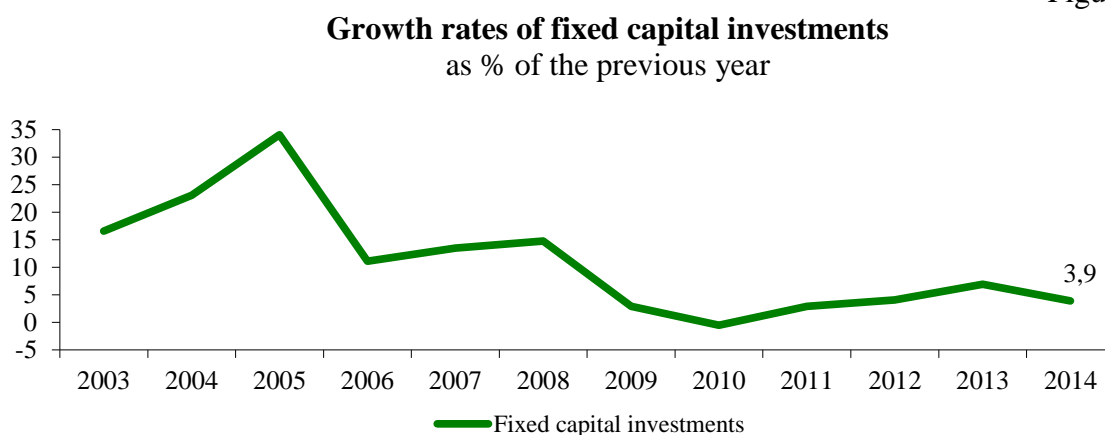
¹ According to the Committee of Statistics of the Ministry of National Economy

The 2.2% reduction in the volume of crude oil extraction represented a component of the industry which appeared to be the most sensitive to impact; this was the main cause for the 0.3% decline in the output volumes in the mining industry. The decline in oil prices since October 2014 represented an external factor influencing the Kazakh economy. During 2014, the price of crude oil (Brent) had been at USD 98.9 per barrel on average, whereas in 2013 its price amounted to USD 108.9.

During 2014, the volume of fixed capital investments increased by 3.9% (in 2013 – the growth of 6.9%) (Figure 1.1.3). The growth of investments was mainly secured by increased fixed capital investments in the industry – the growth of 9.5% (the share in the total volume – 53.3%) and real estate transactions – the growth of 21.8% (the share – 10.2%).

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 from 51.5% to 57.9%.

Figure 1.1.3



During 2014, Kazakhstan's foreign trade turnover decreased by 10.5% (exports decreased by 7.6%, and imports – by 15.6%) due to slowed economic growth in the countries - major trade partners of Kazakhstan as well as because of declined prices for export products of Kazakhstan. A large part of Kazakhstan's export items is shipped to the European Union countries (during 2014, their share in exports accounted for 56.8%), to China (12.5%) and Russia (6.6%). In 2014, the EU's GDP (28) showed a minor growth of 1.3%, in China the growth slowed down to 7.4% (in 2013 – 9.2%), and in Russia – to 0.6% (1.3%).

Given that the foreign economic environment deteriorated, the macroeconomic development was based on expansion of aggregate demand supported by more active lending (by 7.2%), the growth in employment and reduction in the unemployment rate (from 5.2% in December 2013 to 5.0% in December 2014), and increased cash income of the population.

In 2014, the average monthly nominal wage of one employee amounted to KZT 120 455, exceeding that of 2013 by 10.9%. In real terms, wages increased by 3.9% (in 2013 – the growth of 1.9%).

During 2014, the average per capita nominal cash income reached KZT 744 700, exceeding that of 2013 by 10.4% in nominal terms and by 3.6% - in real terms.

1.2. Monitoring the Real Sector Enterprises

During 2014, the number of enterprises - participants of the monitoring process representing the key sectors of the country's economy increased from 2 679 to 2 766, where the number of medium- and large-size enterprises increased from 1 551 to 1 594. Enterprises were selected for participation in the monitoring process on the basis of sectoral and regional structure of the economy, based on calculation of representativeness of the enterprise sample. In the 3rd quarter of

2014, the percentage of revenues from the sale of products (works, services) of the enterprises participating in the monitoring process accounted for 49.8% in the total revenue from the sale of products in the country's economy.

The results of quarterly surveys among enterprises allow making the following conclusions about the existing economic situation and the main trends in the real sector of the economy in 2014.

In the 1st quarter of 2014, the demand for final products reduced significantly and it slightly increased in the 2nd and the 3rd quarters of 2014. However, in the 4th quarter there was a decrease in the demand in the real sector in general (Appendix 1 to Section I Sub-section 1.2, Figure 1.2.1) and in such sectors as “manufacturing industry”, “construction”, “transport and warehousing”. A slowdown in the demand was observed in such sectors as the “mining industry”, “agriculture” and “information and communications”.

Prices for raw materials and supplies remained quite high throughout the year, despite a notable slowdown in their growth. The largest slowdown in the price growth was noted in the 4th quarter of 2014, when 44.9% of enterprises in the sample noted the price growth and 4.7% – their decline (in the 3rd quarter – 55.3% and 1.8%, respectively) (Appendix 1 to Section I Sub-section 1.2, Figure 1.2.2).

During 2014, the trend of sluggish growth in prices for final products of enterprises outlined: in the 1st quarter of 2014, the price growth was noted by 36.4% of respondents, and the decline – by 3.3%, and in the 4th quarter – by 17.4% and 9.2%, respectively (Appendix 2 to Section I Sub-section 1.2, Figure 1.2.3).

The decline in prices for final products occurred mainly in the mining industry. The largest slowdown in prices was noted in such sectors as “information and communications”, “manufacturing industry”, “electricity supply, gas and vapor supply” and “construction”.

Enterprises continued to finance working capital mainly with their own funds; this trend was noted by over 80% of enterprises. 17.4% of enterprises used bank loans for these purposes.

Average annual profitability of sales (before tax) in the real sector of the economy accounted for 39.4% (in 2013 – 40.1%). The share of low-profitable and loss-making enterprises decreased to 22.7% by the end of 2014 (in 2013 – 23.3%).

Average annual profitability of sales in the mining industry accounted for 61.3%, in the manufacturing industry it was at 25%, and in the construction sector it accounted for 11.7%.

By the end of 2014, interest rates on loans in the Tenge remained virtually unchanged (11.8% in the 4th quarter of 2014), and interest rates on foreign currency loans decreased to a certain extent (from 9.5% in the 1st quarter of 2014 to 8.4% in the 4th quarter of 2014). In addition, the number of enterprises that applied for a bank loan but did not obtain it increased (from 2.7% in 2013 to 4.9%) (Appendix 2 to Section I, Sub-section 1.2, Figure 1.2.4, Appendix 3 to Section I, Sub-section 1.2, Figure 1.2.5).

During 2014, investment activity in the real sector of the economy somewhat increased, mainly due to the use of own funds by enterprises (the number of such enterprises increased from 57.8% in the 1st quarter of 2014 to 62.9% in the 4th quarter of 2014).

1.3. Public Finance²

At the end of 2014, revenues to the state budget increased by 14.7% versus 2013 and amounted to KZT 7 321.3 bln. or 19.2% of GDP, according to updated information (in 2013 – 18.1% of GDP).

Tax revenues which accounted for 69.9% in the structure of the state budget revenues, amounted to KZT 5 115.7 bln. or 13.5% of GDP (in 2013 – 13.5% of GDP). The changes in the system of taxation resulted in the 7.0% increase in tax revenues versus 2013. Revenues from excise taxes increased by 41.9%, property tax – by 21.6%, international trade and foreign operations tax –

² According to the Ministry of Finance of the Republic of Kazakhstan

by 19.8%, revenues from gambling taxes – by 14.9%, corporate income tax – by 13.3%, social tax – by 12.5%, and revenues from personal income tax – by 12.0%. There was a decrease in tax revenues from the tax on the use of natural and other resources – by 11.0%, and from value-added tax – by 9.8%.

In 2014, non-tax revenues increased by 26.7% and amounted to KZT 179.5 bln. or 0.5% of GDP. Such increase was mainly secured by increased revenues from public procurements and revenues from penalties, fines, sanctions, and charges.

Revenues from fixed capital sales increased by 26.6% versus 2013 and amounted to KZT 71.0 bln. or 0.2% of GDP.

As for the receipt of transfers, the plan was implemented by 100%. During 2014, in order to provide funding for the budgetary development programs, a transfer of KZT 1 955.0 bln. was made to the state budget from the National Fund.

During 2014, the state budget spending amounted to KZT 7 791.9 bln. or 20.5% of GDP (in 2013 – 19.4% of GDP). Versus 2013, expenditures increased by 13.7%. Expenditures for social assistance and social security accounted for 19.9% of total expenditures, for education – 17.4%, and for healthcare – 11.0%.

In 2014, credits provided from the public budget decreased by 1.4%, and proceeds in repayment of earlier credits also decreased by 27.7%. In general, the volume of net budget lending increased by 67.4% to KZT 43.2 bln. or 0.1% of GDP.

The state budget spending for the acquisition of financial assets increased by 2.7 times, and proceeds from their sale, on the contrary, decreased by 76.3%. Thus, the balance of such operations increased by 2.8 times to 1.5% of GDP.

In 2014, the state budget was executed with the deficit of KZT 1 086.7 bln. (2.9% of GDP), in 2013 the deficit accounted for KZT 700.9 bln. (Figure 1.3.1).

In 2014, revenues to the national budget amounted to KZT 5 908.8 bln. or by 14.1% exceeded those of 2013. Non-tax revenues to the national budget increased by 30.8%, receipts of transfers increased by 34.9% and tax revenues – by 4.4%. Proceeds from the sale of fixed capital decreased significantly – by 14.4%.

Figure 1.3.1



The growth in the national budget spending which reached KZT 6 471.2 bln. accounted for 13.5% versus 2013, where a significant increase is observed in such items as the “industry and construction” (by 46.5%), “public services of the general nature” (by 37.1%), “debt service” (by 30.9%), “healthcare” (by 28.5%), “social assistance and social security” (by 14.3%) and “education” (by 2.5%).

In 2014, the volume of net budget lending to the national budget increased by 3.6% to KZT 39.5 bln. The volume of revenues from public budget credit repayments decreased by 5.8% and the volume of budget credits decreased by 2.9%. The balance of operations with financial assets showed a 3-fold increase.

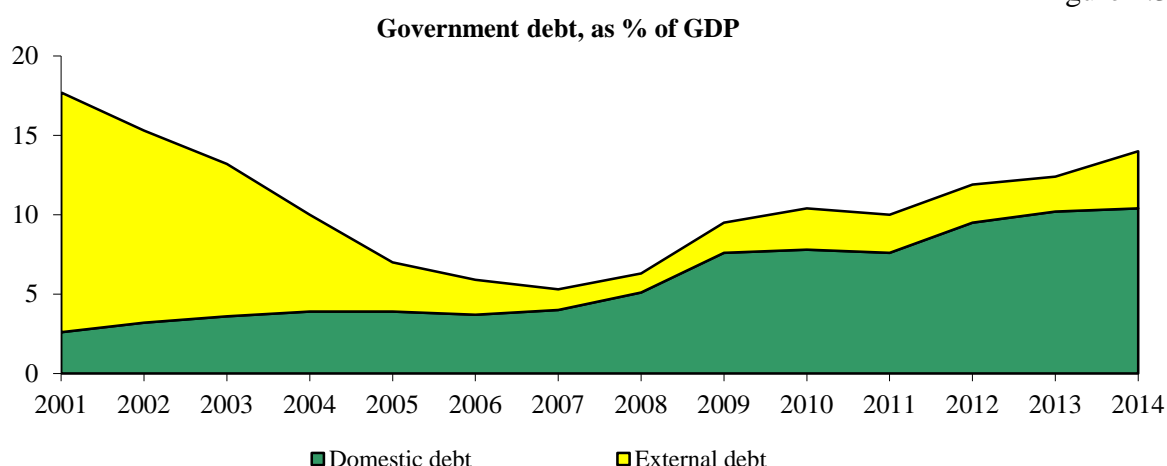
Thus, the actual national budget deficit in 2014 amounted to KZT 1 081.2 bln. (in 2013 – KZT 718.2 bln.), while according to the plan the deficit of KZT 1 082.8 bln. was expected.

In 2014, local budgets were executed with the deficit of KZT 31.0 bln. (in 2013 – the deficit of KZT 25.1 bln.), which ended up like this because of 14.3% increase in revenues; expenditures increased by 13.2%, net budget lending decreased by 1.6%, and balance of operations with financial assets increased by 2.0 times.

In 2014, the domestic government debt amounted to KZT 4 178.0 bln. (11.0% of GDP), having increased by 15.6% versus 2013 (Figure 1.3.2).

The growth was secured by the issue of long-term government treasury obligations, short-term government treasury obligations and long-term government savings treasury obligations.

Figure 1.3.2



During 2014, the government external debt increased by 54.3% versus that of 2013 and amounted to USD 7.9 bln. (3.8% of GDP). The external debt guaranteed by the government decreased by 15.9%.

1.4. Balance of Payments and External Debt

At the end of 2014, the current account balance had a surplus of USD 4.6 bln. or 2.2% of GDP versus USD 0.9 bln. in 2013 (Appendix 1 to Section I Sub-section 1.4, Table 1.4.1). At the same time, in the second half of 2014 the current account showed up the negative balance of USD 2.2 bln. as compared to a surplus of USD 6.9 bln. in the first half of 2014. During 2014 as a whole, the current account improved significantly versus 2013 due to considerable reduction in the negative imbalance of investment returns as well as due to increased balance of trade surplus as a result of higher rates of reduction in imports of goods.

During 2014, exports of goods amounted to USD 79.1 bln., having decreased by 7.6% versus the corresponding indicator in 2013. Throughout 2014, a steady reduction in exports was observed – from USD 22.8 bln. in the 1st quarter to USD 17.3 bln. in the 4th quarter. Imports of goods amounted to USD 43.4 bln., being by 14.5% less than in 2013. As opposed to exports, imports of goods grew to USD 23.6 bln. in the 2nd half of the year from USD 19.8 bln. in the first half of the year. As a result, in 2014 a balance of trade surplus amounted to USD 35.6 bln. (USD 34.8 bln. in 2013).

The official exports of goods in 2014 amounted to USD 78.2 bln., having decreased by 7.6% versus the corresponding indicator in 2013. Exports of oil and gas condensate which comprise 68.5% of the official exports amounted to USD 53.6 bln., being by 6.3% less than in 2013 (USD 57.2 bln. in 2013). During 2014, the world oil price (Brent) amounted to USD 98.9 per barrel on average, which is by 9.1% less than its average level in 2013 (USD 108.9 per barrel). As for other

groups of trade classification, the exported volumes decreased both because of reduced contractual prices and physical deliveries.

During 2014, imports of goods recorded by the official trade statistics decreased by 15.5% versus the corresponding indicator in 2013, amounting to USD 41.2 bln. The reduction in imports occurred virtually in all groups of the main trade classification due to reduced contractual prices along with the growth in physical volumes, to a large extent. Imports of investment goods (37.1% of total imports) amounted to USD 15.3 bln., having decreased by 9.5%. The highest reduction in the value of official imports (by 30.7% to USD 12.7 bln.) was noted among interim consumption products. The value of imports of consumer goods decreased by 3.4% to USD 12.3 bln. Imports of foodstuffs decreased by 6.1% to USD 4.0 bln., and imports of non-food products decreased by 2.1% to USD 8.3 bln.

The deficit on the balance of international services during 2014 reduced by 9.3% versus 2013 and amounted to USD 6.4 bln. Given the growth in the balance of services (of 4.7%), the reduction in the negative imbalance of services was secured by the 24.0% growth in exports of services to USD 6.3 bln.; this is primarily associated with the growth in revenues from non-residents for oil and gas transit by pipelines via Kazakhtan's territory. In 2014, imports of international services amounted to USD 12.8 bln. (USD 12.2 bln. in 2013).

Negative balance on primary income in 2014 amounted to USD 22.9 bln., having decreased by 9.1% versus 2013, where negative balance on investment returns amounted to USD 21.2 bln. (USD 23.5 bln. in 2013). Returns receivable on investments made up mostly from the country's official reserves (reserve assets and foreign assets of the National Fund) decreased by 13.5% and amounted to USD 1.9 bln. Payouts of investment return to non-residents decreased by 10.0% to USD 23.1 bln. At the same time, payouts of return on direct investments decreased by 11.4% to USD 19.9 bln. It should be noted that in the 4th quarter significant reduction in payouts to non-residents on direct and portfolio investments versus prior quarters caused reduction in the deficit on the balance of investment returns from USD 6.2 bln. in the 3rd quarter to USD 3.7 bln. in the 4th quarter.

During 2014, balance on secondary income amounted to USD 1.7 bln. (USD 1.6 bln. in 2013).

In 2014, financial account (excluding operations with the National Bank's reserve assets) had a negative balance of USD 7.4 bln.³ (USD 0.3 bln. in 2013). An increase in net capital inflow or "net borrowing from other countries" of about USD 7.0 bln. versus 2013 was mainly secured by operations conducted in the second half of 2014.

There was a negative balance of USD 5.9 bln. on foreign direct investments versus USD 7.9 bln. in 2013.

Net growth in financial assets on foreign direct investments of USD 1.7 bln. (USD 2.0 bln. in 2013) was associated with the USD 1.5 bln. replenishment of assets of foreign subsidiaries in the 4th quarter of 2014.

Net growth in liabilities on foreign direct investments of USD 7.6 bln. (USD 9.9 bln. in 2013) was ensured by reinvestment of revenues (retained profit) and the growth in intercompany debt of Kazakhstani enterprises to their foreign parent companies totaling USD 9.6 bln., whereas intercompany debt to foreign subsidiaries decreased by nearly USD 2.0 bln.

In terms of the area of investment principle, gross inflow of foreign direct investments in 2014 amounted to USD 23.9 bln. (USD 24.0 bln. in 2013). Based on the principal repayment on mutual intercompany liabilities, net inflow of direct investments to Kazakhstan equaled USD 9.6 bln. (USD 10.2 bln. in 2013), and net outflow abroad – USD 3.6 bln. (USD 2.3 bln. in 2013).

³ Under the new balance of payments methodology, a negative sign of the balance on financial account and its components indicates that net borrowing (outstripping growth of assets over liabilities) causes deterioration in the international investment position and the growth in net external debt of the country

There was a minor surplus of USD 0.8 bln. (versus 2013) on portfolio investments (USD 6.0 bln. in 2013). A decreased surplus is related mainly to the operations in the 4th quarter of 2014, when portfolio assets decreased by USD 2.2 bln. and liabilities increased by USD 3.5 bln.

The reduction of the National Fund's foreign assets by USD 2.2 bln. in the 4th quarter caused the decrease in the growth of assets in portfolio investments from USD 8.5 bln. in 2013 to USD 6.2 bln. in 2014.

Net incurred liabilities on portfolio investments had a surplus of USD 5.4 bln. (USD 2.5 bln. in 2013), being supported by operations of banks and non-bank organizations related to issue of debt securities in foreign markets, issuer replacement and restructuring of liabilities totaling USD 5.6 bln. Apart from that, in the 4th quarter of 2014 the Ministry of Finance issued Eurobonds worth USD 2.5 bln. It is also worth mentioning that in 2014 banks repaid earlier issued bonds including via restructuring, with their amount totaling USD 0.8 bln.

A negative balance on "Other investments" item amounted to USD 2.2 bln. (a surplus of USD 1.5 bln. in 2013), while assets increased by USD 1.7 bln. and liabilities grew by USD 3.9 bln. The increase in account balances of non-financial organizations and individuals with foreign banks of USD 2.5 bln. was conducive to the growth in assets. In addition, the growth of the USD 5.9 bln. in other short-term assets in "Other investments" is explained by valuation of foreign cash transactions of individuals unclassified in the balance of payments that was performed by the National Bank. At the same time, the decrease in foreign assets of banks and the National Fund on foreign accounts totaling USD 6.2 bln. offset the net outflow thus ensuring that a net growth in assets on "Other investments" decreased from USD 8.6 bln. in 2013 to USD 1.7 bln. in 2014.

Growth in liabilities in the "Other investments" item of USD 3.9 bln. was mainly secured by a net inflow of foreign loans and the growth in accounts payable of enterprises in the non-bank sector totaling USD 3.1 bln.

The increase in reserve assets as a result of operational changes amounted to USD 3.9 bln. in 2014 as compared to their decrease of USD 2.4 bln. in 2013. As of December 31, 2014, international reserves (excluding the National Fund's assets) were estimated at USD 28.9 bln., which is equal to Kazakhstan's imports of goods and services for 6.2 months.

At December 31, 2014, the external debt of the Republic of Kazakhstan amounted to USD 157.1 bln., of which USD 8.2 bln. (or 5.2%) is the government external debt, USD 10.1 bln. (6.4%) – the banking sector debt ("Banks"), USD 79.2 bln. (50.4%) – intercompany debt and USD 59.5 bln. – the debt of "Other sectors" (Appendix 2 to Section I Sub-section 1.4, Table 1.4.2).

During 2014, the country's external debt increased by USD 7.1 bln., mainly because of borrowings raised by the non-bank corporate sector from affiliated non-residents and issue of Eurobonds.

The increase in intercompany debt was partially offset as a result of reclassification of expenses into non-debt capital (in the amount of USD 1.4 bln.) that were earlier recorded in liabilities of a branch of a foreign company – operator of a large oil and gas project.

In 2014, a lot of borrowed funds continued to arrive for implementation of projects in the oil and gas sector, mining industry and other industries (including loans provided by parent companies to their branches operating within Kazakhstan, by the Development Bank of China to the "Asian Gas Pipeline" LLP and "Beineu-Shymkent Pipeline" LLP of USD 4.7 and USD 1.8 bln., respectively); also, new Eurobonds were issued and the replacement of issuers of earlier issued Eurobonds took place (including "KazAgro" National Management Holding Company in the amount of Euro 600.0 mln., "Kazakhstan Temir Zholy" National Company JSC – USD 1.1 bln. and SFR 285.0 mln., KazMunaiGas National Company – USD 1.5 bln.).

External debt of "Banks" decreased by USD 1.1 bln. in 2014, including redemption of bonds issued by ATF Bank with the par value of USD 450.0 mln., of Bank CenterCredit – USD 500.0 mln., and of Kazkommertsbank – USD 196.2 mln.

The government external debt (the Government and the National Bank) increased by USD 2.6 bln. during 2014 as a result of Eurobond issuance by the Ministry of Finance with a par value of

USD 2.5 bln. as well as due to the growth in liabilities on correspondent accounts and deposits of non-residents at the National Bank and continuing inflows of government foreign borrowings (mainly, used to implement the “Western Europe – Western China” Project).

It is worth mentioning that the decline in oil price and unstable situation in the world in general (conflict in Ukraine, depreciation of the Russian ruble, imposition of sanctions, etc.) caused considerable depreciation in the value of securities of Kazakhstani issuers. So, in 2014 reduction in the “Debt securities” item as a result of value adjustment is estimated at USD 1.7 bln.

At December 31, 2014, the external debt to GDP ratio accounted for 74.2% versus 64.8% at the end of 2013 (Appendix 3 to Section I Sub-section 1.4, Table 1.4.3), and the external debt to EGS ratio accounted for 183.9% versus 165.3% at the end of 2013.

At the end of 2014, reserve assets of the National Bank exceeded short-term external debt at original maturity by 2.9 times, and net external debt of Kazakhstan, having increased by USD 7.0 bln., amounted to USD 25.5 bln. or 12.0% of GDP.

The government sector and “Banks” maintain the position of a net lender in relation to the rest of the world: debt assets exceed debt liabilities by USD 74.8 bln. and USD 8.8 bln., respectively.

1.5. Safeguarding Financial Stability

The year 2014 is characterized by considerable growth in external negative factors which resulted in increased vulnerability of the financial sector and in slowdown in the business activity of entities in the real sector of Kazakhstan as a whole.

Given the adjustment of the local currency exchange rate in February 2014, decline in world oil prices, depreciation of the Russian ruble, a dramatic geopolitical situation in the world and deceleration in economic growth from the second half of the year, prerequisites for deterioration in a number of financial soundness indicators of the banking sector outlined, high devaluation expectations in respect of the Tenge evolved. These resulted in reduced business activity of banks and decreased growth rates in the loan portfolio against systemic shortage of the Tenge liquidity.

In the 4th quarter of 2014, the National Bank conducted an assessment of financial soundness of Kazakh banks with a view to identify potential risks and effects of declined oil price and imposition of sanctions against the Russian Federation. According to the results obtained, the majority of banks managed to comply with the capital adequacy ratios under scenarios suggested by the National Bank.

In doing so, the growth rates of assets and bank loan portfolios decrease significantly under the stress scenario. So, if the growth in assets including the growth in the loan portfolio is estimated at 7-9% in case of the baseline scenario, it is estimated at 3-4% in case of the stress scenario.

As a whole, on a year-over-year basis there is a slowdown in the loan portfolio growth because of reduced business activity in general, actively charged off non-performing loans⁴ by banks, primarily in the corporate sector as well as availability of funding. As a consequence, the portfolio of loans provided to corporate entities decreased by 6.1%; also, the growth rates in the portfolio of loans to individuals slowed from 30.3% to 12.5%. The main contribution to the growth in the loan portfolio was secured by the increase in the SME loan portfolio – by 38.7% (in 2013 the growth accounted for 25.2%), including as part of implementation of governmental support programs.

The results of survey of the credit market quality parameters conducted on the basis of bank questionnaires confirm low activity, both on the part of banks and on the part of borrowers during 2014. Loans to non-financial organizations were provided mainly in order to finance their working capital and restructure the existing liabilities. Lending activity of banks in the retail segment was limited by regulatory actions aimed to mitigate risks of excessive consumer loan portfolio growth.

⁴ Non-performing loans mean loans with a past due on the principal amount and/or accrued interest

The mortgage lending sector is characterized by low activity and further prospects of its development in the near-term are also limited due to the lack of growth factors, according to banks. As a result, tight lending activity of banks and retention of strict requirements in respect of borrowers represented a constraint for the growth in demand both on the part of non-financial organizations and individuals. Nonetheless, there was some activation in SME lending as part of governmental programs supporting small- and medium-size business.

With a view to limit systemic risks in the consumer lending sector, in 2014 a limit was imposed for the growth in the portfolio of unsecured consumer loans not to exceed 30% a year; a borrower's debt burden was also capped at 50% of its disposable income; and requirements were introduced that banks should create additional capital reserves when providing consumer loans. As a result, the growth in the portfolio of unsecured consumer loans accounted for 7.9% in 2014 versus 98.5% in 2013. The quality of an unsecured consumer loan portfolio remains acceptable – the share of loans past due over 90 days is about 11%, which is significantly lower than in the loan portfolio as a whole (23.5%).

The non-performing loan charge-offs as a result of a joint effort of the National Bank and banks served as a key factor for improving the loan portfolio quality. The quality of the corporate sector's loan portfolio improved primarily owing to three dominating industries: "construction", "trade" and "non-production sphere". However, the concentration of credit risk in those industries is still high, accounting for over 70% of non-performing loans of the corporate sector.

At the end of 2014, the volume of non-performing loans decreased by KZT 818.0 bln. or by 19.7% to KZT 3 340.2 bln. The share of non-performing loans in the loan portfolio of banks accounted for 23.5% as compared to 31.2% at the beginning of the year (the maximum percentage was reached at end-April 2014 – 33.7%). The structure of the non-performing loan portfolio broken down by type of entities had not undergone considerable changes: loans to corporate entities still prevail – 73.2%, whereas loans to individuals and loans to SMEs account for 15.4% and 11.4%, respectively. Along with that, foreign currency loans constitute 60% of total non-performing loans.

In 2014, significant changes were observed in the funding structure of the banking sector, both in terms of maturities and a currency of borrowing.

Liabilities to customers still served as a basis for funding; however, by the end of 2014 they were mainly denominated in foreign currency. Deposits of individuals were subject to conversion of the Tenge deposits into foreign currency, to the greatest extent. So, in 2014 the growth in foreign currency deposits of individuals accounted for over 72% against the 35% drop in the Tenge deposits. The growth in foreign currency deposits of corporate entities accounted for 85% against the 16% decrease in the Tenge deposits.

At the same time, despite the fact that the customer deposit base in the local currency had decreased significantly, there was an increase in the long-term funding in the structure of the Tenge deposits; such increase was secured by investments of pension assets by the Unified Accumulation Pension Fund into deposits with maturity over three years. At the end of 2014, their total volume reached 6% of bank liabilities to customers. The increase in the share of long-term liabilities was accompanied with the reduction in the volume and the share of short-term liabilities in the Tenge. As a result, the share of long-term Tenge liabilities in 2014 doubled – from 14.8% to 29.2%.

The bank funding is still heavily reliant on deposits of companies from the quasi-government sector. In general, at the end of 2014 the share of funding provided to banks by the government in the name of quasi-government companies and the UAPF accounted for 64% of corporate deposits, where the share of deposits belonging to the National Welfare Fund "Samruk-Kazyna" is estimated to be 17%.

