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Marchenko G. A.
Governor



Foreword

I'm honoured to present to you this annual report of the National Bank of the Republic of Kazakhstan for the year of 2000.

Favourable conditions on the international financial and commodity markets followed by free floating rate policy were still positively influencing on the macroeconomic situation in the country. Resulting from the last five years Kazakhstan has become one of the leading countries among CIS on a number of economic indices. As opposed to rates of depreciation and inflation indices Kazakhstan takes leading positions together with Eastern Europe countries such as Poland and Hungary.

Along with monetary policy of the NBK aimed to maintain low inflation and stable tenge current account balance turned positive in real terms.

Economic situation improvement and positive prospects for its further development have promoted growing confidence from investors towards economic policy of Kazakhstan. As a result yields on sovereign eurobonds has been consistently decreasing on the secondary market.

Such positive tendencies helped NBK to pay off all liabilities in respect to the IMF.

The following were the accomplishments of 2000:

- refinancing rate has decreased to its lowest level since independence
- the maturity of state securities has increased
- deposits of the banking system has been continuing to grow
- public confidence towards the banking system has been strengthened
- credit interest rate has decreased to the lowest in the CIS countries

National Bank will continue to keep to the floating rate policy, which would encourage maintaining of ability to compete for Kazakhstan goods on foreign markets.

National Bank will be also improving legislative base and control measures to prevent capital outflows from the country.

Further efforts of the National Bank will be directed at facilitating production growth, developing and strengthening the financial system, developing new financial instruments and real sector financing mechanisms.

I would like to take this opportunity to thank all the members of bank staff for their hard work and great commitment with which they performed their duties in 2000.

Yours truly,
Grigory Marchenko

INTRODUCTION

Stabilisation in the world financial markets and favourable commodity prices worldwide drove a considerable revival of the world economy in 2000 (Table 1.1). The growth of the world economy reached 4,1% in 2000 (in 1999 – 3%). The most CIS

countries saw relative political and financial stabilisation and macroeconomic improvement in 2000, and it was especially true for Russia – a major trade partner of Kazakhstan.

Table 1.1.

Price Changes on the World Commodity Markets

(in% to the previous period)

Commodity	1998	1999	2000
Oil	-31,9	38,8	55,6
Copper	-27,3	-4,9	15,3
Zinc	-22,1	5,0	4,8
Lead	-15,2	-4,9	-9,7
Aluminium	-15,1	0,3	13,8
Silver	13,1	-5,1	-4,8
Gold	-11,2	-5,2	1,9

The developments in the world financial and commodity markets continued to influence favourably the macroeconomic position of Kazakhstan. The nominal exchange rate of Tenge against the US Dollar remained relatively stable and the annual inflation declined almost twice throughout the year.

All these factors enabled Kazakhstan to gain in 2000 a significant success in its economic growth

(Table 1.2). The balance of payments surplus, a considerable increase of the country's gold and foreign currency reserves, a full and premature repayment by the NBK of its liabilities to the IMF, an adoption of a number of the important laws, a launch of a promissory notes program, and an upsurge of the personal bank deposits coupled with an increase of bank's lending to the real sector were the major outcomes of 2000.

Table 1.2.

Changes in Main Macroeconomic Indicators of CIS and Baltic Countries in 2000, %

Country	GDP	Inflation (end of period)	USD/National Currency, Exchange Rate
Azerbaijan	11,4	2,2	4,4
Kazakhstan	9,6	9,8	5,2
Russia	8,0	20,1	5,7
Ukraine	6,0	25,8	4,4
Belarus	6,0	108,0	268,7
Moldova	1,9	18,5	6,8*
Kyrgyzstan	5,0	9,5	6,9
Georgia	1,9	9,8	2,3*
Armenia	6,0	0,4	5,1*
Tajikistan	8,3	61,6	53,2*
Latvia	6,5	1,8	5,2*
Lithuania	3,3	1,5	0,0
Estonia	6,4	5,0	8,1*

* – official exchange rate

I. ECONOMIC AND FINANCIAL DEVELOPMENT

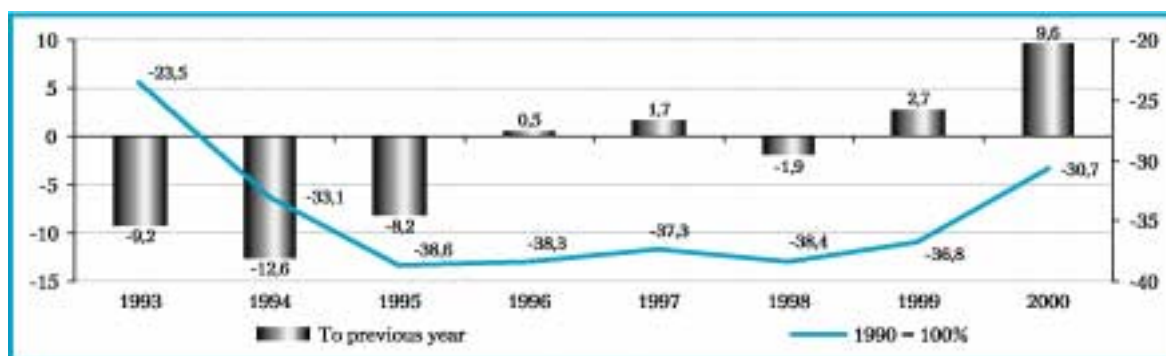
1.1. Real Sector of Economy¹

Both the external and internal factors were favourable for Kazakhstan in 2000 – competitiveness of the domestic producers increased after Tenge devaluation, investment activity enhanced and businesses' finances improved.

The outcome of 2000 recorded the highest economic growth rate ever reached since 1991 – 9.6% (Fig. 1.1) with an output increase in the main sectors of economy – industry, construction, transport, communications and trade.

Figure 1.1.

Dynamics of Real GDP, %



An annual increase of the industry output was 14.6% with that in mining, processing industries and electricity, gas and water production and distribution amounting to 21.5%, 15.6% and 5.5%, respectively.

