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**ANNUAL REPORT**  
**of National Bank of the Republic of Kazakhstan**  
**for the Year 2013**

Almaty, 2014

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## EXECUTIVE SUMMARY

1. In 2013, the economic growth was accelerating due to improved indicators in the manufacturing industry, as well as in the sectors of communications, trade and agriculture. The indicators were improving owing to the growth in the production of foodstuffs (by 4.2%) and in the production of coke and refinery products (by 1.5%) in the manufacturing industry, growing revenues in the mobile communications (by 11.7%) in the communications sector, owing to the increased volumes of retail sales of retail outlets (by 17.9%) in the trade segment, as well as improved performance in the plant production sector (by 22.5%) in agriculture.

So, according to updated information, during 2013 the gross domestic product of Kazakhstan increased to KZT 33.5 trln. in current prices, having increased by 6.0% versus 2012 in real terms (in 2012 the growth accounted for 5.0%).

2. At the end of 2013, the annual inflation accounted for 4.8%; this is below the target band of 6-8% set by the National Bank of the Republic of Kazakhstan (the “National Bank”). The annual inflation rate that developed during 2013 has been the lowest since 1999.

Throughout 2013, inflationary processes were slowing down; this occurred mainly due to decreasing and relatively low rates of growth in foodstuff prices. Along with that, good harvest helped maintaining the price stability in the foodstuffs market. The growth rates of prices and tariffs for paid services remained high, thus reflecting the largest contribution to inflation dynamics. Prices of non-food products were stable, and their growth rates were quite insignificant.

Inflation dynamics in 2013 was pre-determined by a number of factors; the most significant of these factors were the unstable situation in the global commodity markets, a high level of world prices for raw materials, inefficient pricing mechanism within Kazakhstan, and low competition in certain markets of goods and services. However, the impact of monetary factors on the buildup of inflationary processes in Kazakhstan in 2013 was minimal.

In 2014, the goal of National Bank’s monetary policy will be to keep the inflation within 6-8% at the year-end.

3. In 2013, the domestic foreign exchange market was developing in the environment of minimal involvement of the National Bank in maintaining the Tenge exchange rate.

The weighted-average exchange rate of the Tenge during 2013 was KZT 152.15 per 1 US Dollar. At the end of the year the stock exchange rate was KZT 154.06 per 1 US Dollar. Over the year the Tenge has depreciated versus the US Dollar by 2.2% in nominal terms.

At the end of 2013, the overall volume of gold and foreign currency assets of the National Bank amounted to USD 24.7 bln., having decreased by 12.7% as compared to 2012.

4. In 2013, the growth rate of deposits of residents in depository institutions accelerated to 12.2% versus 7.3% in 2012. Acceleration in the rates of the deposit base growth was secured by the increased deposits, both retail and corporate. During 2013, deposits of non-bank legal entities increased by 10.0%, and retail deposits increased by 15.8%.

5. After a minor decrease in the volume of credits in 2010 (by 0.7%), the growth of bank credits to the economy has been observed during three consecutive years. In 2013, the volume of bank credits to the economy increased by 13.4% and reached KZT 11.3 trln. (USD 73.3 bln.).

During 2013, foreign currency loans increased by 15.0% to KZT 3.4 trln., and loans in the domestic currency increased by 12.7% to KZT 7.9 trln.

The fact that foreign currency loans were growing faster than loans in the domestic currency resulted in the decreased percentage of the Tenge loans within total loans from 70.7% to 70.3%.

6. During 2013, the reserve money contracted by 2.3%, the money supply increased by 10.2%, and the volume of cash in circulation decreased by 1.0%. The issuing balance was positive - KZT (+)26.3 bln., which is by KZT 162.3 bln. less than in 2012 (KZT 188.6 bln.).

7. In 2013, 35.2 mln. transactions amounting to KZT 177.6 trln. were processed in the Interbank System of Money Transfers (the “ISMT”) and the Interbank Clearing System. As of

January 1, 2014, the total number of payment cards in circulation amounted to 16.5 mln., which exceeds the level of 2012 by 36.3%.

8. In 2013, positive dynamics was observed in all segments of the financial market. Assets of the banking sector increased by 11.4% and as of January 1, 2014 amounted to KZT 15.5 trln. Assets of insurance organizations increased by 18.2% to KZT 523.4 bln. During 2013, pension accumulations increased by 17.3% and amounted to KZT 3.7 trln.

9. The total market value of the portfolio of the National Fund of the Republic of Kazakhstan (the "National Fund") was equal to USD 71.5 bln. at December 31, 2013. In 2013, the return of the National Fund was 3.36%. The return since its inception up to December 31, 2013 was 72.87%, which makes up 4.44% in annual terms.

10. In 2013, retained profit amounted to KZT 56 469.7 mln., having increased by KZT 26 166.0 mln. as compared to 2012 (86.3%)

## I. ECONOMIC DEVELOPMENT

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

In 2013, the economic growth was accelerating due to accelerated growth in the manufacturing industry, as well as in agriculture. The reasons for better performance were the 3.2% growth in the volume of crude oil extraction in the mining industry and the 22.5% growth of plant production in agriculture.

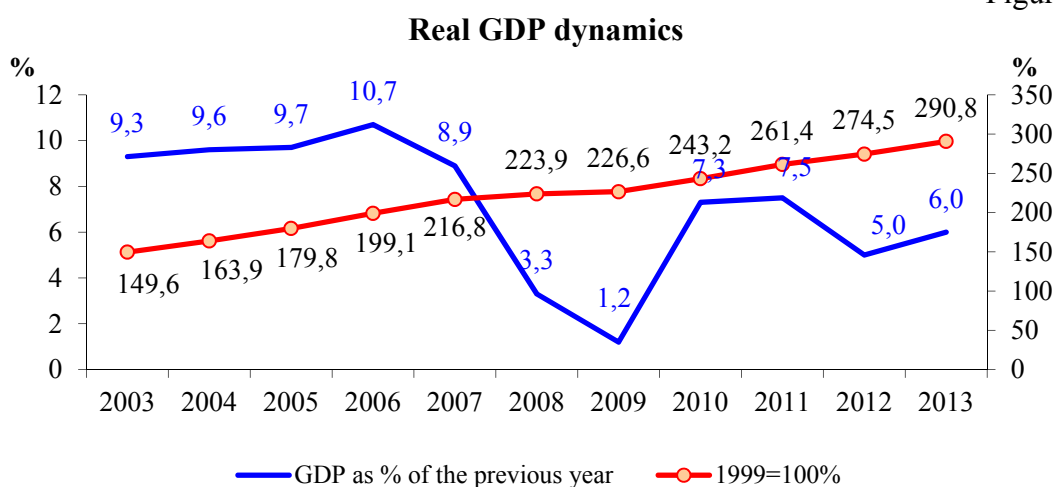
The price of crude oil (Brent) had been at USD 108.9 per barrel on average during 2013, whereas in 2012 it was USD 112.0; this generally represents a negative factor for the Kazakh economy although oil prices were characterized by lower volatility than in 2012.

The Government Program for forced industrial and innovation development of the country's economy for 2010-2014 through the measures of financial and non-financial support helped encouraging business activity in the production industries and in manufacturing sectors of the economy as well as in the sectors that manufacture export-oriented products.

In 2013, the growth of lending volumes (by 13.4%), increasing employment and decreasing unemployment rate (from 5.3% in January to 5.2% in December) and increasing cash income of the population (by 3.0% in real terms) were conducive to expansion in the domestic demand.

As a result, according to updated information, during 2013 the gross domestic product of Kazakhstan amounted to KZT 33 521.2 bln. in current prices, having increased in real terms by 6.0% as compared to 2012 (in 2012 – the growth of 5.0%) (Figure 1.1.1).

Figure 1.1.1

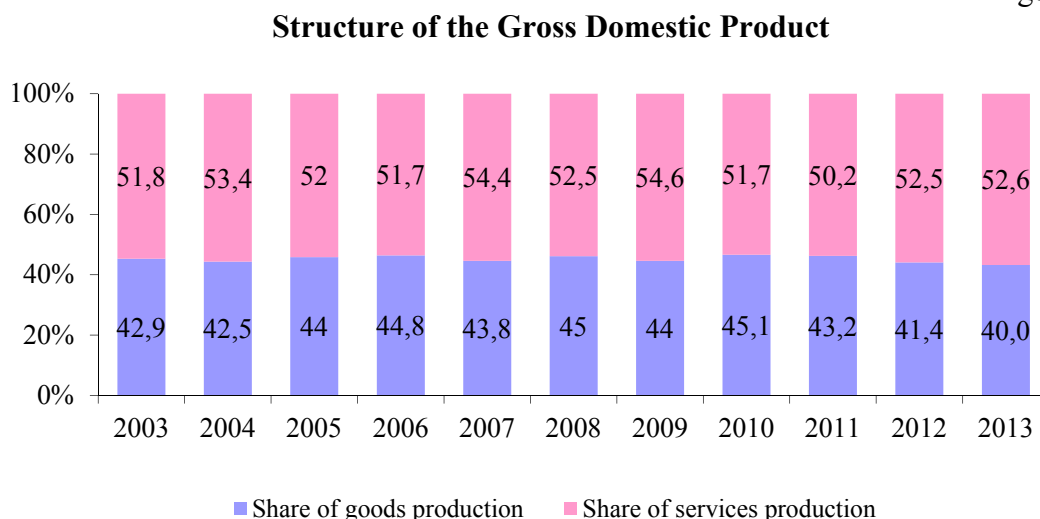


In 2013, the growth was noted in all key sectors of the economy. In the GDP composition, the highest growth rates were observed in the following sectors: information and communications – by 14.0%, wholesale and retail trade – by 12.7%, agriculture – by 10.8%, transport and warehousing – by 7.5%, financial and insurance business – by 6.3%, professional, scientific and technical activity – by 6.1%.

During 2013, in the GDP composition the production of goods increased by 3.3%, and the production of services increased by 7.4%. Thus, in 2013 the segment of services is still the main driver for the economic growth; its share in the GDP volume increased from 52.5% in 2012 to 52.6% in 2013 (Figure 1.1.2).

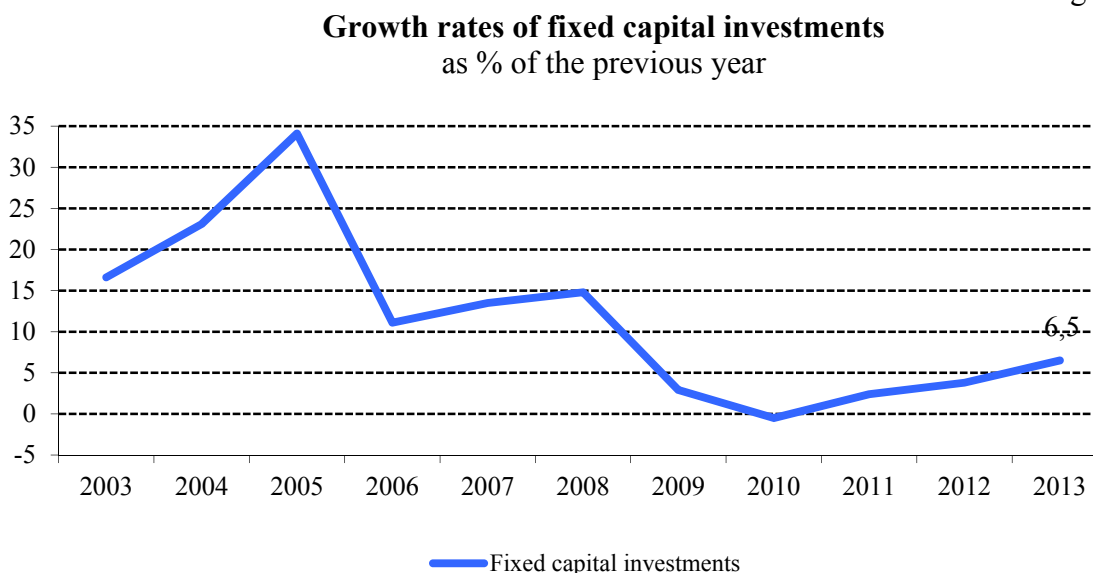
<sup>1</sup> According to the Agency of Statistics of the Republic of Kazakhstan

Figure 1.1.2



After the 0.5% decrease in fixed capital investments in 2010, the investment volumes have been demonstrating a positive upward trend over the three subsequent years. In 2011, the investment volume increased by 2.4%, in 2012 the growth reached 3.8%, and in 2013 the growth accelerated to 6.5% (Figure 1.1.3). The growth was secured by the increased investments in fixed capital in the following sectors: transport – the growth of 34.7%, financial and insurance business – 25.1%, healthcare and social services – 22.1%, real estate operations – 10.7%, industry – 2.7%, as well as agriculture – the growth of 2.5%. The share of these sectors in the investment volume accounted for 88.0%.

Figure 1.1.3



In 2013, the decrease in investments was noted in the following sectors: professional, scientific and technical activity – by 32.4%, activities in the area of administrative and ancillary service – by 31.3%, general government and defense – by 29.5%, education – by 25.8%, information and communications – by 19.1%, construction – by 16.1%, accommodation and catering services – by 10.0%, art, entertainment and leisure – by 5.8%, and wholesale and retail trade – 2.0%. The share of these sectors in the overall investment volume accounted for 11.8%.

The largest percentage of fixed capital investment was in the industry (50.4%), transport and warehousing (24.0%) as well as in real estate operations (8.7%).

In 2013, after their decrease during two years, investments in the mining industry demonstrated growth. In 2011 the investment volume decreased by 7.8%, in 2012 it decreased by 5.8%, and in 2013 it increased by 9.0%; as a result, the share of the mining industry in the overall investment volume increased to 31.8% versus 31.3% in 2011.

In 2013, the investment structure broken down by sources of funding of fixed capital had undergone significant changes. So, the share of investments made with own funds of enterprises decreased from 53.7% to 51.5% in the overall volume, and the share of investments from borrowed funds increased from 12.1% to 20.4%; whereas the share of investments made with the funds of the state budget decreased from 20.5% to 16.8%, and the share of investments made from foreign investments decreased from 13.7% to 11.4%.

In terms of their technology structure, the share of investments used for construction and major overhaul of buildings and structures increased by 11.8%. In 2013, investments in housing construction increased by 7.4%, and the overall volume of works (services) increased by 3.0%.

## 1.2. Monitoring the Real Sector Enterprises

During 2013, the number of enterprises - participants of the monitoring process representing the key sectors of the country's economy increased from 2 491 to 2 679, where the number of medium- and large-size enterprises increased from 1 507 to 1 551. In the 4<sup>th</sup> quarter of 2013, the percentage of revenues from the sale of products (works, services) of the enterprises participating in the monitoring process accounted for 49.6% in the total revenue from the sale of products in the country's economy.

The demand for final products decreased notably at the beginning of the year (in the 1<sup>st</sup> quarter the diffusion index of the change in the demand fell to 46.7); however, in the 2<sup>nd</sup> and in the 3<sup>rd</sup> quarters of 2013 the demand was growing due to the growth of the index in the manufacturing industry, construction and in the sector of "wholesale and retail trade"; and in the 4<sup>th</sup> quarter the demand in the real sector remained virtually unchanged (Appendix 1 to Section I of Sub-section 1.2, Figure 1.2.1).

The demand for raw materials and supplies remained high throughout the year. The highest price growth was observed in the 1<sup>st</sup> quarter; in the 2<sup>nd</sup> quarter there was a notable decline in price growth; in the 3<sup>rd</sup> and 4<sup>th</sup> quarters the growth rates of prices slightly increased, which is proved by the change in the diffusion index (the index fell from 73.6 in the 1<sup>st</sup> quarter to 68.4 in the 2<sup>nd</sup> quarter and later it increased slightly to 69.7% in the 4<sup>th</sup> quarter) (Appendix 2 to Section I of Sub-section 1.2, Figure 1.2.2).

During the year, prices for final products of enterprises were growing. The highest price growth occurred in the 1<sup>st</sup> quarter; in the 2<sup>nd</sup>-4<sup>th</sup> quarters the price growth slowed to moderate rates (Appendix 1 to Section I of Sub-section 1.2, Figure 1.2.3).

In 2013 enterprises continued to finance working capital mainly with their own funds; this trend was noted by over 80% of enterprises.

Average-weighted profitability of sales (before tax) in the economy accounted for 40.1% (in 2012 – 45.5%). The share of low-profitable and loss-making enterprises slightly increased to 23.5% (in 2012 – 23.2%).

During 2013, average interest rates on loans in the Tenge, according to interviewed enterprises which received bank loans, remained virtually unchanged (at 12.1%), and interest rates on foreign currency loans decreased (to 9.3% in the 4<sup>th</sup> quarter from 9.7% in the 1<sup>st</sup> quarter). The number of enterprises that applied for a bank credit but didn't obtain it increased in the 2<sup>nd</sup> and in the 3<sup>rd</sup> quarters (to 4.4% and 4.1%, respectively, from 3.3% in the 1<sup>st</sup> quarter); however, in the 4<sup>th</sup> quarter they decreased significantly (to 2.7%). This is generally indicative of increased availability of loans for enterprises (Appendix 2 to Section I Sub-section 1.2, Figures 1.2.4, 1.2.5).

During 2013 investment activity of the real sector of the economy was growing, mainly due to the use of own funds by enterprises (the number of such enterprises increased to 61.2% in the 4<sup>th</sup>

quarter, from 56.3% in the 1<sup>st</sup> quarter). In 2013, bank loans were used for these purposes every quarter by about 6% of enterprises on average.

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

At the end of 2013, revenues to the state budget increased by 9.8% as compared to 2012 and amounted to KZT 6 382.4 bln. or 19.0% of GDP according to updated information<sup>3</sup> (in 2012 – 19.2% of GDP).

Tax revenues accounting for 74.9% in the structure of the state budget revenues, amounted to KZT 4 779.0 bln., or 14,3% of GDP (in 2012 – 13.5% of GDP). The changes in the system of taxation resulted in the increase in tax revenues by 16.7% as compared to 2012. Revenues from value-added tax increased by 45.2%, revenues from gambling taxes – by 20.0%, from taxes for international trade and foreign operations – by 18.2%, from motor vehicle tax – by 16.4%, from personal income tax – by 12.4%, from social tax – by 11.6%, from excises – by 11.3%, and from charges for entrepreneurship and professional activities – by 12.1%. A minor decrease in tax revenues occurred in tax revenues on corporate income tax – by 0.8%.

In 2013, non-tax revenues decreased by 50.3% and amounted to KZT 141.7 bln. or 0.4% of GDP. Such decrease was mainly caused by decreased revenues from the public property, proceeds from public procurements.

As compared to 2012, revenues from the sales of fixed capital increased by 6.9% and amounted to KZT 56.1 bln. or 0.2% of GDP.

As for the receipt of transfers, the plan was implemented by 100%. During 2013, in order to provide funding for the budgetary development programs, the guaranteed transfer of KZT 1 380.0 bln. and a targeted transfer of KZT 25.5 bln. were made to the state budget from the National Fund.

During 2013, the state budget spending amounted to KZT 6 852.7 bln. or 20.4% of GDP (in 2012 – 20.7% of GDP). As compared to 2012, expenditures increased by 9.3%.

The highest increase in expenditures occurred in expenditures for the industry, architecture, urban development and construction, public services of the general nature, defense, culture, sports, tourism and infomedia, social aid and social security (the share in the expenditures volume – 19.8%), education (18.1%) and public healthcare (11.6%).

In 2013, credits provided from the public budget decreased by 31.2%, and proceeds in repayment of earlier credits – by 36.9%. As a result, the volume of net budget lending decreased by 9.7% to KZT 25.8 bln. or 0.1% of GDP.

The state budget spending for the acquisition of financial assets decreased by 47.3%, and proceeds from their sale, on the contrary, increased by 9.1 times. Thus, the balance of such operations decreased by 49.5% to 0.6% of GDP.

In 2013, the state budget was executed with the deficit of KZT 700.9 bln. (2.1% of GDP); in 2012 the deficit amounted to KZT 890.3 bln. (Figure 1.3.1).

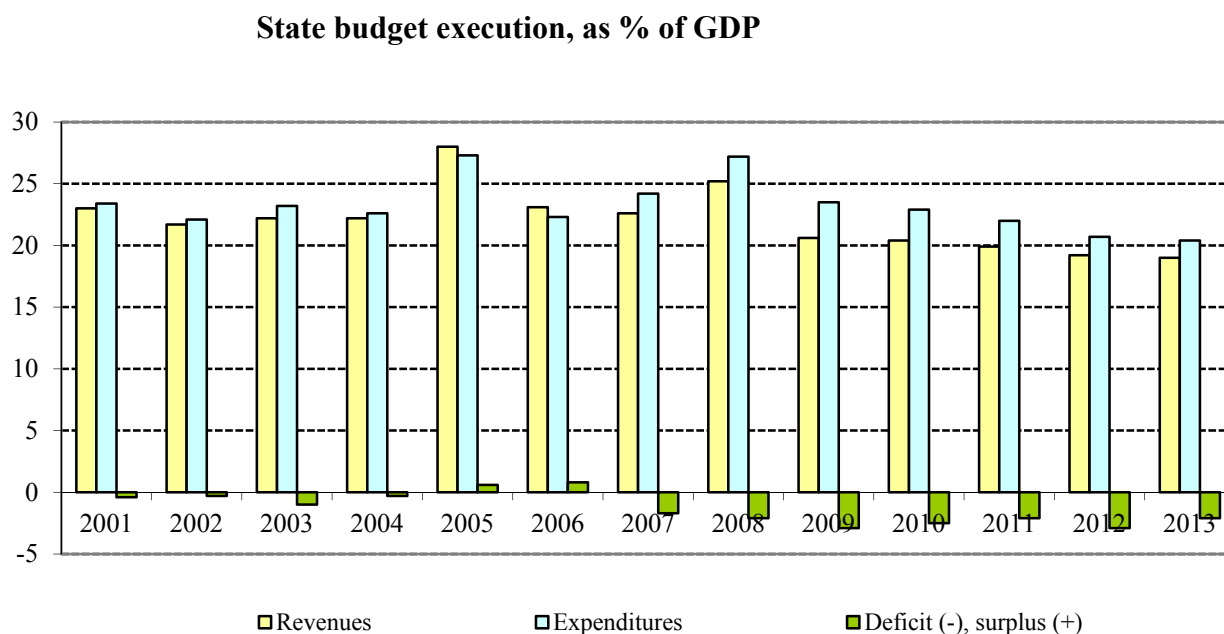
In 2013, revenues to the national budget amounted to KZT 5 179.5 bln. or exceeded the revenues in 2012 by 8.7%. Tax revenues to the national budget increased by 18.0%. Non-tax revenues decreased significantly – by 59.7%, proceeds from the sale of fixed capital decreased by 48.1%. Receipts of transfers increased by 2.5%.

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

<sup>3</sup> GDP according to updated information



Figure 1.3.1



The growth in the national budget spending which reached KZT 5 700.8 bln. accounted for 8.4% as compared to 2012, where a significant increase is observed in such items as “defense” (by 19.5%), “public services of the general nature” (by 16.6%), “public utilities” (by 12.2%), “public order and security” (by 10.1%), “public healthcare” (by 10.2%), “social aid and social security” (by 10.2%), and “education” (by 3.3%).

The volume of net budget lending to the national budget in 2013 decreased by 22.2% to KZT 38.2 bln. due to decreased volume of public budget credit repayments by 33.1% and of the volume of budget credits by 30.0%. The balance of operations with financial assets decreased by 56.2%.

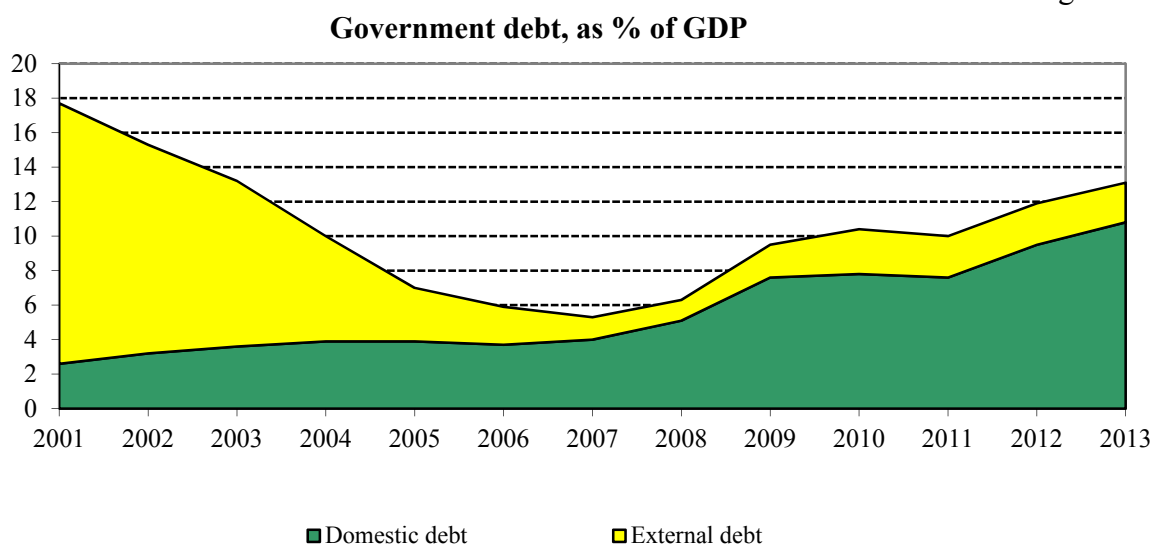
Thus, the actual national budget deficit in 2013 amounted to KZT 718.0 bln., (in 2012 – KZT 906.5 bln.), whereas according to the plan the deficit of KZT 790.6 bln. was expected.