As for the measures undertaken to ensure stability of the financial system, in 2014 one of the strategic approaches taken by the National Bank was to reduce the level of non-performing loans in the banking system. Alongside with the existing comprehensive approach providing for the use of several elements in the overall framework of banks' balance sheet clean ups (charge-off, waiver, handover to a subsidiary which acquires doubtful and bad loans of a parent bank and to the Problem

Loans Fund, and a sale to third parties), the National Bank jointly with stakeholders – government authorities and banks - undertook a set of measures to fine-tune the existing frameworks of banks' balance sheet clean ups.

In 2014, the National Bank jointly with the Government accomplished necessary arrangements to increase the equity of the Problem Loans Fund by KZT 250 bln. Owing to these arrangements, the capacity of the Problem Loans Fund was expanded to clean up banks' balance sheets from non-performing loans and to achieve targets in respect of their level (not more than 10% of the loan portfolio by 2016).

On May 27, 2014 the National Bank's Board adopted the Concept Paper of the Problem Loans Fund which was aimed to improve its performance; frameworks for cooperation of the Problem Loans Fund with banks were significantly expanded in line with the Concept Paper.

In order to ensure proper monitoring and coordination of arrangements for reducing the level of past due loans, the Commission was established by the Order of the National Bank's Governor dated June 26, 2014 No. 232; the purpose is to make evaluations and exercise control over efforts aimed to reduce past due loans. Within the framework of the Commission, banks are provided with the plans of actions that provide for reducing the level of loans that are past due on their principal and/or interest amount over 90 days to their target levels. During the period of the Commission's operation, in 2014 the growth in problem loans was stopped and their volume at banks was reduced by KZT 1.3 trln.

In addition, with a view to solve the problems of non-performing assets of banks, in 2014 tax incentives aimed to eliminate the barriers on operations with non-performing assets were introduced. Besides, the National Bank drafted amendments to the banking legislation, tax legislation and bankruptcy law with a view to exclude the barriers refraining banks from more dynamic actions to clean up their balance sheets from non-performing assets.

With a view to formulate the policy of effective financial sector development and to improve the system of regulation of financial organizations, in 2014 eight sessions of the Council for Financial Stability and Financial Market Development of the Republic of Kazakhstan were held, where relevant issues regarding the development of the banking, insurance, pension and other segments of the Kazakhstan's financial system were discussed. At these sessions, the following issues had been discussed: increasing minimum capital requirements for banks on a stage-by-stage basis by 2019; improving the system of obligatory accident insurance; the impact of sanctions imposed by a number of countries against the Russian Federation on the financial sector and economy of Kazakhstan; the schedule for transition to Basel III standards was adjusted; the guidelines for the development strategy of the Insurance Indemnity Guarantee Fund were reviewed; matters associated with problem mortgage borrowers; improvement of Kazakhstan's pension system in respect of investment of a part of the UAPF's resources into financial instruments of banks; conclusions from the Financial Stability Report of Kazakhstan were discussed.

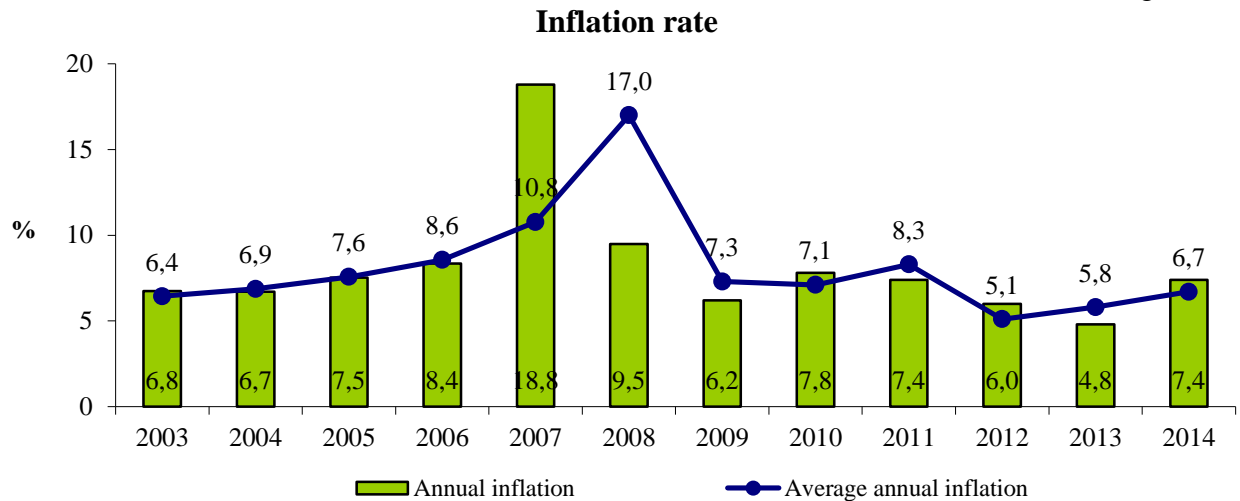
II. MONETARY POLICY AND CURRENCY EXCHANGE REGULATION

2.1. Monetary Policy

Inflation

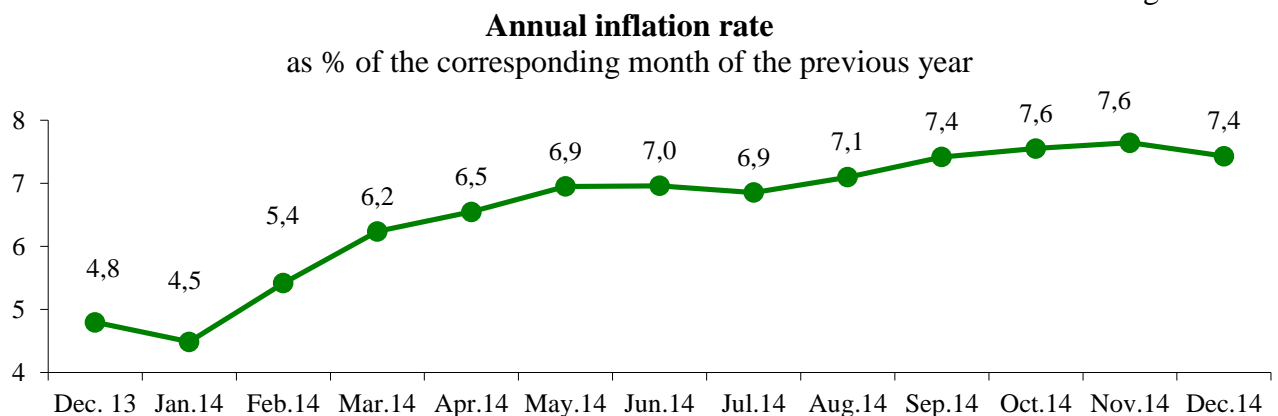
In 2014, the key objective of the monetary policy of the Republic of Kazakhstan was to ensure price stability and to keep annual inflation within 6-8%. At the end of 2014, the annual inflation accounted for 7.4% (December 2014 to December 2013), which corresponds to the declared target band. In doing so, the annual inflation rate increased versus 2013 (4.8%) (Figure 2.1.1).

Figure 2.1.1



The main reason for the increase in the inflation rate in 2014 was acceleration of the rates of growth in prices for foodstuffs and non-food products, whereas the rates of growth in prices for paid services to the population slowed down. In 2014, foodstuff prices increased by 8.0% (in 2013 – by 3.3%), prices for non-food products increased by 7.8% (by 3.3%), and prices for paid services – by 6.4% (by 8.0%) (Figure 2.1.2).

Figure 2.1.2



In general, there are a lot of factors affecting the buildup of inflationary processes. The key fundamental inflation factors are related to unstable situation in the global economy including in the countries-trade partners of Kazakhstan, high volatility in the global commodity and financial markets, weak competitive environment, the presence of monopolies and oligopolies in certain markets of goods and services.

Acceleration of inflationary processes at the beginning of 2014 was caused by the adjustment of the local currency exchange rate. A short-term upsurge in inflation in monthly terms was recorded in February-March 2014, when it accounted for 1.7% in February and 1.0% in March due to increased prices for imported goods. Such increase in inflation was short-term and limited.

Due to the absence of fundamental macroeconomic factors in the following months the inflation dynamics returned to the level of prior years which corresponds to seasonal trends.

In the second half of 2014, some increase in the inflation background was caused by increased prices for gasoline and diesel fuel in the domestic market in August 2014. However, the decreased prices for fuel and lubricants in the environment of declining oil prices by the end of 2014 as well as prices for imported goods because of depreciation of the Russian ruble resulted in a slowdown in inflation at the end of 2014.

However, the impact of monetary factors on the inflation in 2014 remained limited and money supply was adequate to the economic growth rates. So, in 2014 the broad money increased by 10.5%, and the nominal GDP growth accounted for 7.8%.

Monetary Policy Instruments

In 2014, the National Bank was taking actions to regulate liquidity depending on the situation in the money market. The Tenge liquidity was provided through refinancing loans, and reverse repo operations at the Kazakhstan Stock Exchange. In 2014, the overall volume of refinancing loans amounted to KZT 7.9 trln., with maturity up to 1 month. Refinancing loans were provided at the refinance rate which remained unchanged in 2014 – at 5.5%. As of the end of 2014, the volume of outstanding liabilities of banks to the National Bank under refinancing loans amounted to KZT 675.3 bln. The volume of reverse repo operations at the Kazakhstan Stock Exchange amounted to KZT 286.5 bln. Such operations had 1-day maturity and were performed at the market rates.

In 2014, the situation in the money market was characterized by multi-directional trends. At the end of 2013, due to tapering of the Quantitative Mitigation Program of the US Federal Reserve System and overflow of capital from developing markets to the markets of developed countries depreciation of the exchange rates of local currencies in developing countries was observed. As a result, devaluation expectations also increased in the domestic foreign exchange market of Kazakhstan. In these circumstances, in February 2014 the exchange rate of the Tenge was adjusted and the fluctuation band was set at KZT 185 / 1 USD \pm KZT 3.

Increased volatility of market rates and their levels as a result of shortage in the Tenge liquidity were observed in the money market during that period. Beginning from April 2014, the situation in the money market had stabilized and market rates had been at a low level, except certain periods of tax payments. In the second half of 2014, the conditions in which the Kazakh economy was functioning had changed; this was caused by the decline in the world oil prices, in the first instance, as well as by significant depreciation of the exchange rate of the Russian ruble.

To this end, in July 2014 the National Bank began providing local currency liquidity to banks through long-term cross-currency interest rate swaps. Their maturity was over 12 months and their interest rate was 3.0%.

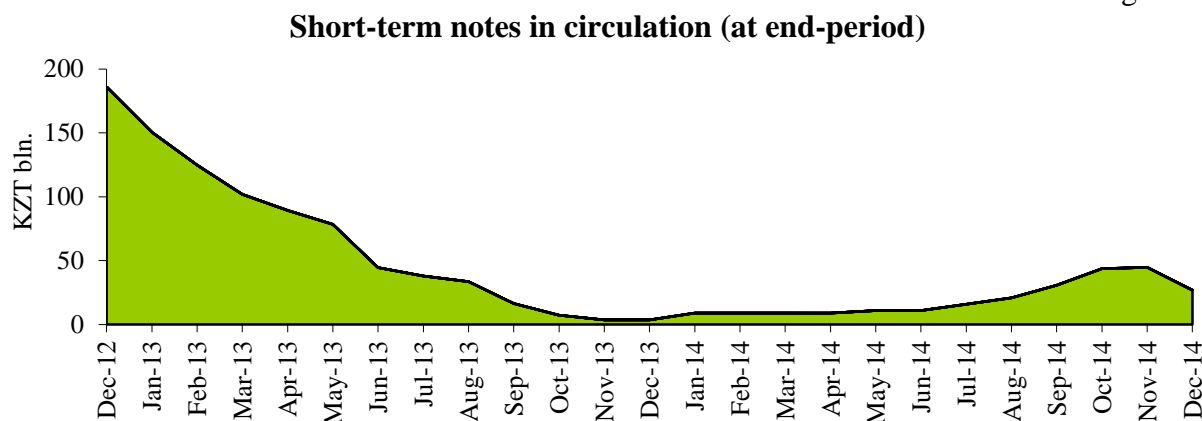
As a result of taken measures, the situation in the domestic foreign exchange market had stabilized, the exchange rate of the Tenge versus the US Dollar showed an appreciation trend. In this connection, in September 2014 the fluctuation band for the Tenge exchange rate was expanded. A new target for the exchange rate policy of the National Bank was set at KZT 185 / 1USD with the fluctuation band of KZT +3/-15.

Decline in the world energy prices and depreciation of the Russian ruble since October 2014 were conducive to the buildup of inflationary expectations in the domestic market of Kazakhstan, to the decrease in the volumes of the Tenge liquidity and increase in interest rates in the money market. In these circumstances, in December 2014 the National Bank began providing the Tenge liquidity through 1-day cross-currency swaps at the market rates, while suspending cross-currency interest rate swaps.

In 2014, the National Bank regulated liquidity in the money market also by performing operations to absorb liquidity.

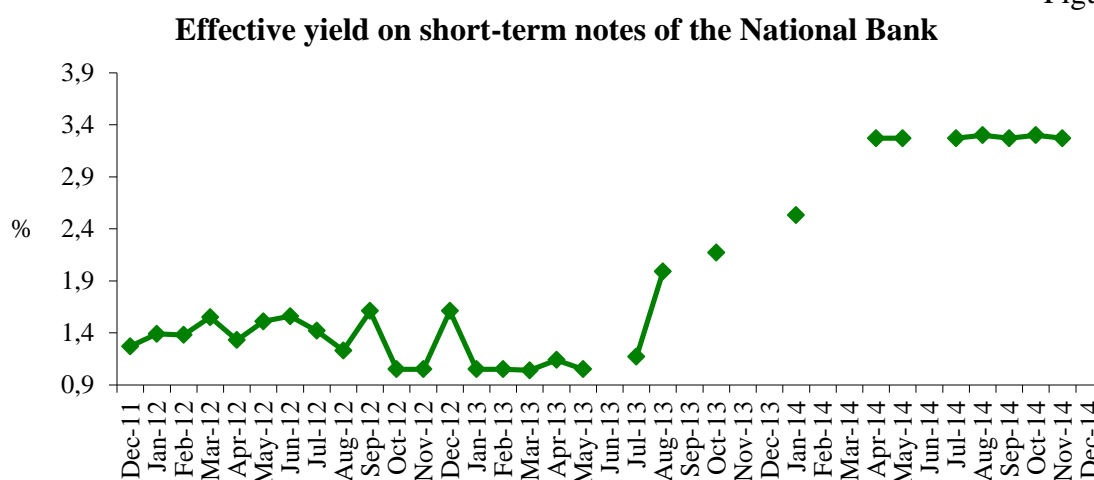
During 2014, the demand for short-term notes on the part of banks was not high. Thus, during 2014, the volume of issued short-term notes slightly increased by 2.6% versus 2013, amounting to KZT 81.4 bln. at discounted value. In February, March, June and December 2014, there were no auctions to place short-term notes due to the lack of demand for such instrument on the part of banks. The volume of notes in circulation in December 2014 versus December 2013 increased by 7.5 times to KZT 26.9 bln. at discounted value (Figure 2.1.3).

Figure 2.1.3



The weighted average effective yield on notes increased from 2.17% in October 2013 (there were no placements in November and December 2013) to 3.27% in November 2014 (Figure 2.1.4). In 2014, the National Bank was issuing short-term notes with 3- and 6-month maturities.

Figure 2.1.4



During 2014, deposits worth KZT 4.6 trln. were attracted from banks, which is 1.6 times more than their volume in 2013. At end-December 2014, balances of banks' deposits with the National Bank amounted to KZT 15.5 bln., which is 2.3 times less than in December 2013.

In February 2014, the National Bank continued taking 7-day deposits. In 2014, with a view to increase attractiveness of instruments in the Tenge, the interest rate on banks' deposits at the National Bank was increased twice: in February 2014 – from 0.5% to 2.75%, and in December 2014 – to 3.05%.

In 2014, the National Bank conducted direct repo operations at the Kazakhstan Stock Exchange. Such operations were conducted in January and February 2014, their volume amounted to KZT 63.8 bln., and their maturity was 7 and 14 days, at the market rates.

Minimum reserve requirements ratios in 2014 remained unchanged: 2.5% on domestic short-term liabilities, 0% on domestic long-term liabilities, 6.0% on foreign short-term liabilities, and 2.5% on foreign long-term liabilities.

In 2014, the structure of reserve assets was gradually changing: the share of banks' correspondent accounts in the Tenge had gradually decreased from 55.4% at December 30, 2013 to 44.5% at December 29, 2014. Respectively, the share of local cash in the cash departments of banks increased. In 2014, reserve assets exceeded the required reserving volume by 2.2 times on average in the system as a whole.

Monetary Aggregates

During 2014, the reserve money expanded by 20.8% and amounted to KZT 3 413.6 bln. (in 2013 – the 2.2% contraction). In 2014, the largest expansion in the reserve money (by 13.2%) was observed in February, and maximum contraction in the reserve money (by 8.3%) occurred in November.

The narrow reserve money, i.e. the reserve money excluding time deposits of banks with the National Bank, expanded by 18.9% to KZT 3 313.0 bln.

The main reason for expansion in the reserve money was the increase in the National Bank's international reserves despite the reduction in net domestic assets of the National Bank.

So, net international reserves of the National Bank increased by 15.7% and amounted to USD 28.0 bln., where net foreign currency reserves increased by 10.5%, and assets denominated in gold increased by 33.2% in the reviewed period. During 2014, total international reserves of the country including foreign currency assets of the National Fund (according to preliminary information - USD 73.6 bln.) increased by 7.3% to USD 102.5 bln.

During 2014, net domestic assets of the National Bank excluding the National Fund decreased, mainly due to the decrease in other net domestic assets, despite increased liabilities to banks on loans and growth in claims on the domestic economy.

During 2014, money supply increased by 10.5% and amounted to KZT 12 816.3 bln. Maximum growth in the money supply (by 4.6%) was recorded in February 2014, and maximum decrease (by 4.3%) – in November 2014.

The main reason for the growth in the money supply in 2014 was the growth of both net foreign assets and net domestic assets of the banking system. In 2014, in the structure of net foreign assets of the banking system (excluding the National Fund) net foreign assets of banks increased; their growth was mainly determined by increased liabilities of non-residents to banks.

In the structure of money supply, during 2014 cash in circulation decreased by 25.8% to KZT 1 122.3 bln., and deposits of residents increased by 15.9% to KZT 11 694.0 bln. Thus, the growth rates of deposits against the decrease in the cash in circulation were noted. As a result, the share of deposits of residents in the structure of money supply increased from 87.0% in December 2013 to 91.2% at end-December 2014. The reason for reduced demand for cash were persisting devaluation expectations in the country which resulted in significant increase in net purchases of foreign exchange by the general public in the reviewed period.

The level of monetization of the economy increased from 32.9% at the end of 2013 to 33.7% at the end of 2014 as a result of outstripping growth in the money supply (by 10.5%) versus the growth rates of the nominal GDP⁵ (by 7.8%) recorded in 2014.

The money multiplier decreased from 4.1 in December 2013 to 3.75 in December 2014 as a result of outstripping rates of expansion in the reserve money against the growth rates of the money supply.

2.2. Gold and Foreign Currency Assets of the National Bank and their Management

Trends in the Performance of Gold and Foreign Currency Reserves

The total volume of gold and foreign currency reserves of the National Bank, excluding closing turnovers at the end of 2014, amounted to USD 28.9 bln.; this is by USD 4.2 bln. more as compared to the corresponding indicator at the end of 2013. The increase in assets denominated in

⁵ According to preliminary data

freely convertible currencies by USD 2.4 bln. and assets denominated in precious metals by USD 1.8 bln. caused the change in the volume of gross gold and foreign currency reserves.

The change in the foreign currency portion of assets in 2014 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 currency balances on accounts at the National Bank; 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 conducted cross-currency interest rate swaps; by receipt from Eurobond issue transaction of the Ministry of Finance; and by conversions and reconversions of the National Fund's resources.

At the same time, on a year over year basis world prices for gold had changed from USD 1 204.5 per oz as of January 1, 2014 to USD 1 206.0 per oz as of January 1, 2015 or by 0.12% according to the LBMA evening fixing.

Thus, based on transactions performed by the National Bank, according to the accounting records and excluding closing turnovers, net market value of international assets increased by USD 3.8 bln. as compared to the end of 2013 and amounted to USD 28.0 bln.

Management of Gold and Foreign Currency Assets of the National Bank

The control over execution of requirements established in the Investment Strategy for Gold and Foreign Currency Assets Management as approved by the Resolution of the National Bank's Board of October 27, 2006 No. 105 was exercised on a daily basis.

The return on the National Bank's gold and foreign currency assets was calculated on a daily basis.

In 2014, in pursuance of recommendations made by the National Bank's Investment Committee, fractions of assets in the strategic portfolio were brought to targeted distribution in line with the Investment Strategy for Gold and Foreign Currency Assets Management.

The Strategy for Gold and Foreign Currency Assets Management was amended by Resolutions of the National Bank's Board dated October 22, 2014 No.98 and December 18, 2014 No.227. The main changes included changing parameters of the liquidity portfolio, increasing requirements to structured products, increasing minimum credit rating for the strategic portfolio, changing maximum exceptions in the investment portfolio for corporate securities.

In 2014, net purchases of gold amounted to 1 543 000 oz, of which 827 000 oz were purchased in the domestic market as part of the government's priority right enforcement.

Performance Results of the National Bank's Gold and Foreign Currency Asset Management. Investment Portfolio of Gold and Foreign Currency Assets

The market value of the investment portfolio of gold and foreign currency assets was USD 8.6 bln. at the beginning of 2014, and USD 4.3 bln.- at the end of 2014.

Return on the investment portfolio of gold and foreign currency assets in 2014, denominated in the currency basket, was 1.207%. Given the return on the benchmark portfolio of 0.957%, excess returns made up 25 basis points.

Return on the investment portfolio of gold and foreign currency assets in 2014, denominated in the US Dollars, was (-)5.638%. Given the return on the benchmark portfolio of (-)5.871%, excess return made up 23 basis points.

At the end of 2014, the distribution of assets in the investment portfolio by instruments had the following structure: government securities – 82.7%, agency securities – 11.4%, securities of international financial institutions – 1.1%, corporate securities – 4.7%, cash and cash equivalents – 0.2%. The distribution of assets in the investment portfolio on the yield curve had the following structure: less than 1 year – 29.7%, 1-2 years – 38.0%, 2-3 years – 30.8%, and over 3 years – 1.5%.

Strategic Portfolio of Gold and Foreign Currency Assets

At the beginning of the year, the market value of the strategic portfolio of gold and foreign currency assets was USD 3.6 bln., and at the end of 2014 – USD 3.8 bln.

In 2014, an active position on shares in the strategic portfolio was closed by bringing the portion of assets to the targeted distribution in line with the Investment Strategy for Gold and

Foreign Currency Assets Management. In 2014, return on the strategic portfolio accounted for 3.95%.

Liquidity Portfolio of Gold and Foreign Currency Assets

The market value of the liquidity portfolio of gold and foreign currency assets was USD 4.1 bln. at the beginning of 2014, and at the end of 2014 it amounted to USD 12.1 bln. In 2014, return on the liquidity portfolio accounted for 72%.

The liquidity portfolio of gold and foreign currency assets is held for the purpose of the monetary policy implementation and all capital flows and various payments are also made via this portfolio. This portfolio is not included in the evaluation of returns on portfolios of gold and foreign currency assets and it is not benchmarked.

Alternative Instruments Portfolio

The market value of the alternative instruments portfolio of gold and foreign currency assets managed by the “National Investment Corporation of the National Bank Kazakhstan” JSC was USD 2.0 bln. at the beginning of 2014 and USD 0.8 bln. - at the end of 2014. In 2014, with a view to increase liquidity of gold and foreign currency assets, about USD 1.2 bln. of assets from this portfolio were transferred to the liquidity portion of gold and foreign currency assets.

Developing Markets Equity Portfolio

At the beginning of 2014, the market value of the developing markets equity portfolio of gold and foreign currency assets amounted to CNY 303.1 mln., which is equivalent to USD 50.1 mln., and at the end of 2014 it amounted to CNY 314.4 mln., which is equivalent to USD 50.7 mln. In 2014, return on this portfolio in its own currency was 3.74%.

Gold Portfolio

According to the market estimate, at the beginning of 2014 the value of gold and foreign currency assets portfolio was USD 5.6 bln., and at the end of 2014 – USD 7.4 bln.

At the beginning of the year, return on the portfolio of deposited gold denominated in troy ounces accounted for 0.16%, while return on the portfolio in US Dollars accounted for 0.28%.

2.3. Currency Exchange Regulation and Control

In 2014, the National Bank’s activities in the area of currency exchange regulation were carried out in the following focal areas.

Since January 1, 2007, the license from the National Bank for foreign currency operations is only required to engage in managing the exchange operations with foreign currencies (operation of foreign exchange offices).

Since the government is making effort to improve the authorization system under the principle “one line of business – one permit” and a new Law of the Republic of Kazakhstan “About permits and notifications” was passed, the procedure for regulation of activities of legal entities whose sole activity is to manage the exchange operations with foreign currencies was revised; in this regard, relevant regulations were drafted and adopted.

In addition, the National Bank accomplished a set of measures to enhance control and supervision of activities in the organized cash foreign exchange market.

The National Bank took an active part in preparing a draft of the Treaty on Eurasian Economic Union; the articles of the Treaty that refer to the sphere of currency exchange regulation and currency control were formulated based on the currency regime in force in the Republic of Kazakhstan.

In drafting a new Administrative Code of the Republic of Kazakhstan, responsibility for violation of the currency legislation was defined more exactly.

In the environment of liberal currency regime, a top priority objective of currency exchange regulation is to create a reliable information database on foreign currency operations and capital flows as well as to maintain analytical monitoring of foreign currency operations as the basis for the decision-making about the economic policy.

In order to collect statistical information about operations related to capital movement (financial loans, direct investments, commercial credits, and accounts with foreign banks), there are regimes of registration and notification in place in Kazakhstan. Information obtained as part of these regimes is used to prepare statistical and analytical information on the balance of payments, international investment position and gross external debt.

Registration and notification regimes record large capital movement operations which provide for inflow of capital (property, monies) into 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.

Further, with a view to ensure the supply of foreign exchange in the domestic foreign exchange market, the foreign currency legislation of the Republic of Kazakhstan provides for the requirement to repatriate the currency of 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 authorized banks⁶. Under the existing legislation, the time frame during which the repatriation should be carried out is determined solely by the terms and conditions of a foreign trade contract. Control over the 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 commercial bank that provides services to a resident involved in a foreign trade transaction.

Regulation of the Exchange Office Operations

After the adjustment of the Tenge exchange rate in February 2014, the National Bank's actions were focused on monitoring the situation in the cash foreign exchange market and on undertaking timely and adequate measures to prevent speculations and panic mood among the general public as well as on ensuring proper control over compliance with the requirements of currency exchange regulation of the Republic of Kazakhstan by exchange offices.

Particularly, on February 11, 2014, the National Bank's Board passed its Resolution No. 18 "On Setting Limits for Deviations of the US Dollar and Euro Purchase Rates from their Sale Rates against the Tenge on Operations Conducted via Exchange Offices"; according to the Resolution, until December 31, 2014, the deviations between purchase rates and sale rates of foreign currencies against the Tenge on operations conducted via exchange offices of authorized banks were set to be 2 Tenge for the US Dollar and 3 Tenge for the Euro.

Based on the results of operational monitoring of cash foreign exchange rates by regions as well as of the analysis of purchase and sale volumes of foreign cash, analytical materials had been prepared; also, in cases when violations of currency legislation were detected actions were taken to institute administrative proceedings against authorized banks and authorized organizations.

On July 16, 2014, the National Bank's Board passed its Resolution No. 144 "On Approval of Rules for Managing Cash Foreign Exchange Operations in the Republic of Kazakhstan" in execution of the Law of the Republic of Kazakhstan "On Authorizations and Notifications" which provides for a risk-focused approach to authorizations. The Rules provide for different ways of regulation of exchange office operations depending on the entity: an authorization-based procedure will be applied in respect of authorized organizations (a license will be required, together with appendices for exchange offices), and a notification procedure will be applied in respect of authorized banks when they intend to open exchange offices.

Within the framework of licensing of cash foreign exchange operations, in 2014 the National Bank's regional branches issued 33 licenses to authorized organizations; 80 licenses were returned by authorized organizations on a voluntary basis.

⁶ Authorized banks are banks and organizations engaged in certain types of banking operations and established in the Republic of Kazakhstan, which conduct foreign exchange operations including those on behalf of their customers, except authorized organizations.

As of January 1, 2015, 3 030 exchange offices including 2 101 exchange offices of authorized banks (including 47 exchange offices of the “KazPost” JSC) and 929 exchange offices of authorized organizations were registered within the Republic of Kazakhstan.

On a year-to-date basis, the total number of registered exchange offices decreased by 63, the number of exchange offices of authorized banks decreased by 60, and of authorized organizations – by 3.

During 2014, the National Bank issued 337 registration certificates to exchange offices, of which 212 – to authorized banks and 125 – to authorized organizations. 392 registration certificates were returned on a voluntary basis, of which 268 certificates were returned by authorized banks and 124 – by authorized organizations.