The output in the machinery building achieved the highest growth rate of 63.3% in the processing industries. Implementation of the import substitution program promoted a growth of physical volumes produced in food, textile and leather industries by 8.9%, 19.2% and 28.7%, respectively.

Despite a 1.3% increase in the livestock breeding output, the lower than in 1999 harvest resulted in slight reduction of the agriculture gross output (by 3.3%).

The capital investment went up by 29.4% with the mining industries (oil extraction, primarily) having the highest investment priority.

Cargo transportation by all transport means showed a growth of 13.3% worth as well.

1.2. Price Dynamics²

The food and non-food commodity prices grew up by 12.8% and 6.1%, respectively, and a rise of the prices for services was 7.1%, resulting in an increase of an average annual inflation rate from 8.3% to 13.2%, with, however, decline of an overall annual inflation (December to December) from 17.8% down to 9.8%.

Producer prices in industry rose by 19.4%, and the intermediate and consumer goods and the pro-

duction means became more expensive by 23.2%, 7.9% and 1.8%, respectively. A 33.8% increase of fuel and energy prices and tariffs was driven by a rise of the energy resources prices worldwide.

The monetary factors had no significant effect on inflation in 2000 because the expansion of money supply was almost entirely ensured by an increase of its non-inflationary component – banking system deposits.

¹ Based the data of the Statistical Agency of the Republic of Kazakhstan

² Based the data of the Statistical Agency of the Republic of Kazakhstan.

1.3. Fiscal Policies³

The state budget revenues amounted to 598.1 bln. Tenge (23.1% of GDP against 19.8% in 1999) with the set targets being over-performed almost monthly throughout the year, and the budget expenditures and lending were 595.8 bln. Tenge (23.0% of GDP as compared to 23.2% in 1999).

2000 was the first year since Kazakhstan independence, which saw the state budget surplus in the amount of 2.3 bln. Tenge or 0.1% of GDP (owing to the surplus of the local budgets totalling 11.2 bln. Tenge). The Republican budget ran a deficit worth of 9.3 bln. Tenge (0.4% of GDP).

The external financing of the Republican budget deficit was 26.3 bln. Tenge and the domestic financing and repayment achieved 65.5 and 82.5 bln. Tenge, respectively. In result, because of the domestic financing the net financing of budget deficit came out negative (-)17 bln. Tenge.

The Republican budget revenues amounted to 381.2 bln. Tenge (9.7% above the targeted level).

Tax collection had traditionally ensured a major bulk of the republican budget revenues with VAT, income tax and natural resources use payments having, like formerly, the largest shares in a tax revenues structure.

The additional revenues allowed the Ministry of Finance increasing its deposits with the banking system 2.3 times worth.

The republican budget expenditures and lending amounted to 390.5 bln. Tenge with the cash

performance of spending at 95.3% of the approved level.

Over one third (38.7%) of the republican budget expenditures were directed to finance social benefits and social aid. The financing of the real sector programs increased more than twice (up to 7.1%).

Due to a shrunk placement of the short-term government securities, yields dropped lower than set in the budget exchange rate, the expenditures on the domestic government debt servicing were performed at 92.9% of the planned level.

In 2000 the Ministry of Finance paid off a part of the republican budget arrears reducing them from 15.8 down to 9.0 bln. Tenge by the end of 2000.

The large republican budget revenues allowed diminishing the Government domestic debt by 35.9% (down to 87.4 bln. Tenge).

The quality of the domestic debt structure changed considerably – maturity of the government securities borrowing increased and a foreign currency denominated share of the debt decreased. A growth of the Tenge denominated debt was almost fully due to an increase of the medium-term securities placement. The short-term securities government debt was downsized by 33.4%, and its foreign currency denominated share declined by 66.6%. A major share of foreign currency denominated domestic debt (USD 244.1 mln.) was converted into Eurobonds.

1.4. Balance of Payments and External Debt

Balance of Payments. The positive developments in the world economy pushed up an external aggregate demand and kept high the primary commodities world prices, and coupled with a macroeconomic stability pre-determined a considerable strengthening of Kazakhstan's external position.

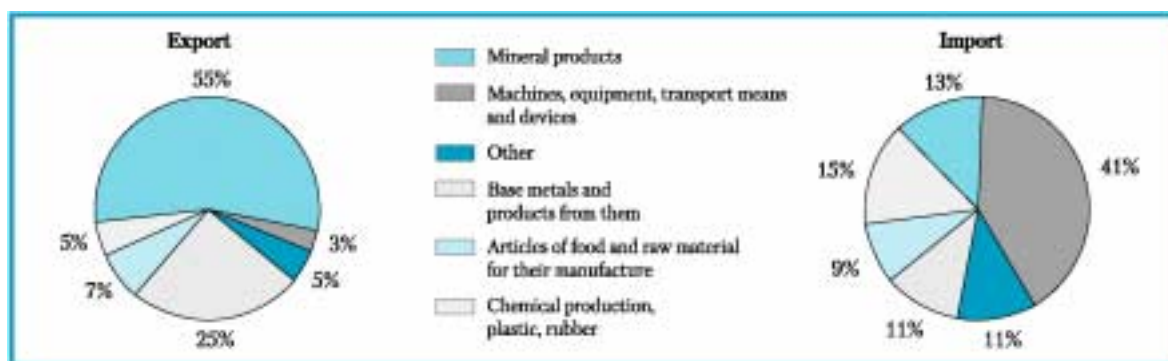
An increase of oil, gas condensate and metals exports due to a demand recovery from Russia and European Union along with a continuing rise of the world prices ensured the exports growth of 1.6 times against 1999, totalling over USD 9.6 bln. against about USD 6.0 bln. in the previous year.

³ Based the data of the Ministry of Finance of the Republic of Kazakhstan.

⁴ All data on 2000 budgets execution are given excluding the counting period.

Figure 1.2.

External Trade Structure of Kazakhstan in 2000



* – by main commodity groups (based data of customs statistics)

While an increase of the physical volumes of exports was registered for nearly all commodities exported, a growth of the exports in terms of value was largely influenced by a rise of oil prices. It resulted in a stronger focus of Kazakhstan's exports on a limited group of the primary goods – in 2000 an outflow of the primary goods ensured three quarters of total export earnings, with oil and gas condensate exports covering about 47%.