In 2013, local budgets were executed with the deficit of KZT 25.1 bln. (in 2012 – the deficit of KZT 26.2 bln.), which ended up like this because of 9.1% increase in revenues; expenditures increased by 8.8%, net budget lending increased by 36.3%, and balance of operations with financial assets increased by 4.4%.

In 2013, the domestic government debt amounted to KZT 3 614.6 bln. (10.8% of GDP), having increased by 24.8% as compared to 2012 (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



External debt of the Government of the Republic of Kazakhstan (the “Government”) in 2013 increased by 5.4% as compared to the indicator for 2012 and amounted to USD 5.1 bln. (2.3% of GDP). The external debt guaranteed by the government increased by 5.2%.

#### 1.4. Balance of Payments and External Debt<sup>4</sup>

At the end of 2013, the current account balance had a deficit of USD 117.8 mln., whereas in 2012 a current account surplus accounted for USD 1.1 bln. (Appendix 1 to Section I Sub-section 1.4).

Deterioration in the current balance occurred because of reduction in the trade surplus. Given the 4.1% reduction in the exports of goods and 1.9% increase in their imports, a surplus of trade operations decreased by 11.7% to USD 33.7 bln. (USD 38.1 bln. in 2012).

The official exports of goods decreased by 4.6% to USD 82.5 bln., where exports of oil and gas condensate amounted to USD 55.2 bln. (or 66.9%). In 2013, the average world oil price (Brent) was USD 108.9 per barrel, which is by 2.8% less than in 2012 (USD 112.0 per barrel). As a result, gross exports of oil and gas condensate decreased by 2.2%.

The decrease in the value of exports was recorded in all major groups of product mix, both due to decreased contractual prices and physical volumes. Mineral products whose quantitative supplies increased by 1% were an exception, as well as grain products whose cost decreased only because of the 31.3% decrease in physical volumes along with the 14.7% growth of contractual prices.

Imports of goods recorded by the official trade statistics went up by 5.4% and reached USD 48.9 bln. The growth in the import of investment goods (its share in total imports accounted for 36.9% or USD 18.1 bln.) was 4.0%. The import of interim consumption products increased by 3.3% to USD 16.4 bln. The highest growth in the value of imports was noted among consumer goods – 16.7% growth versus 2012. Alongside with that, import of foodstuffs increased by 7.6% to USD 4.2 bln., and import of non-food products increased by 22.0%, reaching USD 8.4 bln.

A negative balance of primary income, which amounted to USD 25.3 bln., decreased by 9.8%, primarily because of reduced payouts of return on direct investments to non-residents from USD 24.7 bln. in 2012 to USD 22.7 bln. in 2013 (by 8.2%).

<sup>4</sup> In 2013 the National Bank accomplished the transition to a new methodology for compilation of the external sector statistics in line with the Guidance for the Balance of Payments and International Investment Position issued in 2009.

As for other components of the current account, negative imbalances of international services and secondary income amounted to USD 6.9 bln. and USD 1.6 bln., respectively.

In 2013, financial account (excluding operations with the National Bank's assets) had a negative balance of USD 3.6 bln. (a positive balance of USD 0.9 bln. in 2012). Thus, there had been a net capital inflow or "net borrowing from other countries"<sup>5</sup> on the financial account.

There was a negative balance of USD 7.8 bln. on foreign direct investments as a result of outstripping growth in liabilities over assets.

Net acquisition (the growth) of financial assets on foreign direct investments that remained virtually unchanged versus 2012 (USD 1.9 bln.) was secured by the increase in the capital stock in foreign branches and subsidiaries by Kazakhstani enterprises. Dues from foreign direct investment companies decreased by USD 0.5 bln.

Net incurred liabilities (the growth) on foreign direct investments of USD 9.7 bln. (USD 13.8 bln. in 2012) were related to USD 5.2 bln. increase in intercompany debt of Kazakhstani enterprises to their foreign parent companies and revenue reinvestment of nearly USD 3.0 bln. (a share of foreign direct investors in retained profits of Kazakhstani enterprises).

In terms of the area of investment principle, gross inflow of foreign direct investments in 2013 decreased by 16.6% versus 2012 and amounted to USD 24.1 bln. Based on the principal repayment on mutual intercompany liabilities, net inflow of direct investments to Kazakhstan equaled USD 10.2 bln., and net outflow abroad – USD 2.4 bln.

There was a positive balance on portfolio investments of USD 6.0 bln. (USD 17.4 bln. in 2012) since the assets growth exceeded the growth of their liabilities. Net acquisition (the increase) of assets in the amount of USD 8.5 bln. was secured by the USD 7.7 bln. growth of the National Fund's assets and USD 0.6 bln. growth in debt securities of non-residents in the banks' portfolio.

Net incurred liabilities (the growth) on portfolio investments of USD 2.5 bln. resulted from issues of debt securities in foreign markets, mainly by the non-bank sector entities. Repurchase and redemption of earlier issued securities by residents partially offset the growth in liabilities due to placement of the 2013 issue totaling USD 5 bln.

In 2013, a negative balance of USD 1.8 bln. was recorded on other investments. The growth in short-term debt assets of USD 4.3 bln. was conducive to the reduction in net borrowings by nearly USD 3 bln. (as compared to 2012), while maintaining a high level of capital inflow on medium-and long-term term debt liabilities of USD 5.8 bln. (USD 5.9 bln. in 2012).

In 2013, international reserves on the balance of payments operations decreased by USD 2.4 bln.; and as of December 31, 2013 international reserves were estimated at USD 24.7 bln., which is equal to Kazakhstan's imports of goods and services for 4.8 months.

At December 31, 2013, gross external debt amounted to USD 148.7 bln., of which USD 5.7 bln. (or 4%) is the governmental external debt (liabilities of the Government and the National Bank); the banking sector's debt (the "Banks")<sup>6</sup> amounted to USD 11.2 bln. or 7%, and intercompany debt – USD 72.7 bln. or 49%. The remaining part was represented by the debt of "Other sectors"<sup>7</sup> to non-affiliated non-residents (Appendix 2 to Section I of Sub-section 1.4).

During 2013, gross external debt increased by USD 11.8 bln. because of the growth in foreign debt of "Other sectors" by USD 14.0 bln. Government sector's external debt increased by USD 0.2 bln., and foreign liabilities of "Banks" decreased by USD 2.4 bln.

The decrease in external debt of "Banks" was mainly ensured by repayment of foreign loans from non-residents (among others, a loan from the Export-Import Bank of China provided as part of the Energy Cooperation Agreement), as well as repurchase and redemption by issuers of their

<sup>5</sup> 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

<sup>6</sup> Includes second-tier banks and the Development Bank of Kazakhstan

<sup>7</sup> Include non-bank financial organizations, financial corporations, non-financial corporations as well as households and non-for-profit organizations which provide services to households

Eurobonds (specifically, by ATF Bank, Kazkommertsbank and Halyk Bank totaling about USD 1.4 bln.).

External debt of “Other sectors” during 2013 increased mainly because of loans taken by residents both from direct investors and from other non-residents. The growth in this debt category amounted to USD 11.0 bln. (including the loans provided by the Development Bank of China to the Asian Gas Pipeline JSC and Beineu-Shymkent Gas Pipeline LLP of USD 4.7 bln. and USD 1.8 bln., respectively; funding of the North-Caspian Project, etc.). Such growth was partially offset by the payments of earlier accrued dividends on debt securities to direct investors, by repayment of foreign loans and issues of Eurobonds (including redemption of 5-year Eurobonds of the KazMunaiGas National Company totaling USD 1.4 bln).

Active penetration of Kazakhstani issuers into international securities markets had a notable impact on the behavior of external debt in 2013, apart from loans. So, in 2013, such entities of the quasi-government sector as KazMunaiGas National Company, “KazAgro” National Management Holding Company, Development Bank of Kazakhstan and “Kazakhstan Engineering” National Company made securities offerings totaling about USD 4.6 bln.

Also, Eurobonds of “Eastcomtrans” LLP were placed and an issuer of earlier issued Eurobonds of “Zhaikmunai” LLP was replaced; the total amount was about USD 0.7 bln.

At December 31, 2013, gross external debt to GDP was 67.6% versus 67.4% at the end of 2012 (Appendix 3 to Section I Sub-Section 1.4), and gross external debt to exports of goods and services – 168.3% versus 149.2%. Without intercompany debt which bears minimal risks in terms of default, gross external debt to GDP at the end of 2013 was 34.6% versus 34.1%, and gross external debt to exports of goods and services accounted for 86.1% versus 75.6% at the end of 2012.

According to the international investment company of Kazakhstan, at the end of 2013 the country’s foreign assets amounted to USD 177.1 bln., including USD 131.5 bln. on debt instruments, versus the corresponding indicators for 2012 – USD 163.1 bln. and USD 122.7 bln., respectively.

Thus, given that the growth in the country’s foreign debt liabilities (+9%) exceeded the growth in foreign debt assets (+7%), and a share of non-debt instruments within the country’s reserve assets and foreign assets of the National Fund increased, in 2013 net external debt of Kazakhstan increased by USD 3.1 bln. and at December 31, 2013, amounted to USD 17.3 bln. or 8% of GDP (versus USD 14.2 bln. or 7% of GDP at the end of 2012). At the same time, the government sector and “Banks” still maintain the position of a net lender in relation to the rest of the world.

### **1.5. Safeguarding Financial Stability**

In 2013, persistence of borrowers’ credit risk and a high level of non-performing loans represented the most important factor that caused risks for the financial sector stability. Given that 2/3 of non-performing bank loans were provided by banks before 2009, during the period of highest lending activity and high risk appetite, a potential for recovery of value of such assets remains low.

During 2013, banks, with a view to efficiently manage sectorial and individual borrowers’ risks, were adhering to a conservative lending policy; this was also supported by a low growth in the demand for credits from the non-financial sector. A corporate sector which is the major borrower for banks, demonstrates a slowing business activity and decreasing rates of growth in the generated gross revenue; this, in its turn, might reduce their ability to service their debt obligations in future and limits the possibility of restoring the quality of a problem debt of banks. Structural weakness of the GDP growth becomes one of the factors to increase credit risk concentration in the loan portfolio of banks.

In this context, the main current trend in the banking sector is to re-orient the banks’ lending policy to a more profitable lending, primarily consumer lending. Since the major share of consumer

lending represents unsecured lending, there is a trend of credit risk concentration in the segment of unsecured lending. A not-too-high level of households' debt burden as well as a lower coverage with consumer loans versus the global rates retains a certain cushion for banks to grow the banking business in this area further. At the same time, slowing rates of growth in real cash income of the population may increase the burden on the households' creditworthiness in the long run thus increasing potential risks.

Therefore, in order to prevent accumulation of systemic risks in the consumer lending segment as well as to ensure efficient and adequate dynamics of its development and to increase sustainability of the banking sector as a whole, in 2013 the National Bank implemented a following set of measures:

- increasing the risk-weighting ratio for consumer loans when calculating capital adequacy requirements from 75% to 100% with a view to increase the possibility of potential loss absorption by banks, which are actively developing their business in the consumer lending segment, in case of unfavorable developments;

- setting a limit of no more than 30% a year for the rate of growth in the most risky part of a retail loan portfolio – unsecured consumer loans;

- introducing a requirement for banks to estimate a borrower's total debt burden on an obligatory basis in order to select good-quality borrowers on unsecured consumer loans. Should an established debt burden threshold (50%) be exceeded, a bank will not provide a loan to a borrower.

The above measures are of a deferred nature and will come into force in the first quarter of 2014.

Banks' orientation at short-term consumer lending is also determined by the maturity of liabilities. Comparative advantages of funding with attracted deposits (at the rate not exceeding 8%) determine a low motivation for banks to issue securities and subordinated debt (where an average rate of return is within the range of 6-14%). As a result, customer funds (deposits) which are mainly attracted for a short term account for over 80% of total liabilities of banks.

In order to assess sustainability of the banking system to negative changes in macroeconomic environment for a 2-year period, stress testing of capital adequacy in a selected group of banks<sup>8</sup> was conducted to see how the credit risk will change if the scenario which assumes a negative oil price shock is implemented. Its results demonstrate that the banking system generally sustains the set stress, and the capital adequacy ratio is violated only by seven banks. In order to compensate incurred losses, additional level of capital of 7.3% for the tier-one capital and of 10.7% for the tier-two capital will be required in a selected group of banks.

At the same time, with a view to prevent realization of systemic risk in future, a new banking system regulation model will be introduced from 2015. Its ideology will be to gradually increase capital adequacy requirements, introduce liquidity ratios and build up counter-cyclical buffers under the Basel III international standards during 2015-2019 at higher levels than the minimum ratios recommended by Basel III standards. This approach is justified by volatility of economic growth, high systemic and institutional risks pertinent to operation of financial institutions. Alongside with that, it is aimed to increase capacities of the Kazakhstan's financial sector to absorb losses which arise in realization of risks.

Issues related to improvement of the financial sector regulation and increased efficiency of financial organizations as well as other current and prospective development aspects of the banking and insurance sectors as well as of the securities market were actively discussed at the sessions of the Council for Financial Stability and Financial Market Development of the Republic of Kazakhstan. During 2013, five sessions of the Council were held. During those sessions the following matters were addressed: creation of the dynamic reserve by banks; regulation of risks associated with the consumer lending; transition to the Basel III capital standards; obligatory workers' accident insurance; improving payment of agency fees on compulsory insurance lines;

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<sup>8</sup> Stress-testing was conducted for 30 banks, whose share of assets accounts for 85.5% of total assets of the banking system and which provide loans to the sectors exposed to shocks (the mining and manufacturing industries, construction and trade)

development of a new methodology for securities valuation; introducing the mechanism for enhanced supervision of large transactions and actions of insiders in the securities market; as well as challenges in the insurance organizations' taxation.

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

### 2.1. Monetary Policy

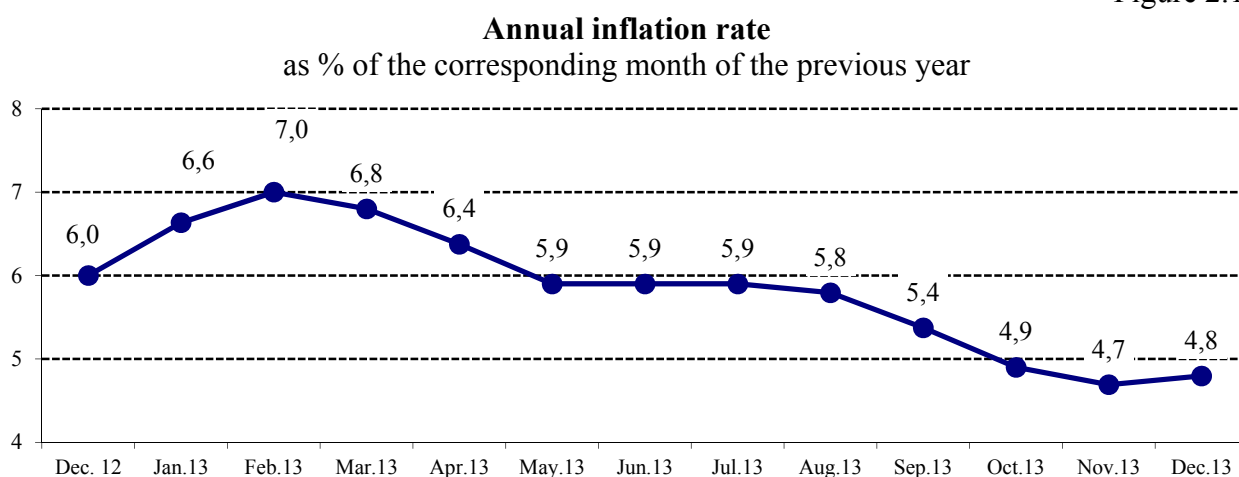
In 2013, the annual inflation rates were slowing. The major price growth was among paid services to the population (by 8.0%); growth rates of price for foodstuffs and non-food products remained moderate (3.3% each).

Steady macroeconomic development of Kazakhstan, accompanied by the growth of output in the real sector and in agriculture, was reflected in the growth of aggregate supply in the economy and supply of goods and services in the market. Meantime, unstable situation in the global commodity markets, high degree of monopolization and low competition in certain markets of goods and services contributed to persistence of inflationary expectations.

However, the impact of monetary factors on the buildup of inflationary processes in Kazakhstan was minimal. In 2013, monetary aggregates were growing at a moderate pace. During 2013, the reserve money contraction accounted for 2.3%, money supply increased by 10.2%, and the volume of cash in circulation decreased by 1.0%. In general, the money supply in the economy remained at the level adequate to the economy's growth.

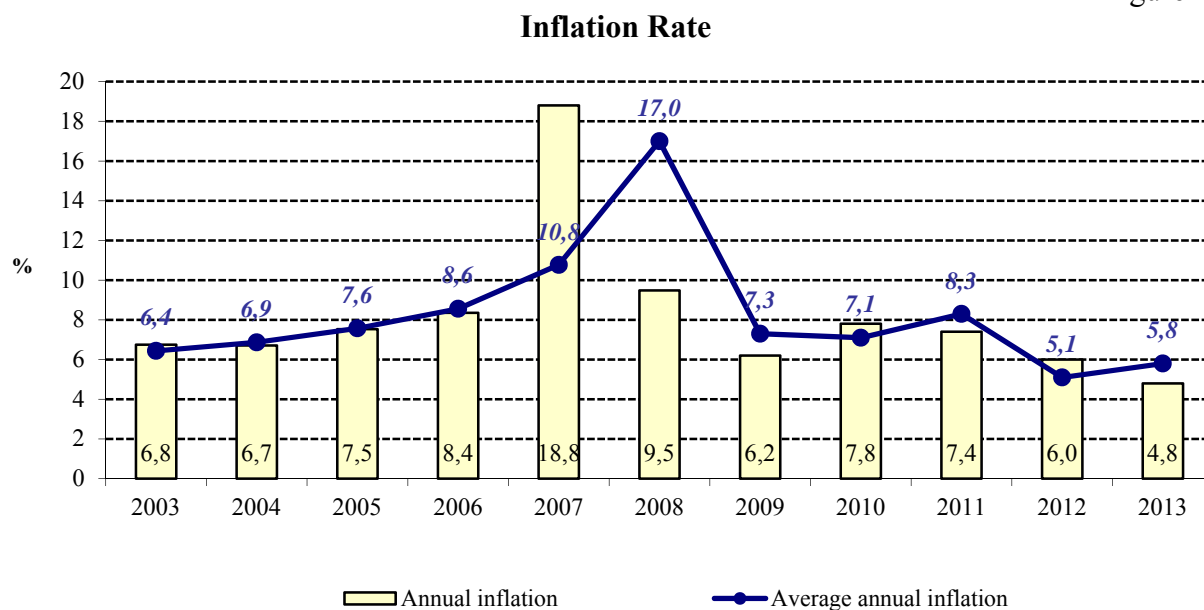
As a result, in 2013 the annual inflation did not exceed the forecasts. At the same time, from May 2013, its level had been below the target band for inflation of 6-8% set for 2013. At the end of 2013, the annual inflation was at 4.8% (Figure 2.1.1).

Figure 2.1.1



In 2013, the annual inflation was by 1.2 percentage points lower than that of 2012 (Figure 2.1.2). The average annual inflation in 2013 accounted for 5.8%.

Figure 2.1.2



In 2013, the price of foodstuffs increased by 3.3% (in 2012 – 5.3% increase), non-food products increased by 3.3% (by 3.5%) in terms of price, and paid services to the population – by 8.0% (by 9.3%).

In 2013, the highest rates of the price growth were observed among prices for such goods and services as eggs (by 22.0%), fish and sea food (by 5.5%), utilities (by 8.6%), including cold water supply (by 46.2%) and electricity (by 7.3%), healthcare services (by 12.2%), services provided by cultural establishments (by 6.4%) and educational establishments (by 5.6%), and transport services (by 5.8%).

In 2013, prices for industrial output of Kazakhstani enterprises were gradually decreasing. Generally, during 2013 the price of industrial output decreased by 0.5% (in 2012 – growth of 2.1%).

Prices and tariffs for output decreased by 1.2%, where the price of interim consumption products decreased by 2.0%, production means increased by 2.2% in terms of price, and consumer goods – by 5.1%. Production services increased by 9.1% in terms of price.

#### **Monetary Policy Instruments**

In 2013, the goal of the National Bank was to ensure the price stability in the country and maintain the annual inflation rate within 6-8%.

Amidst favorable pricing environment in the global energy markets, the situation in the domestic foreign exchange market of Kazakhstan remained stable. In 2013, the Tenge exchange rate was fluctuating within KZT 150.2-154.5 per 1 US Dollar.

From September 2, 2013, the National Bank started publishing the values of a multi-currency basket which consists of the US Dollar, Euro and Russian ruble. At the same time, the foreign exchange policy regime hasn't changed. In 2013, the National Bank was implementing the exchange rate policy on the basis of the managed float regime.

In order to avoid significant surges in the exchange rate and maintain stability in the foreign exchange market, the National Bank participated in the stock exchange market and off-exchange markets both as a buyer and as a seller of foreign exchange, depending on the situation in the markets while preserving the overall market trends.

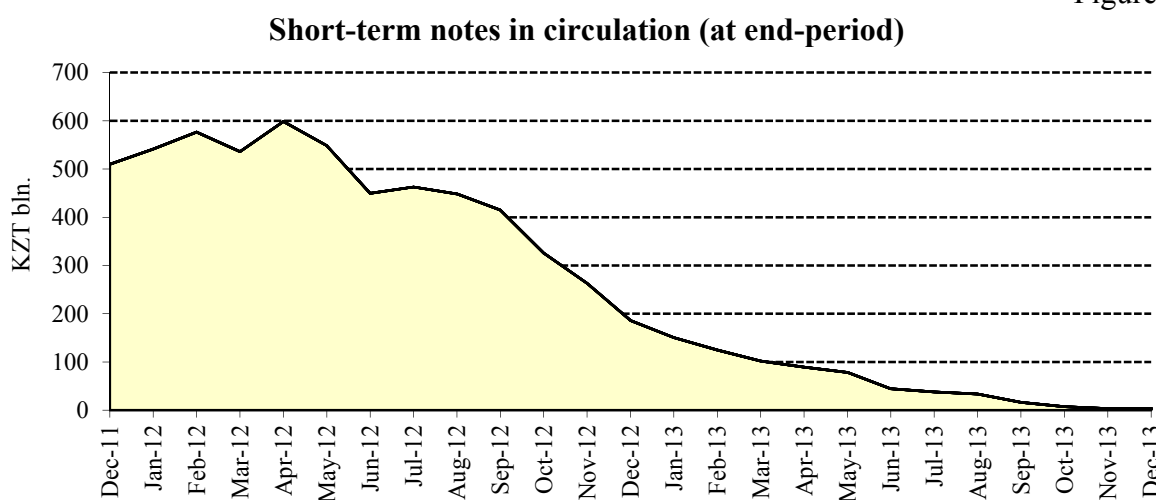
In 2013, the National Bank provided refinancing loans to banks. During 2013, the total volume of refinancing loans amounted to KZT 6.9 trln. Maturities of such operations didn't exceed 1 month. As of the end of 2013, the volume of outstanding liabilities of banks to the National Bank on refinancing loans amounted to KZT 545.4 bln.

In 2013, the National Bank regulated short-term liquidity in the money market by performing operations to absorb liquidity.

During 2013, the demand for liquidity absorption instruments (issuing short-term notes and taking deposits) on the part of banks was gradually decreasing. The decreasing volumes of free Tenge liquidity in the banking sector were conducive to the fact.

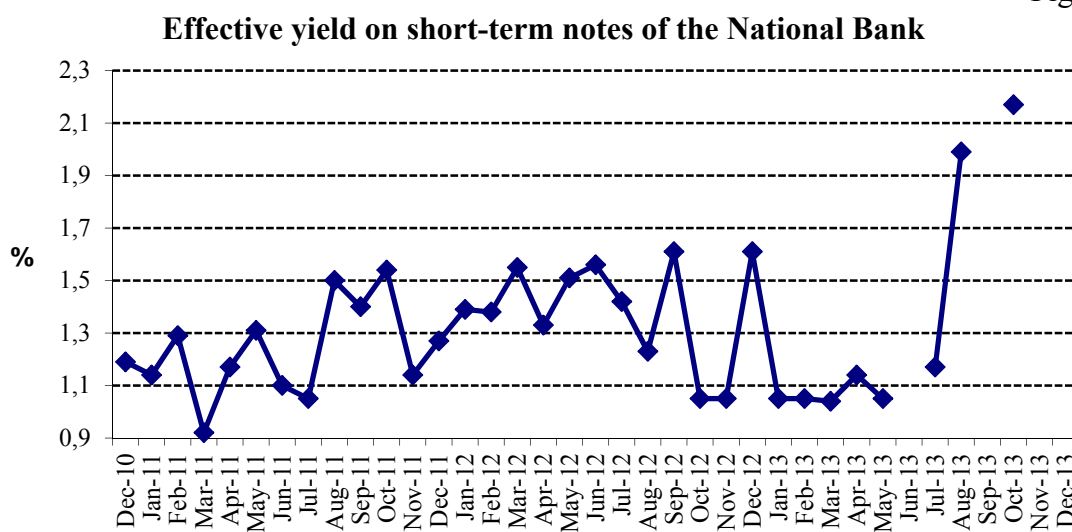
During 2013 as compared to 2012, the volume of issued short-term notes decreased by 10.8 times and amounted to KZT 79.3 bln. at discounted value. In June, September, November and December 2013, the National Bank did not issue short-term notes due to absence of demand for these instruments on the part of banks. The volume of notes in circulation in December 2013 as compared to December 2012 decreased by 52 times to KZT 3.6 bln. at discounted value (Figure 2.1.4).