Every month the National Bank prepares a list of licenses issued to authorized organizations to engage in the management of currency exchange operations and posts on its Internet-resource. The list, inter alia, contains information about the number and locations of existing exchange offices of such organizations.

Based on the data received as part of the administrative reporting of authorized banks and authorized organizations, operation of exchange offices is analyzed on the national-wide basis and by regions. In addition, in 2014 there were scheduled, unscheduled inspections and desk audits of exchange offices of authorized banks and authorized organizations.

In 2014, the National Bank, in cooperation with the Ministry of Transport and Communications and the “National Information Technologies” JSC performed works to implement the updated electronic process of a public service “License issuing, re-issuing, issuing a copy of a license for managing cash foreign exchange operations to authorized organizations” as part of the “E-Licensing” Government Database” information system. Also, effort had been made to implement the process of notification by authorized banks about opening exchange offices. Based on the works performed, such information system on managing cash foreign exchange operations was put into on-going operation.

Regimes of Currency Exchange Regulation

In 2014, within the framework of registration of foreign currency transactions, the National Bank issued 1 788 registration certificates, including on the following types of transactions:

- credits to non-residents by residents – 320;
- credits to residents by non-residents – 1 055;
- direct investments in Kazakhstan by non-residents – 283;
- direct investments abroad by residents – 84;
- other capital movements – 46.

In 2014, within the framework of notification about foreign currency transactions, the National Bank issued 384 certificates of notification, including:

- credits by non-residents to banks – 55;
- direct and portfolio investments in Kazakhstan by non-residents – 22;
- direct and portfolio investments abroad by residents – 36;
- transactions with financial derivatives – 8;
- other capital movements – 29;
- opening account abroad by residents – 234.

Export and Import Currency Control

The export and import currency control represents a set of measures undertaken by the National Bank, authorized banks and other government authorities within their competence with a view to ensure compliance by residents with the requirement to repatriate foreign and domestic currency on export and import transactions. The export and import currency control framework is implemented by comparing the information on cash flows and flows of goods under a contract that is provided by banks and the customs authorities within the automated framework. For the purposes of export and import currency control, authorized banks perform the record registration of export and import contracts when their amount exceed the equivalent of USD 50 000.

In 2014, the National Bank continued the electronic messages exchange with the authorized banks regarding the cash flows on contracts with record numbers, as well as in respect of violations of currency exchange legislation within the automated system.

The National Bank received 763 electronic messages from the authorized banks regarding violations of currency exchange legislation.

Apart from that, during 2014 the National Bank continued to coordinate the message exchange formats with the State Revenues Committee of the Ministry of Finance in line with the Rules for Export and Import Currency Exchange Control in the Republic of Kazakhstan and to ensure that residents receive reference numbers for export and import contracts approved by the Resolution of the National Bank's Board dated February 24, 2012 No.42, as well as in connection with transition to a new automated system by the State Revenues Committee.

In 2014, the National Bank, jointly with the State Revenues Committee and banks, conducted a testing of the updated process of information exchange about movement of goods under the contracts with reference numbers. Based on such testing, a bulk of data was sent to the Committee regarding the formalized reference numbers of contracts and works had been performed to analyze and to download the historical data sent by the Committee.

Administrative Proceedings in Relation to Violations of the Currency Exchange Legislation

In 2014, efforts to detect and preclude administrative violations of the currency exchange legislation were continued; 846 cases of administrative offence were initiated during the year:

1) penalties were imposed in respect of 750 cases of administrative offense, most of which were in the form of warnings – 512; in doing so, in respect of 238 cases of administrative offence the amount of fines imposed by the National Bank (138 cases) and courts (100 cases) was about KZT 240 mln.;

2) 68 cases of administrative offence were stopped;

3) in respect of 2 cases – release from administrative responsibility;

4) 26 cases are pending (as of January 1, 2015).

50 remedial actions were taken in respect of banks and authorized organizations for violations of the foreign currency legislation.

In addition, a license for currency exchange operations was revoked from one authorized organization.

Further, as part of drafting of a new Administrative Code (became effective from January 1, 2015) in 2014 effort was continued to fine-tune the content of articles for violations in the sphere of currency exchange legislation and also in respect of general provisions of the Administrative Code.

Examination of Matters Related to Currency Control

In 2014, the National Bank conducted 796 inspections in respect of compliance with currency exchange legislation including 337 scheduled inspections (of which – 242 inspections of authorized organizations/their branches, and 95 inspections of authorized banks/their branches) and 459 unscheduled inspections (of which 142 inspections of authorized organizations and 317 inspections of authorized banks/their branches).

In 2014, in relation to violations detected in the course of inspections, in addition to 34 warnings, administrative penalties in the form of fines were imposed totaling over KZT 34 mln.

III.ISSUING OPERATIONS AND CASH CIRCULATION

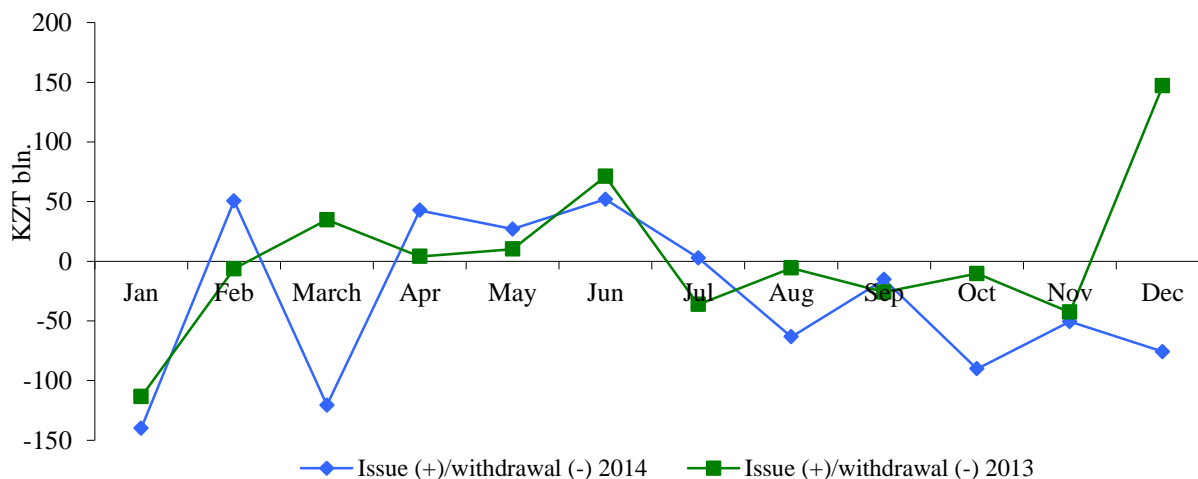
3.1. Issuing Operations of the National Bank

The year 2014 was characterized by reduced demand for cash on the part of economic entities, as compared to the previous year.

During 2014, KZT 2 970.8 bln. were issued into circulation from the National Bank's reserve funds, which is by KZT 231.5 bln. (8,4%) greater than in 2013 (KZT 2 739.3 bln.). In 2014, the volume of cash withdrawn from circulation increased versus 2013 (KZT 2 713.0 bln.) by KZT 638.5 bln. (23.5%) and amounted to KZT 3 351.5 bln. Thus, there was a negative issuing balance of (-)KZT 380.7 bln., which is by KZT 407.0 bln. less than in 2013 (+KZT 26.3 bln.).

Figure 3.1.1

Dynamics of the Change in Issuing Balance for 2013 – 2014



In 2014, the issuing balance was lower than the respective indicator for 2013 as a result of significant growth in the amount of cash withdrawn from circulation in January and decreased issue of cash into circulation in March, June and August and in the 4th quarter of 2014.

The reviewed period can be divided into two parts: the first part which was affected by the adjustment of the local currency exchange rate and the “sms-attack” directed against a number of banks and causing the growth in cash payouts from the bank cash departments; the second part, associated with the pay back of surpluses of cash paid out earlier that resulted in significant withdrawal of cash from circulation; the third part where gradual growth in the amount of cash issuance is observed; and the fourth part caused by devaluation expectations among the general public under the impact of energy price reductions and a drop in the exchange rate of the Russian ruble that resulted in reduced issuing balance and lock-in of negative values of emission in August-December 2014.

Banknotes in the emission package accounted for 8.7% of banknotes issued into circulation during 2014 (Table 3.1.1). Soil banknotes accounted for 7.2% within the structure of banknotes withdrawn from circulation during the period. The highest percentage of return ratio among withdrawn banknotes (valid and soil banknotes) was recorded in respect of the 10 000 Tenge banknote of the 2012 design.

Table 3.1.

Issue of Banknotes into Circulation from the National Bank's Reserve Funds and their Withdrawal from Circulation

(KZT million)

Banknote Denominations	Emission of Valid Banknotes	Emission of Issue-grade Banknotes	Total Issue	Withdrawal of Valid Banknotes	Withdrawal of Soil Banknotes	Total Withdrawal
200	15 027.6	8 307.6	23 335.2	16 467.4	6 809.2	23 276.6
500	46 791.5	7 525.5	54 317.0	40 942.0	18 148.0	59 090.0

1 000	181 492.0	32 351.0	213 843.0	206 332.0	29 306.2	235 638.2
1 000 (Kultegin)	7 134.0	8 091.0	15 225.0	7 122.0	16.0	7 138.0
1 000 (of 2014 design)	8.0	430.0	438.0	18.0	0.0	18.0
2 000	211 858.0	0.0	211 858.0	178 452.0	16 896.0	195 348.0
2 000 (of 2012 design)	201 451.6	37 268.0	238 719.6	267 225.6	24 596.0	291 821.6
5 000	251 635.5	0.0	251 635.5	216 445.5	44 279.4	260 724.9
5 000 (of 2011 design)	589 271.0	110 850.0	700 121.0	784 751.0	15 170.0	799 921.0
10 000	556 756.1	0.0	556 756.1	459 445.0	67 820.0	527 265.0
10 000 (of 2012 design)	643 631.0	53 710.0	697 341.0	929 802.0	16 690.0	946 492.0
Total	2 705 056.2	258 533.1	2 963 589.3	3 107 002.5	239 730.8	3 346 733.3

During 2014, local currency banknotes worth KZT 823.0 bln. were manufactured, including banknotes of KZT 1000 denomination – in the amount of KZT 48.0 bln., KZT 5 000 denomination – in the amount of KZT 375.0 bln., and KZT 10 000 denomination – KZT 400.0 bln.

3.2. Cash Circulation

The volume of cash receipts to the bank cash departments during 2014 amounted to KZT 22 480.3 bln., having decreased by 3.2% (or by KZT 748.7 bln.) versus 2013; the volume of cash payouts also decreased by 5.2% (KZT 1 237.0 bln.) and amounted to KZT 22 399.2 bln. As a result, it was the first time for the last 14 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 3.2.1 shows, despite the overall decrease in the debit and credit section of cash turnovers, proceeds from foreign exchange sales increased significantly – by 47.9% (KZT 1 308.1 bln.) as well as loan repayments – by 26.9% (KZT 106.0 bln.). The largest growth rate in the debit section of cash turnovers was among payouts for foreign exchange purchase – 38.3% (KZT 274.1 bln.). The growth in payouts from deposit accounts of individuals (17.6% or KZT 711.8 bln.) exceeded the growth in receipts to deposit accounts of individuals (11.0% or KZT 445.4 bln.).

Table 3.2.1

Cash Movements in Banks

Cash Flows through Cash Departments of Banks	During 2014 (KZT mln.)	During 2013 (KZT mln.)	Change over the Period	
			KZT mln.	in %
Receipts to the Bank Cash Departments	22 480 300.4	23 229 015.7	-748 715.3	-3.2
from sale of goods, services and works	4 768 183.8	4 436 495.2	331 688.6	7.5
to deposit accounts of individuals	4 482 180.1	4 036 782.8	445 397.3	11.0
from foreign exchange sales	4 038 467.1	2 730 330.6	1 308 136.5	47.9
from individuals on one-time transfers	221 880.0	235 187.8	-13 307.8	-5.7
loan repayments	500 518.9	394 477.7	106 041.2	26.9
other receipts	8 469 070.5	11 395 741.6	-2 926 671.1	-25.7
Payouts from the Bank Cash Departments	22 399 190.0	23 636 174.4	-1 236 984.4	-5.2
payments for goods, services and works	1 602 629.5	1 535 343.2	67 286.3	4.4
from deposit accounts of individuals	4 764 648.4	4 052 880.3	711 768.1	17.6
for foreign exchange purchases	990 282.8	716 205.9	274 076.9	38.3
for one-time transfers	77 553.2	82 751.4	-5 198.2	-6.3
for wages, retirement benefits and allowances	917 877.9	878 726.6	39 151.3	4.5
to support ATMs	7 835 943.2	7 009 793.2	826 150.0	11.8
loans to individuals and corporate entities	363 392.1	323 403.2	39 988.9	12.4

other payouts	5 846 862.9	9 037 070.6	-3 190 207.7	-35.3
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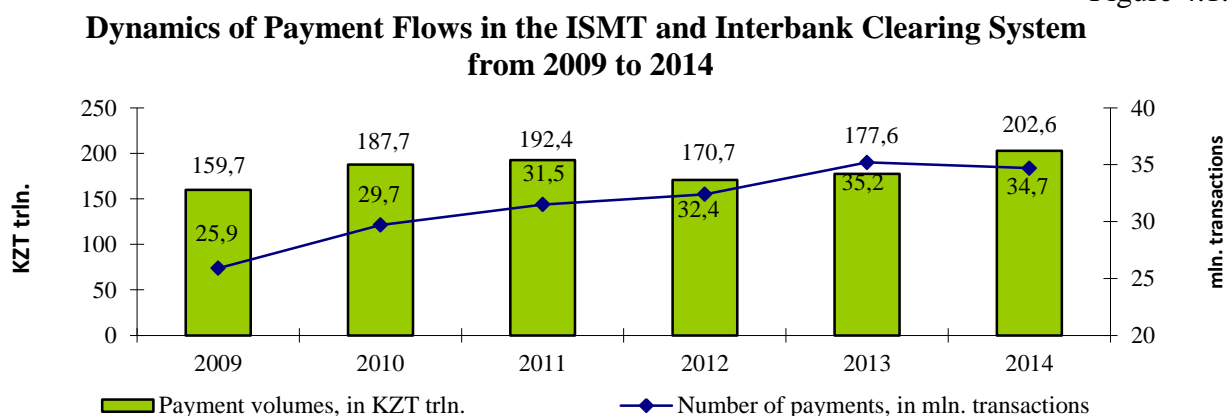
The cash return ratio to the bank cash departments was higher than that in 2013 and made up 100.4%.

IV. PAYMENT SYSTEMS

In 2014, the National Bank continued to support effective and uninterrupted operation of Kazakhstan's payment systems and to refine regulations in the area of payments and money transfers.

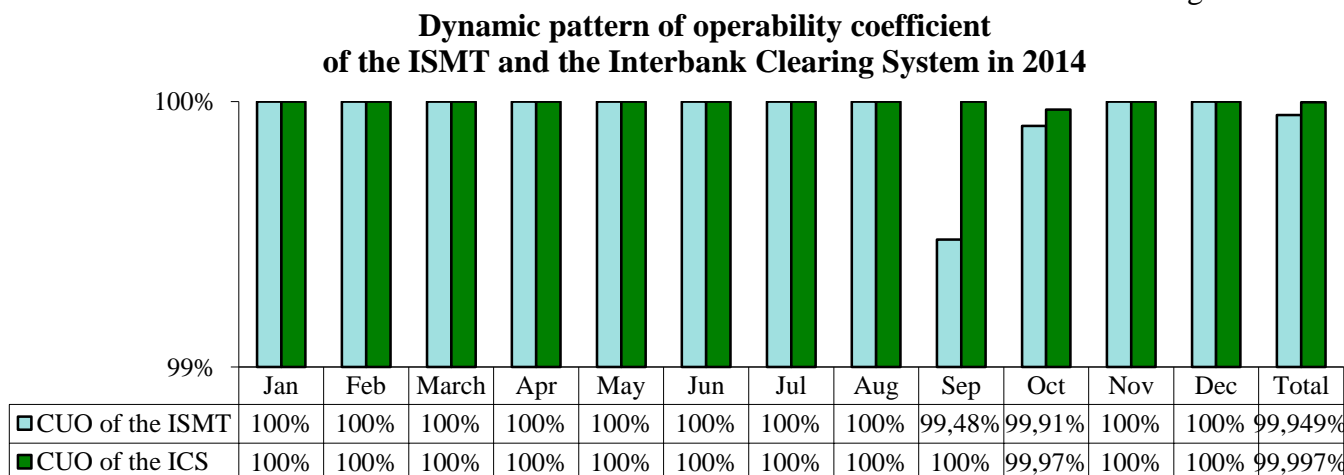
In 2014, 34.7 mln. transactions amounting to KZT 202.6 trln. were processed in the ISMT and Interbank Clearing System (Figure 4.1.). As compared to 2013, the number of payments in the payment systems decreased by 1.6% (by 555 100 transactions), and the payments amount increased by 14.1 % (by KZT 25.0 trln.). On average, 141 500 transactions totaling KZT 826.9 bln. were processed in these payment systems every day in 2014.

Figure 4.1.



Coefficient of uninterrupted operation (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 2014 as a whole, operability coefficient of the ISMT was 99.949%, and operability coefficient of the Interbank Clearing System was 99.997% (Figure 4.2.).

Figure 4.2.



The development of information and communication technologies demonstrates an increasing activity in the use of up-to-date instruments by the general public.

The payment and financial services market is exposed to challenges associated with the development of Internet and network communications which determine the behavior of players in the sector and provide opportunities for its transformation: emerging organizations and approaches, active behavior of technology companies, development of mobile-oriented eco-systems and a synergy of traditional and alternative service providers.

The payment infrastructure which is crucial in the development of new financial products and services requires improvement and upgrading in order to meet the current and future needs of economic entities. In this connection, in 2014 the National Bank, in conjunction with international consultants, started a broad-scale effort to design a program for Kazakhstan's financial sector development based on the development of information and communication technologies. With a view to liberalize the sector and to create opportunities for development of affordable and reliable payment instruments which would be an alternative to the existing ones, effort will be made to improve the legislative and technical infrastructure.

With a view to minimize systemic risks in the sector and its reliance on international payment systems, there is a plan to design the intra-country infrastructure on operations with payment cards.

4.1. Interbank System of Money Transfers

As of January 1, 2015, there were 50 users registered in the ISMT. In 2014, 14.0 mln. transactions amounting to KZT 197.2 trln. were processed in the ISMT. Versus 2013, the quantity of payments increased by 0.8% (by 108 800 transactions).

In 2014, the average amount of one payment document in the ISMT was KZT 14.1 mln. and it increased by 13.2% (by KZT 1.7 mln.) versus 2013. In 2014, 57 100 transactions a day on average were processed in the ISMT totaling KZT 804.9 bln.; as compared to 2013, the growth accounted for 1.2% (growth by 0.7 thousand transactions) in terms of their quantity and for 14.6% (by KZT 102.6 bln.) - in terms of their amount.

Mainly, the system processed payments on securities operations of residents of Kazakhstan (38.4% of the total volume of payments in the ISMT), on operations with foreign currency and precious metals (17.2%) as well as interbank deposits and transfers of banks' own funds and funds of their clients (16.7%). The volume of payments for goods and services in 2014 accounted for 12.4% of the total volume of payments processed in the system.

4.2. Interbank Clearing System

As of January 1, 2015, the number of participants in the Interbank Clearing System was 39. In 2014, 20.7 mln. electronic payment messages amounting to KZT 5 388.8 bln. were processed in the system. As compared to 2013, the number of payment messages in the clearing system decreased by 3.1% (by 663 900 documents), the payments amount increased by 11.9% (by KZT 573.9 bln.).

The average amount of one payment message in the Interbank Clearing System in 2014 amounted to KZT 260 500, having increased by 15.5% (by KZT 35 000) versus 2013. In 2014, 84 400 payment messages amounting to KZT 22.0 bln. were passed through the clearing system during a day on average, which is by 2.7% (by 2 400 transactions) less than in 2013 in terms of the quantity of payments and by 12.4% (by KZT 2.4 bln.) greater in terms of the payment amounts.

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 30.8%), for provided services (the share accounted for 26.7%); payments to the budget and payouts from the budget accounted for 19.6% of the total payment volume.

4.3. Payment Instruments

During 2014, banks, the Development Bank of Kazakhstan and KazPost conducted 379.4 mln. transactions amounting to KZT 132 322.2 bln. with the use of payment instruments⁷.

Payment orders (36.0% of the total quantity and 93.9% of the total amount of non-cash payments with the use of payment instruments) and payment cards (63.4% and 5.8%, respectively) are the most popular payment instruments within Kazakhstan. In 2014, the average amount of one payment order was KZT 910 500. A high percentage of payment cards in terms of their quantity and a low percentage in terms of the payments volume is explained by the use of this payment instrument mainly to withdraw small amounts of cash (in 2014, the average amount of one transaction was KZT 32 100). The smallest share falls on collection orders (0.03% in terms of quantity and 0.08% in terms of payment volume).

Electronic Banking Services

In 2014, 341.7 mln. transactions totaling KZT 8 866.4 bln. were passed through electronic terminals and remote access systems of banks in a non-cash manner as well as with the use of cash; as compared to the previous year, the growth accounted for 37.8% in terms of quantity of transactions and for 21.4% - in terms of the amount. Out of these transactions, non-cash payments and money transfers accounted for 79.2 mln. transactions totaling KZT 1 432.6 bln., with the increase of 23.2% in terms of quantity and of 13.8% - in terms of the payment amount versus 2013. Alongside with that, there is a further growth in the volumes of transactions made via the Internet and by using mobile phones. So, in 2014, Internet-payments accounted for 20.7 mln. transactions totaling KZT 287.0 bln., with the increase of 42.0% in terms of quantity and of – 8.1% in terms of the payment amount versus 2013. Payments made with the use of mobile phones in 2014 accounted for 0.7 mln. transactions totaling KZT 2.1 bln., with the growth of 15.4% in terms of quantity and of 62.6% in terms of the payment amount, as compared to the numbers in the previous year.

Payment Cards

Kazakhstan's market of payment cards had retained its trend, which is characterized by the growth in a number of card issuers and acquirers, transaction volumes as well as the expansion of the service network for the payment card holders mainly due to installation of POS-terminals in sales and service outlets.

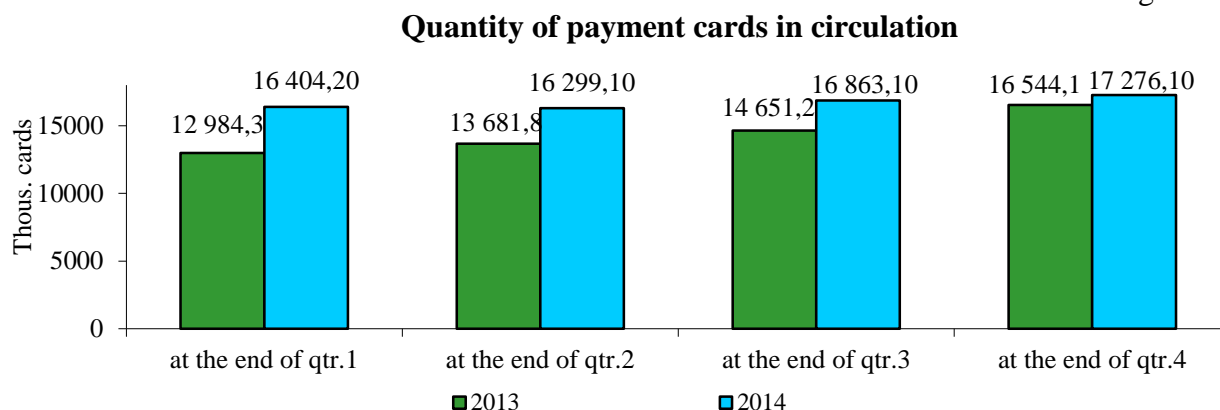
Payment cards are issued by 28 banks and the KazPost. The payment card market offers such international payment card for the general public as VISA International, MasterCard Worldwide, American Express International and Union Pay. Among local cards, there are Altyn Card (issued by Halyk Bank Kazakhstan), SmartAlemCard (BTA Bank) and local cards of CitiBank Kazakhstan.

At January 1, 2015, the overall quantity of issued and disseminated cards was 17.3 million cards; this exceeds the number for the corresponding period of the previous year by 4.4% (Figure 4.3.1). The number of holders of such cards amounted to 15.2 mln. individuals⁸, having increased by 5.5% versus the corresponding period of the previous year. As before, cards of international payment systems VISA International and MasterCard Worldwide represent the most popular cards in the country, with their share accounting for 93.7% of the total quantity of cards in circulation.

⁷ Payment documents on passed customer payments and on own transactions of banks and KazPost via ISMT, ICS, correspondent accounts with the National Bank, nostro and loro accounts, except the correspondent account with the National Bank, within the Republic of Kazakhstan, and the system of money transfers within the Republic of Kazakhstan, are taken into account.

⁸ Summarized data about holders of payment cards of each bank.

Figure 4.3.1.



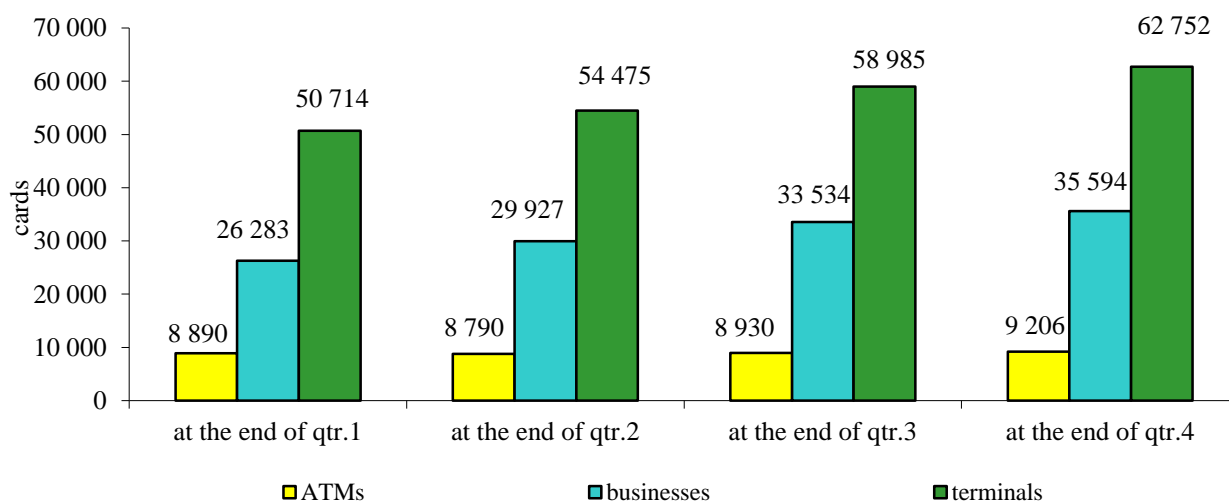
On average, about 40% of the total quantity of payment cards in circulation (6.7 mln. cards) were used per month; this points to the fact that card products are actively used by about 38% of the population in Kazakhstan.

At January 1, 2015, there are 35 594 sales outlets in Kazakhstan that accept payments cards, which exceeds their number recorded as of January 1, 2014, by 55.4% or by 12 690 cards. Such businesses installed the payment card servicing equipment in 47 254 sales outlets (growth of 40.2% or by 13 545 cards).

As of January 1, 2015, the payment card service network in Kazakhstan was represented as follows: 9 206 ATMs (2.7% growth as compared to the situation at January 1, 2014, or 241 units), 62 752 POS-terminals (35.1% growth or 16 320 units) and 168 imprinters (unchanged) (Figure 4.3.2). There were 4 terminals and 1 ATM per 1 000 card holders in the country on average.

Figure 4.3.2

Trend of the change in the number of businesses and payment card equipment in 2014



During 2014, the volume of operations conducted with the use of payment cards issued by the Kazakh issuers was 240.7 mln. transactions totaling KZT 7 734.7 bln. Versus 2013, the number of transactions increased by 11.9% (by 25.6 mln. transactions), and their amount increased by 18.3% (by KZT 1 197.4 bln.).

The number of cash withdrawal transactions with the use of payment cards issued by Kazakhstani issuers was 176.0 mln. transactions totaling KZT 6 745.7 bln., having increased by 9.3% in terms of their number and by 20.1% in terms of their amount versus 2013.

Non-cash payments for goods and services with the use of payment cards issued by Kazakhstani issuers accounted for 64.7 mln. transactions totaling KZT 988.9 bln., having increased by 19.7% in terms of their number and by 7.3% in terms of the amount versus 2013.

In 2014, out of all non-cash payments with the use of payment cards issued by Kazakhstani and foreign issuers, 24.9% in terms of their number and 21.5% - in terms of their amount were made via ATMs, and 55.2% of payments in terms of their number and 68.9% in terms of their amount were made via POS-terminals.