High domestic demand due to the increased investment spending and private consumption promoted a recovery of the imports after their considerable decline in 1999. The imports of goods in 2000 achieved USD 6.8 bln. having slightly exceeded the level of 1998. Given a moderate growth of the consumer imports, the volumes of investment, primary and intermediate industrial goods brought into a country went up almost one and a half times.

The improved terms of trade and fast expansion of the exports ensured a record high trade balance surplus in the amount of USD 2.7 bln.

Due to an upsurge of income received by the largest exporters dominated by the enterprises with foreign participation the investment earnings of the overseas companies almost doubled. A growth of foreign services accompanied by a recovery of investment activity and an upsurge of the commodity imports resulted in a substantial expansion of both factor and non-factor services account deficit, which amounted to USD 1.9 bln. over the reporting period against USD 0.7 bln. in 1999.

In 2000 as a whole, for the first time in the history of Kazakhstan independence the net current account surplus achieved the level of USD 1.1 bln. or 5.9% of GDP. *Table 1.3* illustrates a dynamics of the current account main indicators of the balance of payments over the past five years.

Table 1.3.

Current Account Main Indicators of the Kazakhstan's Balance of Payments

	1996	1997	1998	1999	2000
<i>(in mln. US Dollars.)</i>					
Trade balance	-335	-277	-801	340	2,766
Exports	6,292	6,899	5,871	5,989	9,615
CIS	3,534	3,377	2,596	1,883	2,859
Rest of the world	2,758	3,522	3,275	4,105	6,756
Imports	-6,627	-7,176	-6,672	-5,648	-6,850
CIS	-4,018	-3,460	-3,466	-3,014	-4,138
Rest of the world	-2,608	-3,715	-3,206	-2,634	-2,711

Continued

	1996	1997	1998	1999	2000
Services, income and transfers, net	-449	-490	-379	-173	-1,692
Current Account	-751	-799	-1236	-236	1,074
<i>(percentage changes to the previous period)</i>					
Commodity exports	15.7	9.7	-14.9	2.0	60.6
Commodity imports	24.4	8.3	-7.0	-15.4	21.3
Terms of trade	1.7	-1.2	-14.3	13.5	18.2
<i>(in percent of GDP)</i>					
Commodity exports	29.9	31.1	26.5	35.5	52.6
Commodity imports	31.5	32.4	30.1	33.5	37.5
Current Account	-3.6	-3.6	-5.6	-1.4	5.9

An upsurge of the current account income and stable inflow of foreign investment provided a growth of the international reserves. Despite a decline following the National Bank premature redemption of its liabilities to the IMF down to USD 1.9 bln. (as of end of June 2000), the gold and foreign currency reserves amounted to USD 2.1 bln. by the year-end covering 2.9 months of commodity and service imports.

External Debt. The considerably improved external liquidity induced new tendencies in the local businesses' international transactions – the reduced inflows of new financing were accompanied by a growth of the resident assets in foreign currency and active repayment (including the premature repayment as well) of their foreign liabilities.

High earnings from the primary goods exports stimulated an inflow of foreign direct investment (FDI), the gross amount of which reached the maximum level of USD 2.7 bln. worth with over 70% made into oil and gas extraction industries. A growth of output and net profit earned allowed the foreign direct investment enterprises repaying part of their debts to the overseas investors with over USD 1.4 bln. worth of total repayment to the parent companies including the capitalised accumulated interest. As a result, if the foreign investment made by Kazakhstan's enterprises is included, net direct investment made up USD 1.2 bln.

Purchases of the securities from the foreigners (excluding the transactions on the sovereign Eurobonds) prevailed in an investment portfolio of private sector producing USD 74 mln. worth of a net outflow.

The net external debt repayment by the National Bank of Kazakhstan (USD 0.4 bln.) included the premature redemption to the IMF in May 2000. A new issue of the sovereign Eurobonds in the amount of USD 350 mln. and ongoing project implementation by the international financial organizations ensured a surplus of the government sector borrowings with the former sovereign-guaranteed credit repayments exceeding the new disbursements. As a result, the external Government debt including the government guaranteed debt amounted to USD 3.9 bln. by the end of 2000, having declined by USD 127 mln. over the year. It is to be noted that the indicated amount includes the full sovereign bonds debts of Kazakhstan, whereas in the course of only 2000 the Kazakh residents (mainly, the Kazakh Pension Funds) acquired the Eurobonds from the foreigners in the amount of USD 0.3 bln.

The debts of Kazakhstan's enterprises to their parent companies accounted for over 80% of the private sector external liabilities. Having incurred the functions on collecting balance of payments statistics, the National Bank of Kazakhstan had considerably improved a coverage of such liabilities. For example, the current external debt statistics includes the debts of the foreign company subsidiaries, which being active in the territory of Kazakhstan are the country's actual residents, which had not been formerly covered by the state statistics. The improved statistical coverage allowed revealing the additional USD 4 bln. worth of external liabilities, which were not included in an estimate of gross external debt until 2000. It should be noted that the repayment of the parent company credits and loans depends largely on the profits made by a subsidiary. Thus, an upsurge of export earnings of

the direct investment enterprises sharply raised their debt repayments to their parent companies. Since the direct investment aims mostly at long-term business of its subsidiary, such loans might be viewed as long term by their nature and bearing low default risks. Nevertheless, as such indebtedness redemption reduces the opportunities of other external debt servicing financed from the current income, an incorporation of this debt category in an estimate of gross external debt appears to be justified. In total, as of 2000-end the foreign liabilities

to the direct investors (inter-company debt) was about USD 6.8 bln. having grew up by USD 0.5 bln. over the year.

In terms of other private sector liabilities (excluding that to the direct investors) the repayment of the former borrowings exceeded the new disbursements by USD 0.2 bln. and were estimated at USD 1.5 bln. as of end of 2000. The *Table 1.4* gives a dynamics of gross external debt since 1996 by its main categories including the revised debts to the overseas direct investors.