Figure 2.1.4



The average-weighted yield on notes increased from 1.61% in December 2012 to 2.17% in October 2013 (Figure 2.1.5). In 2013, the National Bank issued short-term notes with 3- and 6-month maturities.

Figure 2.1.5



In 2013, deposits worth KZT 2.9 trln. were attracted from banks, which is 1.7 times less than in 2012. As compared to December 2012, balances of bank deposits with the National Bank decreased by 38.9% and amounted to KZT 36.0 bln. as of the end of December 2013.



Low inflation rates served as the basis for preserving the official refinancing rate at 5.5% per annum in 2013. Interest rate on deposits attracted from banks remained unchanged throughout 2013 and was at 0.5% on seven-day deposits and 1.0% – on one month deposits.

#### **Minimum reserve requirements**

In 2013, minimum reserve requirements ratios 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 2013, the structure of reserve assets was gradually changing: the share of banks' correspondent accounts in Tenge decreased (from 61.5% at December 31, 2012 to 55.4% at December 30, 2013). Respectively, the share of local cash in the cashiers' departments of banks increased. In 2013 reserve assets exceeded the required reserving volume by 2.7 times on average in the system as a whole.

#### **Monetary Aggregates**

During 2013 the reserve money contracted by 2.3% and amounted to KZT 2 822.4 bln. (in 2012 – 1.9% expansion). In 2013, the largest contraction in the reserve money (by 6.5%) was observed in August, and maximum expansion in the reserve money (by 15.8%) occurred in March.

The narrow reserve money, i.e. the reserve money excluding time deposits of banks with the National Bank, contracted by 1.6% to KZT 2 786.4 bln.

The main reason for contraction in the reserve money was the decrease in the National Bank's international reserves that was not offset by the growth in net domestic assets of the National Bank.

So, net international reserves of the National Bank decreased by 13.0% and amounted to USD 24.1 bln. Foreign currency receipts to the Government's accounts with the National Bank, increased foreign currency balances of bank correspondent accounts with the National Bank were neutralized by the National Bank's sales of foreign exchange in the domestic foreign exchange market, by operations for replenishment of the National Fund's assets from accounts of gold and foreign currency reserves and for servicing the Government's external debt. As a result, net foreign currency reserves decreased by 13.9% in the reviewed period. Assets denominated in gold decreased by 9.7% as a result of performed transactions and its price fall in the global markets.

During 2013, total international reserves of the country including foreign currency assets of the National Fund (according to preliminary information - USD 70.5 bln.) increased by 10.5% to USD 95.2 bln.

During 2013, net domestic assets of the National Bank (excluding the National Fund) increased, mainly due to the capital account growth, decreased liabilities to banks on short-term notes and due to the growth of claims on the domestic economy.

During 2013, the money supply increased by 10.2% and amounted to KZT 11 600.9 bln. Maximum growth in the money supply (by 5.1%) was recorded in March 2013, and maximum decrease (by 2.9%) – in November 2013.

The main reason for the growth in money supply in 2013 was the growth of both the domestic assets and net foreign assets of the banking system. In the structure of net foreign assets of the banking system in 2013, 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 2013 cash in circulation (M0) decreased by 1.0% to KZT 1 512.3 bln., and deposits of residents increased by 12.2% to KZT 10 088.6 bln. Thus, the outstripping growth rates of deposits of residents 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 85.5% in December 2012 to 87.0% at end-December 2013.

The level of monetization of the economy decreased from 34.7% at the end of 2012 to 34.6% at the end of 2013 as a result of outstripping growth in the nominal GDP<sup>9</sup> (by 10.5%) versus the growth rates of money supply (by 10.2%).

<sup>9</sup> According to updated information

The money multiplier increased from 3.64 in December 2012 to 4.11 in December 2013 as a result of growth in money supply against contraction in the reserve money.

## **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 2013) amounted to USD 2.7 bln.; this is by USD 3.6 bln. less as compared to the same indicator at the end of 2012. The decrease in assets denominated in freely convertible currencies by USD 3.0 bln. caused the change in the volume of gross gold and foreign currency reserves; assets denominated in precious metals decreased by USD 0.6 bln.

The change in the foreign currency portion of assets in 2013 was determined by the following.

In 2013, the volume of the National Bank's net sales at the Kazakhstan Stock Exchange (KASE) and the OTC market amounted to USD 3.8 bln. Net purchase on operations with the Ministry of Finance of the Republic of Kazakhstan ("the Ministry of Finance") amounted to USD 1.0 bln. during the year.

Foreign exchange inflows in favor of the Ministry of Finance totaled USD 12.1 bln. They were represented by tax payments of companies in the oil and gas sector and other payments. Funds of circa USD 9.9 bln. were transferred into the National Fund's stabilization portfolio. During the year the monies of the National Fund were converted and reconverted both at the KASE – USD 0.3 bln. and with the monies from gold and foreign currency assets; this resulted in a net sale of foreign currency assets against the Tenge of USD 0.4 bln.

In 2013, the National Bank made external debt payments on behalf of the Ministry of Finance totaling USD 0.4 bln.

At the same time, during the year, world prices of gold decreased from USD 1 657.5 per oz as of January 1, 2013 to USD 1 204.5 per oz as of January 1, 2014 or by 27.3%, 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 decreased as compared to the end of 2012 by USD 3.6 bln. and amounted to USD 24.1 bln.

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

In 2013, under the Resolution of the National Bank's Board of January 25, 2013 No.2 "On Amendments to Some Resolutions of the Board of the National Bank of the Republic of Kazakhstan", the Euro share in the investment portfolio was decreased by 2% in favor of the Swedish crone (2%).

Also, in July-August 2013, the monies with the total market value of about USD 50 mln. were transferred from the investment portfolio to the developing markets equity portfolio of the gold and foreign currency assets. The funds were transferred to make investments in government securities of the People's Republic of China.

During 2013, funds totaling about USD 1 bln. were transferred from the investment portfolio of gold and foreign currency assets of the National Bank into the strategic portfolio of gold and foreign currency assets of the National Bank with a view to invest in global equities, corporate investment-grade bonds, emerging market government bonds and convertible bonds.

In 2013, in order to support liquidity, funds with the total market value of about USD 3.0 bln were transferred from the investment portfolio of gold and foreign currency assets of the National Bank to the liquidity portfolio of gold and foreign currency assets of the National Bank.

With a view to further diversify assets as well as the management styles of gold and foreign currency assets, pursuant to the Resolution of the National Bank's Board of September 21, 2012 No. 293 "Regarding the Transfer of a Portion of Gold and Foreign Currency Assets of the National Bank to the National Investment Corporation of the National Bank of Kazakhstan for Fiduciary

Management”, on July 1, 2013 assets worth about USD 2 bln. were transferred from the investment portfolio of the gold and foreign currency assets to the alternative instruments portfolio of the gold and foreign currency assets to be managed by the National Investment Corporation of the National Bank of Kazakhstan.

As part of the efforts to ensure further assets diversification, the selection of external managers to manage a part of the gold and foreign currency assets was conducted. So, in 2013 tenders were conducted to select external asset managers for the mandates “Global equities: high dividends”, “Global equities: minimal volatility/variation”.

#### **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 14.8 bln. at the beginning of 2013 and by the end of 2013 the market value of the investment portfolio of gold and foreign currency assets was USD 8.6 bln.

Return on the investment portfolio of gold and foreign currency assets in 2013, denominated in the currency basket, was 0.704%. Given the return on the benchmark portfolio of 0.477%, excess returns were 23 basis points.

Return on the investment portfolio of gold and foreign currency assets in 2013, denominated in the US Dollars, was (-)0.729%. Given the return on the benchmark portfolio of (-)0.953%, excess return was 22 basis points.

At the end of 2013, the distribution of assets in the investment portfolio by instruments had the following structure: cash and cash equivalents – 2.5%, government securities – 83.2%, agency securities – 9.7%, securities of international financial institutions – 3.1%, corporate securities – 1.6%, financial derivatives – 0.0% The distribution of assets in the investment portfolio on the yield curve had the following structure: less than 1 year – 36.22%, 1-2 years – 40.94%, 2-3 years – 20.66%, over 3 years – 2.18%.

#### **Strategic Portfolio**

At the beginning of the year, the market value of the strategic portfolio of gold and foreign currency assets was USD 2.5 bln., and at the end of 2013 – USD 3.6 bln.

The change in the portfolio volume was mainly caused by the transfers of funds from the investment portfolio of gold and foreign currency assets of USD 1 bln. during the year for investing them in global equities, corporate investment grade bonds, emerging markets’ government bonds and convertible bonds. In 2013, returns on the strategic portfolio accounted for 6.02%.

#### **Liquidity Portfolio of Gold and Foreign Currency Assets**

The market value of the liquidity portfolio of gold and foreign currency assets was USD 4.9 bln. at the beginning of 2013, and at the end of 2013 it amounted to USD 4.1 bln.

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

#### **Alternative Instruments Portfolio**

The market value of the alternative instruments portfolio of gold and foreign currency assets was USD 2.0 bln. at the end of 2013. Return on the portfolio since the funding day accounted for 0.042%.

#### **Developing Markets Equity Portfolio**

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. In 2013 the portfolio was funded through a staged purchase of the Chinese Yuan against the US Dollars. The monies were invested in government securities of the Chinese People’s Republic maturing in 2014. Return on the portfolio since the funding day accounted for 1.014%.

### **Gold Portfolio**

According to market estimate, at the beginning of 2013 the volume of gold and foreign currency assets portfolio was USD 6.1 bln., and at the end of 2013 – USD 5.6 bln.

The change in the volume of the gold portfolio was caused by the fall in the price of gold.

### **2.3. Currency Regulation and Currency Control**

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

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

In order to collect statistical information about operations related to capital movement (financial loans, direct investments, commercial credits, and accounts with foreign banks), a regime of registration and notification is implemented 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.

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 banks.

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.

In 2013, the National Bank's effort in the area of currency regulation and currency control was aimed to further fine-tune and optimize approval procedures and currency control.

So, on December 25, 2013, the National Bank's Board passed the Resolution No. 295 "About Amendments to the Resolution of the Board of the National Bank of the Republic of Kazakhstan dated October 27, 2006 No. 106 "On Approval of the Rules for Managing Currency Exchange Operations with Foreign Cash in the Republic of Kazakhstan".

In addition to that, the National Bank took part in preparing the draft Law of the Republic of Kazakhstan "About Authorizations and Notifications" as well as the relevant draft law "On Amendments to Some Legislative Acts of the Republic of Kazakhstan Regarding the Authorization System". As a result of work done by the National Bank, a risk-based approach was developed to determining of the procedure for regulation of activity related to management of currency exchange operations depending on an entity.

#### **Regulation of the Exchange Office Operations**

As of January 1, 2014, 3 093 exchange offices including 2 118 exchange offices of banks (including 4 automated exchange offices), 932 exchange offices of the authorized organizations

(non-bank legal entities) and 43 exchange offices of the “KazPost” JSC were registered within the Republic of Kazakhstan.

During 2013, the National Bank issued 375 registration certificates to exchange offices, of which 259 – to banks and 116 – to the authorized organizations. 298 registration certificates were returned on a voluntary basis, including 192 – by banks, 106 – by the authorized organizations.

Regional branches of the National Bank issued 43 licenses for management of currency exchange operations as part of the licensing of currency exchange operations management. 30 registration certificates were returned on a voluntary basis by the authorized organizations.

Every month the National Bank prepares the 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.

#### **Regimes of Currency Regulation**

In 2013, within the framework of registration of foreign currency transactions, the National Bank issued 1 678 registration certificates, including on the following types of transactions:

- credits to non-residents by residents – 349;
- credits to residents by non-residents – 968;
- direct investments in Kazakhstan by non-residents – 239;
- direct investments abroad by residents – 83;
- other capital movements – 39.

In 2013, within the framework of notification about foreign currency transactions, the National Bank issued 453 certificates of notification, including:

- credits by non-residents to banks – 75;
- direct and portfolio investments in Kazakhstan by non-residents – 18;
- direct and portfolio investments abroad by residents – 40;
- transactions with financial derivatives – 5;
- other capital movements – 12;
- opening account abroad by residents – 303.

#### **Export and Import Currency Control**

The National Bank exercises export and import currency control with a view to ensure compliance by residents with the requirement to repatriate foreign and domestic currency on export and import transactions. The 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 2013, the National Bank worked out practical matters of the export and import currency control framework which was amended in 2012 as well as specifics of control over compliance with the repatriation requirement in respect of transactions providing for movement of goods within the Customs Union and, respectively, not requiring customs clearance of goods.

In 2013, 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 as part of the “Collection and Analysis of the Results of the Export and Import Currency Control” AIS. The National Bank received 131 597 electronic messages from the authorized banks on contracts with record numbers, as well as 918 electronic messages regarding violations of currency exchange legislation.

#### **Administrative Proceedings in Relation to Violations of the Foreign Currency Legislation**

In 2013, efforts to detect and preclude administrative violations of the foreign currency legislation were continued.

During 2013, for violations in the area of currency exchange legislation and provision of primary statistical data, 971 cases of administrative offence were initiated. Among them, penalties were imposed in respect of 913 cases of administrative offense, including in the form of fines totaling about KZT 310 mln.

29 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.

#### **Examination of Matters Related to Currency Control**

During 2013, the National Bank (its branches and the head office) conducted 338 inspections of banks, organizations engaged in certain types of banking operations, other legal entities and individuals in respect of compliance with currency exchange legislation, including 327 scheduled inspections (of which – 209 inspections of authorized organizations, and 118 inspections of the authorized banks/branches) and 11 unscheduled inspections (of which – 3 inspections of the authorized organizations, 1 inspection of the authorized banks (branches) and 7 inspections of other legal entities in respect of compliance with currency exchange legislation).

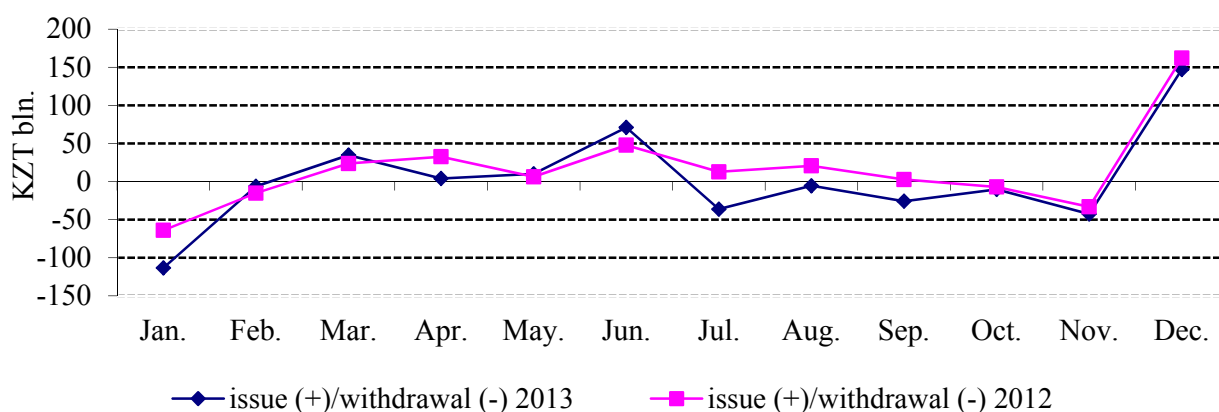
### **III.ISSUING OPERATIONS AND CASH CIRCULATION**

The year 2013 was characterized by the decreased demand in cash on the part of economic entities, as compared to the previous year.

During 2013, KZT 2 739.3 bln. were issued into circulation from the National Bank's reserve funds, which is by KZT 167.0 bln. (6.5%) greater than the issue of cash into circulation during 2012 (KZT 2 572.3 bln.). In 2013, the volume of cash withdrawn from circulation increased by KZT 329.3 bln. (13.8% growth) and amounted to KZT 2 713.0 bln. (in 2012 – KZT 2 383.7 bln.). Thus, there was a positive issuing balance of KZT (+)26.3 bln., which is by KZT 162.3 bln. less than in 2012 (KZT 188.6 bln.).

Figure 3.1

#### **Dynamics of the Change in Issuing Balance for 2012 – 2013**



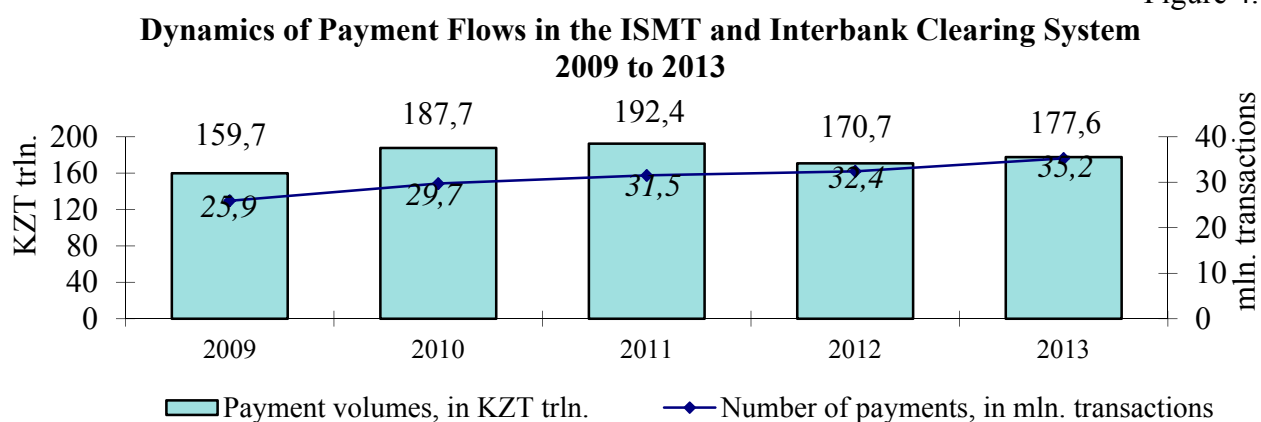
In the reporting year, the issuing balance was lower than the respective indicator for the prior year as a result of significant growth in the amount of cash withdrawn from circulation in January-February and decreased issue of cash into circulation in April and during the period from July to December.

#### IV. PAYMENT SYSTEMS

From 2013, pursuant to the requirements of the Law of the Republic of Kazakhstan “On the National Register of Identification Numbers”, the payment systems migrated to the use of identification numbers (individual identification number and business identification number (the IIN/BIN)), which replaced such essential data in the payment documents as a taxpayer registration number and social individual code. In general, the work to migrate the payment systems to the use of IIN/BIN was completed successfully.

In 2013, 35.2 mln. transactions amounting to KZT 177.6 trln. (or USD 1 167.4 bln.) were processed in the ISMT and Interbank Clearing System (Figure 4.1.). As compared to 2012, the number of payments in the payment systems increased by 8.9%, and the payments amount increased by 4.0%. On average, 143 200 transactions totaling KZT 721.9 bln. were processed in these payment systems every day in 2013.

Figure 4.1.



13.9 million transactions amounting KZT 172.8 trln. (USD 1 135.7 bln.) were processed in the ISMT; as compared to 2012, the growth accounted for 12.9% in terms of the number of payments, and for 3.8% - in terms of their amount. Mainly the system processed the payments on securities operations of residents of Kazakhstan, interbank deposits and transfers of banks' own funds and funds of their clients, as well as on operations with foreign currency and precious metals.

21.4 million electronic payment messages were processed in the Interbank Clearing System amounting to KZT 4 814.9 bln. (USD 31.6 bln.); as compared to 2012, the growth accounted for 6.4% in terms of the number of payment messages, and for 14.1% - in terms of their amount. The main volume of payments in the clearing system was in the payments of economic agents in settlements for goods and intangible assets, rendered services as well as payments to the budget and payouts from the budget.

In 2013, 15.2 million transaction amounting to KZT 266.7 bln. (USD 1.8 bln.) were conducted via the Internet and mobile phones; this number exceeds that of 2012 by 89.1% in terms of quantity and by 81.1% in terms of the payment amounts. In 2013, Internet-payments accounted for 14.6 mln. transactions amounting to KZT 265.4 bln.; payments by mobile phones – 627 200 transactions amounting to KZT 1.3 bln.

Electronic money of Kazakhstani issuers are also developing; as of January 1, 2014, their issue amounted to KZT 5.0 bln. Five systems of electronic money are functioning in the country – “EKZT”, “Woopay”, “KZM”, “Visa QIWI Wallet”, “Personal Cash”. There were 4 426 owners of electronic money.

In the Kazakhstani market of payment cards the trend of dynamic development continues. It is characterized by the growth in the number of card acquirers, the number of issued and circulated cards and their holders, by transaction volumes as well as by the expanded range of potential new card products and services offered by the Kazakh banks. Payment cards are issued by 24 banks and

KazPost JSC. The total number of issued and circulated cards at January 1, 2014, was 16.5 million; this number exceeds the level of the corresponding period of the previous year by 36.3%. The number of card holders was 14.4 mln. individuals, having increased by 29.8% as compared to the same period of the last year.

At January 1, 2014, there were 22 904 retailers in Kazakhstan accepting payment cards; this number exceeded their quantity recorded at January 1, 2013 by 61.6% or by 8 731 cards. The businesses located the equipment for the servicing of such cards in 33 709 retail outlets (growth of 58.0% or by 12 380 units). As of January 1, 2014, the payment card network was presented as follows: 8 965 ATMs (growth versus the situation at January 1, 2013 – 3.6% or 313 units), 46 432 POS-terminals (growth of 39.4% or 13 114 units) and 168 imprinters (16.8% decrease or by 34 units). The average number for the country was 3 POS-terminals and 1 ATM per 1 000 card holders.

During 2013, the volume of transactions with the help of payment cards issued by the Kazakh companies was 2013215.1 million amounting to KZT 6 537.3 bln. (USD 43.0 bln). As compared to 2012, the number of transactions increased by 14.6%, and their amount – by 17.5%. The number of cash withdrawals from the cards issued by the Kazakh companies was 161.0 million transactions amounting to KZT 5 615.5 bln.; non-cash payments for goods and services with the use of payment cards issued by the Kazakh companies – 54.1 million transactions amounting to KZT 921.8 bln.

## V. FINANCIAL MARKET

### 5.1. Foreign Exchange Market

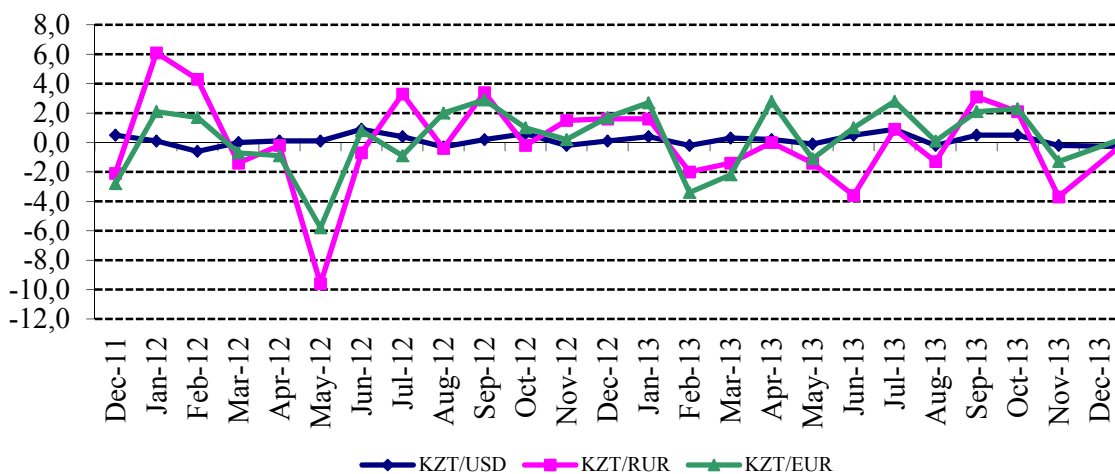
In 2013, the domestic foreign exchange market was developing with minimal participation of the National Bank in maintaining the Tenge exchange rate.

The weighted-average exchange rate of Tenge during 2013 was KZT 152.15 per 1 USD. The stock exchange rate at the end of the year was KZT 154.06 per 1 US Dollar. On a year-over-year basis, the Tenge has depreciated versus the US Dollar in nominal terms by 2.2%.

During 2013, the official exchange rate of the Tenge versus the Euro depreciated by 6.4%; the exchange rate of the Tenge versus the Russian ruble appreciated by 5.1% (Figure 5.1.1).

Figure 5.1.1

#### Movements of the Tenge exchange rate versus the US Dollar, Euro and Russian ruble, as % to the previous month<sup>10</sup>



<sup>10</sup> «+» depreciation of Tenge versus a foreign currency, «-» – depreciation of Tenge versus a foreign currency.



In 2013, the volume of stock exchange trading in the US Dollar position amounted to USD 57.5 bln., having increased by 3.8% as compared to 2012. The minimum transaction volume was observed in March and the maximum – in August.

In the off-exchange foreign currency market, the trading volume decreased by 17.9% as compared to 2012 and amounted to USD 22.1 bln. The minimum transaction volume was observed in March and the maximum – in August of 2013.