V. FINANCIAL MARKET

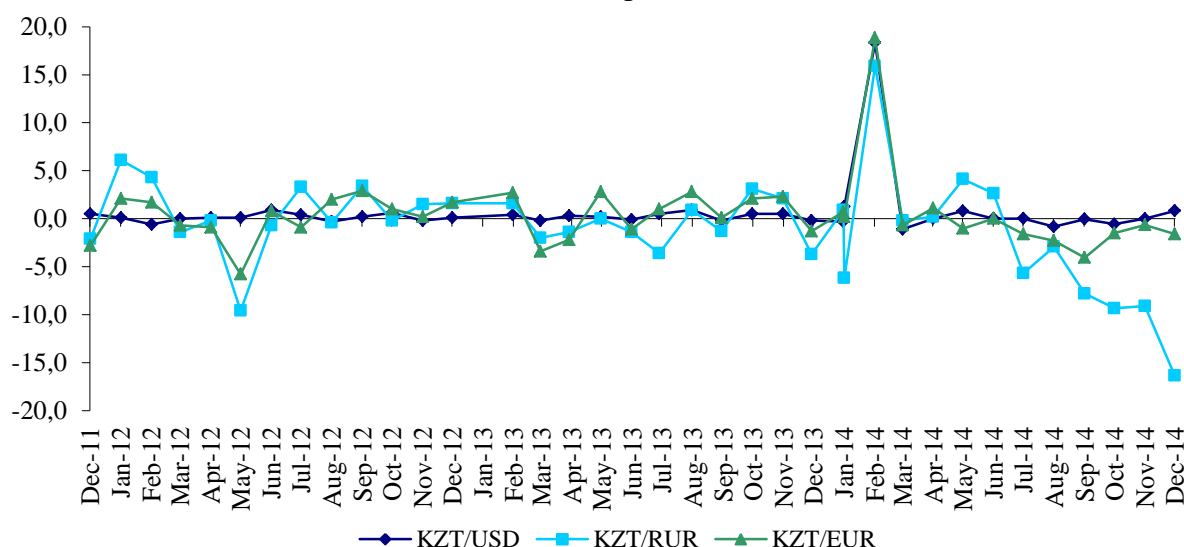
5.1. Foreign Exchange Market

Throughout 2014, the exchange rate of the Tenge was moving under the impact of multi-directional factors, where the situation in the countries–major trading partners and world prices represented the main factors. In 2014, the weighted-average stock exchange rate of the Tenge was KZT 179.49 per 1 US Dollar. At the end of the year, the stock exchange rate was KZT 182.35. On a year over year basis, the Tenge had depreciated versus the US Dollar by 18.4% in nominal terms.

Over 2014, the official rate of the Tenge versus the Euro had depreciated by 5.1%, and it appreciated versus the Russian ruble by 32.4% (Figure 5.1.1).

Figure 5.1.1

Movements of the Tenge exchange rate versus the US Dollar, Euro and Russian ruble, as % of the previous month⁹



In 2014, the volume of trading in the US Dollar position at the Kazakhstan Stock Exchange amounted to USD 89.0 bln., having increased by 54.8% as compared to 2013. The minimum transaction volume was observed in April and the maximum – in December.

In the off-exchange foreign currency market, the trading volume decreased by 45.0% as compared to 2013 and amounted to USD 12.1 bln. The minimum transaction volume was observed in July and the maximum – in January 2014.

The share of transactions with the Russian ruble and the Euro was insignificant in the turnover of the stock exchange and off-exchange segments of the foreign exchange market. In the stock exchange market, the volume of transactions with the Russian ruble increased by 2.7 times to RUB 11.6 bln., and the volume of transactions with the Euro increased by 6.6 times to €82.6 mln.

⁹ «+» appreciation of Tenge versus a foreign currency, «-» – depreciation of Tenge versus a foreign currency.

In the off-exchange foreign currency market, the volumes of conversions of the Russian ruble increased by 3.2 times to RUB 9.4 bln.; the volume of conversions of the Euro decreased by 3.7 times to €110.0 mln.

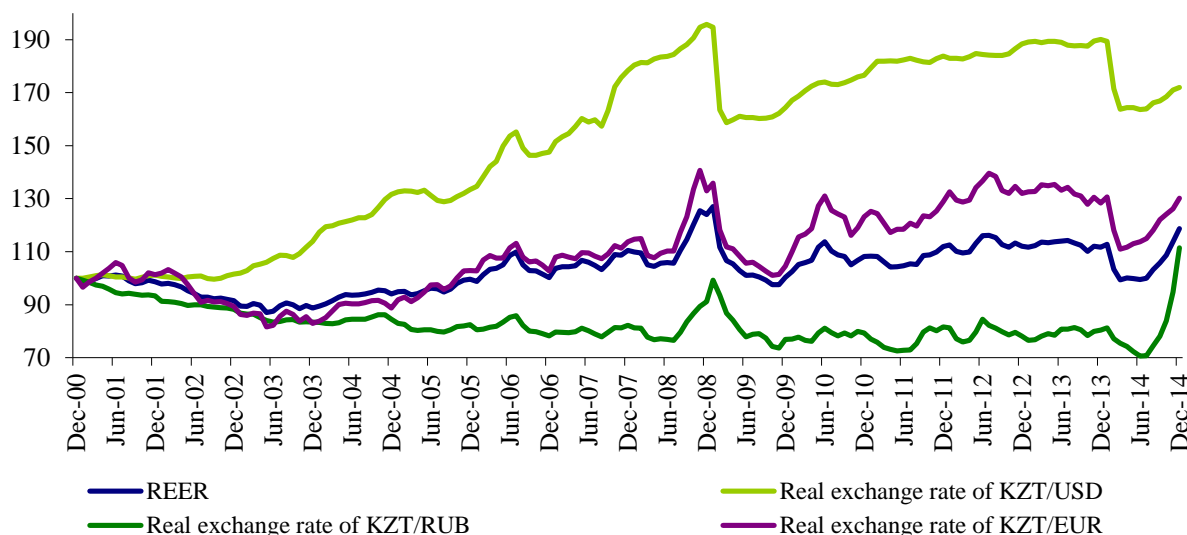
Just as in the past years, the preference in the cash foreign exchange market was made to the US Dollar. In 2014, the volumes of net sales by exchange offices amounted to USD 14.2 bln., having increased by 16.5%. The volumes of net sales of the Russian ruble increased by 2.5 times to RUB 76.1 bln. The volumes of the Euro increased by 38.0% to €1.3 bln.

At the end of 2014, the real effective exchange rate index was by 18.7% higher than the baseline level of competition in December 2000 (Figure 5.1.2). Versus December 2013, the Tenge appreciation accounted for 6.2%.

During 2014, the appreciation of the real effective exchange rate index versus the currency basket of the CIS-countries accounted for 36.4%, while the Tenge has depreciated by 2.2% versus the currencies of other countries.

Figure 5.1.2

Indices of real exchange rate of the Tenge
December 2000 = 100%



5.2. Interbank Money Market

In 2014, the total volume of placed interbank deposits increased by 49.1% as compared to 2013 and amounted to the equivalent of KZT 38.0 trln.

The volume of placed interbank deposits in the Tenge increased by 63.7%, amounting to KZT 5.3 trln. (14.0% of the total volume of placed deposits in 2014). The weighted-average interest rate on placed interbank deposits in the Tenge increased from 1.9% in December 2013 to 16.0% in December 2014.

In 2014, the volume of deposits attracted from banks by the National Bank increased by 58.0% and amounted to KZT 4.6 trln.

In 2014, the volume of placed US Dollar deposits amounted to USD 175.8 bln., having increased by 27.1% (82.8% of the total volume of placed deposits in 2014). The weighted-average interest rate on placed US Dollar deposits in December 2014 was 0.07%, whereas in December 2013 it was 0.08%.

The placement volumes in the Euro and Russian ruble are insignificant – 1.1% and 2.1% of the total volume of placed deposits, respectively.

Over the year, the share of interbank deposits in foreign currency had decreased from 87.3% in 2013 to 86.0% in 2014. The major portion of foreign currency deposits (85.4% of the total volume of deposits) is placed with non-resident banks.

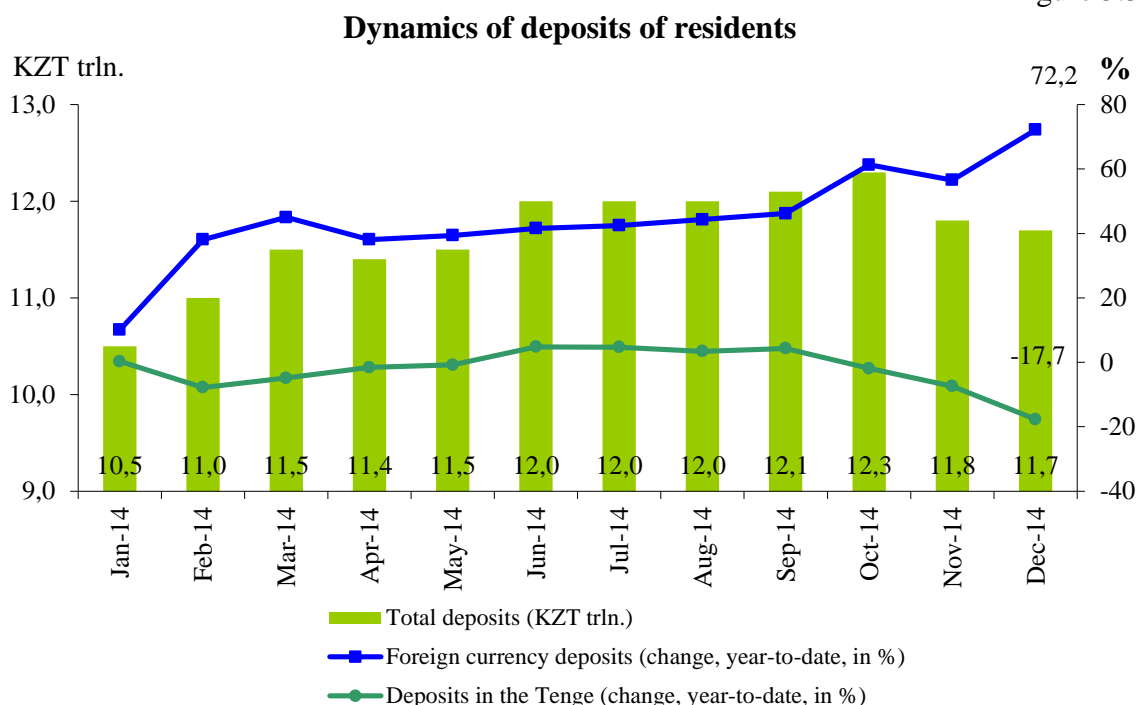
5.3. Deposit Market

In 2014, the growth rate of deposits of residents with depository institutions accelerated to 15.9% versus 12.1% in 2013, and the volume of savings reached KZT 11.7 trln. Versus GDP, the deposit volume in 2014 grew from 28.6% to 30.7%.

The growth in the deposit base resulted from the deposit growth – both retail and corporate deposits. During 2014, deposits of non-bank legal entities increased by 18.1% to KZT 7.3 trln, and retail deposits increased by 12.6% to KZT 4.4 trln.

The structure of deposits by types of currencies has undergone changes which were caused by the increase in foreign currency deposits against the decrease in the Tenge deposits; this led to the decrease in the percentage of the Tenge deposits in the total deposit volume from 62.6% to 44.4%. Deposits in the domestic currency decreased during 2014 by 17.7% to KZT 5.2 trln, and foreign currency deposits increased by 72.2% to KZT 6.5 trln. (Figure 5.3.1).

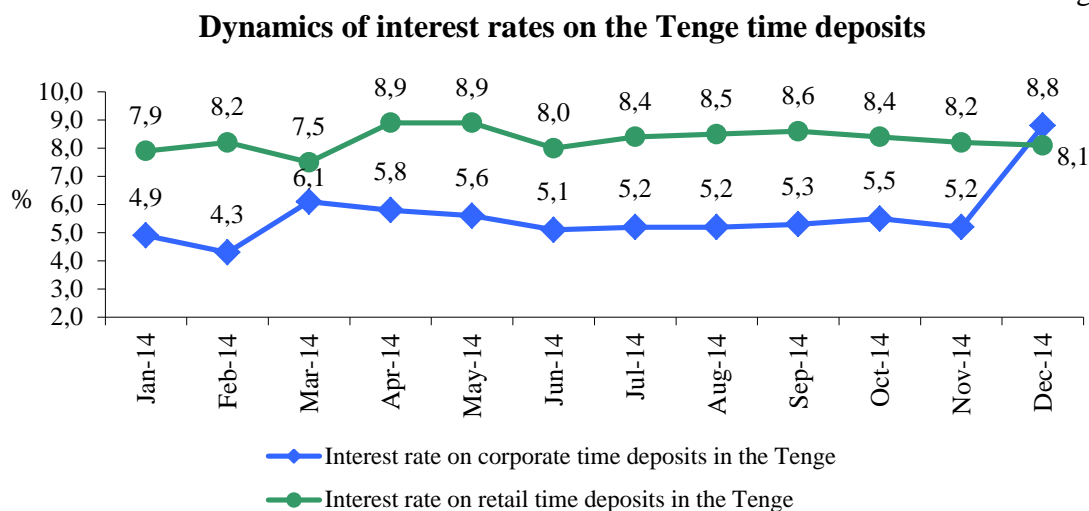
Figure 5.3.1



During 2014, household deposits with banks (including accounts of non-residents) increased by 12.5% to KZT 4.4 trln. Household deposits in the Tenge decreased by 34.7% to KZT 1.4 trln., and foreign currency deposits increased by 72.4% to KZT 3.9 trln.; this resulted in the increased degree of dollarization of household savings. As a result, the percentage of household deposits in the Tenge decreased from 56.0% to 32.5%.

In December 2014, the weighted-average interest rate on the Tenge time deposits of non-bank legal entities was 8.8% (in December 2013 – 5.7%), and on retail deposits – 8.1% (in December 2013 – 8.1%) (Figure 5.3.2).

Figure 5.3.2



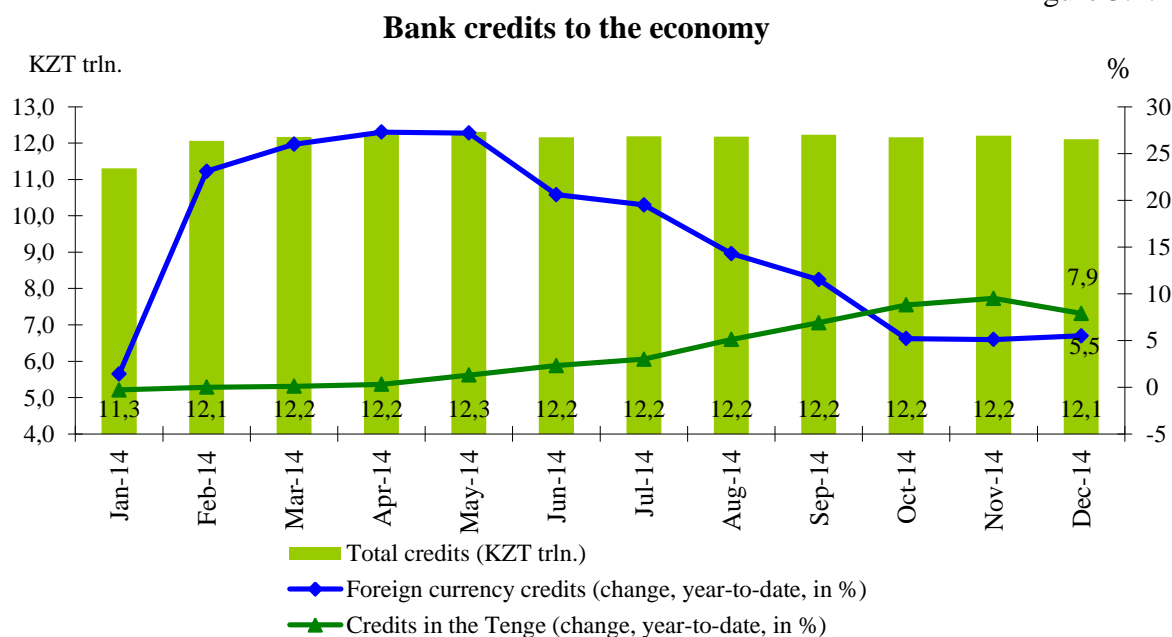
5.4. Credit Market

As a result of bank lending in 2014, the volume of credits to the economy at January 1, 2015 amounted to KZT 12.1 trln., having increased by 7.2%. The ratio of credits to GDP in 2014 versus 2013 decreased from 32.0% to 31.8%. At the end of 2014, credits to legal entities increased by 5.6%, amounting to KZT 8.1 trln., and credits to individuals increased by 10.7% to KZT 4.0 trln. The percentage of credits to individuals increased from 32.1% in December 2013 to 33.2% in December 2014.

Intensification of lending to the economy to a larger extent was observed in the Tenge segment of the credit market; as a result, the growth in the percentage of the Tenge credits in total credits increased from 70.3% to 70.8%.

As a result, during 2014, credits in the domestic currency increased by 7.9% to KZT 8.6 trln., while foreign currency credits increased by 5.5% to KZT 3.5 trln. (Figure 5.4.1).

Figure 5.4.1



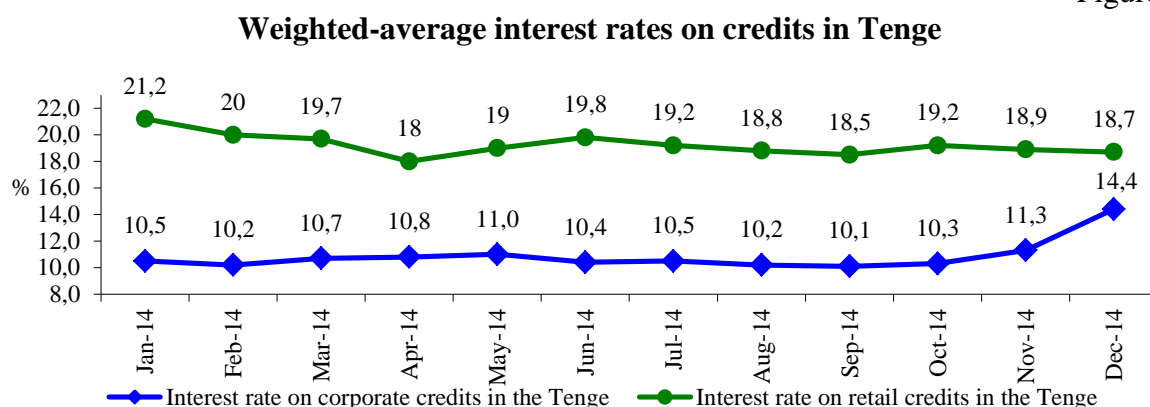
Long-term lending in 2014 increased by 4.9% to KZT 9.6 trln., and short-term lending increased by 17.2% to KZT 2.5 trln. Respectively, over the year the percentage of long-term credits had decreased from 81.1% to 79.4%.

In 2014, small business lending increased by 39.3% to KZT 1.8 trln., accounting for 14.8% of the total volume of credits to the economy.

As per the breakdown by sector, the largest amount of bank credits to the economy falls on the sector of trade – 20.0%, industry – 11.3%, construction – 9.4%, and agriculture – 4.0%.

In December 2014, the weighted-average interest rate on credits to non-bank legal entities in the domestic currency was 14.4% (in December 2013 – 10.0%), and on credits to individuals – 18.7% (20.3%).

Figure 5.4.2



5.5. Government Securities Market

In 2014, 47 auctions on government securities of the Ministry of Finance were held. The emission volume at par decreased by 14% as compared to 2013 and amounted to KZT 853.98 bln. (in 2013 – KZT 989.28 bln.), including short-term securities – KZT 1.44 bln., medium-term securities – KZT 71.99 bln., and long-term securities – KZT 780.55 bln.

In October 2014, the Ministry of Finance launched an issue of Eurobonds in foreign markets. 10-year Eurobonds worth USD 1.5 bln. and 30-year Eurobonds worth USD 1 bln. were placed at 3.875% and 4.875% per annum, respectively.

As of January 1, 2015, the volume of outstanding government securities of the Ministry of Finance denominated in the domestic currency amounted to KZT 4 177.17 bln. (as of January 1, 2014 – KZT 3 617.64 bln.) at par, having increased by 13.4% on a year-over-year basis, including short-term securities – KZT 1.44 bln., medium-term securities – KZT 561.78 bln., and long-term securities – KZT 3 613.95 bln. The volume of government securities denominated in foreign currency amounted to USD 2.5 bln.

The volume of the National Bank's short-term notes placed during 2014 increased by 3.2% versus 2013 and amounted to KZT 82.08 bln. (in 2013 – KZT 79.56 bln.). The average-weighted yield on short-term notes of the National Bank issued during 2014 was at 3.15% per annum (in 2013 – 1.14%), with the average-weighted maturity of 95.24 days (in 2013 – 95.42 days). As of January 1, 2015, there were short-term notes in circulation of KZT 27.08 bln. (at par value).

The National Bank's Operations in the Secondary Government Securities Market

During 2014, the National Bank made purchases of government securities. The volume of government securities purchased amounted to KZT 227.10 bln. at par. In 2014, the National Bank did not perform any operations on early repurchase of short-term notes.

Reverse REPO opening operations amounted to KZT 8 361.21 bln.; their average maturity was 20.20 days, and average-weighted yield – 7.26% per annum.

Operations conducted to open the direct REPO amounted to KZT 63.83 bln.; their average maturity was 7.19 days, and average-weighted yield – 4.49% per annum.

At January 1, 2015, the government securities portfolio of the National Bank amounted to KZT 412.81 bln.

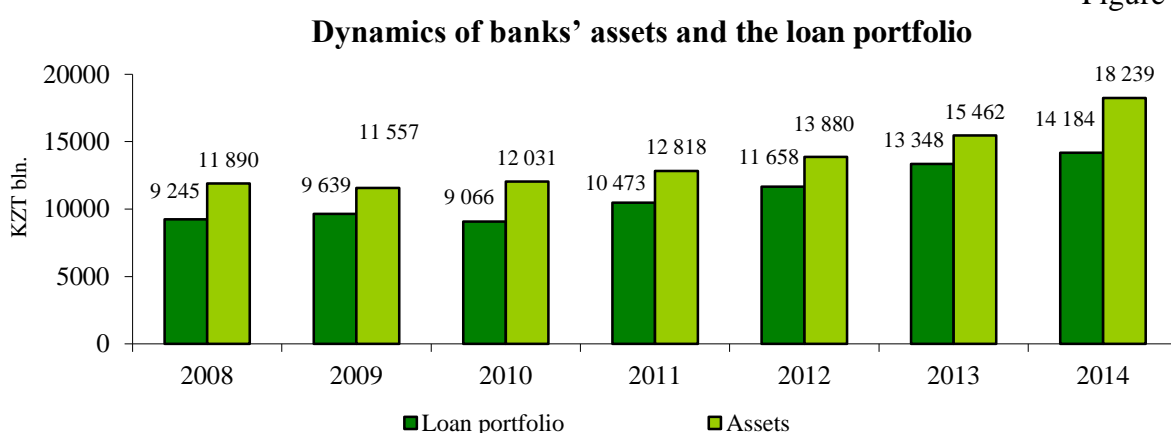
VI. FINANCIAL MARKET ENTITIES: POSITION AND SUPERVISION

6.1. Banking and Non-Bank Sector

As of January 1, 2015, 38 banks and 10¹⁰ organizations engaged in certain types of banking operations, including 3 mortgage companies, were functioning in the Republic of Kazakhstan.

During 2014, assets of the banking sector increased by KZT 2.8 trln. or by 18.0% and amounted to KZT 18.2 trln. (Figure 6.1.1) as of January 1, 2015.

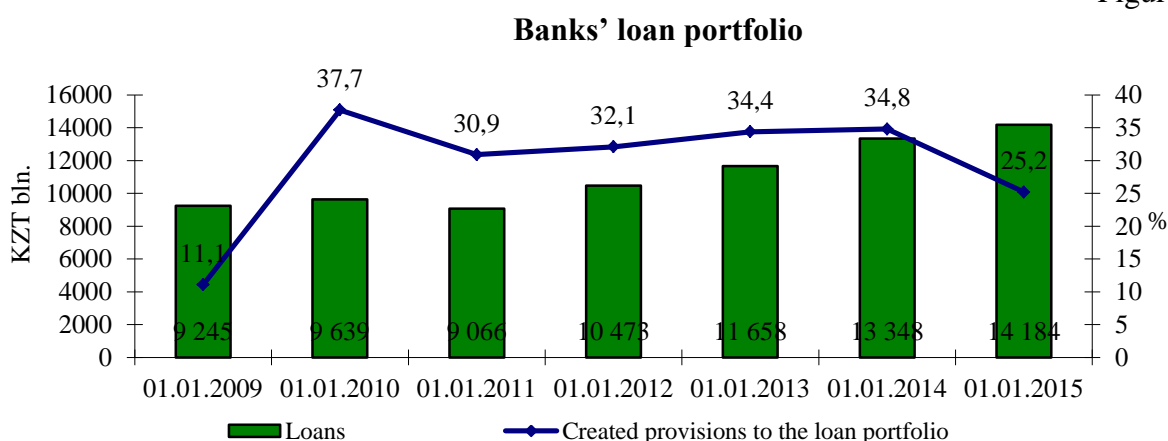
Figure 6.1.1



As of January 1, 2015, the banking sector's loan portfolio amounted to KZT 14.2 trln., having increased on a year-to-date basis by 6.3% or by KZT 0.8 trln.

As of January 1, 2015, provisions created under IFRS for the banking sector's loan portfolio amounted to KZT 3.6 trln. or 25.2% of the total loan portfolio (Figure 6.1.2).

Figure 6.1.2



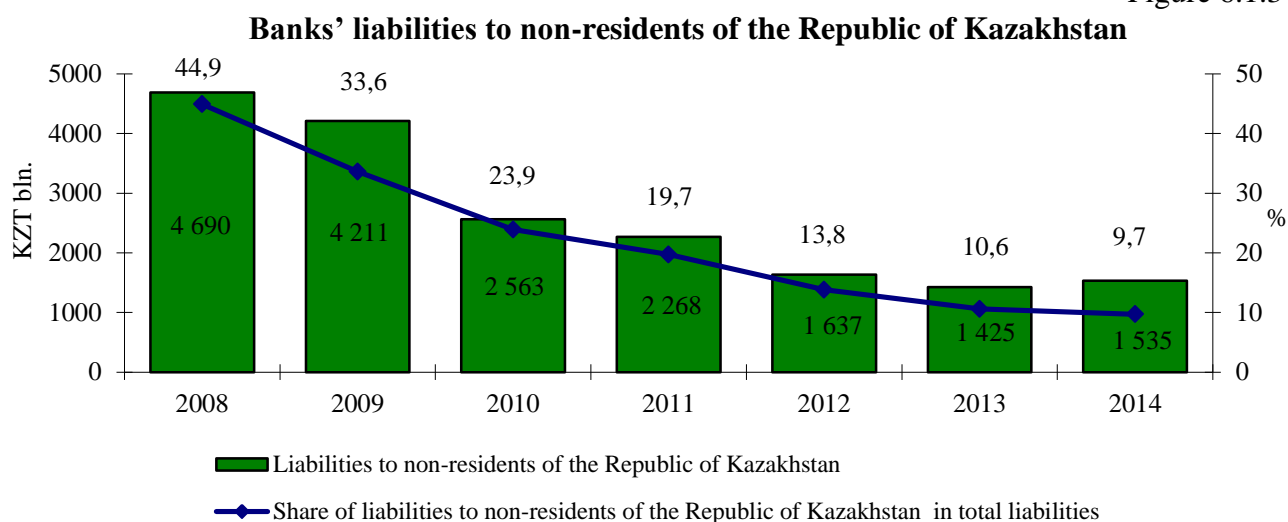
Loans past due over 90 days on their principal debt and/or accrued interest as of January 1, 2015 amounted to KZT 3.3 trln. or 23.5% of the banks' total loan portfolio.

¹⁰ Excluding the Kazakhstan Interbank Settlements Center of the National Bank of the Republic of Kazakhstan

During 2014, banks' liabilities increased by KZT 2.5 trln. or by 18.6% and amounted to KZT 15.9 trln. as of January 1, 2015.

During 2014, foreign liabilities increased by KZT 0.1 trln. or by 7.7% and amounted to KZT 1.5 trln. as of January 1, 2015; their share in total liabilities decreased from 10.6% to 9.7% (Figure 6.1.3).