Table 1.4.
Gross External Debt Dynamics
US Dollar, mln., end of period

	1996	1997	1998	1999	2000
1. Government and Government guaranteed external debt	2,606	3,290	4,007	4,056	3,929
– in% of total	44.9	42.5	40.3	33.7	31.3
2. Private sector debt, non-guaranteed by the government	3,201	4,460	5,925	7,995	8,596
– in% of total	55.1	57.5	59.7	66.3	68.7
Incl. Inter-company indebtedness	2,108	2,619	3,506	6,283	6,785
– in% of total	36.3	33.8	35.3	52.1	54.0
TOTAL	5,807	7,750	9,932	12,051	12,525

The gross external debt amortization and servicing were USD 5.4 bln. worth in 2000, having enlarged 2.8 times as compared to 1999. Along with the redemption of the foreign direct investor credits and loans (USD 1.8 bln.) it includes a prema-

ture repayment to the IMF. An increase of the debt servicing was mostly due to the interest paid by businesses on their external borrowing.

Table 1.5 shows the country's external debt dynamics over the last three years.

Table 1.5.
Nominal and Relative Parameters of External Debt of the Republic of Kazakhstan

	1998	1999	2000
A. Nominal parameters (USD, mln.)			
1. Gross external debt (end of period)	9,932	12,051	12,525
– incl. Inter-company indebtedness	3,506	6,283	6,785
2. Aggregate accrued debt servicing payments:	1,520	1,890	5,367
– incl. Inter-company indebtedness			1,804
– Principal repayment	1,209	1,563	4,538
– incl. Inter-company indebtedness			1,415
– interest and concurrent payments	311	326	828
– incl. Inter-company indebtedness			388
B. Relative parameters			
1. Gross external debt per capita (USD)	635	806	844
2. Gross external debt in% of GDP	43.9	71.4	68.6

Continued

	1998	1999	2000
3. Gross external debt in % of goods and services exports	146.6	174.2	116.5
4. Debt servicing in % of goods and services exports	22.4	27.3	49.9
5. Interest payments in % of goods and services exports	4.6	4.7	7.7
<u>For information:</u>			
Average annual population (million people)	15,640	14,957	14,842
GDP (USD bln.)	22.65	16.90	18.25

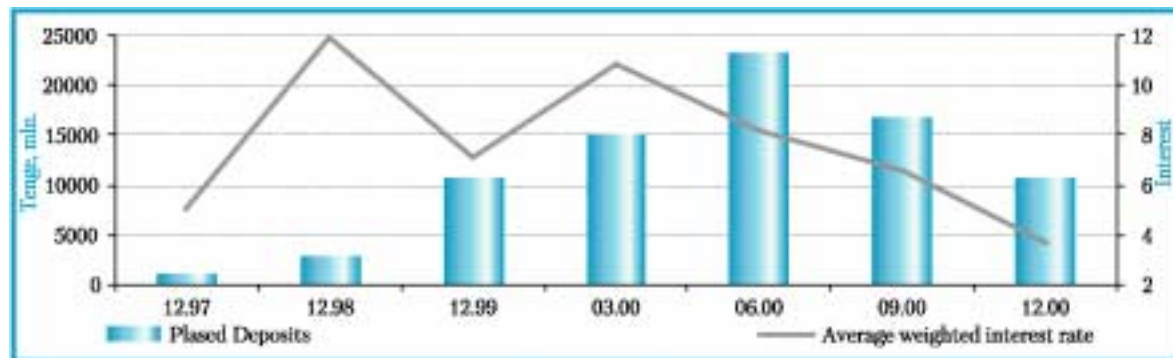
1.5. Development of the Financial Markets

Interbank Money Market. In 2000 a total turnover of the interbank money market of Tenge instruments rose by 79.4% up to 193.1 bln. Tenge with an upsurge of placed deposits volumes at 87.3% up to 192.2 bln. Tenge. Alongside, the interbank Tenge

credit market was practically lacking, mostly due to higher costs of the credit servicing for banks compared to attracting and placing deposits at the interbank market. (Fig. 1.3).

Figure 1.3.

Interbank Tenge Deposit Market



Because of small interbank credit volumes the credit interest rate was not representative, whereas a dynamics of interbank deposit interests characterises an overall position of the market. The average weighted interest rate on the interbank Tenge deposits shrank nearly twice to 3.65% over the year.

In May 2000 the National Bank of Kazakhstan changed the minimal reserve requirements, having excluded the foreign currency cash out of the reserve assets. This had considerably influenced the second-tier bank policies in this segment of market promoting a significant reduction of the volumes of foreign exchange cash circulation and diminishing the excessive reserves of the banks. To meet the

minimal reserve requirements the banks had to borrow heavily at the interbank market, especially, by the end of month. In result, a demand for Tenge resources in the money market surged up considerably leading to a hike of the interest rates. Thus, in May as compared to April an average weighted interest rates on placed Tenge deposits rose from 8.13% to 8.33%, and that on Tenge credits – from 7.36% to 12.43%. Further months the banks began pursuing more reasonable policy and kept the reserve assets level stable favourably affecting a reduction of the interest rates in this market segment.

Facing a decline of yields on short-term Tenge instruments including the interbank borrowing in

Tenge, the banks more frequently managed their liquidity through the interbank short-term borrowing in foreign exchange making placements in the foreign banks mostly. The Dollar deposits and credits made up a considerable share in a structure of interbank foreign exchange borrowings totalling USD 10.6 bln., which exceeds nearly 2.4 times the respective indicator of 1999.