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 decreased by 48.8% to RUR 4.2 bln., and the volume of transactions with the Euro increased by 4.2% to €12.5 mln. In the off-exchange foreign currency market the volumes of conversions of the Russian ruble decreased by 36.2% to RUR 2.9 bln.; the volumes of conversions of the Euro decreased by 21.2% to €406.0 mln.

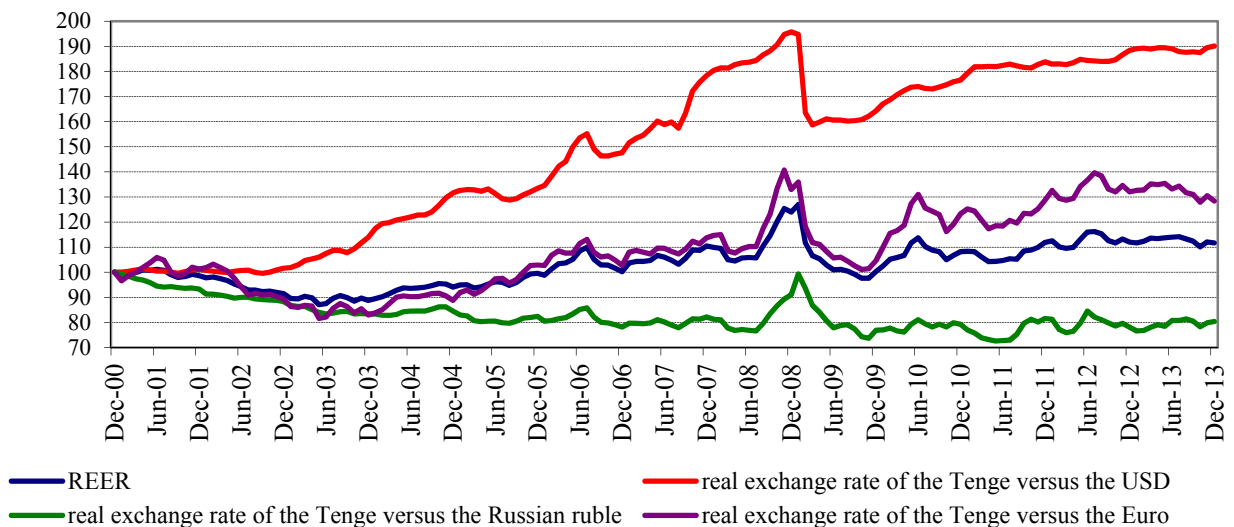
Just as in the past years, the preference in the foreign cash market was made to the US Dollar. In 2013, the volumes of net sales by exchange offices amounted to USD 12.2 bln., having decreased by 5.2%. The volumes of net sales of the Russian ruble by exchange offices increased by 63.8% to RUR 30.1 bln. The volumes of the Euro increased by 41.2% to €954.7 mln.

At the end of 2013, the real effective exchange rate index was by 11.7% higher than the baseline level of competition in December 2000. Versus December 2012, the depreciation accounted for 0.3%.

During 2013, the appreciation of the real effective exchange rate index versus the currency basket of the CIS accounted for 2.6%, while the Tenge has depreciated by 1.2% 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 2013, the total volume of placed interbank deposits increased by 25.4% as compared to 2012 and amounted to the equivalent of KZT 25.5 trln.

The volume of placed interbank deposits in the Tenge decreased by 38.3%, amounting to KZT 3.2 trln. (12.7% of the total volume of placed deposits in 2013). The weighted-average interest rate on placed interbank deposits increased from 1.23% in December 2012 to 1.90% in December 2013.

In 2013, the volume of deposits attracted from banks by the National Bank decreased by 41.4% and amounted to KZT 2.9 trln.

In 2013, the volume of placed US Dollar deposits amounted to USD 138.3 bln., having increased by 48.0% (82.6% of the total volume of placed deposits in 2013). The weighted-average interest rate on placed US Dollar deposits in December 2013 was 0.08%, whereas in December 2012 it was 0.13%.

The placement volumes in the Euro and Russian ruble are insignificant – 1.1% and 3.7% of the total volume of placed deposits, respectively.

Over the year, the share of interbank deposits in foreign currency has increased from 74.2% in 2012 to 87.3% in 2013. The major portion of foreign currency deposits (86.5%) is placed with non-resident banks.

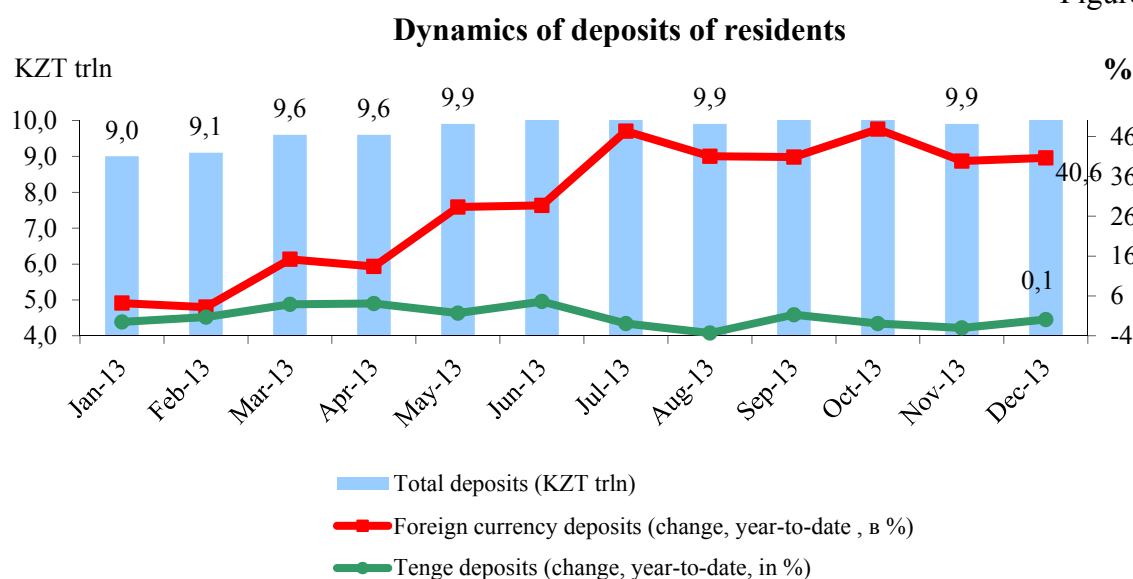
### 5.3. Deposit Market

In 2013, the growth rate of deposits of residents with depository institutions accelerated to 12.2% versus 7.3% in 2012, and the volume of savings reached KZT 10.1 trln or USD 65.5 bln. in the foreign currency equivalent. Versus GDP, the deposit volume grew from 29.6% to 30.1%.

Accelerated growth rates of the deposit base resulted from the deposit growth – both retail and corporate deposits. During 2013, deposits of non-bank legal entities increased by 10.0% to KZT 6.2 trln, and retail deposits increased by 15.8% to KZT 3.9 trln.

The structure of deposits by types of currencies has undergone changes which were caused by higher rates of growth of foreign currency deposits versus their minor increase in the Tenge; this led to the decrease in the percentage of the Tenge deposits in the total deposit volume from 70.2% to 62.6%. Deposits in the domestic currency increased during 2013 by 0.1% to KZT 6.3 trln, and foreign currency deposits increased by 40.6% to KZT 3.8 trln. (Figure 5.3.1).

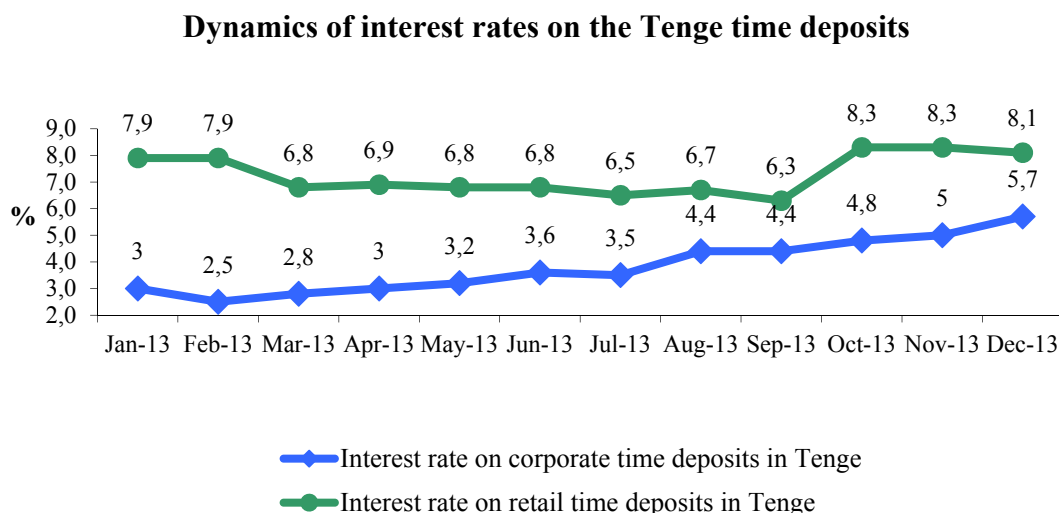
Figure 5.3.1



During 2013, household deposits with banks (including accounts of non-residents) increased by 15.7% to KZT 3.9 trln. Household deposits in the Tenge increased by 6.5% to KZT 2.2 trln., and foreign currency deposits increased by 30.0% to KZT 1.7 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 60.8% to 56.0%.

In December 2013, the weighted-average interest rate on the Tenge time deposits of non-bank legal entities was 5.7% (in December 2012 – 3.6%), and on retail deposits – 8.1% (in December 2012 – 8.3%) (Figure 5.3.2).

Figure 5.3.2



#### 5.4. Credit Market

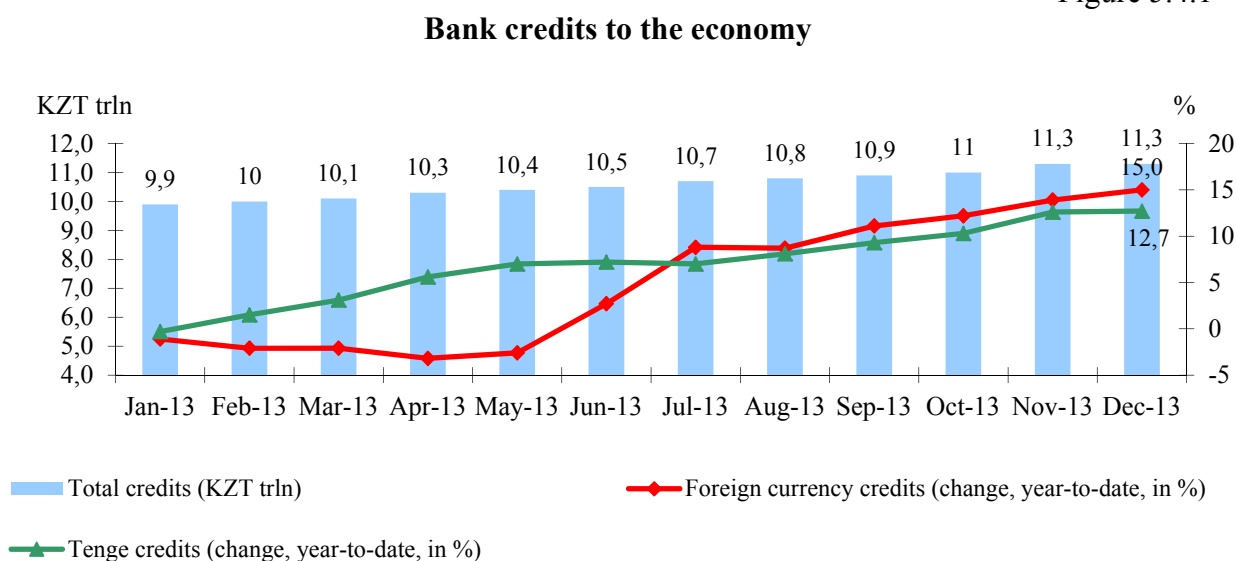
In 2013, the volume of credits to the economy increased by 13.4% and amounted to KZT 11.3 trln. (USD 73.3 bln). The ratio of credits to GDP in 2013 as compared to 2012 increased from 32.8% to 33.7%.

During 2013, credits to legal entities increased by 7.9% amounting to KZT 7.7 trln., and credits to individuals increased by 27.0%, to KZT 3.6 trln. The percentage of credits to individuals increased from 28.7% to 32.1%.

More active crediting of the economy was observed in the foreign exchange segment of the credit market; as a result the growth in the percentage of the Tenge credits in total credits decreased from 70.7% to 70.3%.

As a result, during 2013 foreign currency credits increased by 15.0% to KZT 3.4 trln., while credits in the domestic currency increased by 12.7% to KZT 7.9 trln. (Figure 5.4.1).

Figure 5.4.1



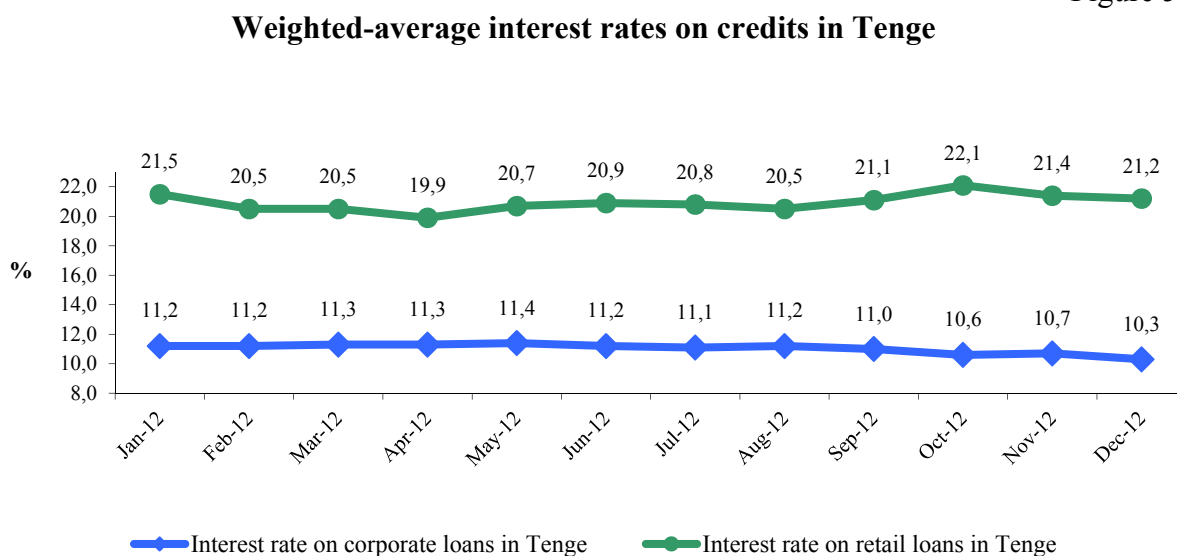
In 2013, long-term lending increased by 14.5% to KZT 9.2 trln., and short-term lending increased by 8.9% to KZT 2.1 trln. Respectively, over the year the percentage of long-term credits has increased from 80.4% to 81.1%.

In 2013, small business lending decreased by 9.1% to KZT 1.3 trln., accounting for 11.4% of the total volume of credits to the economy.

In the break-down by sectors, the largest amount of bank credits to the economy falls on the sector of trade – 19.5%, construction – 12.3%, industry – 11.4%, transport – 3.5%, and agriculture – 3.3%.

In December 2013, the weighted-average interest rate on credits to non-bank legal entities in the domestic currency was 10.0% (in December 2012 – 10.3%), and on credits to individuals – 20.3% (21.2%) (Figure 5.4.2).

Figure 5.4.2



## 5.5. Government Securities Market

In 2013, 70 auctions were held on government securities of the Ministry of Finance. The emission volume at par decreased by 6.6% as compared to 2012 and amounted to KZT 989.28 bln. (in 2012 – KZT 1 059.34 bln.), including short-term securities – KZT 112.13 bln., medium-term securities – KZT 146.39 bln., and long-term securities – KZT 730.76 bln.

As of January 1, 2014, the volume of outstanding government securities of the Ministry of Finance denominated in the domestic currency amounted to KZT 3 616.89 bln. (in 2012 – KZT 2 898.58 bln.) at par, having increased during 2013 by 24.78%, including: short-term securities – KZT 112.13 bln., medium-term securities – KZT 596.93 bln., and long-term securities – KZT 2 908.59 bln.

During 2013, the volume of placed short-term notes decreased by 90.8% and amounted to KZT 79.56 bln. at par (in 2012 – KZT 862.5 bln.). The average-weighted yield on short-term notes of the National Bank issued during 2013 was at 1.14% per annum (in 2012 – 1.31%), with the average-weighted maturity of 95.42 days (in 2012 – 153.9 days). As of January 1, 2014, there were short-term notes in circulation of KZT 3.6 bln.

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

During 2013, the National Bank made purchases of government securities. The volume of government securities purchased amounted to KZT 164.76 bln. at par. In 2013, the National Bank didn't perform any operations on early repurchase of short-term notes.

Reverse REPO opening operations amounted to KZT 7 278.26 bln.; their average maturity was 18.64 days, and average-weighted yield – 5.74% per annum.

Operations conducted to open the direct REPO amounted to KZT 140.29 bln.; their average maturity was 8.45 days, and average-weighted yield – 5.05% per annum.

At January 1, 2014, the government securities portfolio of the National Bank amounted to KZT 197.56 bln.

## VI. REGULATORY ACTIVITIES

With a view to refine the legislation in the area of retirement security, the National Bank took part in drafting the laws of the Republic of Kazakhstan “On Retirement Security in the Republic of Kazakhstan” and “On Amendments to Some Legislative Acts of the Republic of Kazakhstan Regarding Retirement Security”.

With a view to implement the laws of the Republic of Kazakhstan as dated June 21, 2013 “On Retirement Security in the Republic of Kazakhstan” and “On Amendments to Some Legislative Acts of the Republic of Kazakhstan Regarding Retirement Security”, the National Bank drafted the following documents:

the Presidential Edict of the Republic of Kazakhstan as dated February 14, 2014 No. 753 “Concerning Some Aspects of the Board for Pension Assets Management of the Unified Accumulation Pension Fund”;

a draft Presidential Edict “On Amendments to the Presidential Edict of the Republic of Kazakhstan as dated December 31, 2003 No. 1271 “On Approval of the Statute and the Organizational Chart of the National Bank of the Republic of Kazakhstan”;

Governmental Decree as dated September 18, 2013 No. 984 “On Approval of the Pension Procedures for the Unified Accumulation Pension Fund”;

Governmental Decree as dated July 31, 2013 No. 747 “Regarding the Establishment of the Unified Accumulation Pension Fund”;

Implementing Order of the Prime Minister of the Republic of Kazakhstan as dated July 18, 2013 No. 111-p “Regarding the Measures to Enforce the Laws of the Republic of Kazakhstan dated June 21, 2013 “On Retirement Security in the Republic of Kazakhstan” and “On Amendments to Some Legislative Acts of the Republic of Kazakhstan Regarding Retirement Security”;

36 Resolutions of the National Bank’s Board were registered at the Ministry of Justice of the Republic of Kazakhstan (the “Ministry of Justice”).

With a view to implement the existing legislative acts and the newly passed legislature of the Republic of Kazakhstan, the National Bank drafted:

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

a draft Presidential Edict “On Amendments to the Presidential Edict of the Republic of Kazakhstan as dated April 2, 2010 No. 962 “Regarding the Concept for Building Up and Utilization of Resources of the National Fund of the Republic of Kazakhstan”;

Governmental Decree as dated December 31, 2013 No. 1567 “On Approval of Public Services Standards of the National Bank of the Republic of Kazakhstan”.

In 2013, the National Bank reviewed and provided its opinions regarding 80 draft codes and laws of the Republic of Kazakhstan as submitted for consideration by the government authorities of the Republic of Kazakhstan.

During 2013, 99 regulations of the National Bank were registered at the Ministry of Justice.

### **Regulation of the Financial Market and Financial Organizations**

In 2013, 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 Related to Insurance and Islamic Finance”, which was submitted to the Parliament of the Republic of Kazakhstan (the “Parliament”) by the Governmental Decree of August 22, 2012 No.1067.

In April 2013, the Presidential Office and the Government approved amendments to the draft law regarding the Islamic leasing. As part of the amendments, fundamental principles of lease under the Shariah as well as requirements to the Islamic lease agreement are provided.

The National Bank, jointly with the Ministry of Labor and Social Protection of the Population of the Republic of Kazakhstan, developed proposals regarding the establishment and functioning of a more balanced system of compulsory workers' accident insurance in the course of fulfillment of his/her employment (official) duties (CWAI) with a view to mitigate systemic risks associated with the growth of identified occupational diseases.

The draft Law provides for amendments to be made to the Civil Code of the Republic of Kazakhstan, Code of the Republic of Kazakhstan "On Taxes and Other Mandatory Payments to the Budget" (the Tax Code), laws of the Republic of Kazakhstan "About the National Bank of the Republic of Kazakhstan", "On Banks and Banking Activities in the Republic of Kazakhstan", "On Insurance Business", "On the Insurance Indemnity Guarantee Fund", "On Compulsory Worker's Accident Insurance in the Course of Fulfillment of his/her Employment (Official) Duties", and "On Licensing"

### **Banking and Non-Bank Sector**

With a view to harmonize its regulatory requirements, the National Bank made a transition to a new methodology for provisioning (reserving) in line with IFRS, by cancelling regulatory requirements to the asset classification and creation of specific provisions (reserves). In addition, the credit risk weighting ratio on residential mortgage loans was brought in conformity with the standards of the Basel Committee on Banking Supervision.

With an aim to introduce the principles of counter-cyclical regulation, from January 1, 2013, the National Bank enforced requirements for banks to create the dynamic reserve; the purpose of the dynamic reserve is to accumulate reserves (buffers) in the periods of economic growth and dissolve them in the periods of recession, in order to absorb bank losses.

In order to apply the measures to reduce the growth rates of consumer lending, to prevent risk accumulation and imbalances in the segment, especially in respect of unsecured lending, the National Bank undertook the following measures:

- introducing a prudential ratio which provides for limiting the annual rate of growth of unsecured consumer loans of a bank at not more than 30%;

- increasing the credit risk weighting ratio on consumer loans from 75% to 100% when calculating capital adequacy requirements for the second-tier banks;

- increasing requirements to selection of good quality borrowers by introducing the threshold for a cumulative debt burden of a retail borrower at 50%; when this threshold is exceeded, the bank will not provide an unsecured loan.

Due to absence of an active market and quotations for securities, the National Bank cancelled the requirement about the sale by banks of the securities without a relevant rating. However, with a view to ensure financial stability, banks are given the right to sell such securities as well as to reclassify them as "held to maturity" in the instances not contradicting to IFRS provisions.

In addition to that, those banks that have a broker-dealer license may purchase such securities in case of their initial offering in the unorganized market; also, the list of such securities was extended.

The procedure for transactions with own bonds conducted by a bank or a bank holding company was optimized.

### **Insurance Sector**

In the insurance sector, measures have been taken to increase efficiency of compulsory insurance; specifically, proposals were elaborated regarding the establishment and functioning of a more balanced system of compulsory workers' accident insurance in the course of fulfillment of his/her employment (official) duties through synchronization and optimization of benefit payments to compensate for the damage of lost income because of work injuries and occupational diseases.

Since insurance organizations are subject to taxation in accordance with the standard procedure, the National Bank, jointly with the Ministry of Finance, determined a list of insurance reserves deductible when determining a taxable income (unearned premium reserve, incurred but not reported claims reserve, reported but not settled claims reserve, and unsettled claims reserve) and the procedure for their calculation. Besides, the procedure was determined to compute the amount of income and expenses related to creation of insurance reserves by insurance organizations. Under the procedure, the decrease in the amount of insurance reserve is recognized as income and the increase in insurance reserve is recognized as expense.

Since the possibility of a lump-sum payout under retirement annuity contracts is established by the law, relevant amendments were made that provide for a detailed computation of an insurance premium and insurance benefit payment under a retirement annuity contract entered into with insureds who are entitled to enter into a retirement annuity contract when reaching the retirement age and military officers at retirement. Moreover, a compulsory annual indexation of payouts under a retirement annuity of at least 5% is provided for to protect the interest of future pensioners.

### **Pension Services Sector**

As part of implementation of the President's Errand of January 23, 2013 about establishment of the UAPF and transfer of accounts from all private pension funds to the UAPF, the National Bank made relevant effort to amend the retirement security legislation which governs the establishment and operation of the UAPF.

With a view to prevent dissipation of pension assets before the date when pension assets of all APFs will be transferred to the UAPF, measures have been taken to limit the pension assets investments by investing them only in government securities of the Republic of Kazakhstan, refined gold, and financial instruments of national companies and banks.

Besides, transfers of pension accumulations of contributors (beneficiaries) from APFs to insurance organizations were suspended from January 1, 2014, in order to exclude the overflow of pension accumulations from APFs to insurance organizations pending the establishment of the UAPF.