Figure 6.1.3

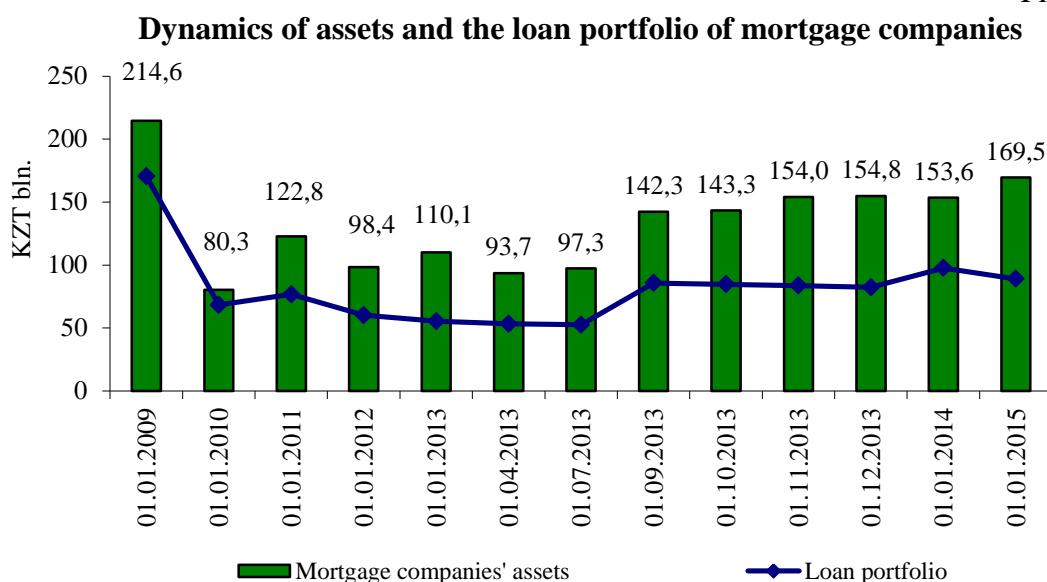


Mortgage Companies

As of January 1, 2015, total assets of mortgage companies amounted to KZT 169.5 bln., which is greater than their total assets at January 1, 2014 by KZT 15.9 bln. or 10.4%.

As of January 1, 2015, the total loan portfolio of mortgage companies amounted to KZT 89.1 bln., which is less than the respective indicator at the beginning of 2014 by KZT 8.6 bln. or 8.8% (Figure 6.1.4).

Figure 6.1.4



The largest share in the total loan portfolio of mortgage companies is represented by loans from the Kazakhstan Mortgage Company – 99.5%.

As of January 1, 2015, the percentage of delinquencies including overdue interest in the total loan portfolio of mortgage companies accounted for 0.35% or KZT 313.8 mln., including 0.29% or KZT 260.7 mln. of past due over 90 days

At January 1, 2015, created provisions amounted to KZT 3.4 bln., and the percentage of created provisions in the loan portfolio of mortgage companies accounted for 3.8%.

Other Non-Bank Organizations

As of January 1, 2015 total assets of non-bank organizations¹¹ amounted to KZT 644.4 bln., having increased by 5.1% on a year-to-date basis.

As of January 1, 2015, the total loan portfolio¹² of subsidiaries of the national management holding company operating in the area of agro-industrial complex amounted to KZT 396.1 bln., having increased by 16% on a year-to-date basis.

As of January 1, 2015, the percentage of delinquencies (including overdue interest) in the total loan portfolio of subsidiaries of the national management holding company operating in the area of agro-industrial complex accounted for 12.6% (KZT 49.8 bln.), where the percentage of past due over 90 days accounted for 10.9% (KZT 43.2 bln.), having decreased by 0.1 and 0.5 percentage points, respectively, on a year-to-date basis.

Licensing

In 2014, the following actions were taken in the area of licensing and authorization activity:

16 licenses were issued (re-issued) to banks, where 5 licenses were issued for additional banking and other operations conducted by banks and 11 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;

1 license was issued to an organization engaged in certain types of banking operations;

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

140 applications were reviewed in relation to approval of nominees for managerial positions in banks, bank holding companies; on the basis of such review, 133 nominees were approved and 7 nominees were rejected;

2 approvals for acquisition of a bank holding company status were issued; 5 approvals for acquisition of a large participant of a bank status were issued; 5 authorizations for banks to acquire (establish) their subsidiaries were provided; 3 authorizations for voluntary reorganization of banks were provided.

Off-site Supervision

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 is based on exercising control and supervision of compliance with requirements established by the laws of the Republic of Kazakhstan for such entities, analysis of regulatory reports including supervision of compliance with prudential ratios and other established ratios and limits.

Based on the review of regulatory reports as part of the off-site supervision, the following reports had been prepared: 456 monthly reports of the current financial position of banks, 185 quarterly reports in respect of the bank rating system - CAELS and a bank conglomerate, 266 monthly check-lists of compliance with provisions of the existing legislation, 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, and 4 consolidated reports of current position of microfinance organizations.

¹¹ Including the Kazakhstan Stock Exchange and the Central Securities Depository

¹² Including the finance lease provided

Inspections

In 2014, 27 inspections of banks and organizations engaged in certain types of banking operations had been conducted, including 14 scheduled inspections (12 banks, 2 organizations engaged in certain types of banking operations) and 13 unscheduled inspections.

The main subject of scheduled inspections is to check compliance with the banking legislation of the Republic of Kazakhstan, legislation on accounting and financial reporting, anti-money laundering and anti-terrorism legislation of the Republic of Kazakhstan as well as to check whether the financial and other statements submitted to the National Bank were presented fairly. In addition to that, in the course of inspection the assessment of the bank risk management system was made including for the quality of risk management, quality of assets and liabilities, capital adequacy, current liquidity were assessed; assessment of efficiency of management and corporate governance system as well as of the approach to problem loans was made.

Supervisory Response

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: 100 restricted remedial actions were taken, including the requirement to submit the letters of commitment in 22 cases, written warnings were made in 40 cases, improvement notices were sent in 26 cases, and written agreements were concluded in 12 cases. In respect of non-banking organizations, the National Bank applied 2 restricted remedial actions – written warnings.

Besides, in 2014, 20 sanctions were imposed in the form of imposition and collection of fines totaling KZT 7 mln; also, licenses of 5 banks had been suspended.

In 2014, based on the results of inspections, 29 restricted remedial actions (14 letters of commitment were requested, 13 written warnings were made, 1 written agreement was concluded, and 1 improvement notice was sent) were taken in respect of banks and organizations engaged in certain types of banking operations, and 203 administrative protocols were formalized. During 2014, the overall amount of imposed administrative penalties in the form of fines in respect of banks and organizations engaged in certain types of banking operations was KZT 66.9 mln., including KZT 34.4 mln. under administrative cases submitted to the court.

In addition, based on the inspection of the Capital Bank Kazakhstan, the license for certain types of banking operations was suspended and a Board member of the bank was released from his position.

6.2. Insurance Sector

As of January 1, 2015, the insurance sector was represented by 34 insurance organizations, 15 insurance brokers and 71 actuaries.

At January 1, 2015, total assets of insurance organizations amounted to KZT 612.9 bln., which is by 17.1% greater than the corresponding indicator at January 1, 2014.

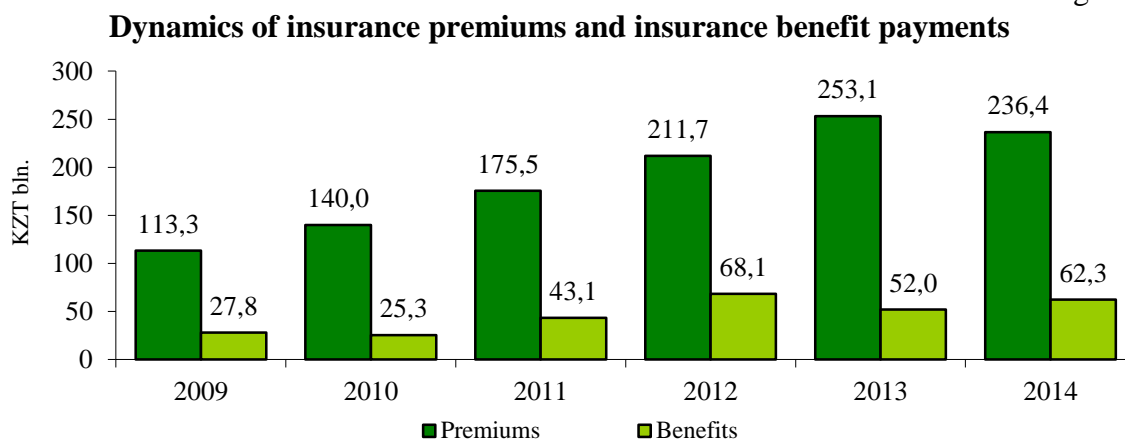
Over 2014, the total equity had increased by 12.8% and amounted to KZT 286.9 bln.

Total liabilities of insurance organizations amounted to KZT 326.0 bln., which is by 21.2% greater than at the same date of 2014. Insurance reserves amounted to KZT 298.4 bln. or 91.5% of total liabilities, which is by 24.2% greater than the corresponding indicator at January 1, 2014.

The total volume of insurance premiums underwritten by insurance organizations in 2014 amounted to KZT 266.1 bln., where the amount of insurance premiums under direct insurance contracts was KZT 236.4 bln.¹³, which is by 6.6% less than the volume collected during the previous year (Figure 7.2.1)

¹³ The amount of insurance premiums is given excluding insurance premiums written under reinsurance contracts

Figure 7.2.1



The decrease in the amounts of insurance premiums was mainly caused by the moratorium for entering into pension annuity contracts (the Resolution of the National Bank's Board dated February 26, 2014 No. 32 "On Approval of the Rules for Transferring Accumulated Pension Savings to an Insurance Organization under a Pension Annuity Contract") that was in effect from July 1, 2013 till May 5, 2014. Such decision was made in pursuance of the Head of the State's mandate to improve the pension system in the Republic of Kazakhstan as well as to suspend transfers of pension accumulations from an accumulation pension fund to an insurance organization.

Within the structure of insurance premiums, the major portion falls on voluntary property insurance – KZT 101.2 bln. or 42.8% of total insurance premiums, KZT 77.2 bln. or 32.6% was collected on voluntary personal insurance, and KZT 58.0 bln. or 24.6% falls on compulsory insurance.

Total insurance benefit payments made during 2014 amounted to KZT 62.3 bln., having increased by 19.9% versus the previous year.

The structure of insurance benefit payments by lines of insurance is as follows: compulsory insurance – 42.6%, voluntary personal insurance – 41.2%, and voluntary property insurance – 16.2%.

The volume of insurance premiums ceded to reinsurance amounted to KZT 79.9 bln. or 33.8% of total insurance premiums. In doing so, 26.6% of total insurance premiums were ceded to reinsurance to non-residents of the Republic of Kazakhstan.

Licensing

In 2014, as part of the licensing and authorization activity, 252 applications/petitions for public services were considered on 10 types of public services, of which:

2 approvals for acquisition of a status of a large participant of an insurance organization were issued to a natural person;

1 approval for opening an insurance organization to engage in the life insurance business was issued;

1 broker license was issued to one insurance broker;

based on consideration of applications for issue (re-issue) of insurance licenses, 5 licenses were re-issued and 1 reinsurance license was issued;

based on consideration of applications filed by natural persons and legal entities, 56 independent experts who make assessments of damage caused to the property of an affected party as a result of vehicle operation, were accredited;

applications about approval of nominees for managerial positions in insurance organizations, insurance holding companies and the Insurance Indemnity Guarantee Fund were considered; based on those, 96 nominees were approved;

18 actuaries took their qualification exam.

Off-site Supervision

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 was analyzed, adequacy of their created reserves, financial and regulatory reporting, changes in 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 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 according to the Risk Matrix with relevant analytical opinion about their financial position.

As part of the early warning measures, factors causing deterioration in financial position of insurance organizations and insurance holding companies were identified; based on those, 25 insurance organizations and 1 insurance holding company were required to provide their action plans on increasing financial soundness.

Meetings were held with top-managers of 34 insurance organizations, 10 insurance brokers, 5 representative offices of a non-resident insurance broker and 2 actuaries on the matters pertinent to the “Arcelor Mittal Temirtau” JSC; regarding discrepancy of data in financial statements; regarding methods of insurance reserve calculations; delay in execution of courts’ decisions about unjustified denial to pay an insurance benefit; existing problems and prospects in the activities of insurance organizations; as well as on the aspects of development and problems in the insurance market of the Republic of Kazakhstan.

At present, effort is being made to arrange technical assistance jointly with the Asian Development Bank entitled “Enhancing Insurance Market Efficiency and Outreach of the Republic of Kazakhstan” and with the World Bank, “Strengthening the Financial Sector Stability”. Joint effort was made with an international expert hired under the USAID program regarding the activities of the domestic insurance market players.

Inspection

In 2014, 14 scheduled inspections were conducted, where 11 insurance organizations and 3 insurance brokers were inspected.

The key issues covered in the course of scheduled 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.

Supervisory Response

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

insurance organizations: 113 letters of commitment were requested, 49 written improvement notices were sent, 5 written warnings were made, 5 written agreements were concluded, an approval for appointment of a managerial staff in 1 insurance organization was revoked;

actuaries: 8 letters of commitment were requested, 30 written improvement notices were sent and 1 written warning was made;

insurance brokers: 8 letters of commitment were requested, 10 written improvement notices were sent and 1 written warning was made.

Altogether, 66 sanctions in the form of administrative penalties were imposed on insurance organizations and insurance brokers totaling KZT 17 456.0 and 4 written warnings were made.

In 2014, actuarial licenses of 15 actuaries were suspended because of incorrect calculation of insurance reserves, non-compliance with the legislation of the Republic of Kazakhstan in respect of the minimum obligatory actuarial training programme.

6.3. Securities Market Entities

At January 1, 2015, there were 50 brokers and/or dealers operating in the Republic of Kazakhstan, 11 custodians, 27 investment portfolio managers, 2 transfer agents, 1 securities trade organizer, and 1 organization engaged in clearing of transactions with financial derivatives in the securities market.

Besides, there are also a unified registrar and the central securities depository in the securities market that carry out professional activities in the securities market without a license.

In 2014 as a whole, overall financial performance indicators of professional participants in the securities market increased versus 2013: in terms of total assets – by 50.8%, and in terms of capital – by 69.8%. Overall financial performance indicators of professional participants in the securities market strengthened due to the overall increase in the equity of brokers and/or dealers and investment portfolio managers in 2014.

As of January 1, 2015, the number of issuers of government issue-grade securities was 1 636, and overall number of joint-stock companies with outstanding issues of shares was 1 569. During 2014, the competent authority registered 24 issues of shares.

As of January 1, 2015, the number of outstanding bond issues was 387 with total par value of KZT 7 387,2 bln., of which 202 issues were included into the category of “rated debt securities” from the official listing of the Kazakhstan Stock Exchange, 54 issues were included into the category of unrated debt securities of the first sub-category”, 11 issues – into the category of unrated debt securities of the second sub-category” and 4 issues – into the “buffer category”. In addition, in 2014, 14 bond programs were registered with the emission volume of KZT 2 061 bln.

During 2014, 63 issues of non-government bonds were registered with the total volume of KZT 1 598 bln.

During 2014, financial position of bond issuers which defaulted on earlier issued bond loans remained unstable. So, as of January 1, 2015, there were 35 issuers that did not repay their debt on coupon payment and principal amount on bonds, i.e. were in default, which is by 8.6% more than at the same date in 2014.

As of January 1, 2015, there were 80 mutual funds operating in the securities market, 61 of which were close-end funds (assets – KZT 396.2 bln.), 10 – open-end funds (assets – KZT 0.3 bln.) and 9 – interval funds (assets – KZT 0.7 bln.), as well as 28 joint-stock investment funds (assets – KZT 46.9 bln.).

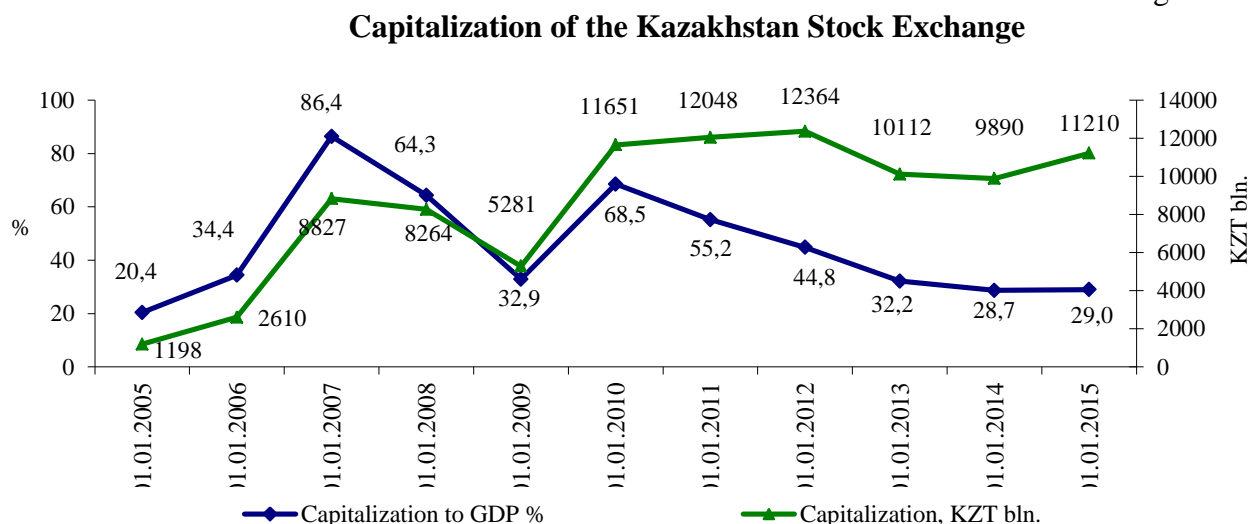
Stock Market

The key status indicator of the Kazakh stock market is the organized market represented by the Kazakhstan Stock Exchange.

The major securities’ share eligible to be negotiable at the Kazakhstan Stock Exchange falls on “Debt securities” and accounts for 48.4% or 271 issues, the share in the “Government securities” sector accounts for 33.6% or 188 issues, the share in the “Equities” sector accounts for 17.3% or 97 issues, and the share in the “Securities of international financial organizations” sector accounts for 0.7% or 4 issues.

At January 1, 2015, overall capitalization of the market of non-government securities included in the Kazakhstan Stock Exchange official listing increased by 13.3% versus the corresponding period of 2014 and amounted to KZT 11 209.9 bln. (Figure 6.3.1).

Figure 6.3.1



During 2014, the volume of transactions with non-government securities increased by 41% and amounted to KZT 895 bln., including the secondary securities market – KZT 263 bln. Alongside with that, the volume of transactions on initial offering increased significantly (over 60% increase). The volume of transactions with equities (placement and circulation) increased by 50.7%, and the volume of transactions with debt securities – by 14.4%.

In 2014, the volume of stock exchange trading in government securities in the organized market decreased by 18.6% and amounted to KZT 12 027.5 bln., where the trading in government securities in the secondary securities market amounted to KZT 200.5 bln.

At the same time, the volume of transactions with non-government securities in the unorganized market increased by more than 5 times and amounted to KZT 1 277.8 bln., and the volume of transactions with government securities showed a two-fold decrease and amounted to KZT 4.0 bln.

Licensing

In 2014, 3 licenses of a professional participant in the securities market were issued – 2 licenses to engage in the broker and dealer business with the right to maintain clients' accounts in the nominal holder capacity and 1 license to engage in the broker and dealer business without the right to maintain clients' accounts as well as 2 to engage in the investment portfolio management.

3 licenses of professional participants in the securities market to engage in the activities in the securities market was re-issued due to the change in the names of their organizations.

In addition, as part of enforcement of amendments made to Article 69 of the Law of the Republic of Kazakhstan “On the Securities Market” that provide for classification of activity on the investment portfolio management into sub-types (with and without the right to take voluntary pension contributions), 29 licenses to organizations engaged in professional activities in the securities market were re-issued.

Due to the change in provisions of the Law of the Republic of Kazakhstan “On Retirement Security in the Republic of Kazakhstan”, pursuant to which the investment management of pension assets was excluded from the types of activities subject to licensing, in 2014 eleven licenses of professional participants in the securities market were terminated (APF of Halyk Bank Kazakhstan, OAPF “Otan”, APF “Atameken”, APF “Astana”, APF “Grantum”, APF “Respublika”, APF “Ular Umit”, APF “Neftegas-Dem”, OEIMPA “Zhetyusu”, OEIMPA “Grantum Asset Management”, and APF “Capital”). Besides, licenses to engage in the broker and dealer business in the securities market held by APF of Halyk Bank Kazakhstan, OAPF “Otan”, “Astana-Invest” Investment House, APF “Atameken”, and APF “ATF Finance” were terminated due to their voluntary surrender. Also, licenses for investment portfolio management held by APF “ATF Finance” and the “Jazz Capital”

Brokerage House were surrendered on a voluntary basis on the ground of relevant applications filed by these organizations to the National Bank.

Off-site Supervision

The National Bank was performing an off-site monitoring of financial soundness of professional participants in the securities market; such monitoring included analysis of their financial and regulatory reports for compliance with prudential ratios, compliance with capital requirements, analysis of the procedure of transactions made by brokers and/or dealers in the trading system of the Kazakhstan Stock Exchange, in the unorganized and international markets, compliance with requirements to risk management and internal control systems in place 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 are 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 in 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 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.

Supervisory Response

Based on the off-site supervision, 62 restricted remedial actions were taken in respect of professional participants in the securities market (including 21 written improvement notices sent, 40 letters of commitment requested and 1 written agreement signed).

Apart from those, 22 administrative fines were imposed in respect of 11 professional participants in the securities market and 11 natural persons, totaling KZT 7.4 mln.

433 restricted remedial actions were taken in respect of issuers (including 200 written improvement notices sent and 233 letters of commitment requested).

Alongside with that, 53 administrative fines were imposed in respect of 41 issuers and 7 officials, and resolutions about imposition of administrative fines were passed, totaling KZT 22.4 mln.

Besides, in 2014, in connection with regular violations of the legislation of the Republic of Kazakhstan which governs the activities in the securities market, the decision was made to suspend the license of "Asyl-Invest" JSC for three months.

6.4. Accumulation Pension System

At January 1, 2015, the UAPF was the only organization engaged in taking mandatory pension contributions, mandatory professional contributions and voluntary pension contributions.

As of January 1, 2015, the amount of accumulated pension savings totaled KZT 4 517.8 bln., having increased by KZT 784.4 bln. or by 21.0% on a year-over-year basis.

The number of individual pension accounts of contributors (beneficiaries) of APFs under mandatory pension contributions was 9 377 563, with the total amount of pension savings worth KZT 4 490 bln. In its turn, at the same date, the number of individual pension accounts of contributors (beneficiaries) of APFs under voluntary pension contributions (including voluntary professional contributions) was 39 934, with the total amount of pension savings worth KZT 1.5 bln.

During 2014, net investment return increased by KZT 234.4 bln. or 31,0%, amounting to KZT 990.5 bln. at January 1, 2015. During 2014, the share of net investment return within the amount of pension savings increased by 1.6 percentage points from 20.3% as of January 1, 2014 to 21.9% as of January 1, 2015.

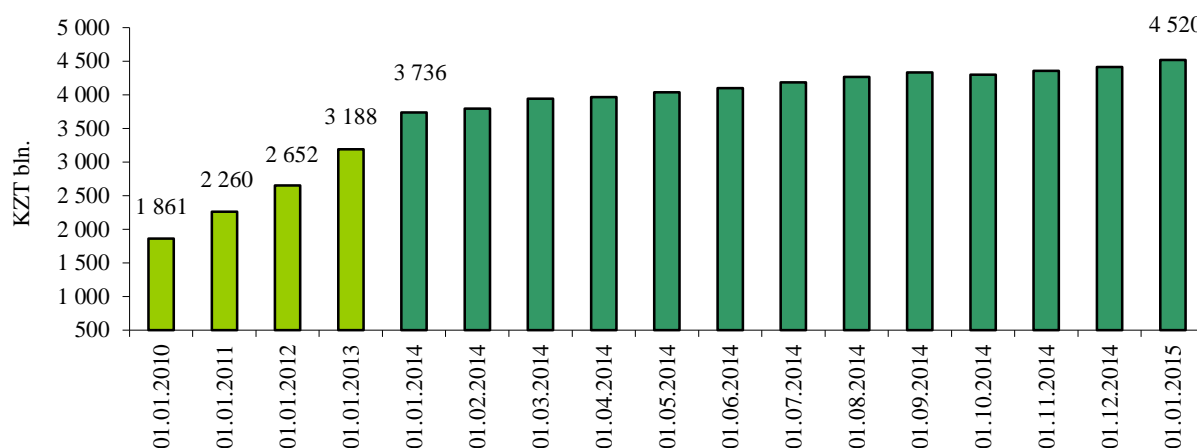
The Structure of Pension Assets of APFs and the UAPF

As of January 1, 2015, the total volume of pension assets at the UAPF was KZT 4 519.6 bln., having increased by KZT 783.7 bln. or by 21.0% since the beginning of 2014.

The average monthly increase in pension assets during the period from January 1, 2014 to January 1, 2015 was KZT 65.3 bln. (Figure 6.4.1).

Figure 6.4.1

Dynamics of change in the total pension assets of APFs and the UAPF



At January 1, 2015, the major share in the UAPF's total investment portfolio is still comprised of government securities of the Republic of Kazakhstan and corporate securities of Kazakhstani issuers (45.3% and 31.4%, respectively, of the UAPF's total invested pension assets at the same date).

In its turn, the volume of investments in securities of foreign issuers amounts to KZT 308.1 bln. (7.1% of the volume of invested pension assets). Deposits made with banks account for 16.3% or KZT 710.2 bln.

Licensing

In 2014, 9 licenses for taking pension assets and making retirement benefit payments were terminated due to the change in provisions of the Law of the Republic of Kazakhstan "On Retirement Security in the Republic of Kazakhstan"; pursuant to which the activities of taking pension assets and making retirement benefit payments were excluded from the types of activities subject to licensing (APF of Halyk Bank Kazakhstan, APF "Neftegas-Dem", OAPF "Otan", APF "Capital", APF "Astana", APF "Respublika", APF "Ular Umit", APF "Grantum", and APF "Atameken").

Off-site Supervision

Pursuant to the mandate of the head of the State of the Republic of Kazakhstan, the National Bank was entrusted with the task to consolidate pension assets within the UAPF as soon as practicable, while ensuring protection of pension assets and preventing social tension among the general public.

With this view, the National Bank arranged the process of consolidation of pension assets and liabilities of APFs under retirement contracts within the UAPF based on maximum transparency as well as ensuring efficient operation of the UAPF in future.

So, as of April 1, 2014, individual pension accounts were opened in the database of the UAPF's automated information system to all persons who used to be contributors (beneficiaries) of APFs; and amounts of accumulated pension savings of such persons were transferred to these accounts.

The transfer of documents (hard copies) and other information, and destruction of data and records remaining within the databases of former APFs were completed by July 1, 2014.

As of December 1, 2014, all licenses for taking pension assets and making retirement benefit payments as well as for pension asset investment management were terminated.

Apart from that, the National Bank, in parallel to consolidation of pension assets within the UAPF, implemented measures to determine fair value of pension assets of the UAPF. With a view to obtain information about fair values of financial instruments which form a part of pension assets, on February 28, 2014, the National Bank contracted KPMG Tax and Advisory LLP to perform valuation of financial instruments.

Based on independent valuation of pension assets of the UAPF, on September 8, 2014, the National Bank performed a comprehensive revaluation of financial instruments which form a part of the UAPF's pension assets.

Revaluation outcomes mainly resulted in decreased value of illiquid corporate securities, government securities of the Republic of Kazakhstan and financial instruments issued by foreign issuers; the value of financial instruments which form a part of the UAPF's pension assets decreased by 2.2% of the value of all pension assets of the UAPF.

It is worth mentioning that when performing revaluation of pension assets the National Bank was guided, in the first instance, by interests of contributors (beneficiaries) and performed such revaluation solely at the expense of amounts of investment return generated during 8 months of 2014.

Concurrently with the above actions, the National Bank designed a methodology and the procedure for valuation of the UAPF's pension assets that were approved by the Resolution of the Board of the National Bank of the Republic of Kazakhstan dated July 16, 2014 No. 110¹⁴.

In addition to that, during 2014, as part of the off-site supervision of activities of APFs and OEIMPAs, the National Bank was exercising control over compliance of activities carried out by APFs and OEIMPAs and their managerial staff with the legislation of the Republic of Kazakhstan, over mandatory awareness raising among contributors (beneficiaries) of APFs about balances of their pension accruals on individual pension accounts based on performance in 2013; control over proper record-keeping by APFs and their valuation of financial instruments which form a part of pension assets, including the analysis of the structure of receivables created from pension assets. With a view to ensure transmission of accurate information to the UAPF, the National Bank performed analysis of claims administration carried out by APFs in relation to issuer which defaulted on issued financial instruments that form a part of pension assets; also, pension assets and own assets of APFs were checked for their targeted use.

Supervisory Response

In 2014, based on the off-site supervision of activities of the UAPF, APFs and OEIMPAs, 3 restricted remedial actions were taken (3 letters of commitments were requested).

6.5. Liquidation Process

As of January 1, 2015, 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 6.5.1.

¹⁴ Resolution of the Board of the National Bank of the Republic of Kazakhstan No.110 dated July 16, 2014 "Regarding Amendments to the Resolution of the Board of the National Bank of the Republic of Kazakhstan dated February 26, 2014 No. 24 "On Approval of Rules for Accounting and Valuation of Pension Assets"

Table 6.5.1

#	Financial Organizations under Liquidation	Percentage of Payouts to Creditors, as of January 1, 2015
Banking Sector		
1	“Valut-Transit Bank” JSC	61.5% – 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 on guaranteed 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 on guaranteed deposits as well as claims on deposits made with the pension assets of APFs).
Insurance Sector		
1	"Altyn Policy" Insurance Company	69.8% – 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	21% – 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	96.7% – claims of creditors under the 6 th order of priority on concluded insurance contracts other than those specified in subparagraphs 3) and 4) of paragraph 1, Article 72 of the Insurance Law of the Republic of Kazakhstan, as well as claims of an organization which guarantees insurance indemnity to insureds (the insured, beneficiaries) in case of forced liquidation of an insurance organization, under insurance contracts, under guarantee payments, expenses related to the payment for insurance portfolio of forcibly liquidated insurance (reinsurance) organization transferred to another insurance (reinsurance) organization according to the procedure and terms and conditions provided for by the insurance legislation of the Republic of Kazakhstan, and other expenses associated with them.