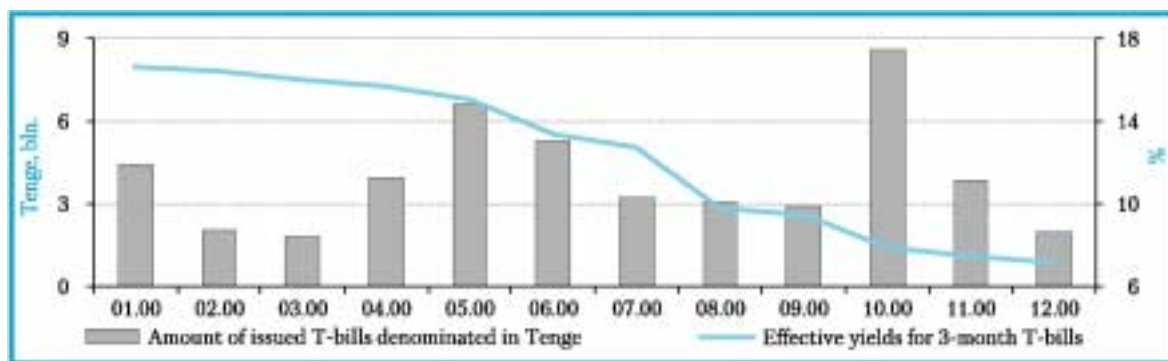
Government Securities Market. Only positive tendencies characterised the market of government se-

curities in 2000. Stable exchange rate of Tenge stimulated an increase of investors' interest to the Tenge denominated securities, and therefore starting April no more foreign currency denominated securities were issued and the volume of Tenge denominated papers in circulation surged up 1.7 times over the year and achieved 109.5 Tenge bln. as of 03.01.01.

A considerable enlargement of the Treasury bills maturity and reduction of the yields general level in the primary market were another positive tendencies of 2000 (*Fig. 1.4*).

Figure 1.4.

Emission of Tenge securities by the Ministry of Finance in 2000



The increased revenues of the republican budget determined its relatively low need in borrowing, enabling the Ministry of Finance to reduce its borrowings in the domestic market as compared to 1999. Thus, placement of the foreign currency denominated government papers for 2000 (issuance was done in the I quarter only) was USD 96 mln., 3 times less than that in 1999, whereas the placements of Tenge denominated securities increased insignificantly (by 15.5%) and was 47.8 bln. Tenge in 2000.

In above, the Ministry of Finance paid off to the National Bank the coupons on 10-years government securities (3.4 bln. Tenge) and 2-years government securities (3.2 Tenge mln.), and repaid the securities of the National Bank portfolio (including the premature repayment) in the amount of 8.0 mln. Tenge.

A share of the 12 month and longer maturity securities in the total portfolio placed by the Ministry of Finance went up from 7 to 44.7% for the period from 1999 to 2000.

The volume of Tenge denominated Ministry of Finance securities in market circulation rose by

6.5% up to 61 bln. Tenge, whereas that denominated in foreign currency contracted 8.3 times to USD 39.7 mln. (due to the restructuring of the special 5-year USD-denominated bonds of the Ministry of Finance into the Eurobonds-2007).

In June 2000 the auctions on the 2-year Tenge denominated Treasury bills (issued in 1998) were resumed, in August for the first time the 3-year Tenge denominated Treasury bills, and in September the indexed Treasury bills of 18-month maturity were issued. In April and August the Ministry of Finance held a subscription to the National Saving Bonds amounting in total to 0.32 bln. Tenge (0.17 bln. Tenge in 1999).

The results of the latest auction showed a drop of the effective yields on the 3-month Tenge liabilities from 16.57 to 6.75% per annum, 6-month papers – from 17.20 to 7.96%, 12-month securities – from 18.01 to 9.60%, 2-year ones – from 16.96 to 15.97%, 3-year ones – from 18.81 to 17.83%, and the NBK notes – from 14.36 to 7.00%.

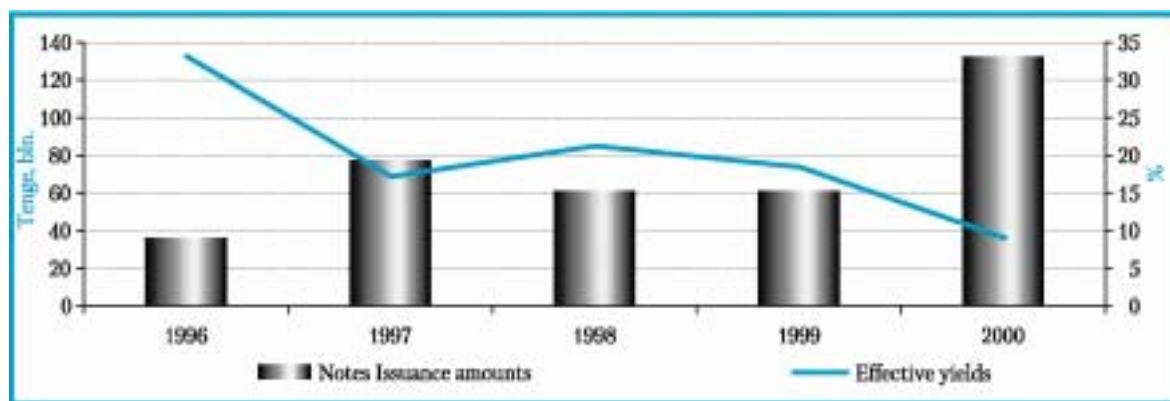
A considerable contraction of the Ministry of Finance domestic borrowing in the second half of

2000 necessitated an expansion of the excessive liquidity sterilisation by the National Bank (*Fig. 1.5*), inducing more than doubling of short-term notes

issuance up to 132.6 bln. Tenge. By the end of the year the volume of the NBK notes in circulation surged up 7.9 times amounting to 48.5 bln. Tenge.

Figure 1.5.

Issuance Amounts and Yields of Tenge Short Term NBK Notes during 1996–2000



Corporate Securities Market. There were recorded 14 bond issues in the amount of 22.8 bln. Tenge in the course of the year, of which 13 issues amounting to USD 159.3 mln. were denominated in foreign currency. Ten foreign currency denominated issues amounting to USD 127.5 mln. were included in the "A" listing at Kazakhstan Stock Exchange (KASE). A growth of "A" listed corporate bonds was largely due to a considerable demand for the new financial instruments from the participants of the accumulating pension system. As of end of 2000 there were recorded 18 issues of the corporate bonds a total amount of 25.3 bln. Tenge.