To implement the provisions of the Law "On Retirement Security in the Republic of Kazakhstan", a number of actions were taken, such as:

- requirements of regulations were brought in conformity due to the change in the institutional structure of the accumulation pension system of the Republic of Kazakhstan;

- since licenses of APFs for attraction of pension contributions and administration of pension benefit payments were terminated, from the date following the date when the statement of transfer of pension assets and liabilities was signed, the procedure for the transfer of pension assets and liabilities of APFs to the UAPF under retirement annuity contracts was determined;

- in connection with the transfer of assets and liabilities of APFs, the procedure and terms and conditions were determined for their acceptance by the UAPF to its investment portfolio of financial instruments comprising pension assets of APFs, at their present value, at which these financial instruments were recorded in the investment portfolios of APFs prior to the date of their acceptance by the UAPF, as well as pension assets accounting and valuation after the date following the date of transfer of pension assets and liabilities under retirement security contracts of the first APF;

- determining the procedure and terms and conditions for the activities of the UAPF, and a voluntary APF; preparing the list of financial instruments eligible for transactions at the expense of pension assets of a voluntary APF; also, the procedure for calculation of an average value of a standard unit of pension assets of the UAPF or a voluntary APF was established;

- prescribing the procedure for attraction of voluntary pension contributions by voluntary APFs;

- with a view to exercise a comprehensive government control over legitimacy of pension assets investments and to provide the general public with the access to complete information about the investment activity of the UAPF, requirements were established in respect of the UAPF about

quarterly publications in the mass media of information regarding the investment portfolio structure, including the data about financial instruments in which pension assets were invested;

setting prudential requirements for voluntary APFs in order to ensure financial soundness and solvency of voluntary APFs; the requirements include capital adequacy requirements and requirements to investment limits, calculation methods, reporting forms and deadlines for voluntary APFs;

establishing the procedure to impose restricted remedial measures in respect of the UAPF, a voluntary APF, should they violate the laws of the Republic of Kazakhstan; unlawful actions or lack of action on the part of their officials and the staff; as well as non-compliance with other requirements of the Law “On Retirement Security in the Republic of Kazakhstan”;

developing the procedure to account for pension accumulations made with obligatory pension contributions, obligatory professional pension contributions and voluntary pension contributions at individual pension accounts of contributors (beneficiaries);

adopting a temporary investment declaration of the UAPF; it provides for identification of the investment facilities and limits for pension assets investments by types of financial instruments. The temporary declaration will be in force until the UAPF’s investment declaration will be adopted based on the list of instruments eligible for investment of the UAPF’s pension assets and approved by the Pension Assets Management Board of the UAPF;

determining the procedure for entering into a retirement security contract based on voluntary pension contributions by the UAPF and a voluntary APF with a contributor (beneficiary) of retirement benefit payments. Also, the list of documents, the procedure for their submission, review and decision-making about entering into contract by the UAPF and a voluntary APF were determined;

approving standard forms of a retirement security contract based on voluntary pension contributions to be entered into with the UAPF or a voluntary APF; standard forms of a contract entered into by a contributor (beneficiary) in his/her own benefit and of a contract entered into by a contributor (individual or a legal entity) in favor of a third party;

prescribing the procedure and terms and conditions for selection of investment portfolio managers that operate on the basis of a license of the National Bank, to manage pension assets of the UAPF;

establishing the procedure for the risk management and internal control system at the UAPF and voluntary APFs;

establishing the procedure for the transfer of pension assets and liabilities under retirement security contracts based on voluntary pension contributions in case of a voluntary surrender or revocation of the license for investment portfolio management with the right to attract voluntary pension contributions, voluntary and forced liquidation of voluntary APFs;

determining the procedure and terms and conditions for issuing permits to reorganize a voluntary APF, as well as the procedure for the transfer of pension assets and liabilities under retirement security contracts based on voluntary pension contributions of a merged voluntary APF to reorganized voluntary APF;

with a view to ensure safe and sound functioning of existing electronic information resources and to build up the information security system of the UAPF and voluntary APFs, requirements were set to the automated information systems of the UAPF and a voluntary APF to account for pension assets and accumulations;

developing the procedure for pension assets accounting and valuation of financial instruments in the UAPF’s investment portfolio and investment portfolios of voluntary APFs.

### **Securities Market**

In order to implement paragraph 9 of Article 1 of the Law of the Republic of Kazakhstan of November 26, 2012 “On Amendments to Some Legislative Acts of the Republic of Kazakhstan Regarding the Operation of Microlending Organizations”, measures were taken to increase the



share of the National Bank to over fifty per cent of the total number of voting shares of the Kazakhstan Stock Exchange.

As a result of such measures, 397 014 shares of the Kazakhstan Stock Exchange were purchased, thus increasing the National Bank's share in the equity of the Kazakhstan Stock Exchange to 50.1001%.

To reduce administrative barriers and create favorable conditions for doing business, measures were implemented that provide for a possibility to conduct transactions with securities by a managing company of an investment fund (such securities are not eligible for circulation in the organized securities market) and participation interests in the charter capital of legal entities independently, without the use of services of a brokerage firm.

With a view to improve the procedure for acquisition of financial instruments which are allowed to be purchased only with the funds of qualified investors, measures were taken that prescribe the mechanism of tracking and control over the acquisition of such instruments except when they are acquired as heritage, as well as when executing an order of enforcement issued on the basis of judicial acts.

With a view to improve the frameworks for protection of investors' rights and interests, measures aimed to increase transparency in the securities market and improve the procedure for disclosure of information affecting the interests of securities holders, were fulfilled. Among others, the mechanism of disclosures by a non-resident issuer whose securities are included in the list of the domestic stock exchange in the information resource of the financial statements depository and the stock exchange was improved.

With an aim to increase financial soundness of professional players in the securities market, the requirements to the risk management and internal control system for organizations engaged in the broker-dealer business in the securities market or in the investment portfolio management, were fine-tuned.

With an aim to increase responsibility of a large participant of an investment portfolio manager, the procedure under which the National Bank applies restricted remedial measures in respect of a securities market entity and a large participant of an investment portfolio manager and a person having the characteristics of a large participant, was prescribed. Also, measures were taken to ensure that a large participant maintains capital adequacy ratios of the investment portfolio manager.

With a view to prescribe the procedure for confirmation of the right of claim against obligations of an issuer on issue-grade securities and/or monies on customer accounts (sub-accounts) and registration of transactions with such rights of claim, the Rules for registration of transactions with securities by professional players in the securities market which provide nominal holding services, were fine-tuned.

#### **General Matters of Regulation of Financial Organizations**

With an aim to ensure transparency in the procedure of selection of candidates for the position of the Chairman and/or a member (members) of the liquidation commission of a financial organization, the National Bank's Board passed its Resolution of February 25, 2013 No. 71 "On Approval of the Rules for Appointment and Dismissal of the Liquidation Commission of a Forcibly Liquidated Bank, Insurance (Reinsurance) Organization and an APF and the Requirements Set to the Chairman and Members of the Liquidation Commission".

The above Resolution provides for a simplified procedure of the document submission by a candidate who is (was) the Chairman or a member of the liquidation commission of another financial organization, a candidate who is an employee of an organization engaged in mandatory deposit insurance and the Insurance Indemnity Guarantee Fund (admission to an interview on the basis of application of a relevant organization); the list of grounds for relief of the Chairman and/or members of the liquidation commission of their duties was defined and supplemented with a provision about dismissal upon application of an organization engaged in mandatory deposit

insurance and the Insurance Indemnity Guarantee Fund; the testing of candidates before the interview is conducted.

In connection with the adoption of the Law of the Republic of Kazakhstan of June 21, 2013 “On Retirement Security in the Republic of Kazakhstan” and with an aim to improve control and supervision of financial organizations, the National Bank’s Board passed its Resolution of August 27, 2013 No. 212 “On Amendments to Some By-Laws of the Republic of Kazakhstan Regarding the Control and Supervision of Financial Organizations”; in connection with amendments in the area of retirement security the following changes were made by the Resolution:

excluding legal relations related to the transfer of the APF’s shares to an organization engaged in investment management of pension assets for fiduciary management; alongside with that, the procedure is prescribed to engage in fiduciary management of shares of an organization, investment portfolio manager that belong to a large participant of a bank, insurance (reinsurance) organization of an investment portfolio manager, bank holding company, insurance holding company or a person having characteristics of a large participant of a bank, insurance (reinsurance) organization of an investment portfolio manager, bank holding company, insurance holding company;

excluding the obligation of the competent authority regarding the granting of approval for acquisition of the status of a large participant of an APF and an organization engaged in pension assets investment management; alongside with that, an obligation to grant and revoke an approval for acquisition of the status of a large participant of an investment portfolio manager, as well as requirements to documents submitted in order to obtain such approval, were set;

refining the procedure of approval by the Committee for Control and Supervision of the Financial Market and Financial Organizations of the National Bank (the “Financial Supervision Committee”) for appointment (election) of managerial staff of financial organizations, bank holding companies, insurance holding companies, and determining a list of documents required to obtain the above approval;

establishing the amount of minimal charter capital being equal to 800 000 monthly calculation indices for an applicant to engage in and to combine the activity of investment portfolio management with the right to attract voluntary pension contributions with a broker and/or dealer business.

## **VII. FINANCIAL MARKET ENTITIES: POSITION AND SUPERVISION**

### **7.1. Banking and Non-Bank Sector**

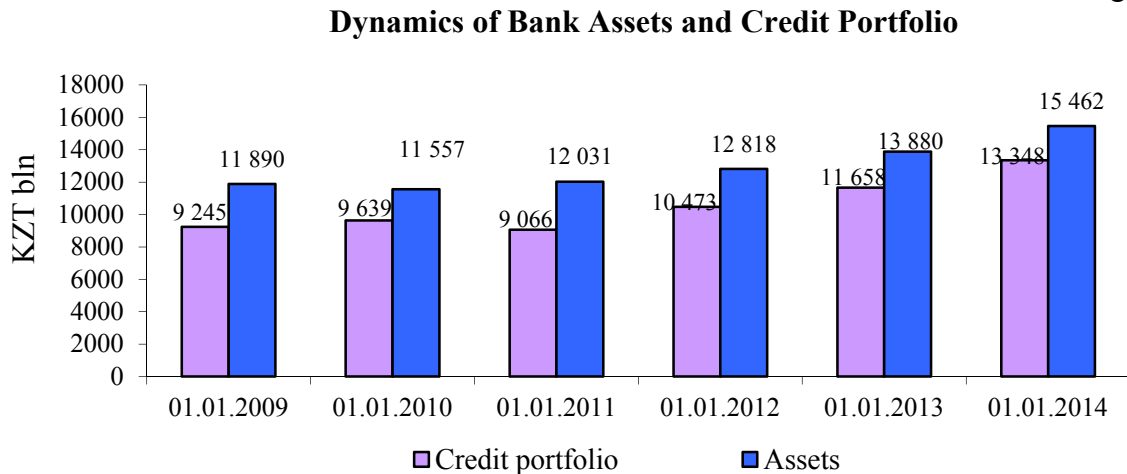
As of January 1, 2014, 38 banks and 10<sup>11</sup> non-bank organizations including 2 mortgage companies were functioning in the Republic Kazakhstan.

During 2013, assets of the banking sector increased by KZT 1.6 trln or by 11.4% and amounted to KZT 15.5 trln. as of January 1, 2014 (Figure 7.1.1).

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<sup>11</sup> Including the Kazakhstan Interbank Settlement Center of the National Bank of the Republic of Kazakhstan

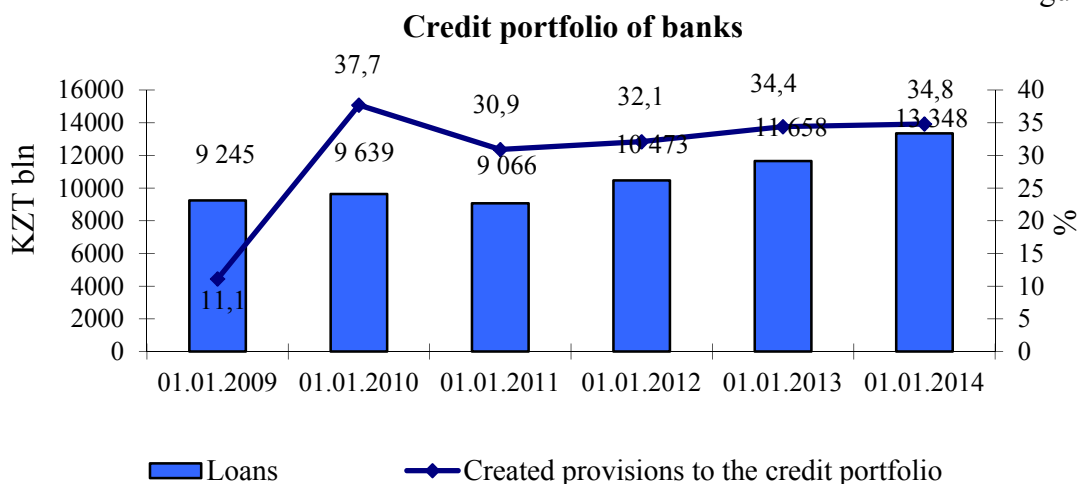
Figure 7.1.1



As of January 1, 2014, the credit portfolio of the banking sector amounted to KZT 13.3 trln., having increased by 14.5% or by KZT 1.7 trln. since the beginning of the year.

As of January 1, 2014, provisions created for the credit portfolio of the banking sector in line with IFRS amounted to KZT 4.6 trln. or 34.8% of the total credit portfolio (Figure 7.1.2).

Figure 7.1.2

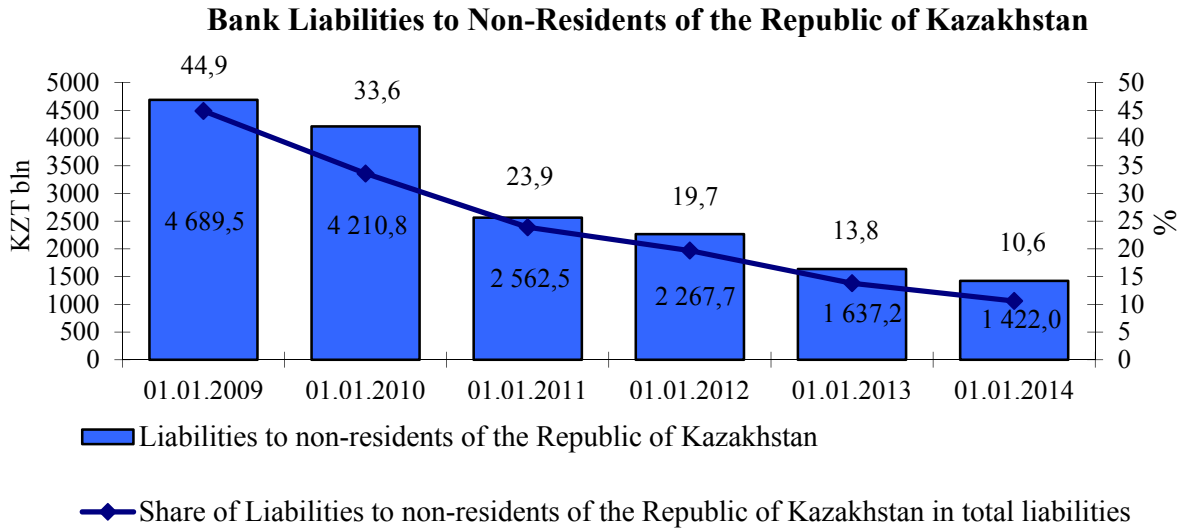


As of January 1, 2014, loans where a past due on the principal amount and/or accrued interest exceeds 90 days amount to KZT 4.2 trln or 31.2% of the total credit portfolio of banks.

During 2013 liabilities of banks increased by KZT 1.5 trln or by 12.7% and as of January 1, 2014 amounted to KZT 13.4 trln.

During 2013, foreign liabilities decreased by KZT 0.2 trln or by 13.1% and amounted to KZT 1.4 trln as of January 1, 2014; their share in total liabilities decreased from 13.8% to 10.6% (Figure 7.1.3).

Figure 7.1.3

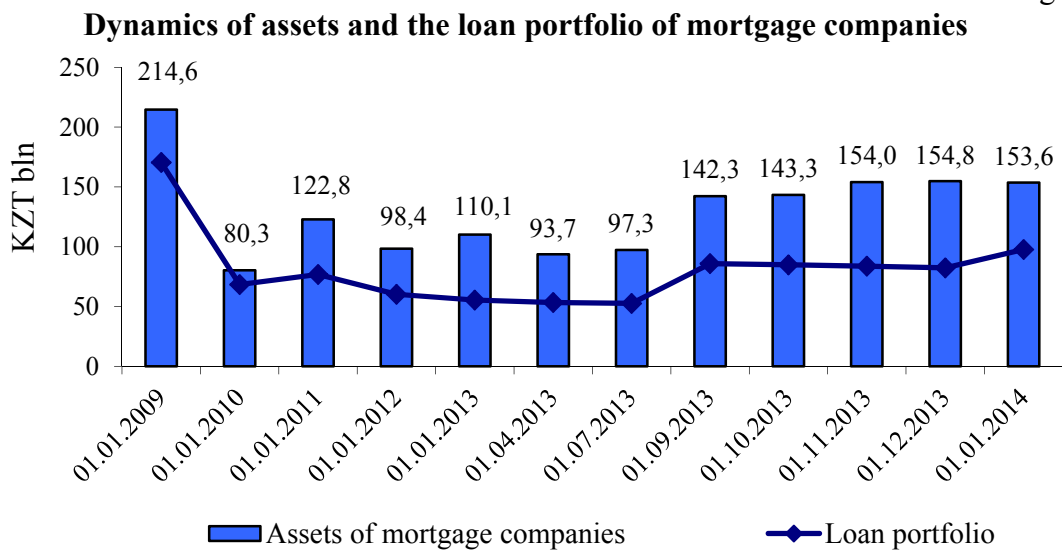


### Mortgage Companies

As of January 1, 2014, total assets of mortgage companies amounted of KZT153.6 bln.; this exceeds the amount as of January 1, 2013 by KZT 43.5 bln. or 39.5%.

As of January 1, 2014, the total credit portfolio of mortgage companies amounted to KZT 97.7 bln.; this exceeds the amount as of January 1, 2013 by KZT by 42.3 bln. or by 76.4% (Figure 7.1.4).

Figure 7.1.4



Credits provided by the Kazakhstan Mortgage Company constitute the largest share in the total loan portfolio of mortgage companies – 99.6%.

As of January 1, 2014, the percentage of a overdue debt, including overdue interest, in the total loan portfolio of mortgage companies amounted to 0.4% or KZT 398 mln., where a past due over 90 days accounted for 0.37% or KZT 357 mln.

At January 1, 2014, created provisions amounted to KZT 3.5 bln.; the percentage of created provisions in the loan portfolio of mortgage companies accounted for 3.5%.

### Other non-banking organizations

As of January 1, 2014, total assets of non-banking organizations<sup>12</sup> amounted to KZT 613.3 bln, having increased by 9.6% on a year-to-date basis.

As of January 1, 2014, the total loan portfolio of subsidiaries of the National Management Holding Company in the area of agro-industrial business amounted to KZT 341.5 bln., having increased by 21.1% on a year-to-date basis.

As of January 1, 2014, the percentage of overdue debt (including overdue interest) in the total loan portfolio of subsidiaries of the national management holding company in the area of agro-industrial business accounted for 12.7% (KZT 43.4 bln.), where the percentage of past due of more than 90 days accounting for 11.4% (KZT 39.0 bln.), having decreased on the year-to-date basis by 4.5 and 4.8 percentage points, respectively.

### **Licensing**

In 2013, the Financial Supervision Committee issued 4 licenses to banks for additional types of banking operations and other operations performed by banks. Three licenses were re-issued due to the change in the name and/or legal address of a bank.

Also, a license for bank borrowing operations in foreign currency was issued to 1 organization engaged in certain types of banking operations.

### **Off-site supervision**

Based on the review of regulatory reports as part of the off-site supervision, 152 status reports were prepared including 48 status reports on banks within a bank conglomerate and 304 status reviews including in respect of non-bank organizations, including 96 status reviews in respect of banks within a bank conglomerate.

Based on the review of regulatory reports of organizations engaged in certain types of banking operations, as part of the off-site supervision, 31 status reports and 21 status reviews were prepared, including 11 status reports and 21 status reviews in respect of mortgage companies.

### **Inspection**

In 2013, 39 examinations of banks and organizations engaged in certain types of banking operations were conducted, including 14 scheduled examinations and 25 unscheduled examinations.

The main aspects covered by the scheduled examinations related to assessment.

### **Supervisory Response**

Based on the off-site supervision, the following measures were taken in response to violations of the legislation of the Republic of Kazakhstan in respect of:

banks – 79 restricted remedial actions were taken (including the requirement to submit letters of commitment – in 22 cases, written warnings were made in 30 cases, written improvement notices were sent in 25 cases, and a written agreement was concluded in 2 cases);

non-bank organizations – 11 restricted remedial actions were taken (including written improvement notices sent in 7 cases and written warnings made in 4 cases);

one written improvement notice was sent to the credit bureau.

In addition, the following sanctions were applied in 2013:

27 in the form of imposition and exaction of a penalty totaling KZT 14.5 mln.;

Sanctions in the form of license suspension in respect of 13 banks and license revocation in respect of one mortgage company.

In 2013, based on the results of conducted examinations, the following measures were taken in respect of banks and organizations engaged in certain types of banking operations: 29 restricted remedial actions were taken (14 letters of commitment were required, 13 written warnings were made, and 2 written improvement notices were sent) and 91 administrative sanctions were imposed (of which 30 sanctions in respect of officials). During 2013, the overall amount of administrative sanctions in respect of banks and non-bank organizations equaled KZT 30.4 mln., including KZT 4.8 mln. for violation of the laws of the Republic of Kazakhstan on anti-money laundering and counter-terrorist financing.

<sup>12</sup> Including Kazakhstan Stock Exchange and Central Securities Depository

## 7.2. Insurance Sector

As of January 1, 2014, the insurance sector was represented by 35 insurance organizations, 14 insurance brokers and 72 actuaries.

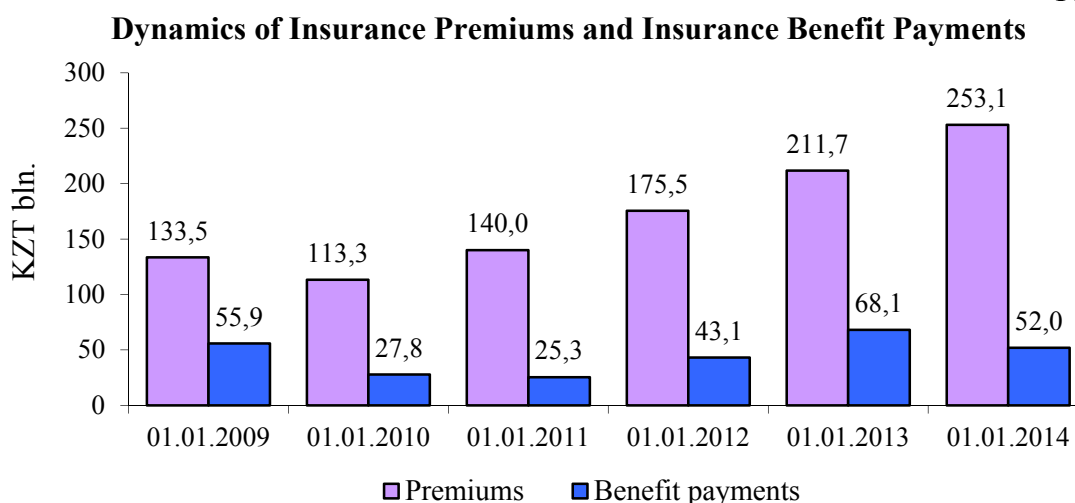
At January 1, 2014, total assets of insurance organizations amounted to KZT 523.4 bln., which is by 18.2% greater than the same indicator at January 1, 2013.

During 2013, the total equity increased by 6.2% and amounted to KZT 254.6 bln.

As of January 1, 2014, liabilities of insurance organizations amounted to KZT 268.8 bln., which is by 32.4% greater than at the same date in 2013. Insurance reserves amounted to KZT 240.3 bln. or 89.4% of total liabilities, which is by 37.9% greater than the same indicator at January 1, 2013.

In 2013, the total volume of insurance premiums written by insurance (reinsurance) organizations under the direct insurance contracts amounted to KZT 253.1 bln.<sup>13</sup>, which is by 19.6% greater than the volume collected during the same period of 2012 (Figure 7.2.1).

Figure 7.2.1



The major share in the structure of insurance premiums is comprised by voluntary property insurance – KZT 107.9 bln. or 42.6% of total insurance premiums; KZT 92.1 bln. or 36.4% was collected under voluntary personal insurance, and KZT 53.1 bln. or 21.0% - under compulsory insurance.

The total volume of insurance benefit payments made during 2013 was KZT 52.0 bln.; this is by 23.6% less than in the same period of 2012.

The structure of insurance benefit payments by lines of insurance: voluntary personal insurance – 43.8%, compulsory insurance – 38.5%, voluntary property insurance – 17.7%.

The volume of insurance premiums ceded to reinsurance amounted to KZT 75.1 bln. or 29.7% of total insurance premiums. Alongside with that, 24.1% of total insurance premiums were ceded to reinsurance to non-residents of the Republic of Kazakhstan.

### Licensing

Five licenses were issued to insurance organizations to engage in the insurance (reinsurance) activities adding additional classes of insurance.

Two licenses were issued to engage in the insurance broker activity and two licenses were issued to individuals to engage in actuarial business in the insurance market.

<sup>13</sup> The amount is shown excluding insurance premiums written under reinsurance contracts.

36 accreditation certificates were issued (re-issued) to individuals and/or legal entities to engage in the property appraisal business (other than intellectual property assets or the cost of intangible assets), of which 10 certificates - to individuals and 26 – to legal entities.

4 licenses were re-issued to insurance organizations in connection with the exclusion of certain insurance classes from the insurance license or due to the change in the name of an insurance organization.