In 2014, 9 scheduled inspections of activities of liquidation commissions of banks and insurance organizations and 1 desk audit of an insurance organization were conducted.

With a view to improve the liquidation process of insurance (reinsurance) organizations in Kazakhstan, 3 regulations had been drafted and adopted.

6.6. Protecting the Rights of Financial Services Consumers

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

This objective is implemented by way of:

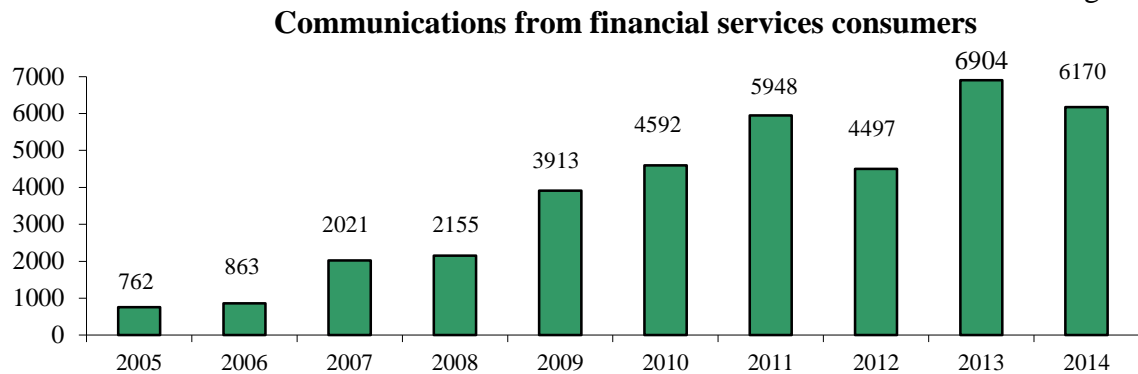
considering communications from natural person and legal entities and providing legal support;

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

detecting violations of the rights of 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 on protection of the rights of financial services consumers.

During the period from January 1 to December 31, 2014, 6 170 communications from natural persons and legal entities concerning activities of financial organizations were considered (Figure 6.6.1).

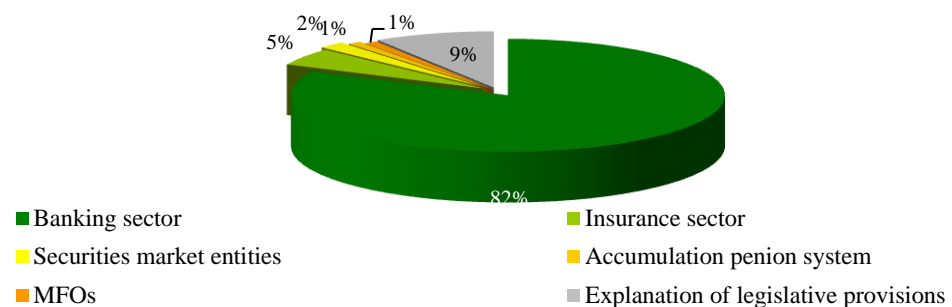
Figure 6.6.1.



In 2014, the major portion of communications was in respect of the banking sector – 82%, and in respect of other sectors – 18% (Figure 6.6.2).

Figure 6.6.2

Structure of communication by the financial market segments



During 2014, 5 065 communications regarding activities of banks and organizations engaged in certain types of banking operations were received. The main topics of communications and complaints in this sector were related to:

- debt restructuring under loan agreements;
- charging off the principal amount, interest or a fine on loans of insolvent borrowers;
- checking the accuracy of calculation done by a bank (of an amount of monthly payment, outstanding amount, fine, interest, fees, annual effective interest rate);
- checking terms and conditions of an agreement for their compliance with the law;
- foreclosure of monies with bank accounts and their charge offs in the amount of 100%;
- failure to take timely actions by banks to recover past due amounts.

There were 290 communications regarding activities of insurance organizations. The current issues in the insurance sector were:

- refusal, untimely and incomplete payment of insurance benefits under compulsory and voluntary lines of insurance;
- default on payment of insurance benefits under annuity contracts;
- accuracy of calculation of insured amounts and insurance premiums.

In respect of activities of the securities market entities, 93 communications were received. The major percentage of complaints was related to violations of the procedure of entering into, execution and termination of contracts; non-distribution of dividends and disagreement about their amount; receipt of information that affects interests of the company's shareholders including about activities of joint-stock companies.

In respect of activities of APFs, 58 communications were received. The major percentage of complaints was related to reduction in pension accruals of contributors.

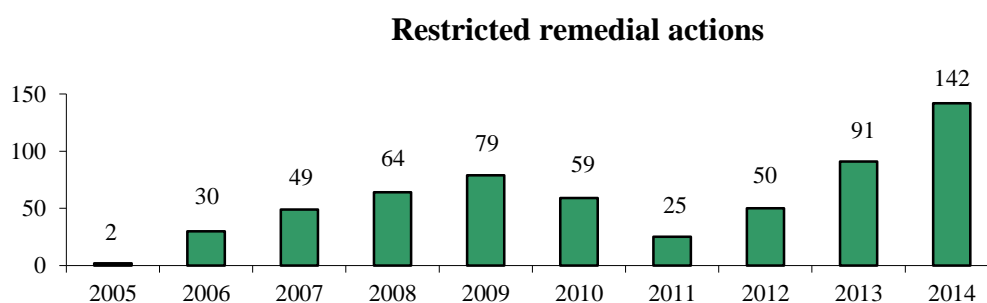
In respect of activities of microfinance organizations, 4 communications were received in relation to verification of whether payments on received micro-loans were calculated correctly.

There were 526 communications related to explanation of legislation of the Republic of Kazakhstan and other matters within the National Bank's competence.

134 communications were redirected to other government authorities to whom they may concern.

Based on violations detected as a result of consideration of communications as well as in pursuance of determinations made by the judicial authorities, in 2014 the National Bank took 142 restricted remedial actions in respect of financial organizations and securities market entities, of which 117 actions were taken in respect of banks, 3 – in respect of organizations engaged in certain banking operations, 21 – in respect of insurance organizations, and 1 – in respect of an APF. The number of restricted remedial actions taken in 2014 increased significantly as compared to the prior years (Figure 6.6.3).

Figure 6.6.3



During 2014, the staff of the National Bank took part in 267 court sessions, in judicial investigations related to claims on the part of both financial services consumers and financial organizations, on the following matters:

- collection of debt under a bank loan agreement;
- invalidation of a bank loan agreement entered into between the parties to the agreement;
- contesting a restricted remedial action taken in respect of banks in the form of a written warning for a failure to meet the requirements to the content of a bank loan agreement;
- recognizing the disability income policy in the form of annuity in favor of an insurer's employee as invalid with regard to calculation of an insurance premium amount, etc.

In 2014, the National Bank, with a view to prevent social tension and mitigate conflict situations, took an active part in addressing the problems of mortgage borrowers.

In February 2014, a working committee was established at the National Bank to address the problems of mortgage borrowers with involvement of public associations protecting borrower rights, the banking ombudsman, "Financial Institutions Association of Kazakhstan" Union of Legal Entities, banks and mortgage companies (Order No.2/1 dated February 13, 2014).

With participation of public associations, 306 individual meetings of problem borrowers with banks and mortgage companies were held in order to come up with a mutually acceptable option of debt repayment.

The National Bank arranged 8 round tables with participation of public associations, banks, banking ombudsman, and representatives from the mayorate of Almaty.

At the National Bank's initiative, on December 26, 2014, the Memorandum of Understanding and Cooperation was signed between public associations, some banks, banking ombudsman, "Financial Institutions Association of Kazakhstan" Union of Legal Entities, the mayorate of Almaty, and Almaty city branch of the "Nur Otan" party. The goals of the Memorandum are to provide assistance to mortgage borrowers who deal with the lending banks, and to arrange with the banks that people are not evicted from their apartments during the cold season. The Memorandum sets out a list of measures aimed at finding the ways to address the problems of mortgage borrowers.

The National Bank submitted proposals to the Government on how to address the problems of mortgage borrowers with regard to providing additional funding to banks to refinance mortgage loans of individuals, establishing a unified government fund of social and rental housing, helping employ unemployed borrowers (their family members) and so on.

In order to ensure prompt decision on the matters concerning financial service consumers, public awareness of the existing situation and emergencies of social importance, in October 2014 the Community liaison office was established in the building of the National Bank located in Almaty, at 67 Aiteke bi street.

The Community liaison office provides advice to individuals, individual entrepreneurs and representatives of legal entities regarding protection of the rights of financial services consumers and explanations of provisions of the existing legislation in the banking, insurance, and pension sphere as well as in the area of the securities market.

Authorities of the Community liaison office also include:

- arranging and conducting meetings of problem borrowers with representatives of banks, in certain cases together with representatives of public associations;

- accepting communications and ensuring their further consideration in essence pursuant to the Law of the Republic of Kazakhstan "Regarding the Procedure for Consideration of Communications from Natural Persons and Legal Entities".

The National Bank's staff deals with visitors during working days from 10.00 to 17.00 with the lunch break from 12.30 to 14.30.

During October-December 2014, the Community liaison office received and provided counseling to more than 200 persons.

VII. REGIONAL FINANCIAL CENTER OF ALMATY CITY

7.1. Developing the City of Almaty as a Large Regional Financial Centre in the CIS and Central Asia

One of the National Bank's objectives is to create conditions for development of a competitive RFCA conforming to the international standards, and to ensure its entrance to the top ten financial centers of Asia by 2020, as well as to implement a set of measures aimed at achieving the objective.

With a view to analyze international approaches to the development of financial centers, to identify the level and the place of the RFCA globally, to acquire recognition in the international investment community and to attract investor flows, efforts were made to include the RFCA in the Global Financial Centers Index (GFCI) rating, which is a specialized rating methodology used to rate 83 international financial centers and designed by Z/Yen Group Limited (London, UK).

Based on the results of GFCI'15 (March 15, 2014) Almaty city was for the first time ever included in the rating where it occupied the 58th position in the official list of 83 international financial centers and the 13th place among Asian financial centers.

On September 23, 2014, Almaty significantly improved its positions in the GFCI'16, advancing by 15 positions and occupying the 43rd position among 83 international financial centers. In the Eastern Europe – Central Asia region, Almaty is the second best after Istanbul, being followed by Prague, Warsaw, St. Petersburg, Budapest, Moscow, Tallinn and Athens.

The National Bank worked actively to determine a further development policy for the RFCA. At the instruction of the President of the Republic of Kazakhstan and the Government, the National Bank drafted a strategic paper – the draft Plan of Joint Actions of the Government and the National Bank for RFCA Development for a Long-Term Horizon, and hired an international company, Boston Consulting Group. The draft Plan of actions for RFCA development determines two key areas in its development such as the capital market and asset management as well as two additional development areas: wealth management and Islamic finance.

With a view to expand development opportunities of the RFCA, cooperation with the Almaty Development Center (a subsidiary of the Almaty municipality) was set up; as part of such arrangement, the Memorandum of Cooperation aimed to provide favorable conditions for development of Almaty was signed. The main focus in the bilateral cooperation is to increase investment attractiveness and investment image of Almaty, provide information support and increase the level of financial education as well as to ensure cooperation in attracting foreign experts and improving the city's infrastructure.

As part of the 1st Session of the Kazakh-British Intergovernmental Commission on trade-economic, scientific-technical and cultural cooperation that was held on November 5, 2014, a meeting with Lord Ian Livingston, UK's Minister of State for Trade and Investment, was conducted. At present, the agreement was reached with TheCityUK, British private-sector association, about setting up bilateral cooperation as well as establishing a bilateral working group between the National Bank and TheCityUK association in the area of the RFCA development.

An important area in the activities of the National Bank under the Law of the Republic of Kazakhstan "About the Regional Financial Center of Almaty City" is cooperation with the RFCA participants – professional participants in the securities market licensed to engage in the broker/dealer business by providing certain types of public services to them.

One of the public services provided by the National Bank within the framework of its work with participants of the RFCA is dealing with visa applications for foreigners and stateless persons arriving to the Republic of Kazakhstan to work in the RFCA. Such service provides a simplified visa regime for foreign citizens coming to work for companies participating in the RFCA. Foreigners and stateless persons arriving to the Republic of Kazakhstan to work in the RFCA obtain an entry visa upon arrival to the Almaty International Airport. In 2014, 11 applications from participants of the RFCA were considered, 11 relevant applications were prepared by the National Bank to the Consular Department of the Ministry of Foreign Affairs and the migration police of the Internal Affairs Department of Almaty.

7.2 Kazakhstan – Regional Islamic Finance Hub

The National Bank made arrangements for the awarding ceremony where the President was the recipient of the Premium as a Global leader of Islamic finance as part of the Global Islamic Finance Awards during the World Islamic Economic Forum on October 28, 2014.

The work is being done to implement the Islamic Finance Development Roadmap till 2020. Apart from that, with a view to meet the above objectives in an efficient and complete manner, the National Bank initiated the updating of the document.

International Cooperation

The National Bank reached agreement about conducting the 12th IFSB Summit in May 2015. The IFSB Summit is a place for dialogues between key players of the Islamic finance industry where current development aspects of Islamic finance in the world as well as outlooks and plans of the industry will be discussed.

In 2014, the National Bank joined the Accounting and Auditing Organization for Islamic Financial Institutions and the International Islamic Financial Market; this will help obtaining qualified assistance in developing accounting and auditing standards for Islamic financial institutions as well in standardizing the structures and contracts of Islamic financial instruments for liquidity management of Islamic financial institutions.

Promotion of the Financial Centre as the Regional Centre for Islamic Finance

With a view to build the capacities of qualified specialists in the financial system of the Republic of Kazakhstan, the National Bank awarded its scholarship in Islamic finance to students and magistrands of Kazakhstani universities. Also, a number of retreats were organized on the topic of “Islamic Economy: a Combination of Religious, Ethical and Legal Principles” for students and academic staff of leading universities in Almaty.

In addition, the National Bank, jointly with the IFSB, arranged international workshop for the CIS and EurAsEC countries on the topic of “Prospects in the Development of Islamic Finance for Kazakhstan”; also, it assisted the British Embassy in Kazakhstan in arranging the workshop for the staff of the National Bank and representatives of Islamic financial institutions.

The National Bank rendered assistance to the Association for the Development of Islamic Finance in organizing the Kazakhstan Islamic Finance Conference in Almaty, conducted the round table entitled “Development and Regulation of Financial Institutions” for regulators from the CIS and Central Asian countries in Almaty.

Such events increase investment attractiveness, improve the image and recognition of Kazakhstan as a country which develops Islamic finance.

VIII. REGULATORY ACTIVITIES

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

So, in 2014 the National Bank reviewed and provided its opinion on 60 drafts of legislative acts submitted for approval by government authorities of the Republic of Kazakhstan.

During 2014, 81 regulations of the National Bank were registered at the Ministry of Justice of the Republic of Kazakhstan, 72 of which were drafted and adopted during the reporting period.

Apart from that, the National Bank drafted the following Presidential Edicts:

of October 6, 2014 No. 923 “On Amendments to the Presidential Edict of the Republic of Kazakhstan as dated December 31, 2003 No. 1271 “On Approval of the Statute and Organizational Structure of the National Bank of the Republic of Kazakhstan”;

of September 8, 2014 No. 905 “On Repealing the Presidential Edict of the Republic of Kazakhstan as dated February 1, 2010 No. 923 “On the Development Concept of the Financial Center of the Republic of Kazakhstan in the Post-Crisis Period”;

of January 29, 2014 No. 743 “On Amendments to the Presidential Edict of the Republic of Kazakhstan as dated September 25, 2003 No. 1193 “On Approval of the Concept for the Design of Banknotes and Coins of the National Currency – Kazakhstani Tenge”;

of January 30, 2014 No. 744 “On Some Matters Pertinent to the National Bank of the Republic of Kazakhstan”.

Regulation of the Financial Market and Financial Organizations

In 2014, the National Bank continued its work on the draft Law of the Republic of Kazakhstan “On Amendments to Some Legislative Acts of the Republic of Kazakhstan Concerning Insurance and Islamic Finance”, which is currently reviewed by the Parliament of the Republic of Kazakhstan.

The draft law provides for the following changes to the framework of compulsory employee accident insurance:

optimizing and synchronizing insurance benefit payments (reduction for the amount of social benefits already paid, benefit payments made before the retirement age with deduction of pension contributions, the cession of light forms of disability (up to 29%) to the employer, limitation of maximum income for calculation (not more than 10 minimum wages);

establishing a uniform procedure for indexation of amount of indemnity for damage caused to life and health of an individual in line with expected level of inflation;

setting a uniform insurance tariff (the differentiation of tariffs by the staff categories (operational staff, administrative and managerial staff and ancillary staff) was excluded);

adjusting insurance tariffs in connection with optimization and synchronization of insurance benefit payments by establishing reduced base tariffs and applying corrective ratios for enterprises with historically high loss experience;

minimizing extra costs of employers associated with compensation of expenses caused by the damage to employees' health with the degree of loss of occupational capacity from 5 to 29%, in the amount not exceeding 250 MCIs and based on expenses actually incurred, with supporting documents.

The draft law introduces Islamic insurance, commodity murabaha and Islamic leasing, which are the most affordable Islamic finance products due to prohibition for accrual and receipt of interest as well as due to joint risk sharing between an Islamic financial institution and businessmen.

In general, the introduction of new Islamic finance products will expand access to long-term financing for expansion of production to economic entities, will protect property interests of the general public and businesses as well as will ensure inflow of new investments from foreign Islamic financial organizations.

Additionally, as a systemic measure, the National Bank is proposed to acquire a controlling block of shares in the Insurance Indemnity Guarantee Fund, in order to protect interests of insurance benefit beneficiaries.

In the banking sector, with a view to protect rights of bank depositors, the draft law provides for the increase in the payout amount guaranteed to depositors from the Kazakhstan Deposit Insurance Fund on the Tenge deposits from KZT 5 mln. to KZT 10 mln. This will increase confidence in the banking system on the part of the general public and will limit the outflow of deposits from one bank to another.

In order to reduce the percentage of non-performing loans, the draft law proposes additional amendments regarding bank mergers (integrations) and expansion of the Problem Loans Fund's functionality.

Such amendments are of a selective nature and suggest that the procedure of assets and liabilities transfer between a parent bank and its subsidiary should be established, the procedure for the state registration of pledge of movable and immovable property should be simplified and tax abatements should be provided when assigning rights for doubtful and loss assets.

Implementation of suggested amendments will protect interests of depositors in case of consolidation of bank assets, will ensure affordability of financial services and will help reducing the share of non-performing assets in the system as a whole.

With a view to implement the Concept for further development of institutes of independent appraisal of risk contraction (of rating agencies, credit bureaus) and debt collection agencies as approved by the Presidential Edict dated August 13, 2012 No. 362, the National Bank prepared draft laws of the Republic of Kazakhstan "On Debt Collection Activities" and "On Amendments to Some Legislative Acts of the Republic of Kazakhstan Pertaining to Debt Collection Activities".

The purposes of these draft laws are to protect rights of debtors (including financial services consumers), enhance transparency in activities of debt collection agencies, mitigate social tension, introduce regulation, control and supervision of activities of debt collection agencies as well as to create a favorable legal environment for development of the market of debt collection services and to increase effectiveness of the debt collection effort.

Banking Sector

With a view to solve problems with non-performing assets of banks, from January 1, 2016, a prudential ratio is introduced in respect of the maximum percentage of non-performing loans in the loan portfolio to be about 10%. The banks which had the percentage of non-performing loans over 10% on July 1, 2014, submitted action plans to the National Bank that provide for bringing the percentage of non-performing loans in line with the required level. The National Bank monitors bank compliance with the action plans on a regular basis. Should a bank fail to comply with targeted ratios, supervisory response measures will be taken against such bank, up to its license revocation.

Measures had been taken to optimize administrative barriers by expanding powers of bank subsidiaries which acquire doubtful and loss assets of their parent bank in order to make all arrangements to improve the quality of problem assets as well as to optimize criteria for the waiver of bad debts that provide for the procedure and basis for waiver of a bad debt on a loan.

In 2014, measures were taken to make amendments to the taxation legislation of the Republic of Kazakhstan. Specifically:

from January 1, 2014, the following measures were implemented in relation to taxation:

recognition of bank losses in tax accounting from the waiver of a bad debt in the amount not exceeding 10% of a loan portfolio. This tax abatement will be in force until January 1, 2016;

recognition of losses from bad loans charged off the balance sheets of banks, in tax accounting;

tax exemptions in respect of personal income:

a) arising when a bad debt is charged off the balance sheet without suspending the claim administration by a bank;

б) in case of the waiver of debt subject to personal income tax, in the following instances:

when forgiving the debt of certain socially vulnerable categories of individuals;

when selling pledged property at a price below the amount of outstanding liability;

when actions taken by an enforcement agent in order to identify the property or income of a borrower – natural person appeared to have no effect;

from January 1, 2014, the following tax exemptions had been provided:

from taxation of income arising from reduction of amounts of provisions in case of the waiver of a debt on a credit (loan) made by a bank which had undergone restructuring and had been included in the list approved by a body of such bank (is in effect until January 1, 2020);

from payment of corporate and individual income taxes by a bank which had undergone restructuring on revenues resulting from the waiver of debt on loans, provided that such loans are included in the list approved by the bank's body and documents about the claim administration are available (is in effect until January 1, 2020).

From January 1, 2016, the minimum capital required for banks is increased on a phase-by-phase basis from KZT 30 bln. to KZT 100 bln. in 2019. Alongside with that, banks which do not plan to increase their equity to KZT 100 bln. may continue their operation, in which case limits for volumes of attracted deposits will be established for such banks.

So, the volume of deposits attracted from the general public is limited in line with the bank's equity as follows:

KZT 5 bln., if equity ranges from KZT 5 to KZT 10 bln.;

KZT 10 bln., if equity ranges from KZT 10 to KZT 30 bln.;

KZT 50 bln., if equity ranges from KZT 30 to KZT 50 bln.;

KZT 75 bln., if equity ranges from KZT 50 to KZT 75 bln.;

100 bln., if equity ranges from KZT 75 to KZT 100 bln.

Measures for increasing capitalization of the banking sector are aimed to increase the percentage of lending to GDP, increase the coverage of consumers with financial services, reduce their cost and develop new high-tech financial services including mobile banking and Internet

banking services, transition to the Basel III standards, which require additional investments and a high level of capitalization of the banking system.

From January 1, 2015, new requirements for bank capital adequacy calculation are introduced – Basel III, which will ensure stability of the banking sector and will be conducive to a more prudent and less risky banking activity, and will ensure a greater competition in the regional and international markets. New bank capital requirements – Basel III standards – are aimed to improve banks' ability to absorb shocks arising as a result of financial and economic stresses.

New requirements for bank capital adequacy calculation under Basel III provide for:

proportional distribution of the banks' capital burden over time: at the first stage, ratios are reduced (overall level of capital is reduced from 12% to 7.5%), and then they will be gradually increasing till 2019 (tier-one capital – from 6% to 9% and overall level of capital – from 7.5% to 12%);

introduction of new capital buffers (the capital conservation buffer, the counter-cyclical buffer, and the systemic buffer), which means strengthening the regulatory policy with elements of macro-prudential control. Capital buffers must be created from the core capital (common shares and retained net earnings of a bank), however, if a bank fails to comply with the requirements to accumulate the required level of capital buffers, this would not entail sanctions against such bank but would only set limits for the use of earnings. The capital conservation buffer shall be created by banks on an on-going basis with a view to ensure sustainability to stress situations on the part of banks (a gradual increase of the capital buffer starting from 2015 – from 2.5% to 3% for systemically important banks and from 1% to 3% - for other banks). The counter-cyclical buffer is created to smooth a financial cycle and to prevent a loan boom and is introduced solely during the period of active growth of lending (it should be introduced at least 12 months before the date when the calculation of the buffer begins, in the amount – from 0% to 3%). The systemic buffer is created by systemically important banks and, just as the above mentioned buffers, must be created from shares and net retained earnings (effective from January 1, 2016, in the amount of 1%);

a phase-by-phase amortization of financial instruments which are a part of capital and which do not comply with the criteria established by Basel III, from 2016 to 2020 (20% each year);

revision of capital adequacy ratios (core capital, tier-1 capital, total capital including capital buffers) at least once in 3 years;

calculation of prudential ratios on a consolidated basis, from January 1, 2016.

With a view to provide opportunity for expansion of lending to the corporate sector of the economy, a conservation of the amount of the dynamic reserve created in 2013 is contemplated for two years (2014-2015). At the end of 2014, the dynamic reserve created in 2013 is intended to be adjusted (partial write-back) for the amount of negative value of the difference between allocations for reserves and gains from recovery of reserves that resulted in unpredicted growth of the dynamic reserve. As a result of adjustment of the dynamic reserve created in 2013, banks will have to pay corporate income tax as of the year-end of 2014.

With a view to limit systemic risks in the consumer lending sector, from February 1, 2014, a limit was introduced in respect of annual growth at 30%; also, the risk-weighting of consumer loans was tightened from 75% to 100% when calculating banks' capital adequacy. In addition to that, from April 1, 2014, the cap of 50% was introduced in respect of a borrower's debt burden; if this cap is exceeded the bank will not provide an unsecured loan thus enabling to reduce the risk of household debt load on consumer loans.

With a view to increase the internal capacity of lending to the economy, the banks were obliged to invest a part of their equity in the Kazakh economy. So, the requirement for investment in domestic assets is as follows: for non-systemic banks – at least 70% of their equity, from October 1, 2014; for systemic banks – at least 30% of their equity – from January 2015 and at least 70% of their equity – from October 1, 2015.

With a view to restrict speculations in the foreign exchange market and reduce the pressure on the Tenge exchange rate, the limit of 30% of equity had been set for operations of banks with

foreign currency derivatives. Such limit does not apply to transactions with derivatives where the the National Bank is a counterparty; off-balance sheet spot transactions (T+1, T+2) and swaps (T+1, T+2); transactions with foreign currencies without the use of local currency.

With a view to adjust open currency position of banks, limits for the US Dollar short currency position were increased from 12.5% to 25% of a bank's equity; also, the limits for net currency position were increased from 25% to 30% of a bank's equity, for the period from December 24, 2014 to June 30, 2015.

Insurance Sector

The National Bank took measures to improve prudential regulation of insurance (reinsurance) organizations, including:

- reducing the minimum guarantee fund for insurance organizations which specialize in health insurance, by 10%;

- excluding a reinsurer's portion in insurance reserves when calculating prudential ratios for entering into reinsurance contract under compulsory motor civil liability insurance class;

- streamlining the procedure for creation of insurance reserves, including:

- determining the list of reserves created from capital of insurance organizations (reserve for unforeseen risks and stabilization reserve);

- fine-tuning the procedure for creation of the stabilization reserve: it should be created for all classes of insurance except those classes that relate to voluntary personal insurance (accident insurance, health insurance) and is not calculated if the average loss ratio is less than 70%;

- eliminating the overriding of two regulations that govern creation of insurance reserves for the purposes of financial and regulatory reporting and calculation of prudential ratios and for the purposes of taxation;

- establishing the parity of tariff and reserve basis under the endowment insurance contracts and life insurance contracts entered into from January 1, 2015, that will allow excluding manipulations with the amounts of insurance premiums and insurance reserves by insurance organizations;

- making adjustments to the incurred but not reported claim reserve and the reported but not settled claim reserve and introducing additional record books to reflect information for calculation of insurance reserves;

- bringing the list of highly liquid assets and assets calculated based on their qualification by quality and liquidity in line with new listing requirements that became effective from January 1, 2015 (new listing requirements were introduced at the stock exchange; they provide for simplification in the sectors of "shares" and "debt securities" of the stock exchange's official listing by combining the categories of these sectors and excluding requirements to have a rating);

- cancelling the discounting of highly liquid assets and assets calculated based on their qualification by quality and liquidity i.e. weighting of all assets at 100% of their book value;

- using a rating or a value for a ratio of the reinsurer's actual solvency margin at the date of reinsurance contract conclusion, during the effective period of the reinsurance contract but no longer than 12 months;

- reducing rating requirements in respect of reinsurance contracts concluded with reinsurers from countries-parties to the Treaty on the Eurasian Economic Union when calculating the increase in the minimum solvency margin or a guarantee fund.

Accumulation Pension System

With a view to implement the Law of the Republic of Kazakhstan "On Amendments to Some Legislative Acts of the Republic of Kazakhstan on Social Security", measures were taken to make amendments to the retirement security legislation that governs the procedure for the transfer of accumulated pension savings from the UAPF to a voluntary accumulation pension fund and an insurance organization.

Measures were taken to make amendments to the procedure for publication by the UAPF of information about the investment portfolio structure with regard to bringing it in conformity with

the Law of the Republic of Kazakhstan “On the Mass Media” and the UAPF’s retirement regulations, and update the formula for calculation of an average cost of an imputed unit of pension assets.