The volumes of the corporate securities transactions at KASE increased considerably in 2000. The primary placement volumes at KASE (including the municipal bonds placed) grown up 3.3 times to the level of USD 23.4 mln., with corporate bonds making a major share (80.3%) of it. The volumes of the secondary transactions (excluding "repo" operations) of the corporate securities at KASE increased 5.3 times up to 13.9 bln. Tenge.

In 2000 the stock market of Kazakhstan continued suffering a lack of free circulating shares. Even though there were 2,743 share issuing Joint Stock Companies by the end of 2000 (2,374 – by the end

of 1999), and a number of share issues reached 3,085 (2,621 – by the end of 1999), the stock market remains undeveloped.

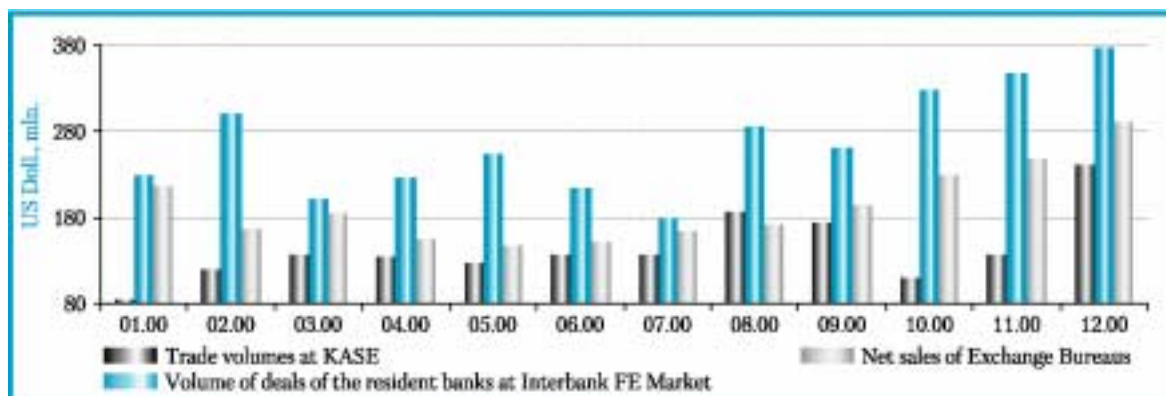
The Foreign Exchange Market. The domestic foreign exchange market remained in an equilibrium throughout 2000 with an average weighted exchange rate slightly fluctuating mostly due to the favourable worldwide prices on energy resources, the exports earnings of which made an important component of the foreign currency inflow into the domestic foreign exchange market.

The foreign exchange market professional operators were active in the course of a whole year. The US Dollar continued to be a major currency employed in the exchange transactions (about 74% of total market turnover).

The structure of the USD transactions showed no significant changes. A share of trades at the interbank currency market was 62.7% of all transactions, and that of KASE was under 32.8%. The US Dollar trading volumes at the interbank currency market amounted to USD 1.7 bln., which is 18.5% below the similar indicator of 1999. The USD transactions between the resident banks at the forex market grew up by 62% amounting to USD 3,206.2 mln. (*Fig. 1.6*).

Figure 1.6.

Domestic US Dollar Segment of the Foreign Exchange Market



Like previously, a share of the transactions with Deutsche mark and Euro was insignificant at both KASE and interbank segments of the foreign exchange market, and continued diminishing. Deutsche Mark and Euro conversion volumes reduced 8.3 and 2.9 times, and amounted to DM 0.950 mln. and 0.720 mln. Euro, respectively. The interbank currency market saw the similar development tendency.

A share of the resident banks' transactions with Russian Roubles at the interbank segment of forex market increased with total volumes having grown up by nearly 40% against 1999 and amounting to RR 651.1 mln.

Like in previous years, the US Dollar was a preferable currency in forex cash market. The monthly dynamics of net USD sales by the Cash forex offices followed closely a pattern of trades by the resident banks at the interbank forex market. The average monthly net sales rose by 48.2% up to USD 193.1 mln., being very close to the level of 1996. The sale/purchase rate correlated to the Tenge exchange rate at KASE.

Deposit market. The deposit market continues develop most dynamically out of all segments of country's financial market.

On the beginning of January the National Bank of Kazakhstan met in full all its liabilities that arose from converting the individuals' deposits frozen during the transition to floating exchange rate regime (in April 1999), promoting further strengthening of the people trust to the banks.

On February 16, 2000 the first 16 banks-members of the deposit insurance (guarantee) system obtained their membership certificates, and began, in a duly established fashion, making allocations to the Close Joint Stock Company (CJSC) "Kazakhstan Public Deposits Insurance Fund" (hereinafter named Fund). This moment a system for protecting time deposits of individuals started functioning being an important achievement of the Kazakhstan's banking system as no other CIS country does have such system. By the end of the year a number of the banks system-members increased to 18.

At the end of March a Law on Bank Confidentiality applicable to the deposits of the individuals was adopted, being also a high achievement in protecting the bank deposits of the households.

A successful launch of the individuals' time deposit insurance (guarantee) system and the considerable banks' efforts to raise funding from the households and organisations resulted in a substantial growth of deposits. Within a year as a whole the deposits of the resident corporates and individuals in the banking system surged up to 293.0 bln. Tenge, having increased by 72.0%.

A positive tendency of an outpacing growth of time deposits strengthened, with latter being a main source of lending to real sector. Time deposits increased 2.4 times up to 162.7 bln. Tenge, and demand deposits went up by 26.1% amounting to 130.3 bln. Tenge (Fig. 1.7). As a result, a share of time deposits in total volume of the resident deposits rose up considerably (from 39.3 to 55.5%).