12 licenses were terminated, including 1 license of an insurance organization (“Saya” Insurance Company), 1 license of an insurance broker (“A-Brokers” Insurance Broker LLP) and 10 licenses of individuals issued to engage in actuarial business in the insurance market, due to their voluntary surrender.

#### **Off-site Supervision**

The Financial Supervision Committee as part of its off-site supervision was monitoring compliance by insurance organizations, their large participants (insurance holding companies), insurance groups, insurance brokers and actuaries with the provisions of the laws of the Republic of Kazakhstan, including prudential regulation. Analysis was performed of financial and regulatory reports, changes in the key performance indicators of insurance organizations, large-sum insurance contracts, insurance benefit payments and claims, reinsurance business, adequacy of created insurance provisions, compliance with requirements to the risk management and internal control system, and of the structure of investment portfolio.

An assessment was made of the extent of sustainability of financial organizations based on the early warning tests and their rating in line with the Financial Safety Matrix supported by a relevant analytical opinion on their financial condition.

As part of the early response measures, factors causing deterioration in the financial condition of insurance organizations were identified; based on their outcomes, action plans for improvement of their financial soundness were requested from 26 insurance organizations.

#### **Inspection**

In 2013, 12 scheduled examinations were conducted, including of 9 insurance organizations and 3 insurance brokers.

The key issues covered in the course of scheduled examinations were the procedure for conclusion and execution of compulsory and voluntary insurance contracts, accuracy of prudential ratio computations, activities of insurance agents, reinsurance business, assessment of efficiency of the risk management system; investment activity; accuracy of insurance reserve computations; truthfulness and reliability of accounting.

#### **Supervisory Response**

The Financial Supervision Committee, based on the off-site supervision, applied the following restricted remedial actions in respect of:

insurance organizations - 99 letters of commitment were requested, 50 written improvement notices were sent, 22 written warnings were made and 3 written agreements were concluded;

actuaries - 8 written improvement notices were sent and 17 written warnings were made;

insurance brokers - 2 letters of commitment were requested, and 2 written improvement notices were sent;

In respect of large participants of insurance organizations, insurance holding companies - 1 letter of commitment was requested, 7 written improvement notices were sent, and 1 written agreement was concluded.

In respect of 14 insurance organizations, 1 insurance holding company and 2 insurance brokers - 25 sanctions in the form of administrative penalties were imposed totaling KZT 4.9 mln.

Besides, in 2013 actuarial licenses of 13 actuaries were suspended and actuarial licenses of 2 actuaries were revoked.

Based on examinations of 9 insurance organizations and 3 insurance brokers, 24 restricted remedial actions were taken (11 written improvement notices and 13 letters of commitments). Apart from those, 50 administrative penalties were imposed (including in respect of 8 officials). The total

amount of administrative penalties imposed on insurance organizations, amounted to KZT 11.0 mln. based on the results of examinations.

### **7.3. Securities Market Entities**

At January 1, 2014, there were 54 brokers/dealers, 11 custodians, 11 pension assets investment managers, 27 investment portfolio managers, 2 transfer agents, and one securities trading organizer in the Republic of Kazakhstan.

In general in 2013, overall financial performance indicators of professional players in the securities market decreased: by 15.5% in terms of total assets and by 19.9% in terms of equity. The decreased financial performance indicators of brokers/dealers and investment portfolio managers was due to a decreased number of such players in the securities market in connection with termination of licenses for such activities issued by the competent authority.

As of January 1, 2014, there were 1 698 issuers of non-government issue-grade securities; the overall number joint-stock companies with the outstanding issues of shares was 1 628. During 2013, the competent authority registered 34 issues of shares.

As of January 1, 2014, there were 359 outstanding bond issues with the total par value of KZT 6.0 trln. Out of these issues, 169 issues were included in the category of “rated debt securities” of the official KASE listing, 62 issues – in the category of “non-rated debt securities of the first sub-category”, 16 issues – in the category of “non-rated debt securities of the second sub-category” and 1 issue – in the “buffer category. In addition, 11 bond programs were registered in 2013 with the emission volume of KZT 727.1 bln.

During 2013, 39 issues of non-government bonds with the emission volume of KZT 732.1 bln. were registered.

During 2013, there was a persisting trend of unstable financial condition of bond issuers which defaulted on earlier issued bonded loans. Thus, as of January 1, 2014, 32 issuers failed to repay their debt on the coupon payment and the bond principal amount, i.e. defaulted issuers; this is by 15.6% greater than at the same date of 2013.

As of January 1, 2014, 99 mutual investment funds were operating in the market, of which 74 funds are closed-end funds (with assets of KZT 417.0 bln.), ten open-end funds (assets – KZT 0.3 bln.) and 15 – interval funds (assets – KZT 0.9 bln.), as well as 28 joint-stock investment funds (assets – KZT 37.2 bln.).

#### **Stock Market**

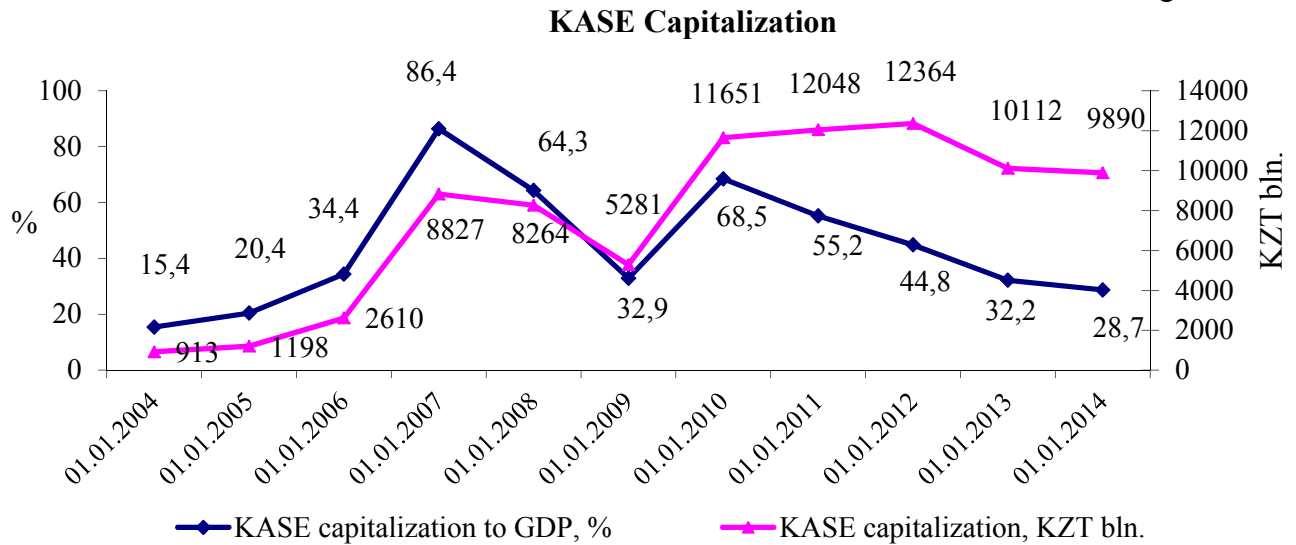
The status key indicator of the Kazakh stock market is the organized market represented by KASE.

The major percentage of securities eligible for circulation at the KASE falls on Debt securities accounting for 45.1% or 248 issues. In the sector of “Government securities” – 35.6% or 196 issues, in the sector of “Shares” – 18.5% or 102 issues. In the sectors of “Securities of investment funds” and “Securities of international financial organizations” – 0.2% or 1 issue and 0.5% or 3 issues, respectively.

As of January 1, 2014 as compared to the same period of 2013, the total market capitalization on non-government securities included in the KASE’s official listing decreased by 2.2% and amounted to KZT 9.9 trln. in absolute terms (Figure 7.3.1).



Figure 7.3.1



During 2013, the volume of transactions with government securities decreased by 1.2%. At the same time, the volume of initial offering (almost a two-fold increase). The volume of transactions with shares (on placement and circulation) decreased by 44%, the volume on debt securities increased by 25.3%.

#### Licensing

One license was issued to a professional market player for engaging in the broker/dealer business in the securities market with the right to maintain customer accounts as a nominal holder.

One license was re-issued to a professional market player for engaging in the activities in the securities market due to the change in the organization's name.

Licenses of 8 professional players in the securities market were terminated due to their voluntary surrender ("IFG Continent", "Renaissance Capital Investment Kazakhstan" JSC, "Orken Invest" JSC, "Unicorn IFC" JSC, "Troyka Dialogue Kazakhstan" JSC, "Kazakhstan Finservice JSC", "FATTAH FINANCE" JSC, "Asia Capital" Management Company JSC).

#### Off-site Supervision

The Financial Supervision Committee was performing off-site monitoring of financial soundness of professional players in the securities market; such monitoring included review of their financial and regulatory reports for compliance with prudential ratios, with requirements to the size of charter capital, transaction procedures in the stock exchange's trading system, in the international and unorganized securities markets, compliance with requirements to the existence of risk management and internal control systems as well as with other ratios and limits as set by the National Bank's regulations.

The Committee exercises control over timeliness, completeness and content of reports submitted by professional players in the securities market, over compliance with the deadlines for reports of the results of securities offerings and placement of relevant information in the Internet-resource of the financial statements depository by those issuers whose securities were included in the KASE's official listing and submission of reports about the results of bond redemptions. There was an on-going monitoring of timely provision of information by representatives of the bond holders to the Financial Supervision Committee and to the bond holders, as well as monitoring of compliance with the disclosure requirements in respect of affiliated parties by joint-stock companies.

#### Inspection

In 2013, 9 scheduled examinations of professional players in the securities market were conducted, including examinations of 4 organizations combining the broker/dealer business with the right to maintain customer accounts as a nominal holder and the investment portfolio management; 1 organization engaged in the broker/dealer business with the right to maintain

customer accounts as a nominal holder; 3 organizations engaged in the investment portfolio management; and 1 organization engaged in the management of trading in securities and other financial instruments, clearing of transactions with financial instruments and certain types of banking operations.

Also, as part of examinations conducted in 2 banks licensed for the broker/dealer business with the right to maintain customer accounts as a nominal holder as well as examination of their custodial business, the matters of compliance with the legislation governing the procedure for professional activities in the securities market, were addressed.

Besides, in the year 2013, five unscheduled examinations were conducted, including 4 examinations of professional players in the securities market and 1 examination of an issuer.

The following matters were crucial in the examination of professional players in the securities market: the procedure for investment management of assets of investment funds and the customer investment portfolio; the procedure for transactions with securities as well as nominal holding of securities; registration of operations with securities; compliance of the risk management system with the requirements of the existing legislation; truthfulness and completeness of regular reports submitted to the competent authority; compliance with the laws of the Republic of Kazakhstan on anti-money laundering and counter-terrorist financing.

### **Supervisory Response**

Based on the off-site supervision, 113 restricted remedial actions (including 44 written improvement notices sent and 69 letters of commitment requested) were taken in respect of professional players in the securities market.

Apart from that, 27 administrative fines were imposed on 13 professional players in the securities market, 6 individuals, 2 limited liability partnerships and 1 investment fund totaling KZT 9.8 bln.

At the same time, in respect of an official of one securities market entity, a protocol was formalized for impeding the Committee for Financial Supervision to fulfill its duties in line with its competence; such impediment was expressed in the refusal to present the requested documents, materials and other data or information. Along with that, the Specialized inter-district administrative court of Almaty imposed a fine of KZT 346 200.

744 restricted remedial actions were taken in respect of issuers (including 447 written improvement notices sent and 297 letters of commitment requested).

Resolutions were passed in respect of 11 issuers and 5 officials regarding imposition of administrative fines totaling KZT 10.0 mln.

Besides, in 2013, due to regular violation of the laws of the Republic of Kazakhstan governing the activities in the securities market, the decision was made to revoke a license of the "Greenwich Capital Management" JSC.

Based on conducted examinations, 12 restricted remedial measures were taken in respect of the securities market entities, namely, 7 letters of commitment were requested and 5 written improvement notices were sent.

In addition to that, based on conducted examinations, sanctions were applied against the securities market entities in the form of 44 administrative penalties (including 11 imposed on officials) totaling KZT 21.1 mln., including KZT 2.2 mln. for violation of the laws of the Republic of Kazakhstan on anti-money laundering and counter-terrorist financing.

## **7.4. Accumulation Pension System**

At January 1, 2014, 1 UAPF and 9 APFs were functioning in the Republic of Kazakhstan.

As of January 1, 2014, pension accumulations amounted to KZT 3 733.4 bln., having increased by KZT 550.2 bln. or by 17.3% during 2013.

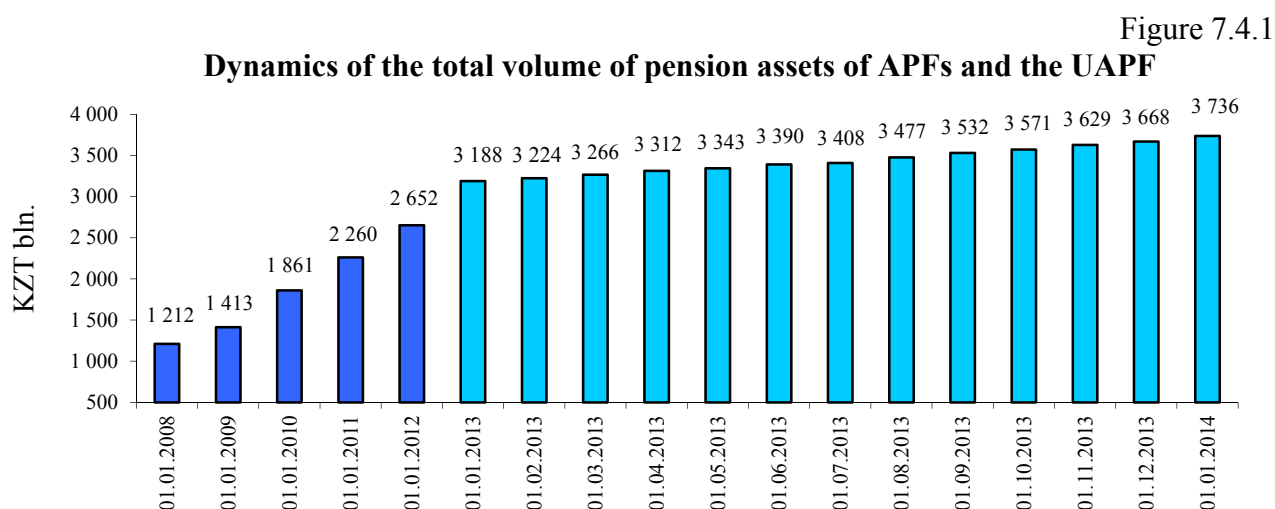
The number of contributors (beneficiaries) of APFs under obligatory pension contributions amounted to 9 449 901 with the total pension contributions amounting to KZT 3 732 bln. In its turn,

at the same date, the number of contributors (beneficiaries) of APFs under voluntary pension contributions and voluntary-professional pension contributions was 47 133 individuals with the total pension contributions amounting to KZT 1.5 bln.

During 2013, net investment return increased by KZT 88.7 bln. or 13.3%, amounting to KZT 756.1 bln. at January 1, 2014. The share of net investment return within the amount of pension contributions decreased by 0.7 percentage points during 2013 from 21.0% as of January 1, 2013 to 20.3% as of January 1, 2014.

#### **Structure of Pension Assets of APFs and the UAPF**

As of January 1, 2014, the total volume of pension contributions under the investment management of OEIMPA and the National Bank amounted to KZT 3 735.9 bln., having increased from the beginning of 2013 by KZT 547.7 bln. or by 17.2%. The average-monthly increase in pension assets during the period from January 1, 2013 to January 1, 2014 was KZT 45.6 bln. (Figure 7.4.1).



At January 1, 2014, government securities of the Republic of Kazakhstan and corporate securities of Kazakhstani issuers constituted the major share in the investment portfolio of APFs and the UAPF made from pension assets (50.9% and 28.6%, respectively, of the total volume of invested pension assets at the same date).

In its turn, the volume of investments in securities of foreign issuers amounted to KZT 302.8 bln. (8.3% of the volume of invested pension assets). Deposits with the second-tier banks accounted for 8.5% or KZT 307.5 bln.

#### **Licensing**

One license for activities related to attraction of pension assets and retirement benefit payments, pension assets investment management, broker and dealer business in the securities market without the right to maintain customer accounts was re-issued due to reorganization of a company through its merger.

License of the “Government Accumulation Pension Fund” APF to engage in the activities related to attraction of pension assets and retirement benefit payments and activities in the securities market was terminated due to its voluntary surrender.

#### **Off-site supervision**

During 2013, as part of the off-site supervision of the activities of APFs and OEIMPA, financial soundness of APFs and OEIMPAs was monitored; the monitoring included the review of their financial and regulatory reports for compliance with prudential ratios, with capital adequacy requirements, requirements to the size of charter capital, with the procedure for transactions in the stock exchange’s trading system, in the international and unorganized securities market as well as other ratios and limits established by the National Bank’s regulations.

The Committee exercised control of how APFs complied with the requirements to the existence of adequate risk management and internal control system, including on the basis of regulatory reports submitted to the Financial Supervision Committee by APFs. In 2013, 21 documentary examinations were conducted in respect of APs and OEIMPA.

At the same time, pursuant to the requirements of the laws, during 2013 representatives from the Financial Supervision Committee participated in the general shareholders meetings, meetings of the Board of Directors, and Management Board and investment committees of all APFs and OEIMPA as observers.

Besides, off-site control was exercised over the transfer of pension assets and liabilities of APFs under the retirement security contracts to the UAPF.

#### **Inspection**

In 2013, 2 scheduled examinations and 2 unscheduled examinations of APFs were conducted.

The key issues to be addressed during examinations were: the procedure for entering into retirement contracts including opening and maintenance of individual pension accounts of contributors (beneficiaries) as well as the procedure for communication with the State Center for Retirement Benefit Payments; adherence to the rights of contributors when making retirement benefit payments and withdrawals as well as transfers of pension accumulations; the procedure for investment of own and pension assets, including transactions in the local and international securities market; compliance of the risk management and internal control system with the requirements of the laws.

#### **Supervisory Response**

In 2013, based on the off-site supervision of APFs and OEIMPA, 13 restricted remedial actions (including 5 written improvement notices sent, 6 letters of commitment requested, and 2 written agreements signed) were taken.

Apart from that, 6 sanctions in the form of administrative penalties totaling KZT 2.6 mln. were applied to an APF and a custodian bank.

Based on the results of inspections, five restricted remedial actions were taken in respect of APFs, including 3 letters of commitment requested, 2 written improvement notices sent. Also, 8 administrative penalties were imposed, including one penalty against an official, totaling KZT 3.6 mln.

### **7.5. Liquidation Process**

As of January 1, 2014, 2 banks and 3 insurance organizations were undergoing forced liquidation.

The information about settlements with creditors and shareholders of financial organizations undergoing liquidation is presented in Table 7.5.1.

Table 7.5.1

#	Financial Organizations under Liquidation	Percentage of Payouts to Creditors, as of January 1, 2013
<i>Banking Sector</i>		
1	<b>“Valut-Transit Bank” JSC</b>	54.97% of the total debt under the 3 <sup>rd</sup> order of priority in the List of creditors’ claims
2	<b>“Nauryz Bank Kazakhstan” JSC</b>	88% of the total debt under the 3 <sup>rd</sup> order of priority in the List of creditors’ claims
<i>Insurance Sector</i>		
1	<b>"Altyn Policy"</b>	settlements 69.8% of creditors’ claims included into the category of

	<b>Insurance Company</b>	extraordinary payouts
2	<b>“Premier Insurance” JSC</b>	settlements of 22.5% of creditors’ claims included into the category of extraordinary payouts
3	<b>“EcoPolicy” Insurance Company</b>	91% of the total debt under the 6 <sup>th</sup> order of priority in the List of creditor's claim

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

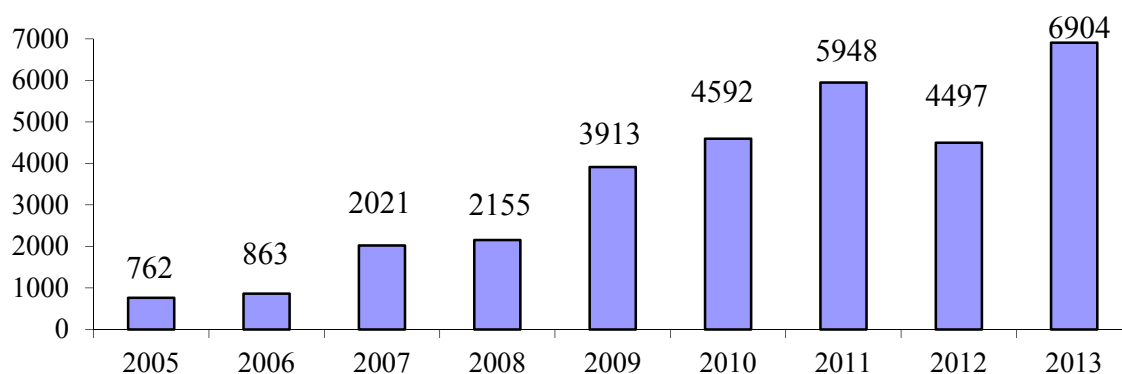
One of the National Bank’s objectives is to ensure a due level of protection of rights and lawful interests of the financial services consumers.

This objective is implemented by an entity of the National Bank – the Committee for Protection of Rights of Financial Services Consumers.

During the reporting period, 6 904 communications regarding activities of financial organizations were received from individuals and legal entities (Figure 7.6.1). The number of received communications increased by 53.6 % as compared to 2012.

Figure 7.6.1.

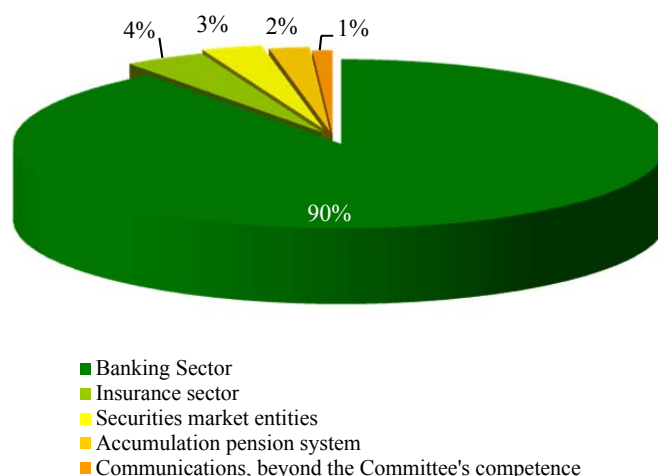
#### Communications of financial services consumers



A major share of communications (90%) was in the banking sector (Figure 7.6.2).

Figure 7.6.2

### Structure of communications, by sectors of the financial market



In relation to banks' activities, 6 215 communications were received; they are related to the problems of default on loans obtained from banks, discontent of debtors with actions taken against them by banks as well as complexity of bank loan agreements, disagreement about calculation of the interest rate and the amount of fine.

There were 276 communications related to the activities of insurance organizations, 207 communications related to the activities of the securities market entities, and 138 communications regarding activities of accumulation pension funds.

Out of all communications, only 8% were justified, i.e. those where violations of legislation were identified.

In respect of 515 violations detected in 2013, 91 restricted remedial actions were taken. The number of restricted remedial actions which were taken during the reporting period, increased by 82% as compared to 2012.

In 2013, the following actions were taken to solve the problems of borrowers:  
 letters of recommendation were sent to banks regarding restructuring of the borrowers' debt;  
 legal assistance was provided during the reception of citizens (120 receptions);  
 individual meetings of borrowers with representatives from banks or mortgage companies were conducted where legal assistance was provided to borrowers (210 meetings);  
 meetings and round table discussions were held with participation of representatives from banks, Akimats, prosecutor's office, the Ministry of Justice, Financial Institutions Association of Kazakhstan, party members and members of public associations.

The review of complaints and communications helped identifying the systemic nature of a number of problems which can be addressed in case of amendments to the legislation. Based on the review, proposals were drafted to include in the laws new provisions which will strengthen the consumer rights and interests.

## VIII. REGIONAL FINANCIAL CENTRE OF ALMATY CITY

### 8.1. Developing the City of Almaty as a Large Regional Financial Centre

One of the National Bank's objectives is to create conditions for a competitive regional financial centre of Almaty city (the "financial centre") conforming to the international standards,

and 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 identify international approaches to the development of financial centers, to identify the level and the place of the RFCA globally, efforts were made to include the RFCA in the Global Financial Centers Index rating GFCI (GFCI). Based on the GFCI'14 rating (October 2013), Almaty is mentioned as the city which has been included in the questionnaire recently and which has insufficient ratings on the part of investors.

To ensure interaction in the promotion of the RFCA, in 2013 the National Bank was in active negotiations with the Paris Europlace. As a result, the parties expressed their interest and willingness to cooperate in conducting joint events aimed to develop the RFCA, as well as to share experience.

An important area in the activity of the National Bank pursuant to the Law of the Republic of Kazakhstan “About the Regional Financial Center of Almaty City” is cooperation with the RFCA members – professional players in the securities market licensed for the broker/dealer business, by providing certain types of public services to them.

The National Bank, through the “State Database of Legal Entities” system, performs the state registration (re-registration) of legal entities – RFCA members. Provision of this service is one of competitive advantages of the RFCA, since it is rendered under the “single window” principle and significantly simplifies the procedure for obtaining the legal entity status by potential RFCA members in the shortest time frame – one business day. During 2013, five applications from RFCA members were considered; their data was included in the National Register of Business Identification Numbers, in the State Database of Legal Entities and in the State Register of RFCA members.