Securities Market

As part of efforts to increase liquidity of the securities market, the following measures were taken:

- reforming the structure of the stock exchange official listing by simplifying the sector of “shares” from three categories to two categories and the sector of “debt securities” from three categories and two sub-categories to three categories;

- strengthening the role of the stock exchange as a self-regulated entity by bringing the basic requirements set to the issuer for admitting its securities to trading at the stock trading floor to the level of internal regulations of the stock exchange;

- simplifying the requirements to audit firms which conduct audits of listed companies thus significantly reducing the costs for potential issuers;

- completing the first stage of implementation of the T+n system of settlements in the securities market in accordance with international standards and the Principles for Building the Financial Market Infrastructure;

- providing for access to the primary government securities market for banking and non-bank broker organizations;

- simplifying procedures for securities issuance by international financial organizations denominated in the local currency as well as the procedure for disclosures at the web-site of the financial statements depository and the stock exchange.

Within the framework of consumer rights protection, measures were taken to prevent unfair practice in the securities market by revising the criteria for recognition of transactions as transactions made for the purpose of manipulations in the organized securities market. Also, the procedure for recognition of transactions made in the organized securities market as transactions made for the purpose of manipulations.

As part of improving prudential regulation, the National Bank took actions to:

- improve the procedure for calculation of the “Capital adequacy” prudential ratio of organizations engaged in the broker and/or dealer business in the securities market including voluntary APFs which combine the investment portfolio management with the broker and/or dealer business, investment portfolio managers which combine the investment portfolio management with the broker and/or dealer business;

- bring the list of highly liquid assets in line with new listing requirements that became effective from January 1, 2015 (new listing requirements were introduced at the stock exchange; they provide for simplification in the sectors of “shares” and “debt securities” of the stock exchange’s official listing by combining the categories of these sectors and excluding requirements to have a rating);

- cancel the discounting of highly liquid assets i.e. weighting of all assets at 100% of their book value.

Also, the process of registration of transactions with securities of financial organizations in the course of restructuring was optimized.

Anti-Money Laundering and Anti-Terrorism Financing Activities

As part of the work on the draft law “On Amendments to Some Legislative Acts of the Republic of Kazakhstan on Anti-Money Laundering”, the following amendments were made at the National Bank’s initiative:

- the concept of “a suspicious transaction” also covers the attempt of such transaction and the procedure for suspicious transactions reporting to the competent authority by entities subject to the financial monitoring;

- changes were made to the customer due diligence procedure with regard to the need to identify customer representatives, beneficial owners as well as with regard to duties to check

reliability of received customer information and its regular updating by entities subject to the financial monitoring;

requirements were introduced in respect of mandatory inclusion of information about a sender and a receiver (beneficiary) of monies in the payment document;

direct prohibition to establish correspondent relations with umbrella banks was instituted;

entities subject to the financial monitoring are now required to immediately “freeze” assets of persons included in the list of organizations and individuals associated with the terrorism financing;

entities subject to the financial monitoring are now required to refuse establishing business relations with customers in case if measures for conducting the customer due diligence are not feasible; also, the right to terminate existing business relations is provided in case if suspicions arise that such relations are used by the customer for money laundering/terrorism financing or for other criminal activities;

requirements to the content of internal control regulations in respect of anti-money laundering and terrorism financing were supplemented within the requirement about management of risks related to money laundering and terrorism financing;

criminal liability for manipulations in the securities market and illegal use of insider information was introduced;

the National Bank was entrusted with powers to exercise control over compliance with the legislation on anti-money laundering and terrorism financing on the part of KazPost;

the National Bank’s powers to take restricted remedial actions and sanctions for violation of the legislation on anti-money laundering and terrorism financing in respect of banks, insurance organizations, professional participants in the securities market were defined more precisely.

Within the framework of regulations on establishing the risk management and internal control system, requirements were introduced for banks in respect of management of risks related to involvement in money laundering and terrorism financing, existence of adequate automated information systems capable of detecting suspicious transactions, existence of the risk assessment program which includes the methodology for assessment of risks associated with the money laundering and terrorism financing based on key components of risk (by customer type, risk associated with a service and the geographical risk).

With a view to implement requirements of the US Foreign Accounts Tax Compliance Act, amendments were made to 7 regulations of the National Bank that provide for an obligation of financial organizations to identify tax residency status of their customers-natural persons when providing relevant services.

With a view to ensure compliance with the Law of the Republic of Kazakhstan “On Amendments to Some Legislative Acts of the Republic of Kazakhstan on Anti-Money Laundering and Terrorism Financing”, amendments to 22 regulations of the National Bank were made, regarding:

conducting the customer due diligence by financial organizations pursuant to provisions of the Law of the Republic of Kazakhstan “On Anti-Money Laundering and Anti-Terrorism Financing”;

suspending expense operations across bank accounts and blocking securities of persons included in the list of persons associated with terrorism and extremism financing as well as reporting such facts to the competent authority in charge of the financial monitoring;

changing requirements to the content of payment documents;

determining a minimum amount for which a bank can issue a pre-paid payment card as well as a maximum amount of a transaction with a contactless payment card without entering a personal identification number.

General Matters of Regulation of Financial Organizations

As part of the effort to improve the “Getting credit” and “Protecting minority investors” indicators of the Doing Business rating, additional amendments to the legislation were made as

provided for by the Law of the Republic of Kazakhstan “On Amendments to Some Legislative Acts of the Republic of Kazakhstan on the Matters Pertaining to Cardinal Improvement of Doing Business in the Republic of Kazakhstan”.

IX. INTERNATIONAL COOPERATION AND PUBLIC AWARENESS ACTIVITIES OF THE NATIONAL BANK

9.1. International Cooperation

On May 22, 2014, the National Bank arranged a panel session entitled “Regulatory Strategy for the Integrated Financial Markets of Regional/National Associations” within the framework of the Astana Economic Forum; the objective of the session was to find the best ways to deepen economic cooperation and implement the most effective integration processes.

On June 16, 2014, the National Bank, jointly with the Islamic Financial Services Board, arranged an international workshop on the topic “Prospects in the Development of Islamic Finance for Kazakhstan” and the practical course on Islamic banking and Islamic insurance (takaful) for representatives of the CIS and EurAsEC countries, during June 17-19, 2014.

On November 7, 2014, the National Bank participated in the International Conference of the Financial Times “Financing Growth in Kazakhstan” arranged by the Kazakh-British Chamber of Commerce jointly with the “Banker», «Financial Times» Publishers in Almaty.

During 2014, 23 international visits of the National Bank’s top management were organized where they participated in sessions, meetings, deliberations arranged by international financial organizations, integration agencies and central banks of the CIS and foreign countries.

In 2014, the following Memorandums and Agreements were signed: the Memorandum of Understanding and Cooperation between the National Bank and the Islamic Development Bank Group; the Agreement between the National Bank and the Islamic Development Bank about technical assistance on the matters of Islamic finance; Cooperation Agreement between the National Bank and the Central Bank of Hungary in the area of staff training, Memorandum of Understanding between the National Bank and the Central Bank of the United Arab Emirates in the area of financial supervision; the Agreement between the National Bank and the People’s Bank of China regarding settlements and payments; the Agreement between the National Bank and the People’s Bank of China regarding the Chinese Yuan/Kazakhstani Tenge currency swap; and the Memorandum of Understanding regarding the 12th Summit of the Islamic Financial Services Board.

Cooperation with International Financial Organizations and Integration Associations

In 2014, cooperation with international financial organizations was carried out as part of Framework Agreements on partnership between the Government and international financial organizations.

From June to October 2014, the National Bank arranged events involving representatives from the Asian Development Bank, European Bank for Reconstruction and Development and the World Bank to determine the list of investment projects and technical assistance projects (consultations) for 2015-2018.

The National Bank took measures to validate amendments to the IMF’s Articles of Agreement to increase the number of votes and participation in the IMF as approved by the Resolution of the IMF’s Board of Governors dated April 28, 2008 No. 63-2; to expand investment authorities of the IMF as approved by the Resolution of the IMF’s Board of Governors dated May 5, 2008 No. 63-3; about reforming the Executive Board, as approved by the Resolution of the IMF’s Board of Governors dated December 15, 2010 No.66-2.

On February 20, 2014, as part of the Kazakhstan Technical Assistance Program, the National Bank jointly with the IMF conducted an international session entitled “Kazakhstan: Addressing the Problem of Non-Performing Loans and Increasing Effectiveness of the Problem Loans Fund”.

In addition, a presentation of a most recent “Regional Economic Outlook: Caucasus and Central Asia” Report of the IMF and a visit of the IMF Mission to Kazakhstan on November 4, 2014, were arranged. The National Bank arranged an annual visit of the IMF Mission to Kazakhstan.

In 2014, the National Bank took measures to coordinate a unanimous standpoint of government authorities of the Republic of Kazakhstan in reviewing the drafts of Fundamentals of Establishment and Operation of the SCO’s Development Fund (Special Account) as well as in relation to establishing the SCO’s Development Bank.

The National Bank submitted its proposals in relation to possible terms and conditions for China to join the Eurasian Development Bank.

Measures had been taken to ensure participation of the National Bank’s representatives in the 48th session of the Interstate Bank’s Board which took place on April 25, 2014, and in the 49th session of the Interstate Bank’s Board which took place on November, 2014, in Moscow.

Based on the protocol resolutions passed in the course of the 49th session of the Interstate Bank’s Board, the National Bank’s Governor was re-elected as the Chairman of the Interstate Bank’s Board for 1 year.

Cooperation with the CIS Countries

The National Bank continued its cooperation with the CIS countries as part of the bilateral cooperation, in particular, the National Bank provided information about the status of the bilateral trade and economic cooperation with the CIS countries, about satisfaction of debts and claims arising as a result of trade and economic relations during 1992-1993 (before and after migration to correspondent accounts).

In 2014, the National Bank took measures to implement the Minutes of the 14th session of the Sub-Committee for Interbank and Investment Cooperation between the Russian Federation and the Republic of Kazakhstan that was held on June 15-16, 2012, in Samara. The next regular 15th session of the Sub-Committee is scheduled to take place in the first half of 2015.

Eurasian Economic Union

As part of its effort in this area, the National Bank participated in signing off the draft Treaty on the Eurasian Economic Union prepared within the framework of codification of the contractual and legal framework of the Customs Union and Common Economic Space as well as pursuant to the Declaration on Eurasian Economic Integration dated November 18, 2011, particularly those sections which pertain to the National Bank’s competence: Section XIV, “Foreign Exchange Policy”, including Appendix 15 “Protocol on Measures Aimed to Implement a Coordinated Foreign Exchange Policy”, Section XVI, “Financial Markets Regulation”, including Appendix 17 “Protocol on Financial Services”, where a List of financial services’ sub-sectors is set out, whereunder the member states provide a national regime and take commitments, and also the List of restrictions retained by the member states in relation to establishment and/or activity, where all diversion (barriers for access of financial service providers of the Eurasian Economic Union member states) complying with the existing legislation and that are expected to be eliminated only subject to prior alignment of regulatory requirements in the financial markets of the countries.

The National Bank took part in the Session of the Advisory Panel for Macroeconomic Policy and made arrangements to prepare materials for the Session (5th Session, Moscow, April 22, 2014).

Also, in 2014 arrangements were made to prepare materials for sessions of the Consultative Council for Statistics (4th session, Moscow, October 20, 2014) with participation of the National Bank’s representatives.

The National Bank arranged preparation of materials for sessions of the Consultative Council for Financial Markets (6th session, Moscow, March 19, 2014; 7th session, Moscow, October 3, 2014; and 8th session, Moscow, December 19, 2014) with participation of the National Bank’s representatives.

During 2014, the National Bank arranged preparation of materials for sessions of the Consultative Council for Foreign Exchange Policy (7th session, Moscow, February 27, 2014; 8th session, St.Petersburg, July 1, 2014; and 9th session, Minsk, November 14, 2014). Visits of the National Bank's top management were arranged to participate in the sessions of the Consultative Council.

Cooperation within the EurAsEC

During 2014, the National Bank made arrangements to participate in 30th and 31st sessions of the Board of Governors of central (national) banks of the EurAsEC member-states.

During 2014, within the framework of Agreement on cooperation in the area of training of the staff of central (national) banks of the EurAsEC member-states, the National Bank's staff took part in workshops and on-the-job training courses arranged by central banks of the EurAsEC.

In line with the Program for professional training of the staff of central (national) banks of the EurAsEC member-states, in 2014 two workshops and 10 on-the-job training courses were arranged and conducted at the premises of the National Bank.

Cooperation with Foreign Central Banks

As part of bilateral cooperation with foreign central banks, in 2014 the National Bank prepared the draft Regulation "On the Kazakhstani-Vietnamese Working Group for Interbank Cooperation" and submitted it to the Vietnamese side for its consideration.

Within the framework of cooperation with the People's Bank of China, the 9th session of the Financial Cooperation Sub-Committee of the Kazakhstani-Chinese Cooperation Committee was held in Almaty during September 24-25, 2014.

Also, important achievements in cooperation between central banks of the Republic of Kazakhstan and the People's Republic of China were the opening of trading in the currency pair of the Tenge/Yuan at the Kazakhstan Stock Exchange on September 25, 2014 in the course of the 9th session of the Sub-committee and launching of the Tenge/Yuan trading in Urumqi in the Regional Market of the interbank foreign currency center of China on December 16, 2014.

9.2. National Bank's Awareness-Raising Activities

To cover the areas of focus related to implementation of those tasks that have been set to the National Bank in the messages of the President, governmental programs aimed to achieve the key objective – to ensure the price stability, as well as the activities of National Bank in the area of the government monetary policy development and implementation, ensuring operation of the payment systems, implementation of currency exchange regulation and currency control, promotion of stability of the financial system, proposals and initiatives offered by the National Bank, and with a view to create a positive image of the National Bank, in 2014 the National Bank was carrying out the awareness-raising activities.

During 2014, 99 press releases were published, and 16 press events were conducted. During the year, the National Bank received 500 queries from national and foreign mass media which were answered in a comprehensive manner.

Regulations of the National Bank were published in the nation-wide newspapers "Egemen Kazakstan", "Kazakhstanskaya Pravda", "Zan Gazeti", and "Yuridicheskaya Gazeta". During 2014, 71 resolutions and 24 official messages of the National Bank were published.

With a view to inform the foreign and local governmental and financial institutions about the statistical data of the monetary policy, regulations of the National Bank, analytical materials, organizational and technical arrangements were made to print and publish the official periodicals of the National Bank in the Kazakh, Russian and English languages:

"Bulletin of the National Bank of Kazakhstan";

"Annual Report of the National Bank of Kazakhstan";

"Balance of Payments and External Debt of the Republic of Kazakhstan"

"Economic Review";

“Financial Stability Report of Kazakhstan”;
 “Statistical Bulletin”;
 “Inflation Report”.

Jointly with the Presidential Teleradiocomplex, a documentary film about the national currency called “Tenge: Yesterday. Today. Tomorrow” was prepared in the Kazakh, Russian and English languages.

9.3. Increasing Financial Literacy of the General Public

In its effort to increase financial literacy among the general public, the National Bank has actively been using a wide range of communication channels: TV, radio, printed and electronic mass media and Internet resources.

With a view to increase financial literacy among the general public, the National Bank took regular measures by posting relevant information in the mass media, including the Internet-portal of the National Bank, in newspapers and magazines, on television, by conducting training events, participating in conferences and other working meetings.

X. IMPROVING ACCOUNTING AND FINANCIAL REPORTING

In 2014, the National Bank continued the further improvement of regulations and guidelines in the area of accounting and financial reporting of financial organizations and special financial companies, microfinance organizations, Development Bank of Kazakhstan and investment funds according to requirements of International Financial Reporting Standards and changes in the legislation of the Republic of Kazakhstan.

With a view to enforce paragraph 2.4 of the Plan of actions for the transfer of pension assets and the UAPF’s activities as approved by the Order of the National Bank’s Governor dated February 27, 2014 No. 46, amendments were made to the Financial Reporting Standard “Accounting for and Disclosure of Operations on Pension Assets”.

With a view to ensure conformity with existing provisions of the legislation of the Republic of Kazakhstan, including on accounting and financial reporting, as well as to refine the wording and to ensure proper practical application of regulatory provisions:

the Rules for determining the value of collateral and other security as well as the Rules for Creation of Provisions (Reserves) were brushed up;

the Accounting Standard No. 33, “Accounting for and Disclosure of Operations on the Broker Business” was approved as amended and restated, outlining the criteria for recognizing the monies taken from a customer as an asset in the balance sheet of an organization engaged in the the broker business in the securities market;

amendments were made to the Instruction on accounting for insurance and reinsurance operations in the lines of non-life and life insurance improving book-keeping records reflecting the payment of commissions by a reinsurance organization to a reinsurer, by an insurance (reinsurance) organization – to an insurance agent or insurance broker;

amendments were made to the Instruction on accounting by investment portfolio managers and organizations engaged in broker business in the securities market, improving book-keeping records in respect of accounting for customer monies accepted under the investment management contract and under the brokerage services agreement.

With a view to implement paragraph 1, Article 106 of the Tax Code of the Republic of Kazakhstan, the National Bank approved methodologies for determining the value of collateral and other security as well as the methodologies for calculation of provision (reserves) developed by banks, the Development Bank of Kazakhstan as well as by organizations engaged in certain types of banking operations.

In 2014, the National Bank continued to exercise control over compliance by financial organizations with the requirements in the area of accounting, financial reporting and automation of book-keeping. In respect of violations detected in the course of inspections, appropriate penalties were imposed and restricted remedial actions were taken.

XI FIDUCIARY MANAGEMENT SERVICES

11.1. National Fund Management

At December 31, 2014, the total market value of the National Fund's portfolio amounted to USD 75.2 bln.¹⁵, including the foreign currency portfolio – USD 73.2 bln. (97.3%) and the Tenge bond portfolio of Kazakhstani issuers – in the equivalent of USD 2 bln.¹⁶ (2.7%). The market value of the stabilization and savings portfolios within the foreign currency portfolio of the National Fund equaled USD 25.9 bln. (35.39%) and USD 47.3 bln. (64.61%), 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 of the National Fund.

According to the global custodian of the National Fund, during the period from January 1, 2014 to December 31, 2014, an investment loss (realized and unrealized) calculated in base currency – US Dollars was incurred, which amounted to USD (-)0.96 bln.¹⁷.

Performance of the National Fund

Return of the National Fund during January 1 - December 31, 2014 accounted for (-)1.19% in base currency of the National Fund – US Dollars; this was related to appreciation of this currency versus the majority of world currencies during 2014. As shown below, in 2014 the National Bank ensured generation of positive excess returns on the stabilization and savings portfolios versus relevant established benchmarks. Return of the National Fund since its inception till December 31, 2014 was 70.81%, which accounts for 4.02% in annual terms. The return is calculated in the base currency of the National Fund - the US Dollars (Appendix 1 to Section XI Sub-section 11.1, Figure 11.1.1).

Performance of the Stabilization Portfolio

In 2014, assets in the stabilization portfolio under internal management were invested in the money market instruments, mainly the US Treasury securities.

From January 1 to December 31, 2014, the return on the stabilization portfolio was 0.13%, during the same period the return on the benchmark portfolio (Merrill Lynch 6-month US Treasury Bill Index) accounted for 0.12%. So, in 2014 positive excess returns of 0.01% were achieved as a result of asset management of the stabilization portfolio (Appendix 1 to Section XI Sub-section 11.1, Figure 11.1.2).

Performance of the Savings Portfolio

During January 1 to December 31, 2014, the return on the savings portfolio was (-)2.05%; during the same period the return on the benchmark portfolio (30% – Merrill Lynch US Treasuries; 26% – 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; 3% – Merrill Lynch Hong Kong Government Index; 2% – Merrill Lynch Singapore Government Index; 2% – Merrill Lynch Danish Government Index; 2% – Merrill Lynch Sweden Government Index, in total accounting for 80% of the benchmark portfolio and 20% – developed markets stock index MSCI World) accounted for (-)2.74%. During 2014, excess returns on the savings portfolio were positive and accounted for 0.69% (Appendix 2 to Section XI Sub-section 11.1, Figure 11.1.3).

¹⁵ Excluding the balance of the Tenge account and payables

¹⁶ at the exchange rate of 1 USD = 182.35 KZT

¹⁷ Excluding the amount on operations with the Tenge assets

Global Bond Mandate

Assets in the savings portfolio for this mandate type are managed both by the National Bank itself and by international investment managers (external managers). As of December 31, 2014, assets in the savings portfolio for this type of mandate managed by the National Bank accounted for 69.3% whereas the remaining 30.7% were in the external management.

Since the beginning of the year and up to December 31, 2014, the return from the management of the bond sub-portfolio accounted for (-)4.42%. The return on the benchmark portfolio of this sub-portfolio accounted for (-)4.77%. Thus, management of this type of mandate resulted in excess returns of 0.35%. (The returns on the mandate broken down by years are presented in Appendix 2 to Section XI Sub-section 11.1, on Figure 11.1.4).

Global Equity Mandate

Assets in the savings portfolio for this type of mandate were managed by six international investment management companies (external managers) and the National Bank. The return from the savings portfolio asset management was 4.90%, whereas the return on the benchmark portfolio was 5.64%. Thus, excess returns received as a result of asset management for this type of mandate accounted for (-)0.74% (Returns on the mandate by years are presented in Appendix 2 to Section XI Sub-section 11.1, on Figure 11.1.4).

Global Tactical Asset Allocation Mandate

At present, assets in the savings portfolio for the Global Tactical Asset Allocation mandate are managed by one international investment management company (an external manager). The return from the savings portfolio asset management was (-)3.31%, whereas the return on the benchmark portfolio was (-)2.74%. Thus, excess returns on the savings portfolio asset management for this type of mandate versus the benchmark portfolio accounted for (-)0.57%. (Returns on the mandate by years are presented in the Appendix 2 to Section XI Sub-section 11.1, on Figure 11.1.4).

11.2. Management of the UAPF's Pension Assets

Consolidation of pension assets of APFs within the UAPF was finalized on March 26, 2014.

As a result of consolidation, the amount of pension assets at the UAPF was KZT 3 960.6 bln. at April 1, 2014.

During the period from April 1 to December 31, 2014, pension assets at the UAPF increased by 14.0%, amounting to KZT 4 515.7 bln.

As of January 1, 2015, the UAPF's pension assets portfolio consisted of government securities of the Republic of Kazakhstan accounting for 43.6%, securities issued by Kazakhstani issuers – 30.6%, securities of foreign issuers – 6.8%, deposits with Kazakh banks – 15.7% and cash – 3.3%.

The share of the UAPF's pension assets denominated in the Tenge accounted for 88.0%, and pension assets denominated in foreign currency accounted for 12.0%.

Investment of the UAPF's Pension Assets

During the period from January 1 to December 31, 2014, the National Bank invested pension assets of the UAPF in the total amount of KZT 1 543.3 bln.

The main investment volume was in government securities of the Republic of Kazakhstan, bonds and deposits of Kazakh banks and Eurobonds.

In 2014, the weighted-average yield to maturity of investments made by the National Bank with the UAPF's pension assets accounted for 8.3% per annum.

Performance of the UAPF's Pension Assets

In 2014, returns on the UAPF's pension assets accounted for 6.3%.

11.3. Custody, Brokerage and Other Activity Related to the Servicing of the National Bank's Clients

As of January 1, 2015, the total amount of assets of the National Bank's clients under custody, fiduciary and broker service was KZT 5 665.0 bln., having increased by 2.6 times versus the beginning of 2014.

In 2014, the amount of income received by the National Bank from rendered services amounted to KZT 6.1 bln., and the amount of reimbursed expenses – KZT 0.4 bln.

Appendix 1 to Section I Sub-section 1.2

Figure 1.2.1

Market Demand for the Final Products of Enterprises

#	Responses of Enterprises, %	1 qtr. 2014	2qtr. 2014	3qtr. 2014	4 qtr. 2014
1	Increase	13.1	23.2	21.6	17.5
2	Invariance	57.7	56.9	59.8	56.2
3	Decrease	29.1	19.7	18.5	26.1
4	Line 1-Line 3	-16.1	3.5	3.1	-8.6
5	Diffusion index of the change in the demand for final products	42.0	51.8	51.6	45.7

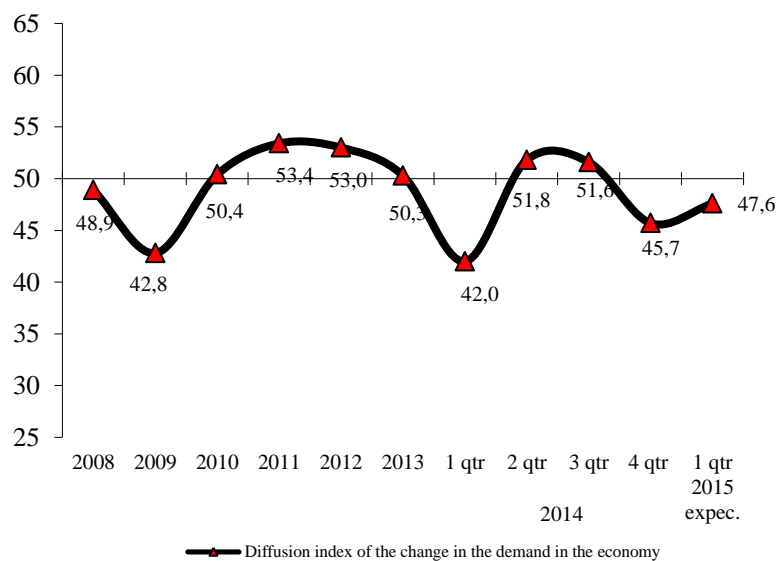
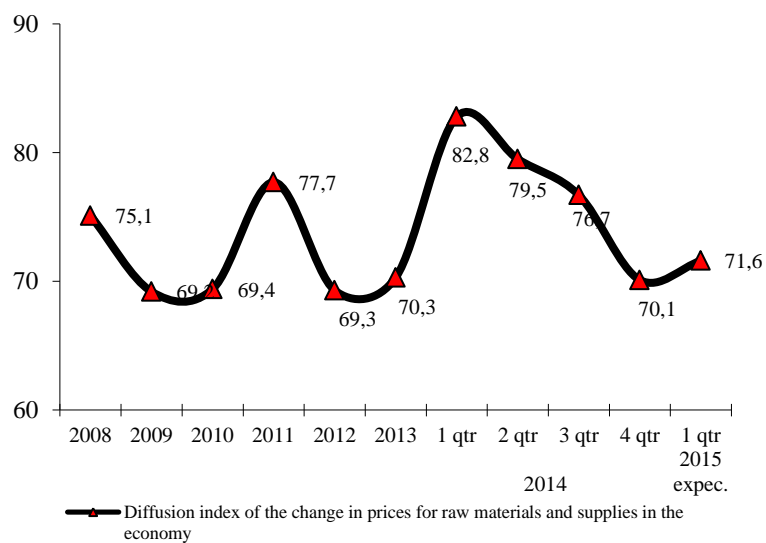


Figure 1.2.2

Change in Prices for Raw Materials and Supplies

#	Responses of Enterprises, %	1qtr. 2014	2qtr. 2014	3qtr. 2014	4 qtr. 2014
1	Increase	66.7	59.9	55.3	44.9
2	Invariance	32.1	39.1	42.8	50.3
3	Decrease	1.1	1.0	1.8	4.7
4	Line 1-Line 3	65.6	58.9	53.5	40.2
5	Diffusion index of the change in prices for raw materials and supplies	82.8	79.5	76.7	70.1



Appendix 2 to Section I Sub-section 1.2

Figure 1.2.3

Change in Prices of Final Products of Enterprises

(50=no changes versus the previous quarter)

#	Responses of Enterprises, %	1qtr. 2014	2qtr. 2014	3qtr. 2014	4 qtr. 2014
1	Increase	36.4	29.4	23.9	17.4
2	Invariance	60.2	66.9	71.4	73.4
3	Decrease	3.3	3.6	4.6	9.2
4	Line 1-Line 3	33.1	25.8	19.4	8.2
5	Diffusion index of the change in prices for final products	66.6	62.9	59.7	54.1