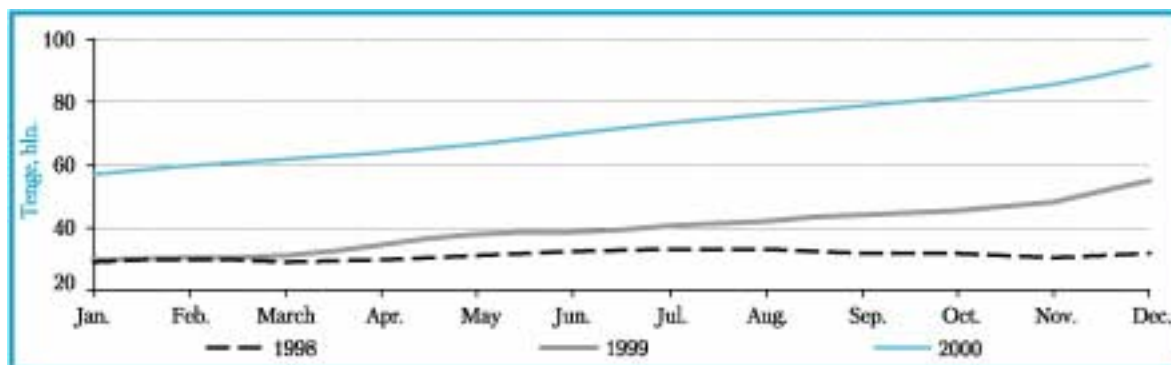
Figure 1.7.

Resident Deposits in the Banking System (by Deposit Maturity)

The deposits in the national currency increased by 60.6% up to 142.9 bln. Tenge, while the foreign currency deposits rose by 84.5% up to 150.1 bln. Tenge (over 1 billion of US Dollars). A share of Tenge deposits declined from 52.2% to 48.8%. Most people still preferred to deposit their funds in foreign currency, even though a real yield of forex deposits was considerably lower than that of denominated in Tenge. This was expected, in principle, as personal cash savings in "stockings" kept in foreign currency fuelled a main inflow of the deposits.

Under the favorable development of the country's economy in a whole and personal income gradually growing a positive tendency of households' money inflow into the banking system strengthened in 2000 (Fig. 1.8). Within a year the bank deposits of individuals (including foreigners) increased by 66.7% up to 91.7 bln. Tenge (foreign currency equivalent – USD 634.5 mln.). The individuals' deposits grew up by 36.7 bln. Tenge (USD 236.6 mln.), while that in 1999 was 23.4 bln. Tenge (USD 20.5 mln.).

Figure 1.8.

Dynamics of Household Deposits (including Foreigners)

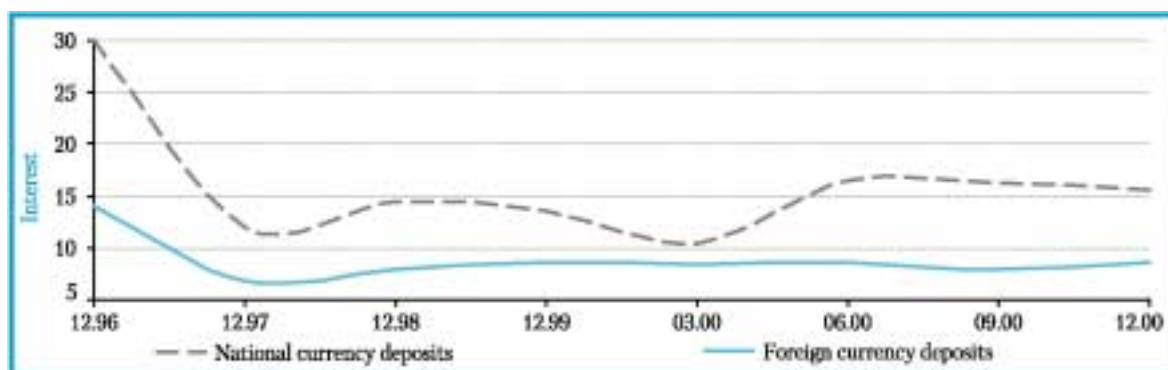
A share of time deposits in the structure of household deposits increased considerably from 61.7 to 70.7%.

Given a considerable liquidity increase the deposit policies of the banks was aimed mostly to raise a longer term funding. Therefore due a strengthening competition among banks in the private depos-

it market the interest rates on the household time deposits saw a general rise. By the end of 2000 the remuneration rate on time Tenge denominated deposits of individuals was 15.6% (by the end of 1999 – 13.5%) and that for the foreign currency deposit – 8.6% (as of year start – 8.5%) (Fig. 1.9).

Figure 1.9.

Remuneration Rates on Time Deposits of Individuals



Lending Market. Due to an expansion of the banks' resource base (mainly through deposit growth) the lending capacity of the banking sector as a whole was strengthened considerably, and its lending activities increased. The efforts of the National Bank promoted an of the banks' lending credit activities as well. In particular, the refinancing rate was reduced twice (from 18% to 16% and then down to 14%), and a norm of mandatory reserves was lowered (from 10 to 8%). In the second half of 2000 an Instruction on partial placement of the banks' funds in domestic assets was adopted, which obliges the second-tier banks to invest the funds they raised within the country into the domestic economy.

To stimulate the mortgage lending a Concept on financing the long-term housing construction and mortgage lending system development in the Republic of Kazakhstan was worked out and approved by the Government Decree. By the end of the year Kazakhstan Mortgage Company was established. Its main function would be refinancing of the second-tier banks through issuing and

placing the mortgage bonds in the secondary market.

Also, a Law "On Financial Leasing", developed mostly by the National Bank was adopted.

All mentioned developments combined with a financial improvement of many enterprises promoted an expansion of lending to the economy. Within 2000 the bank lending to the economy rose by 85.6%, and by the end of December 2000 it reached 276.2 bln. Tenge (over USD 1.9 bln.). Both national and foreign currency denominated lending saw growth with a 97.4% upsurge of that in Tenge to 135.3 bln. Tenge and a 75.5% rise of the foreign currency loans to 140.9 bln. Tenge (USD 974.8 mln.).

Medium- and long term credits increased during this period by 81.2% and amounted to 133.0 bln. Tenge, the short-term – by 89.8%, having achieved 143.2 bln. Tenge. A share of the short-term loans still remains high (51.8%) (Table 1.6), mostly due to the banks' resource base structure with a high share of short-term and demand deposits and limited capacity of the banks to extend medium- and long-term loans.