Another public service rendered by the National Bank as part of its cooperation effort with RFCA members is the petition to issue visas to foreigners and persons without citizenship who arrive in Kazakhstan to work in the RFCA. In 2013, 14 applications from RFCA members were considered. As of January 1, 2014, 8 foreign experts in the securities market were employed by the RFCA.

With a view to encourage small and medium-size businesses to penetrate into the stock market, a public service was provided for – reimbursement of expenses associated with the audit of financial statements to those issuers which offered their securities for the first time in the specialized trading platform of the RFCA. In 2013, amendments were drafted to the Rules for Reimbursement of Expenses for Financial Statements Audits of Securities Issuers Admitted to the Specialized Trading Platform of the RFCA as approved by the Resolution of the National Bank’s Board of August 31, 2012 No. 283.

Pursuant to the Law of the Republic of Kazakhstan “About the Regional Financial Center of Almaty City”, one of the National Bank’s functions is to exercise state control over compliance with the labor legislation of the Republic of Kazakhstan by RFCA members. Audits of compliance with the labor legislation of the Republic of Kazakhstan were conducted in five joint-stock companies; these companies were included in the group of minor risk based on the results of examinations in line with the Criteria for Assessing the Degree of Risks approved by the National Bank.

## **8.2 Development of Islamic Finance**

The National Bank makes effort to implement the Road Map for the Development of Islamic Finance till the Year 2020; the Map includes the matters pertinent to further fine-tuning of the legislation, ensuring public awareness and scientific and research work, developing the Islamic finance infrastructure, international cooperation as well as attraction of investors.

With an aim to fine-tune the legislation on Islamic finance, the National Bank provided advisory and methodological support, held meetings with representatives from government authorities and financial institutions.

Given the need to further develop the Islamic financial infrastructure, the National Bank provided support to the Islamic Corporation for Private Sector Development to open the second Islamic bank on the basis of Zaman Bank and the Islamic Leasing Company “Kazakhstan Ijara Company” in Kazakhstan.

#### **International Cooperation**

As part of cooperation with the Islamic Financial Services Board, the National Bank took part in the studies of the Board conducted on the basis of questionnaires as well as prepared suggestions and comments to the draft Standards of Islamic Finance.

As part of cooperation with the Islamic Development Bank, the National Bank made effort to approve the draft Agreement between the National Bank and the Islamic Development Bank about technical assistance in developing the legal framework of Islamic Finance in the Republic of Kazakhstan.

In 2013, the National Bank participated in the pilot investment of USD 50 mln. in medium-term bonds (sukuk) of the Islamic Development Bank.

With a view to develop the Islamic finance infrastructure, an effort was made for cooperation with the Islamic Corporation for Insurance of Investments and Export Credits, Islamic Corporation for Private Sector Development, Islamic Research and Training Institute as well as with the Islamic International Rating Agency and the Malaysian Rating Agency.

#### **Promotion of the Financial Center as the Regional Islamic Finance Center**

To implement the objectives of promoting the financial center as the regional Islamic finance center, the National Bank conducted various events. Thus, a number of retreats for students and professors and teachers of leading universities of Almaty were conducted; also, together with the “Al Hilal” Islamic Bank, a training workshop was conducted for Imams of Almaty and Almaty region. A National Bank’s representative delivered a lecture entitled “The Role of the National Bank of the Republic of Kazakhstan in the Development of Islamic Finance in Kazakhstan” as part of the workshop “Financial Derivatives. Islamic Finance” organized by the State Academy of Management under the President of the country.

With a view to communicate the fundamentals and principles of Islamic finance, the National Bank prepared and posted a number of materials on Islamic Finance both in the Kazakhstani mass media and in foreign mass media; also, TV programs entitled “International Expert” on the topic of Islamic finance and insurance were arranged.

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

## **IX. INTERNATIONAL COOPERATION AND PUBLIC AWARENESS EFFORT OF THE NATIONAL BANK**

### **9.1. International Cooperation**

On 15 November 2013 the National Bank held the international conference devoted to 20<sup>th</sup> anniversary of introduction of Tenge - the national currency of the Republic of Kazakhstan. The conference was attended by 111 foreign and 177 Kazakhstani participants, including representatives of the international financial institutions, central banks from the near and far abroad, and embassies, organizations involved in production of banknotes and coins and those from the financial sector of Kazakhstan.



On 1 February 2013, a Memorandum of Understanding was signed between the National Bank and Financial Services Commission/Financial Supervisory Service of the Republic of Korea in the field of financial supervision.

As part of bilateral cooperation between Kazakhstan and China, on May 30-31, 2013, the eighth session of the Kazakh-Chinese Subcommittee for Financial Cooperation was held in Guilin (China). On September 25, 2013 a Memorandum of Understanding was signed between the National Bank and China Banking Regulatory Commission.

To improve the efficiency of supervision, the Financial Supervision Committee has taken measures to develop and expand further cooperation and interaction with the supervisory authorities of foreign countries. In particular, the Financial Supervision Committee took part in the review and approval of the draft Memorandum of Understanding and Cooperation with supervisory authorities of Uzbekistan, Poland, the United Arab Emirates, China, Italy, Moldova, Japan and Ukraine.

To oversee the cross-border banks as a part of the information sharing with the regulators of other countries the Financial Supervision Committee has provided necessary information to the U.S. Federal Reserve, Central Bank of the Russian Federation and China Banking Regulatory Commission.

During 2013, the National Bank carried out operations within the frameworks of the Common Economic Space of the Republic of Belarus, Republic of Kazakhstan and Russian Federation (hereinafter, the "Common Economic Space"). The National Bank participated in development, approval and implementation of several agreements, contracts and other regulations related to establishment of the Customs Union and Common Economic Space, as well as part of execution of a calendar plan for drafting the documents supporting the establishment of the Common Economic Space.

The National Bank participated in meetings to discuss the draft of Agreement on the Eurasian Economic Union (the National Bank was responsible for drafting Section IX "Monetary Policy", Section XI "Regulation of Financial Markets", Section VIII "Macroeconomic Policy" and Chapter X "Trading of Services and Investments", including the respective Annexes to the draft Agreement on the Eurasian Economic Union.

During 2013, the National Bank's representatives took part in the meetings of the Advisory Councils for macroeconomic policy, statistics, customs regulation and financial markets established under the Eurasian Economic Commission.

During 2013, the work was carried out to prepare the materials for the meetings of the Advisory Council on the monetary policy of the central (national) banks of the Customs Union and the Common Economic Space. The National Bank carried out work on organization, holding and protocol support of the meetings of the Advisory Council on May 22 and December 20, 2013 in Astana.

During 2013, the National Bank carried out the work within the framework of the Council of the Heads of the Central (National) Banks of EurAsEC member states. Representatives of the National Bank participated in the meetings of the experts (held on May 13-14, 2013 in Almaty and on September 19-20, 2013 in Minsk) and meetings of the Council of Heads of Central (National) Banks of Member Countries of the Eurasian Economic Community (held on June 28, 2013 in Almaty and October 18-19, 2013 in Grodno).

During 2013, the National Bank carried out work as a part of the operations of the Council of Heads of Government Authorities to regulate the securities market of the CIS member states and the Council of the Heads of the Authorized Bodies for Regulation of the Securities Markets of EurAsEC member states. Representatives of the National Bank participated in the meeting of said Council, which was held on October 2-6, 2013 in Cholpon-Ata.

The National Bank also performed the work on preparation and coordination of materials of the agenda of the 16<sup>th</sup> and 17<sup>th</sup> meetings of the Council of the Heads of Government Agencies for Regulation of the Securities Markets of the CIS member states, which took place on October 22-23, 2013 in Chisinau (Republic of Moldova).

The National Bank participated in the development, approval and implementation of a number of agreements, contracts and other regulations of EurAsEC.

During 2013, as a part of cooperation with international rating agencies the National Bank held meetings with the representatives of Fitch Ratings and Standard & Poor's rating agencies, and carried out works within the frameworks of the World Bank ranking "Doing Business" and Global Competitiveness Index of the World Economic Forum.

The work was carried out as a part of cooperation with the international financial institutions to ratify the amendments to IMF Articles of Agreement to increase a number of votes and interest in the IMF to expand the IMF's investing authorities and reform the Executive Board. The National Bank's top management participated in the spring meetings of the IMF and World Bank on April 19-20, 2013 in Washington DC. In addition, according to Article IV of the IMF's Articles of Agreement, the meetings were arranged between the representatives of the IMF Mission and the top management of the National Bank.

## **9.2. The National Bank's Awareness-Raising Effort**

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, government 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 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, during 2013 the National Bank published more than 8 199 different articles and other materials in the national (central and regional) and foreign mass media, including 3 079 printed publications, 926 publications in the news agencies, 396 TV appearances and picture shots, and 3 798 publications in Internet.

The nationwide newspapers "Egimen Kazakhstan" and "Kazakhstanskaya Pravda" were published with a special page "The National Bank of Kazakhstan informs, explains and comments" in the Kazakh and Russian language, where the issues of the monetary policy, currency regulation, payment systems, the National Fund, protection of the consumer rights, financial services, inflationary processes in Kazakhstan and electronic money have been explained to the general public.

During the year, the printed supplements were published to the nationwide newspapers for children "Drushnye Rebyata" and "Ulan", which covered the financial topics – "Adventures of a coin and its friends". The educational materials for the primary and intermediate schoolchildren were published in these supplements, aimed at teaching to the basics of the market economy, providing information on the financial instruments and development of interest among schoolchildren in personal money management. Materials were presented in the form of games understandable for children: comics, puzzles, pictorial puzzles, proverbs and sayings.

Given the high social importance of the awareness-raising effort in improving the financial and investment literacy, the need for which is continuously referred to in the annual messages of the President and the Government's program documents, "Khabar" Agency broadcasted the public awareness-raising program "Halyk sarapshysy"/"Public expert" in the Kazakh and Russian languages.

As a part of raising the financial literacy among the children's audience, the TV channel "Astana" produced a cognitive and developing television program for children with elements of the TV magazine - "Kyzykty karzhy"/"Fascinating Finance" in the Kazakh and Russian languages. The program is structured so that to familiarize the children with the topic, give answers to the finance-related questions they ask, and get the basic common ideas across to children using games and visuals aids. According to the scenario, during each program release the children-presenters with the help of a grown up mentor, who knows answers to all questions, try to get understanding of the topic.

### **Issue of the printed matters by the National Bank**

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, the organizational and technical arrangements were made during 2013 to print and publish the official periodicals of the National Bank: "Kazakhstan Ulyk Bankinin Habarshysy", "Bulletin of the National Bank of Kazakhstan", "Statistikalyk Bulletin / Statistical Bulletin" (in Kazakh and Russian), "Statistical Bulletin" (in English), "Ekonomikalyk Sholu / Economic Review", "Inflyatsiyaga Sholu / Inflation Review" (in Kazakh and Russian), "Inflation review" (in English), "Kazakhstan Respublikasynyn Tolem balansy zhane syrty boryshy ", "Balance of Payments and External Debt of the Republic of Kazakhstan", "Annual Report of the National Bank for 2012" in the Kazakh/Russian languages, "Financial Stability Report" in Kazakh, Russian and English languages.

## **X. IMPROVING ACCOUNTING AND FINANCIAL REPORTING**

In 2013, 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 according to the IFRS requirements.

With a view to implement the changes made by the Law of the Republic of Kazakhstan of December 26, 2012 No. 61-V "On Amendments to Some Legislative Acts of the Republic of Kazakhstan on Taxation", Article 106 of the Tax Code of the Republic of Kazakhstan "On Taxes and Other Mandatory Payments to the Budget" was amended with regard to the procedure for deductions of provisions (reserves) by banks and organizations engaged in certain types of banking operations; the Rules for determining the value of collateral and other security and the Rules for creation of provisions (reserves) under IFRS and provisions of the legislation of the Republic of Kazakhstan on accounting and financial reporting, were adopted.

At January 1, 2013, the amount of provisions (reserves) for taxation purposes is determined according to the Rules for classification of assets, contingent liabilities and creation of provisions (reserves) for them, which establish a step-by-step procedure for calculation of provisions (reserves). From January 1, 2013, expenses related to provisions (reserves) created under IFRS and the accounting and financial reporting legislation should be deducted.

Qualification requirements for audit firms were approved in respect of audits of financial statements and information related to financial statements of the issuers whose securities are intended to be included or have been included in the listing of the RFCA's specialized trading platform.

With a view to implement the Law of the Republic of Kazakhstan of June 21, 2013 No. 105-V "On Retirement Security in the Republic of Kazakhstan", amendments were made to some of the National Bank's regulations related to accounting at the UAPF and voluntary APFs; specifically, they refer to account-keeping and standard accounting records intended for accounting by custodian banks of the current account and pension assets of a voluntary APF that were accepted under the custodial agreement, as well as accounting for securities by the UAPF and a voluntary APF.

In order to identify the specifics of book-keeping and information submission on pension

assets, which is subject to disclosure by the UAPF and voluntary APFs in their financial statements, the Financial Reporting Standard “Accounting and Disclosures about Operations on Pension Assets” was approved.

In 2013, the National Bank continued to exercise control over financial organizations’ compliance with the requirements in the area of accounting, financial reporting and automation of book-keeping. Appropriate penalties were imposed and restricted remedial actions were taken in respect of violations found in the course of examinations.

## **XI FIDUCIARY MANAGEMENT SERVICES**

### **11.1. National Fund Management**

At December 31, 2013, the total market value of the National Fund’s portfolio and the Tenge bond portfolio of Kazakhstani issuers amounted to USD 71.5 bln.<sup>14</sup>, including the foreign currency portfolio – USD 70.8 bln. (99.05%), the portfolio of bonds denominated in the Tenge and issued by the National Welfare Fund “Samruk-Kazyna” and the National Management Holding Company “KazAgro” – the equivalent of USD 0.7 bln.<sup>15</sup> (0.95%). The market value of the stabilization and savings portfolios within the foreign currency portfolio of the National Fund – USD 22.5 bln. (31.81%) and USD 48.3 bln. (68.19%), 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 custodian bank – BNY Mellon.

According to BNY Mellon, from January 1 to December 31, 2013, an investment return (both realized and unrealized) of USD 2.2 bln. was generated; it was calculated in base currency – US Dollars – and was adjusted to account for transaction expenses.

#### **Performance of the National Fund**

Return of the National Fund during 2013 was 3.36%. Return of the National Fund since its inception<sup>16</sup> to December 31, 2013 was 72.87%, which accounts for 4.44% 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 2013, assets in the stabilization portfolio were invested under internal management in the money market instruments, mainly the US Treasury securities.

In 2013, the return on the stabilization portfolio was 0.15%; during the same period the return on the benchmark portfolio (Merrill Lynch 6-month US Treasury Bill Index) was 0.18%. So, negative excess returns of (-)0.03% were achieved (Appendix 1 to Section XI Sub-section 11.1, Figure 11.1.2).

#### **Performance of the Savings Portfolio**

In 2013, the return on the savings portfolio was 5.43%; 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 and 20% – developed markets stock index MSCI World) was 4.81%. Thus, positive excess returns of 0.62% were achieved (Appendix 2 to Section XI Sub-section 11.1, Figure 11.1.3).

<sup>14</sup> Excluding payables in the Tenge for services provided to the National Fund and the balance of the Tenge account

<sup>15</sup> At the rate of 1 USD=154.06 KZT

<sup>16</sup> Since June, 2001

### **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, 2013, assets in the savings portfolio for this mandate type managed by the National Bank amounted to 69.32% whereas the remaining 30.68% were in the external management.

In 2013, the return from the management of the bond sub-portfolio or assets in the savings portfolio for the "Global bonds" type of mandate accounted for (-)0.67%. The return on the benchmark portfolio of this sub-portfolio accounted for (-)0.38%. Thus, management of this type of mandate resulted in negative excess returns of (-)0.30%. As of December 31, 2013, this type of mandate was managed by 8 external managers and the National Bank. (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 external managers. The return from the savings portfolio asset management was 28.57%, whereas the return on the benchmark portfolio was 27.50%. Thus, performance of the savings portfolio asset management for this type of mandate versus the benchmark portfolio was positive, excess returns accounted for 1.08%. As of December 31, 2013, this type of mandate was managed by 7 external managers<sup>17</sup>. (Returns on the mandate by years are presented in the 2 to Section XI Sub-section 11.1 on Figure 11.1.4).

### **Global Tactical Asset Allocation Mandate**

Assets in the savings portfolio for this type of mandate were managed by an external manager. The return from the savings portfolio asset management was 5.90%, whereas the return on the benchmark portfolio was 4.42%. Thus, performance of the savings portfolio asset management for this type of mandate versus the benchmark portfolio was positive, excess returns accounted for 1.48%. (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. Custody, Brokerage and Other Activity Related to the Servicing of the National Bank's Clients**

As of January 1, 2014, the total amount of assets under custody, fiduciary and broker service at the National Bank was KZT 2.2 trln.; this is a three-fold increase versus the same data at the beginning of 2013.

In 2013, the amount of income received by the National Bank from rendered services amounted to KZT 308.5 mln., and the amount of reimbursed expenses – KZT 127.1 mln.

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<sup>17</sup> Including a temporary external manager

## Appendix 1 to Section I Sub-section 1.2

Figure 1.2.1

### Market Demand for Final Products of Enterprises

Nº	Responses of enterprises, %	1qtr. 2013	2qtr. 2013	3qtr. 2013	4 qtr. 2013
1	Increase	17,6	24,6	21,9	20,1
2	Invariance	58,1	56,9	60,0	58,2
3	Decrease	24,3	18,5	17,8	21,4
4	Line1-Line3	-6,6	6,1	4,1	-1,3
5	Diffusion index	46,7	53,1	52,1	49,3

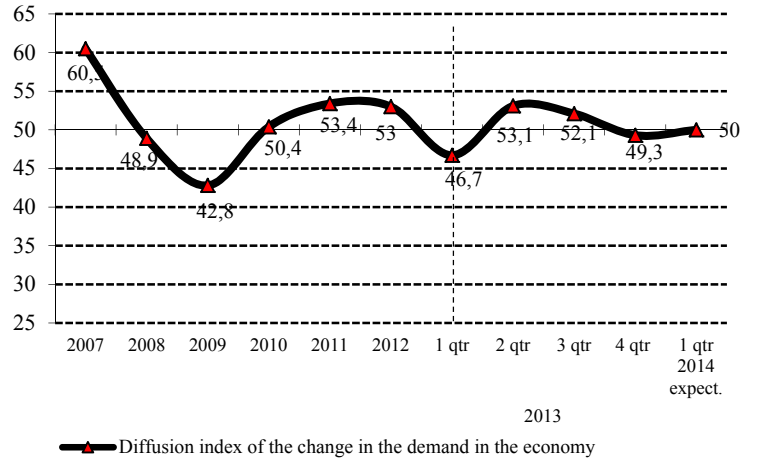
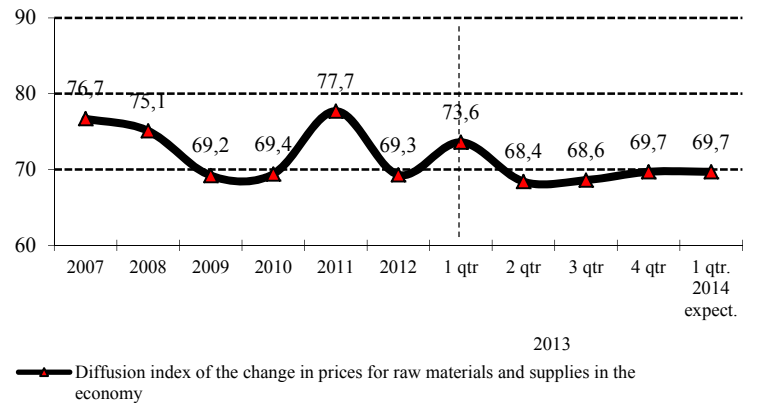


Figure 1.2.2

### Change in Prices for Raw Materials and Supplies

#	Responses of enterprises, %	1qtr. 2013	2qtr. 2013	3qtr. 2013	4qtr. 2013
1	Increase	48,9	39,9	40,1	40,9
2	Invariance	49,3	57,0	56,5	57,0
3	Decrease	1,8	3,1	2,9	1,5
4	Line1-Line3	47,1	36,8	37,3	39,4
5	Diffusion index of the change in prices for raw materials and supplies	73,6	68,4	68,6	69,7



## Appendix 2 to Section I Sub-section 1.2

Figure 1.2.3

### Change in Prices of Final Products of Enterprises

#	Responses of enterprises, %	1qtr. 2013	2qtr. 2013	3qtr. 2013	4qtr. 2013
1	Increase	20,7	14,1	15,7	14,6
2	Invariance	73,3	77,8	76,5	79,4
3	Decrease	0	0	0,2	0,3
4	Line1-Line3	20,7	14,1	15,5	14,3
5	Diffusion index of the change in prices for FPs	57,4	53,1	54,1	54,4

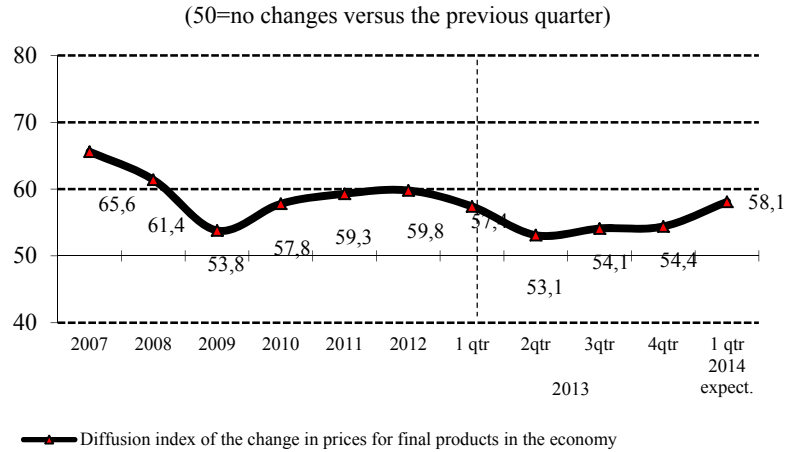
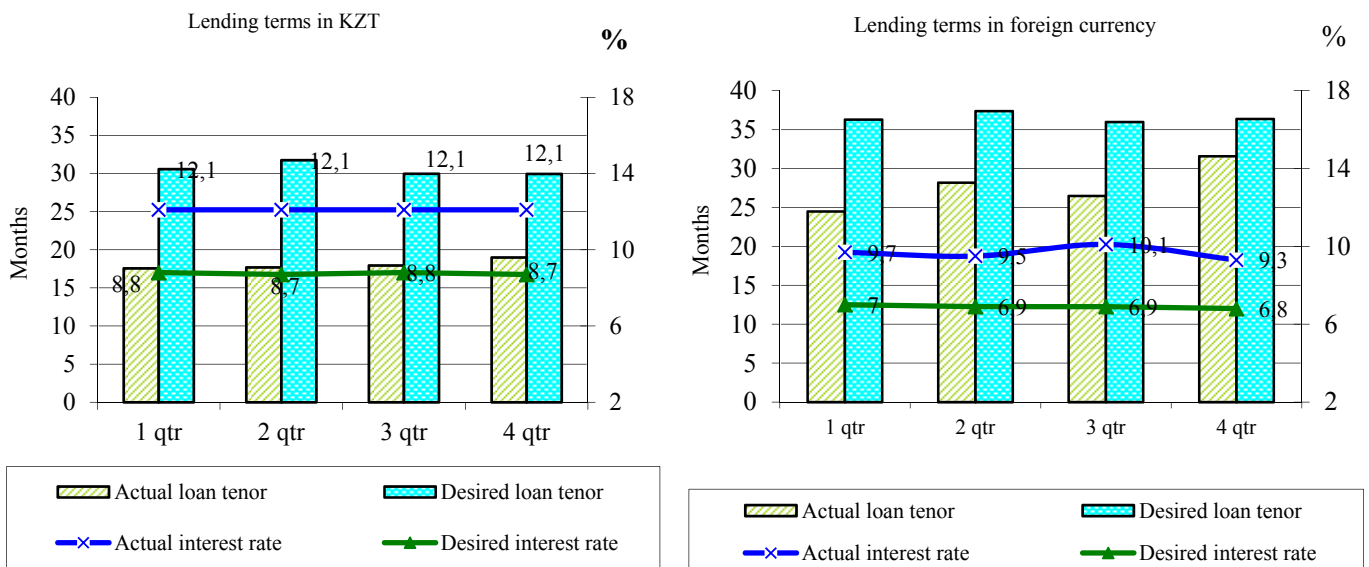


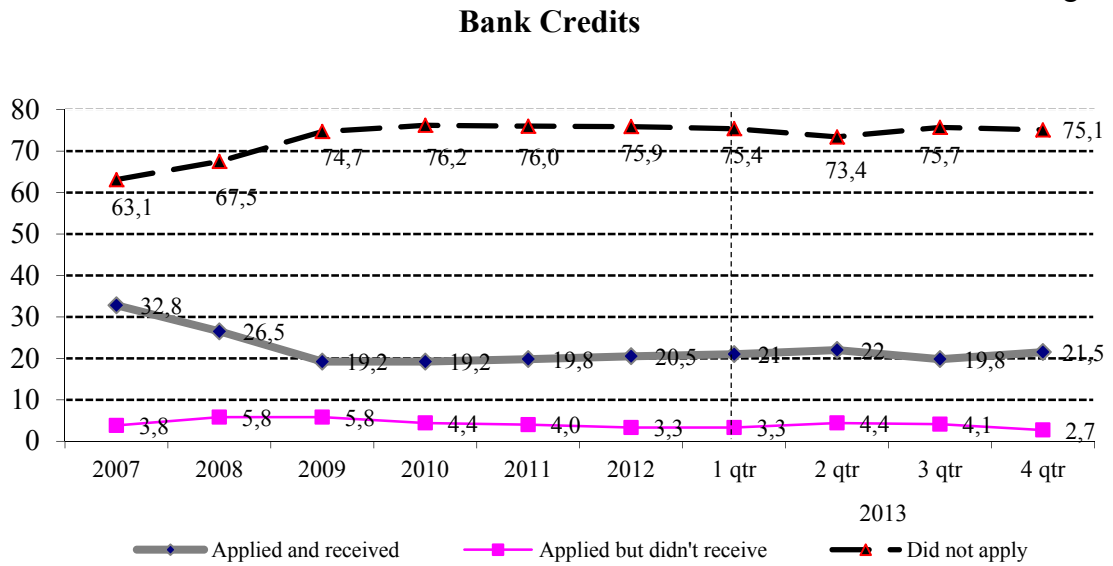
Figure 1.2.4

### Lending Terms in 2013



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: Analytic Presentation

USD mln.