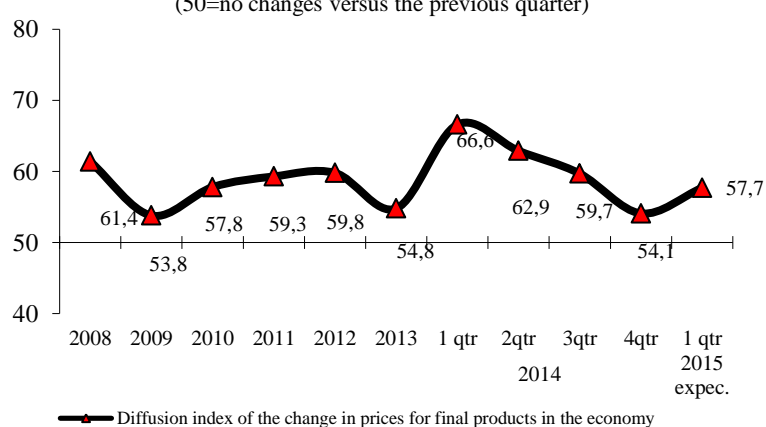
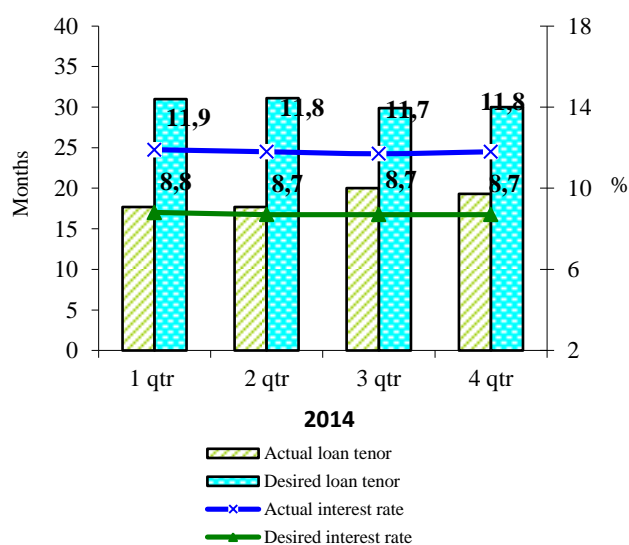


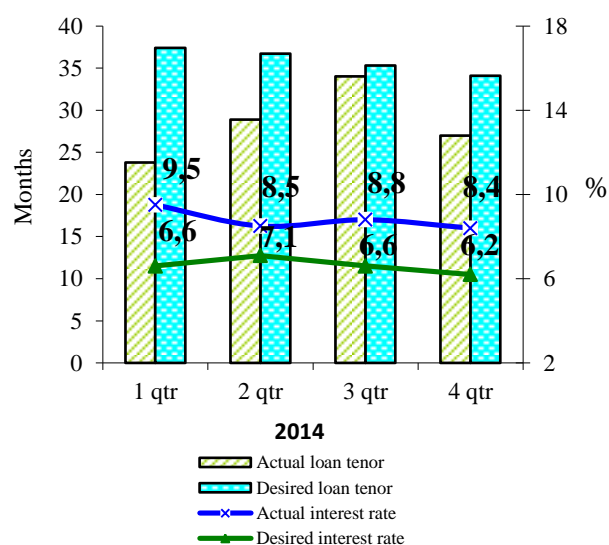
Figure 1.2.4

Lending Terms

Lending terms in KZT

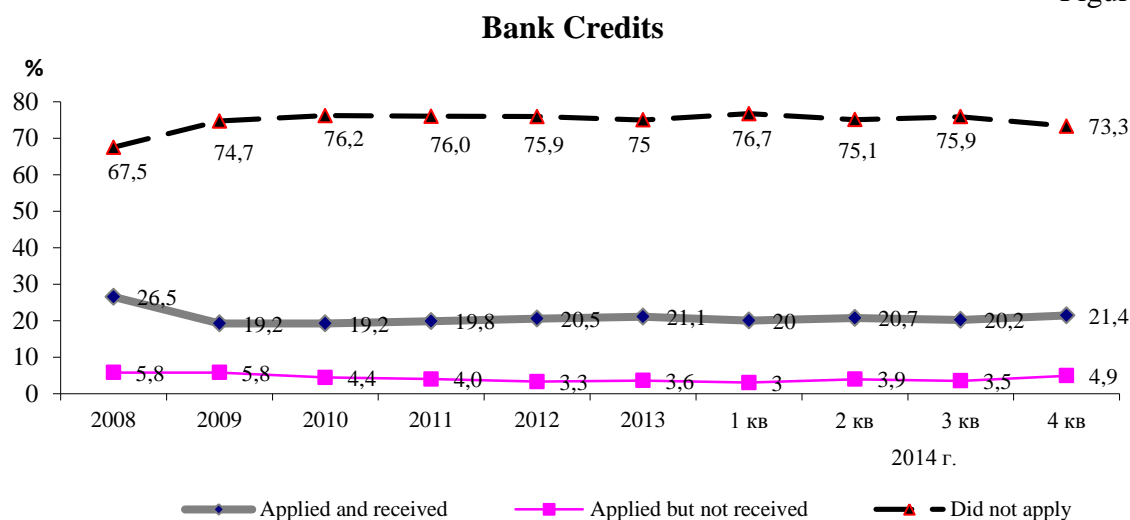


Lending Terms in Foreign Currency



Appendix 3 to Section I Sub-section 1.2

Figure 1.2.5



*Guiding comments to Figures 1.2.1, 1.2.2, 1.2.3, 1.2.4, 1.2.5:

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

Appendix 1 to Section I Sub-section 1.4

Table 1.4.1

Balance of Payments of the Republic of Kazakhstan: Analytical Presentation

USD mln.

	2013	2013				2014	2014			
		I	II	III	IV		I	II	III	IV
Current account	926.6	2158.0	1032.6	-2309.5	45.5	4643.5	6437.8	451.0	-1444.2	-801.1
Trade balance	34792.3	10407.7	8804.7	7076.3	8503.6	35631.3	14134.2	8418.3	7380.2	5698.5
Exports f.o.b.	85595.4	20825.9	22279.2	20321.2	22169.2	79060.3	22818.5	19530.4	19407.9	17303.4
Imports f.o.b.	50803.2	10418.2	13474.5	13244.8	13665.6	43429.0	8684.3	11112.1	12027.7	11604.9
Services	-7094.7	-1421.8	-1651.4	-1982.9	-2038.6	-6435.2	-1278.5	-1625.2	-1694.6	-1836.8
Exports	5120.3	1127.8	1382.1	1350.5	1260.0	6348.1	1334.3	1569.8	1731.2	1712.8
Imports	12214.9	2549.6	3033.5	3333.3	3298.6	12783.3	2612.8	3195.0	3425.9	3549.6
Balance on primary income	-25144.5	-6586.3	-5680.1	-6891.8	-5986.4	-22860.2	-6141.3	-5957.7	-6661.8	-4099.4
Compensation of employees balance	-1803.7	-422.3	-434.3	-452.6	-494.6	-1793.0	-437.6	-436.5	-451.8	-467.1
Investment returns	-23480.6	-6198.9	-5280.7	-6474.2	-5526.8	-21207.0	-5738.7	-5556.1	-6244.9	-3667.2
Income receivable	2176.7	518.1	722.1	468.9	467.7	1883.3	506.4	498.7	433.7	444.4
Income on direct investments	345.0	66.1	221.1	34.5	23.2	99.8	24.5	34.9	17.8	22.7
Income on portfolio investments	1094.4	250.1	302.9	272.2	269.3	1181.2	325.9	309.0	270.0	276.2
Income on other investments	737.3	201.9	198.1	162.2	175.2	602.3	156.0	154.8	146.0	145.5
<i>Including interest on reserves and assets of the National Fund</i>	1162.1	293.5	321.5	283.7	263.4	1179.0	323.2	321.5	273.3	261.0
Income payable	25657.3	6717.0	6002.9	6943.1	5994.4	23090.3	6245.2	6054.8	6678.7	4111.7
Income on direct investments	22506.1	5984.1	5203.2	6050.1	5268.7	19936.7	5509.6	5262.2	5765.4	3399.5
Income on portfolio investments	1590.9	349.4	415.5	503.0	323.0	1667.1	352.8	370.6	567.5	376.2
Income on other investments	1560.4	383.5	384.2	390.0	402.7	1486.5	382.8	421.9	345.9	336.0
Other primary income (net)	139.8	34.9	34.9	34.9	34.9	139.8	34.9	34.9	34.9	34.9
Balance on secondary income	-1626.4	-241.6	-440.5	-511.1	-433.2	-1692.4	-276.6	-384.5	-468.0	-563.4
Capital account balance	-6.4	-8.6	2.7	-0.6	0.1	31.1	16.0	2.9	2.2	10.1
Financial account (excluding reserve assets of the NBK)	-338.4	962.9	-1320.1	416.1	-397.3	-7362.2	2209.5	-1664.0	-4654.2	-3253.4
Direct investments	-7934.3	-2105.6	-2143.7	-1962.5	-1722.5	-5937.7	-2751.9	-1552.3	-3779.2	2145.7
Net acquisition of financial assets	2012.4	1821.5	-409.2	212.3	387.9	1660.0	-778.3	302.2	212.5	1923.7
Net incurred liabilities	9946.8	3927.1	1734.5	2174.9	2110.3	7597.7	1973.6	1854.5	3991.6	-222.1
Portfolio investments	6033.7	2355.4	-1258.1	1387.5	3548.8	803.3	4313.5	239.7	1947.3	-5697.2
Net acquisition of financial assets	8503.0	2836.7	2527.6	-35.1	3173.8	6238.2	4038.6	2527.2	1909.1	-2236.6
Government of Kazakhstan and the National Bank of Kazakhstan	7779.5	2660.7	2479.9	-441.9	3080.9	6562.8	4107.9	3091.0	1561.5	-2197.5
Banks	556.6	376.7	33.9	202.8	-56.8	-218.5	-91.3	-158.7	44.6	-13.1
Other sectors	167.0	-200.7	13.8	204.1	149.8	-106.0	22.1	-405.1	302.9	-26.0
Net incurred liabilities	2469.4	481.3	3785.7	-1422.6	-375.0	5434.9	-274.8	2287.4	-38.3	3460.6
Government of Kazakhstan and the National Bank of	0.9	0.0	1.3	-1.3	0.9	1969.6	-12.5	0.0	0.0	1982.1

[illegible]

Appendix 2 to Section I Sub-section 1.4

Table 1.4.2

External Debt of the Republic of Kazakhstan: Standard Presentation

USD mln.

	As of 31.12.2010	As of 31.12.2011	As of 31.12.2012	As of 31.12.2013	As of 31.12.2014
External debt	118 222.8	125 320.8	136 918.2	149 931.1	157 062.2
Short-term	8 864.5	7 867.2	9 086.3	9 496.7	9 918.4
Long-term	109 358.3	117 453.6	127 831.9	140 434.5	147 143.8
General government	3 800.3	4 487.4	4 855.1	5 115.7	7 257.3
Short-term	0.0	7.9	0.1	0.0	0.0
Cash and deposits	0.0	0.0	0.0	0.0	0.0
Debt securities ¹	0.0	7.8	0.0	0.0	0.0
Credits and loans	0.0	0.0	0.0	0.0	0.0
Trade credits and advances	0.0	0.1	0.1	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0	0.0
Long-term	3 800.3	4 479.5	4 855.0	5 115.7	7 257.3
Special drawing rights	0.0	0.0	0.0	0.0	0.0
Cash and deposits	0.0	0.0	0.0	0.0	0.0
Debt securities ¹	49.1	23.8	14.1	14.7	1 887.6
Credits and loans	3 751.2	4 455.7	4 840.9	5 101.0	5 369.7
Trade credits and advances	0.0	0.0	0.0	0.0	0.0
Other liabilities ²	0.0	0.0	0.0	0.0	0.0
Central Bank	1 000.6	563.3	618.9	545.8	961.4
Short-term	470.4	36.3	88.1	9.8	457.2
Cash and deposits	239.5	16.5	88.1	6.7	443.2
Debt securities ¹	230.9	19.8	0.0	0.0	0.0
Credits and loans	0.0	0.0	0.0	0.0	0.0
Trade credits and advances	0.0	0.0	0.0	3.2	3.1
Other liabilities	0.0	0.0	0.0	0.0	11.0
Long-term	530.2	526.9	530.8	536.0	504.2
Special drawing rights	529.2	525.9	529.8	535.0	503.2
Cash and deposits	0.0	0.0	0.0	0.0	0.0
Debt securities ¹	0.0	0.0	0.0	0.0	0.0
Credits and loans	0.0	0.0	0.0	0.0	0.0
Trade credits and advances	0.0	0.0	0.0	0.0	0.0
Other liabilities ²	1.0	1.0	1.0	1.0	1.0
Banks	19 947.9	14 604.8	13 524.9	11 160.2	10 094.0
Short-term	1 622.5	1 046.6	1 647.6	1 227.4	1 442.1
Cash and deposits	1 275.4	772.1	1 203.3	829.5	988.5
Debt securities ¹	0.0	0.0	0.0	0.0	0.0
Credits and loans	227.7	130.8	360.9	316.6	351.8
Trade credits and advances	0.0	0.0	0.0	0.0	0.0
Other liabilities	119.4	143.7	83.3	81.3	101.8
Long-term	18 325.3	13 558.1	11 877.3	9 932.8	8 651.9
Cash and deposits	275.1	262.2	428.5	944.6	816.0
Debt securities ¹	10 695.5	7 916.3	6 639.8	5 739.7	4 704.1
Credits and loans	7 354.7	5 379.6	4 809.0	3 248.5	3 131.9
Trade credits and advances	0.0	0.0	0.0	0.0	0.0
Other liabilities ²	0.0	0.0	0.0	0.0	0.0
Other sectors³	41 199.2	43 089.1	50 311.0	59 179.2	59 548.2

Short-term	6 771.5	6 776.4	7 350.6	8 259.5	8 019.1
Cash and deposits	0.0	0.0	0.0	0.0	0.0
Debt securities ¹	0.0	0.0	0.0	0.0	0.0
Credits and loans	1 287.7	1 175.8	869.3	899.5	1 161.7
Trade credits and advances	5 305.6	5 455.1	6 307.9	7 218.6	6 805.5
Other liabilities	178.2	145.5	173.4	141.4	51.9
Long-term	34 427.7	36 312.8	42 960.5	50 919.8	51 529.1
Cash and deposits	0.0	0.0	0.0	0.0	0.0
Debt securities ¹	9 053.4	10 254.4	11 130.1	12 975.6	15 912.8
Credits and loans	23 658.2	24 336.1	29 883.4	35 836.5	33 297.7
Trade credits and advances	1 716.0	1 722.2	1 947.1	2 019.2	2 134.5
Other liabilities ²	0.0	0.0	0.0	88.5	184.0
Other financial organizations	1 910.5	2 133.9	1 982.2	2 897.2	3 442.3
Short-term	107.0	100.7	90.6	115.6	75.7
Long-term	1 803.4	2 033.2	1 891.5	2 781.6	3 366.6
Non-financial organizations, households and non-commercial organizations providing services to households	39 288.7	40 955.2	48 328.9	56 282.0	56 105.8
Short-term	6 664.5	6 675.7	7 259.9	8 143.9	7 943.4
Long-term	32 624.2	34 279.6	41 068.9	48 138.1	48 162.5
Direct investments: intercompany debt	52 274.7	62 576.2	67 608.3	73 930.2	79 201.2
Liabilities of Kazakhstani direct investment companies to foreign direct investors	49 721.8	59 589.4	63 632.6	69 647.2	72 714.5
Liabilities of Kazakhstani direct investors to foreign direct investment companies (reverse investment)	2 553.0	2 597.8	3 429.2	3 392.2	1 407.0
Liabilities of Kazakhstani enterprises to foreign sister enterprises	0.0	389.0	546.5	890.7	5 079.7

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

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

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

Appendix 3 to Section I Sub-section 1.4

Table 1.4.3

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

Item	2010	2011	2012	2013	2014
A. Absolute parameters (USD mln.)					
1. External debt (at end-period)	118 222.8	125 320.8	136 918.2	149 931.1	157 062.2
incl. inter-company debt	52 274.7	62 576.2	67 608.3	73 930.2	79 201.2
2. External debt, excl. intercompany debt (at end-period)	65 948.0	62 744.6	69 310.0	76 001.0	77 861.0
3. Payments for long-term external debt extinction and servicing (including intercompany debt)	25 397.9	29 624.1	31 951.5	31 835.0	31 631.5
4. Payments for long-term external debt extinction and servicing (excluding intercompany debt)	15 637.8	16 876.5	18 902.4	19 309.8	18 009.5
B. Relative Parameters					
1. External debt per capita (USD, excluding intercompany debt)	4 011.4	3 763.2	4 098.8	4 428.8	4 470.3
2. External debt to GDP (% , including intercompany debt)	79.9	66.7	67.4	64.8	74.2
3. External debt to GDP (% , excluding intercompany debt)	44.5	33.4	34.1	32.8	36.8
4. External debt to EGSy (% , including intercompany debt)	180.5	140.0	149.2	165.3	183.9
5. External debt to EGSy (% , excluding intercompany debt)	100.7	70.1	75.5	83.8	91.2
6. Payments for long-term external debt extinction and servicing to EGSp (% , including intercompany debt)	38.8	33.1	34.8	35.1	37.0
7. Payments for long-term external debt extinction and servicing to EGSp (% , excluding intercompany debt)	23.9	18.8	20.6	21.3	21.1
8. Interest payments to EGSp (%)	7.2	5.3	5.6	5.5	5.9
9. International reserves to short-term external debt (%)	318.6	372.4	311.1	260.3	291.1
Memo Items:					
Population (thous. individuals)*	16 440.1	16 673.1	16 909.8	17 160.8	17 417.4
GDP (KZT bln.), for the period*	21 815.5	27 571.9	30 347.0	35 275.2	38 033.1
GDP for 12 months (USD bln.)	148.0	187.8	203.3	231.5	211.8
Export of goods and non-factor services for the period (EGSp)**	65 510.6	89 531.6	91 759.8	90 715.7	85 408.4
Export of goods and non-factor services for the year (EGSy)**	65 510.6	89 531.6	91 759.8	90 715.7	85 408.4

*Committee of Statistics of the Ministry of National Economy

**Balance of Payments of the Republic of Kazakhstan, National Bank's estimate

Appendix 1 to Section XI Sub-section 11.1

Figure 11.1.1

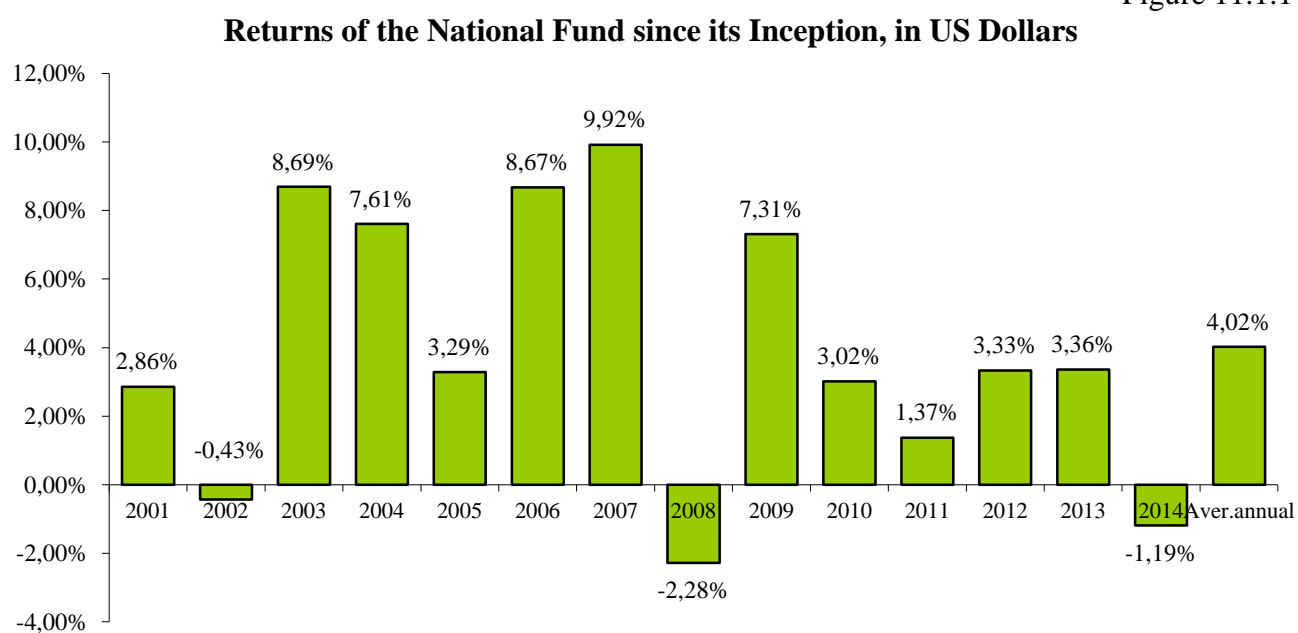
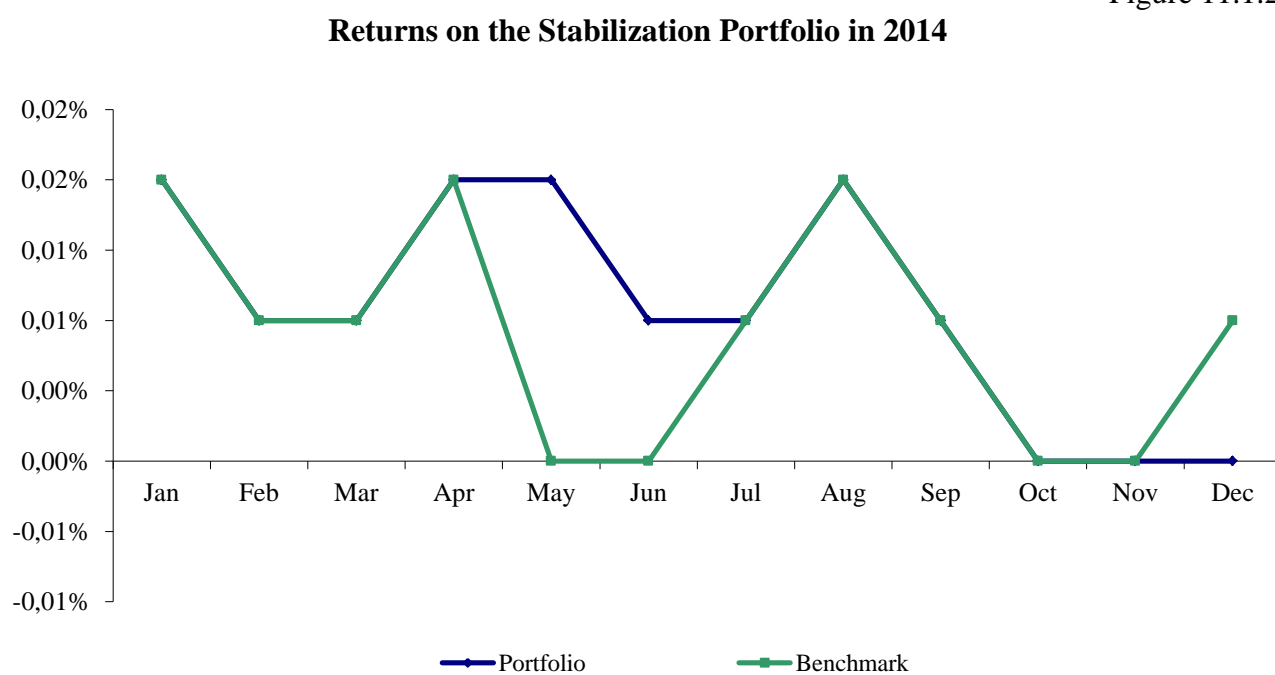


Figure 11.1.2



Appendix 2 to Section XI Sub-section 11.1

Figure 11.1.3

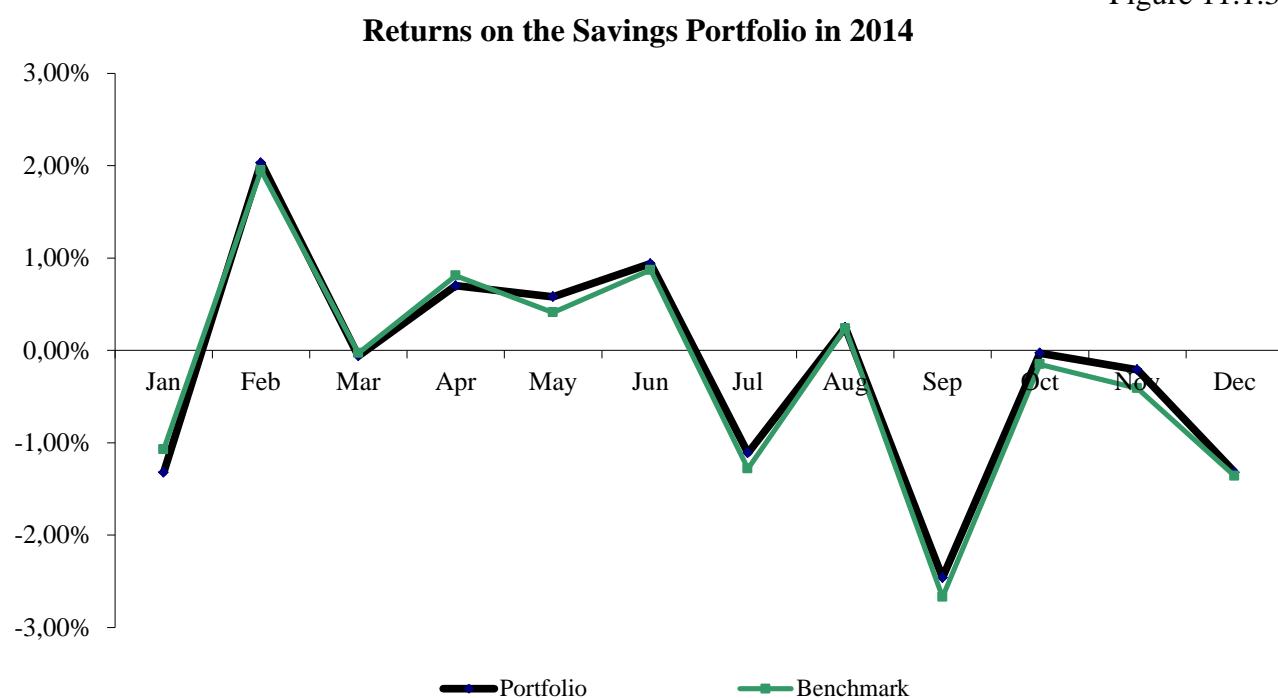
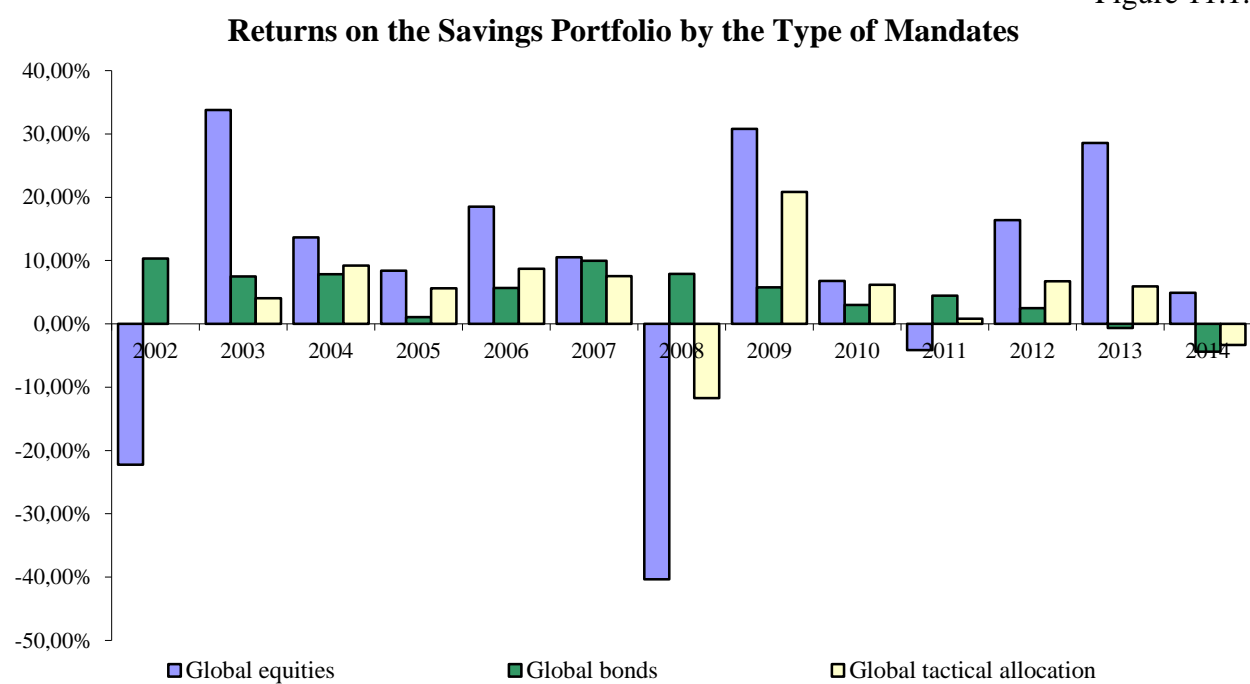


Figure 11.1.4



List of Abbreviations Used

AIS	automated information sub-system
JSC	joint-stock company
UAPF	“Unified Accumulation Pension Fund” Joint-stock Company
bank	a second-tier bank
GDP	gross domestic product
USD	US Dollar
EurAsEC	Eurasian Economic Community
IT	information technologies
IMF	International Monetary Fund
ISMT	Interbank System of Money Transfers
IFRS	International Financial Reporting Standards
MCI	monthly calculation index
bln.	billion
mln.	million
APF	accumulation pension fund
OEIMPA	organization engaged in investment management of pension assets
RFCA	Regional Financial Center of Almaty city
CIS	Commonwealth of Independent States
LLP	a limited liability partnership
trln.	trillion
thous.	thousand
SCO	Shanghai Cooperation Organization
EGS	exports of goods and services