	2012	2012				2013	2013			
		I	II	III	IV		I	II	III	IV
<b>Current account</b>	1079,1	2277,2	2347,0	-1032,7	-2512,4	-117,8	2179,0	13,2	-2243,4	-66,7
Trade balance	38145,2	11254,2	12017,2	8484,9	6389,0	33691,5	10326,2	7703,6	7053,6	8608,1
Exports f.o.b.	86931,1	20846,0	23496,6	21475,6	21112,9	83406,9	20523,6	20877,3	20000,9	22005,1
Import f.o.b.	48785,8	9591,8	11479,4	12990,6	14723,9	49715,4	10197,4	13173,8	12947,3	13397,0
Services	-7948,0	-1619,4	-1928,5	-2192,7	-2207,5	-6875,6	-1399,6	-1606,4	-1918,7	-1950,8
Exports	4828,2	1048,9	1236,0	1315,6	1227,8	5271,4	1144,8	1403,3	1408,7	1314,6
Imports	12776,2	2668,2	3164,4	3508,2	3435,3	12147,0	2544,4	3009,7	3327,4	3265,4
Balance on primary income	-28107,7	-7316,5	-7523,5	-6945,9	-6321,6	-25345,2	-6504,3	-5682,6	-6876,5	-6281,8
Compensation of Employees Balance	-1927,8	-496,4	-497,5	-488,4	-445,5	-1803,7	-422,3	-434,3	-452,6	-494,6
Investment return	-26319,6	-6855,1	-7061,0	-6492,5	-5911,1	-23681,3	-6116,9	-5283,3	-6458,9	-5822,2
Income receivable	1942,3	393,6	477,7	588,9	482,1	2176,3	518,1	722,2	467,6	468,5
Income on direct investments	194,9	8,7	30,4	144,2	11,6	343,2	66,1	221,1	33,2	22,8
Income on portfolio investments	959,9	212,4	257,1	249,1	241,3	1094,4	250,1	302,9	272,2	269,3
Income on other investments	787,5	172,5	190,2	195,6	229,2	738,7	201,9	198,2	162,3	176,4
<i>Including interest on reserves and assets of the National Fund</i>	1028,0	223,9	268,9	267,5	267,8	1162,1	293,5	321,5	283,7	263,4
Income payable	28261,9	7248,7	7538,7	7081,4	6393,1	25857,6	6635,0	6005,5	6926,4	6290,7
Income on direct investments	24739,8	6507,5	6517,5	6118,1	5596,6	22722,2	5902,4	5209,6	6040,7	5569,5
Income on portfolio investments	2070,3	396,5	691,0	588,3	394,6	1589,0	349,4	415,5	503,0	321,1
Income on other investments	1451,8	344,7	330,2	375,0	401,9	1546,4	383,2	380,4	382,8	400,1
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	-1010,5	-41,1	-218,1	-379,0	-372,2	-1588,5	-243,3	-401,3	-501,8	-442,2
<b>Capital account balance</b>	15,4	0,8	8,1	1,9	4,7	-6,4	-8,6	2,7	-0,6	0,1
<b>Financial account (excluding reserve assets of the NBK)</b>	932,3	-610,7	-1130,5	2273,3	400,1	-3538,2	654,1	-1841,8	-907,6	-1442,9
Direct investments	-11825,3	-4959,5	-1675,4	-4013,6	-1176,8	-7790,5	-2049,0	-2152,0	-1734,5	-1855,0
Net acquisition of financial assets	1959,5	398,4	986,0	118,1	457,0	1948,1	1827,1	-404,6	210,8	314,8
Net incurred liabilities	13784,8	5357,9	2661,4	4131,7	1633,8	9738,5	3876,1	1747,4	1945,2	2169,8
Portfolio investments	17387,9	3843,8	5286,7	3511,5	4746,0	5962,3	2355,4	-1258,1	1388,4	3476,6
Net acquisition of financial assets	15068,2	3805,7	4457,0	3597,9	3207,6	8503,1	2836,7	2527,6	-34,2	3173,1
Government of Kazakhstan and National Bank of Kazakhstan	14549,6	4531,3	4057,5	3609,2	2351,6	7778,9	2660,7	2479,9	-441,9	3080,4
Banks	238,6	94,1	23,5	3,4	117,6	556,6	376,7	33,9	202,8	-56,8
Other sectors	280,0	-819,7	376,0	-14,7	738,4	167,6	-200,7	13,8	204,9	149,6
Net incurred liabilities	-2319,7	-38,1	-829,7	86,4	-1538,4	2540,9	481,3	3785,7	-1422,6	-303,5
Government of Kazakhstan and National Bank of Kazakhstan	-46,5	-18,3	-21,4	0,0	-6,8	0,9	0,0	1,3	-1,3	0,9
Banks	-1980,9	-175,2	-551,6	32,1	-1286,2	-632,0	400,6	-627,7	-35,7	-369,2



Appendix 2 to Section I Sub-section 1.4

Table 1.4.2

Dynamics of Gross External Debt

USD mln.

	As of 31.12.2009	As of 31.12.2010	As of 31.12.2011	As of 31.12.2012	As of 31.12.2013
<b>External debt</b>	<b>112 866,9</b>	<b>118 222,8</b>	<b>125 320,8</b>	<b>136 921,9</b>	<b>148 752,9</b>
<i>Short-term</i>	6 985,1	8 864,5	7 867,2	9 090,5	9 400,7
<i>Long-term</i>	105 881,8	109 358,3	117 453,6	127 831,3	139 352,2
<b>General government</b>	<b>2 218,1</b>	<b>3 800,3</b>	<b>4 487,4</b>	<b>4 855,1</b>	<b>5 115,6</b>
<i>Short-term</i>	0,0	0,0	7,9	0,1	0,0
Cash and deposits	0,0	0,0	0,0	0,0	0,0
Debt securities	0,0	0,0	7,8	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	0,1	0,1	0,0
Other liabilities	0,0	0,0	0,0	0,0	0,0
<i>Long-term</i>	2 218,1	3 800,3	4 479,5	4 855,0	5 115,6
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 <sup>1</sup>	0,0	49,1	23,8	14,1	14,6
Credits and loans	2 218,1	3 751,2	4 455,7	4 840,9	5 101,0
Trade credits and advances	0,0	0,0	0,0	0,0	0,0
Other liabilities <sup>2</sup>	0,0	0,0	0,0	0,0	0,0
<b>Central Bank</b>	<b>1 017,5</b>	<b>1 000,6</b>	<b>563,3</b>	<b>618,9</b>	<b>545,8</b>
<i>Short-term</i>	479,7	470,4	36,3	88,1	9,8
Cash and deposits	103,6	239,5	16,5	88,1	6,7
Debt securities <sup>1</sup>	376,1	230,9	19,8	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	3,2
Other liabilities	0,0	0,0	0,0	0,0	0,0
<i>Long-term</i>	537,8	530,2	526,9	530,8	536,0
Special Drawing Rights	536,8	529,2	525,9	529,8	535,0
Cash and deposits	0,0	0,0	0,0	0,0	0,0
Debt securities <sup>1</sup>	0,0	0,0	0,0	0,0	0,0
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 <sup>2</sup>	1,0	1,0	1,0	1,0	1,0
<b>Banks</b>	<b>30 190,1</b>	<b>19 947,9</b>	<b>14 604,8</b>	<b>13 524,9</b>	<b>11 160,2</b>
<i>Short-term</i>	1 646,2	1 622,5	1 046,6	1 647,6	1 227,4
Cash and deposits	837,6	1 275,4	772,1	1 203,3	829,5
Debt securities <sup>1</sup>	0,0	0,0	0,0	0,0	0,0
Credits and loans	353,1	227,7	130,8	360,9	316,6
Trade credits and advances	0,0	0,0	0,0	0,0	0,0
Other liabilities	455,5	119,4	143,7	83,3	81,3
<i>Long-term</i>	28 543,9	18 325,3	13 558,1	11 877,3	9 932,8
Cash and deposits	289,7	275,1	262,2	428,5	944,6
Debt securities <sup>1</sup>	2 905,5	10 695,5	7 916,3	6 639,8	5 739,7
Credits and loans	25 348,8	7 354,7	5 379,6	4 809,0	3 248,5
Trade credits and advances	0,0	0,0	0,0	0,0	0,0
Other liabilities <sup>2</sup>	0,0	0,0	0,0	0,0	0,0
<b>Other sectors<sup>3</sup></b>	<b>29 809,2</b>	<b>41 199,2</b>	<b>43 089,1</b>	<b>50 341,4</b>	<b>59 246,9</b>
<i>Short-term</i>	4 859,2	6 771,5	6 776,4	7 354,8	8 163,5
Cash and deposits	0,0	0,0	0,0	0,0	0,0
Debt securities <sup>1</sup>	0,1	0,0	0,0	0,0	0,0
Credits and loans	918,4	1 287,7	1 175,8	851,1	869,7
Trade credits and advances	3 788,3	5 305,6	5 455,1	6 330,2	7 190,4

Other liabilities	152,4	178,2	145,5	173,4	103,4
<i>Long-term</i>	24 950,0	34 427,7	36 312,8	42 986,7	51 083,4
Cash and deposits	0,0	0,0	0,0	0,0	0,0
Debt securities <sup>1</sup>	800,2	9 053,4	10 254,4	11 130,1	12 974,9
Credits and loans	22 586,2	23 658,2	24 336,1	29 910,6	36 025,9
Trade credits and advances	1 563,6	1 716,0	1 722,2	1 946,0	1 994,1
Other liabilities <sup>2</sup>	0,0	0,0	0,0	0,0	88,5
<b>Other non-financial organizations</b>	<b>1 970,9</b>	<b>1 910,5</b>	<b>2 133,9</b>	<b>1 971,6</b>	<b>2 843,8</b>
<i>Short-term</i>	53,6	107,0	100,7	90,5	109,5
<i>Long-term</i>	1 917,3	1 803,4	2 033,2	1 881,1	2 734,3
<b>Non-financial organizations, households and non-commercial organizations providing services to households</b>	<b>27 838,3</b>	<b>39 288,7</b>	<b>40 955,2</b>	<b>48 369,9</b>	<b>56 403,2</b>
<i>Short-term</i>	4 805,7	6 664,5	6 675,7	7 264,3	8 054,0
<i>Long-term</i>	23 032,6	32 624,2	34 279,6	41 105,6	48 349,2
<b>Direct investments: intercompany debt</b>	<b>49 632,0</b>	<b>52 274,7</b>	<b>62 576,2</b>	<b>67 581,5</b>	<b>72 684,3</b>
Liabilities of Kazakhstani direct investment companies to foreign direct investors	42 988,4	49 721,8	59 589,4	63 605,8	68 893,5
Liabilities of Kazakhstani direct investors to foreign direct investment companies (reverse investment)	6 643,6	2 553,0	2 597,8	3 429,2	3 120,3
Liabilities of Kazakhstani enterprises to foreign sister enterprises	0,0	0,0	389,0	546,5	670,4

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

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

<sup>3</sup>Other sectors do not include intercompany 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

#### Absolute and Relative Indicators of Gross External Debt

Items	2009	2010	2011	2012	2013
<b>A. Absolute parameters (USD mln.)</b>					
1. External debt (at end-period)	112 866,9	118 222,8	125 320,8	136 921,9	148 752,9
<i>Of which, intercompany debt</i>	49 632,0	52 274,7	62 576,2	67 581,5	72 684,3
2. External debt, excl. intercompany debt (at end-period)	63 234,9	65 948,0	62 744,6	69 340,3	76 068,6
3. Payments for long-term external debt extinction and servicing (including intercompany debt)	38 970,5	25 397,9	29 624,1	31 906,8	31 886,0
4. Payments for long-term external debt extinction and servicing (excluding intercompany debt)	31 030,5	15 637,8	16 876,5	18 905,5	19 219,3
<b>B. Relative parameters</b>					
1. External debt per capita (USD, excluding intercompany debt)	3 902,7	4 011,4	3 763,2	4 100,6	4 431,6
2. External debt to GDP (% , including intercompany debt)	98,3	79,9	66,7	67,4	67,6
3. External debt to GDP (% , excluding intercompany debt)	55,1	44,5	33,4	34,1	34,6
4. External debt to EGSy (% , including intercompany debt)	235,0	180,5	140,0	149,2	168,3
5. External debt to EGSy (% , excluding intercompany debt)	131,7	100,7	70,1	75,6	86,1
6. Payments for long-term external debt extinction and servicing to EGSy (% , including intercompany debt)	81,1	38,8	33,1	34,8	36,1
7. Payments for long-term external debt extinction and servicing to EGSy (% , excluding intercompany debt)	64,6	23,9	18,8	20,6	21,7
8. Interest payments to EGSp (%)	11,0	7,2	5,3	5,6	5,6
9. International reserves to short-term external debt (%)	330,3	318,6	372,4	311,0	262,8
<b>Memo items:</b>					
Population (thous. individuals)*	16 203,0	16 440,1	16 673,1	16 909,8	17 165,2
GDP (bln.), for the period*	17 007,6	21 815,5	27 571,9	30 347,0	33 521,2
GDP for 12 months (USD bln.)	114,8	148,0	187,8	203,3	220,1
Export of goods and non-factor services for the period (EGSp) **	48 027,1	65 510,6	89 531,6	91 758,0	88 392,9
Export of goods and non-factor services for the year (EGSy) **	48 027,1	65 510,6	89 531,6	91 758,0	88 392,9

\* Information Source: Agency of Statistics of the Republic of Kazakhstan

\*\*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

**Returns of the National Fund since its Inception, in US Dollars**

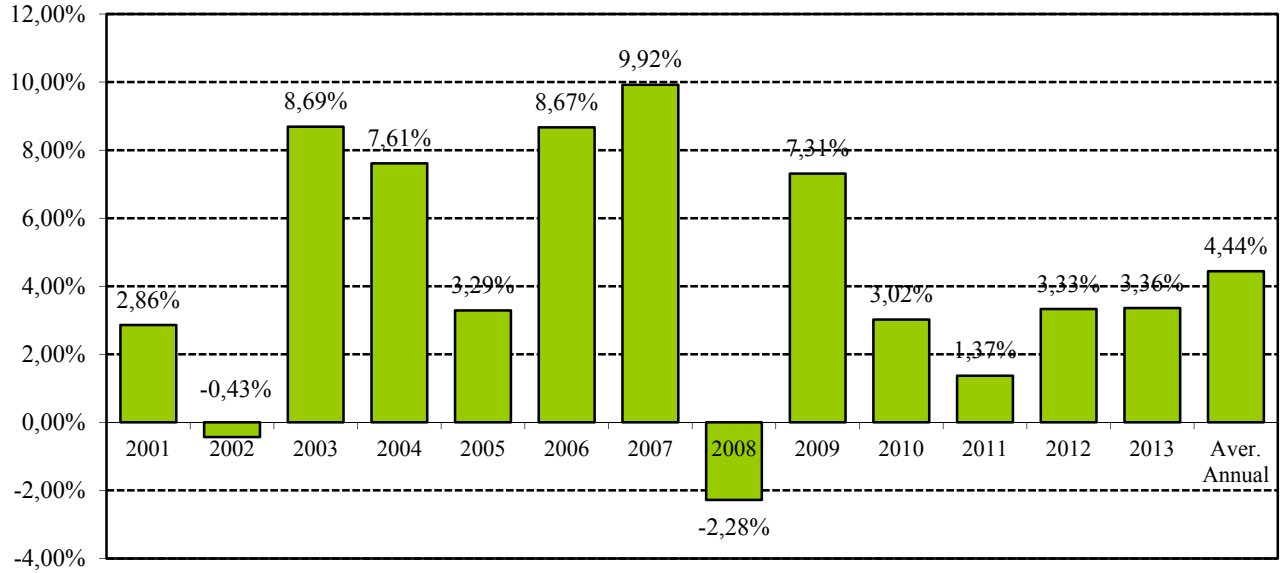
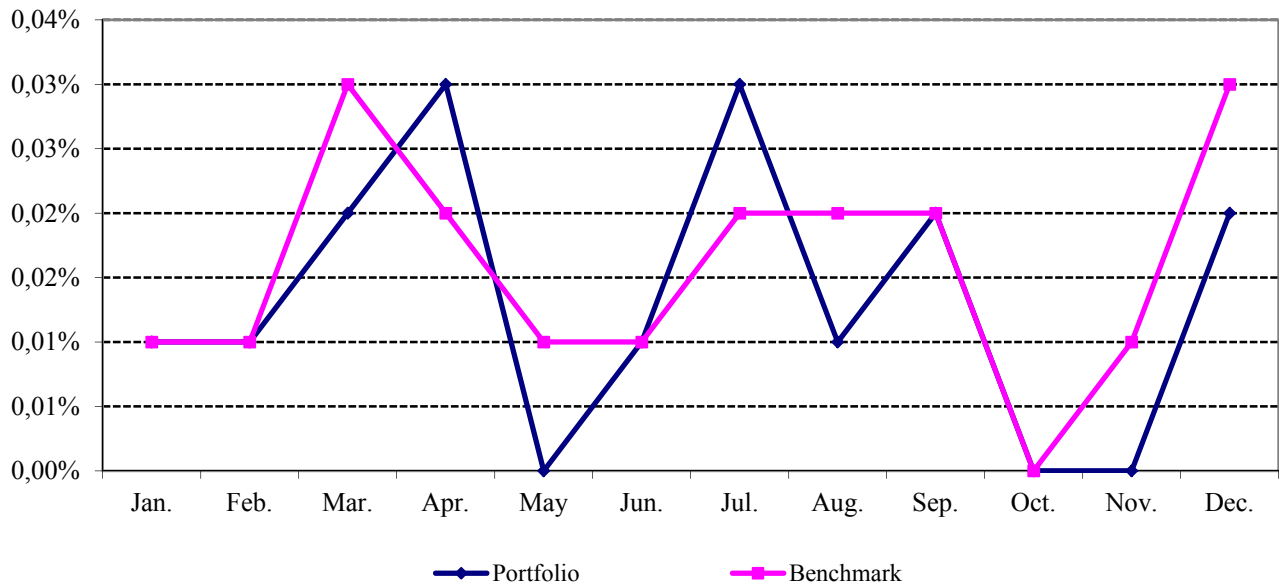


Figure 11.1.2

**Returns on the Stabilization Portfolio in 2013**



Appendix 2 to Section XI Sub-section 11.1

Figure 11.1.3

Returns on the Savings Portfolio in 2013

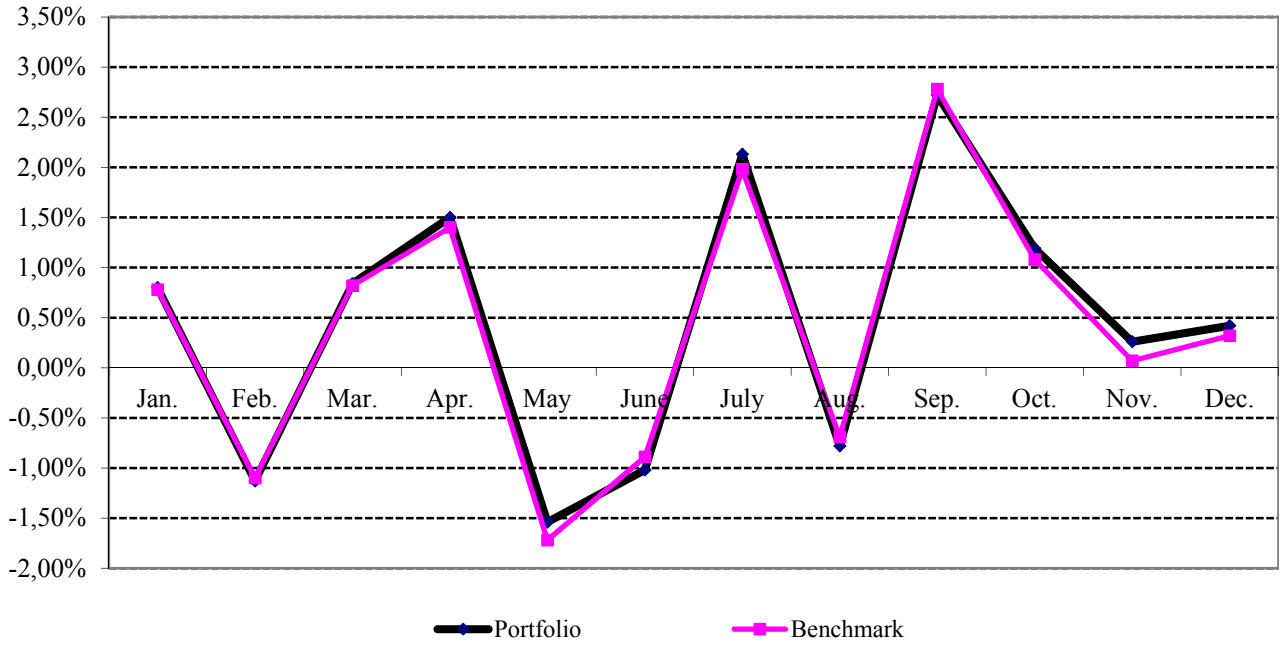
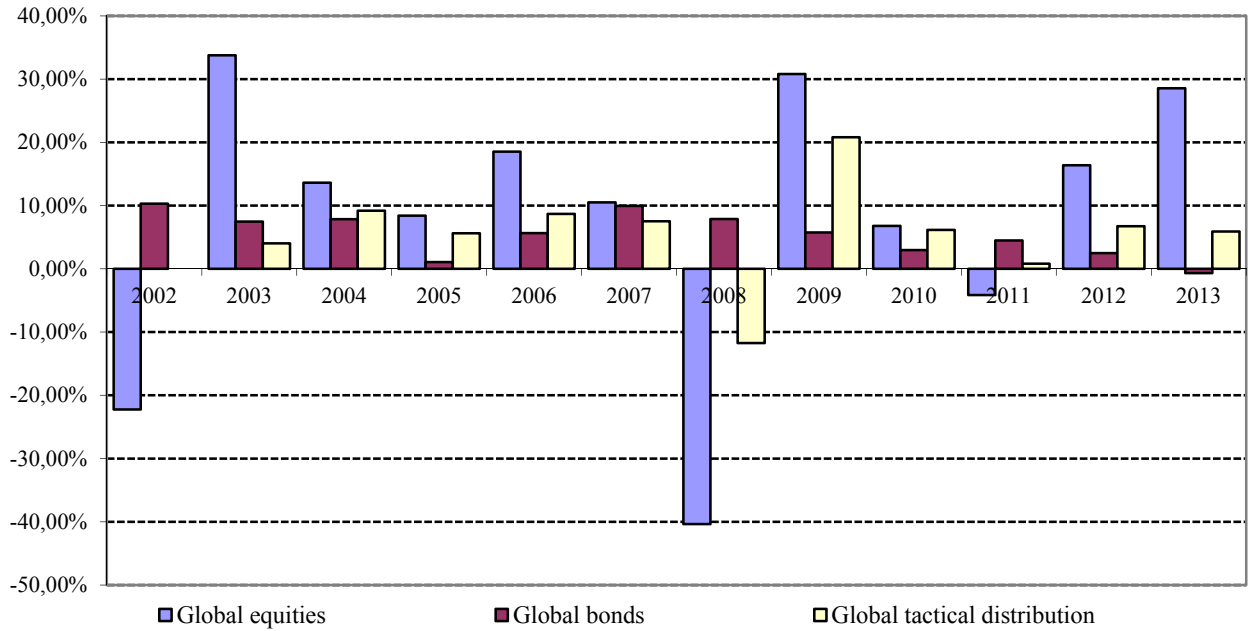


Figure 11.1.4

Returns on the Savings Portfolio by the Type of Mandates



## List of Abbreviations Used

Automated information sub-system	AIS
a joint-stock company	JSC
a second-tier bank	bank
Gross domestic product	GDP
US Dollar	USD
The Eurasian Economic Space	The EurAsEc
the Unified accumulation Pension Fund	UAPF
International Financial Reporting Standards	IFRS
International Monetary Fund	IMF
a monthly calculation index	MCI
billion	bln.
million	mln.
an accumulation pension fund	APF
organization engaged in investment management of pension assets	OEIMPA
Commonwealth of Independent States	CIS
Mass media	MM
limited liability partnership	LLP
trillion	trln.
thousand	thous.
The Shanghai Cooperation Organization	SOC