Table 1.6.

Loans to the Economy (by Maturity and Currency)

Classification of Bank Loans	1997		1998		1999		2000	
	Tenge bln.	Share, %	Tenge bln.	Share, %	Tenge bln.	Share, %	Tenge bln.	Share, %
Short-term loans	51.2	71.4	57.9	62.0	75.4	50.7	143.2	51.8
– in national currency	32.9	45.9	37.6	40.3	37.4	25.1	69.9	25.3
– in foreign currency	18.3	25.5	20.3	21.7	38.0	25.6	73.3	26.5
Medium-term loans	15.3	21.3	26.9	28.8	37.2	25.0	71.6	26.0
– in national currency	6.9	9.6	12.1	13.0	19.5	13.1	36.3	13.2
– in foreign currency	8.4	11.7	14.8	15.8	17.7	11.9	35.3	12.8
Long-term loans	5.2	7.3	8.6	9.2	36.2	24.3	61.4	22.2
– in national currency	1.7	2.4	3.4	3.6	11.7	7.8	29.1	10.5
– in foreign currency	3.5	4.9	5.2	5.6	24.5	16.5	32.3	11.7
Total loans	71.7	100.0	93.4	100.0	148.8	100.0	276.2	100.0

An increased (from 52.9 to 61.6%) share of loans, extended by the banks to acquire the working capital in a total bank lending to the economy (exclud-

ing the overdue loans) illustrates that the borrowers use the loan funds mostly to replenish their working capital (*Table 1.7*).

Table 1.7.

Bank Loans* to the Economy (by Objectives)

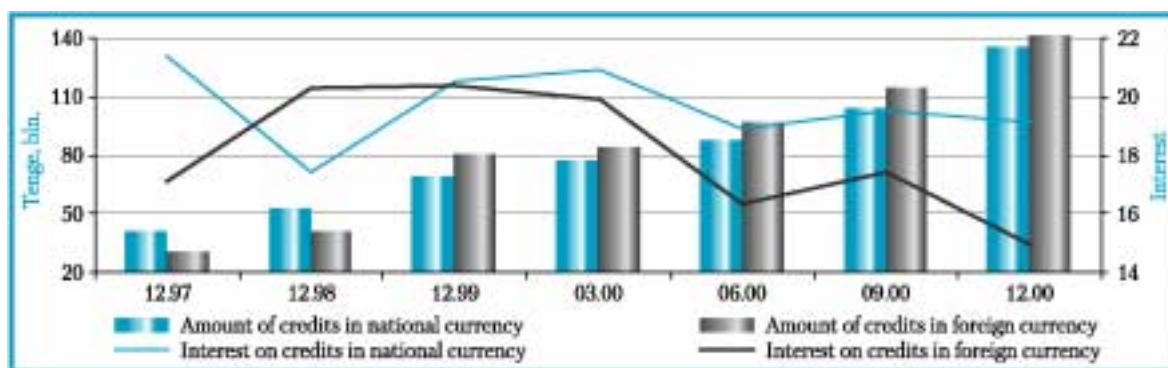
Main Loan Objectives	1997		1998		1999		2000	
	Tenge bln.	Share, %	Tenge bln.	Share, %	Tenge bln.	Share, %	Tenge bln.	Share, %
To acquire turnover means	30.9	53.3	50.8	59.1	73.6	52.9	167.1	61.6
To acquire fixed assets	3.8	6.6	8.8	10.2	14.8	10.6	27.6	10.2
For new construction and reconstruction	7.6	13.1	4.5	5.2	7.9	5.7	15.2	5.6
For construction and acquisition of new housing by the individuals	1.8	3.1	1.8	2.1	2.5	1.8	3.1	1.1
For consumer purposes of the population	1.1	1.9	1.8	2.1	3.0	2.2	6.3	2.3
To acquire securities	0.5	0.8	1.1	1.3	1.3	0.9	7.9	2.9
Other objectives	12.3	21.2	17.2	20.0	36.0	25.9	44.3	16.3
Total loans	58.0	100.0	86.0	100.0	139.1	100.0	271.5	100.0

* – excluding overdue loans

The borrowers used only 10.2% (10.6% in the beginning of the year) of total bank loans to the economy to acquire the fixed assets. A share of loans for reconstruction, production development or equipment purchasing was also not large in the bank portfolios (5.6%). The long term investment was constrained mostly by a lack of the long-term resources at the banks as well as the high lending risks.

Given a sustainable development of the country's economy, Tenge stabilisation, low inflation and reduction of refinancing rate – a major monetary indicator – the market rates on banking loans were gradually going down. In December as compared to the year beginning the average weighted interest rate on Tenge lending to the corporate businesses went down from 20.8% to 18.8% annualised and that on loans in foreign currency – from 20.4% to 14.7% per annum (*Fig. 1.10*).

Figure 1.10.
Banking Lending to the Economy



A total amount lent to the small businesses increased by 34.3 bln. Tenge (by 86.1%) up to 74.2 bln. Tenge as of 01.01.01. However the risks of lending to small business still remain high. A share of

amounts lent to small business in a total lending to the economy saw almost no change and was 26.9% (26.8% in 1999).

II. MONETARY AND FOREIGN EXCHANGE POLICY

In 2000 a maintenance of low inflation was a priority of the National Bank monetary policy and floating Tenge exchange rate policy was pursued further.

In order to regulate the short-term banking system liquidity the following instruments were used: the open market transactions with short-term notes and government securities, official rates regulation, refinancing of the banks through promissory notes rediscount, and short-term loans (overday and overnight) to the banks to maintain their liquidity.

To mitigate extreme short-term fluctuations of Tenge exchange rate and prevent Tenge overappreciation the National Bank intervened in the domestic foreign exchange market (foreign currency purchases and sales).

The exchange rate of Tenge against US Dollar declined by 5.2% over the year (in 1999 – 64.6%) and was 145.40 Tenge per 1 US Dollar by the end of the year (*Fig. 2.1*).

Figure 2.1.

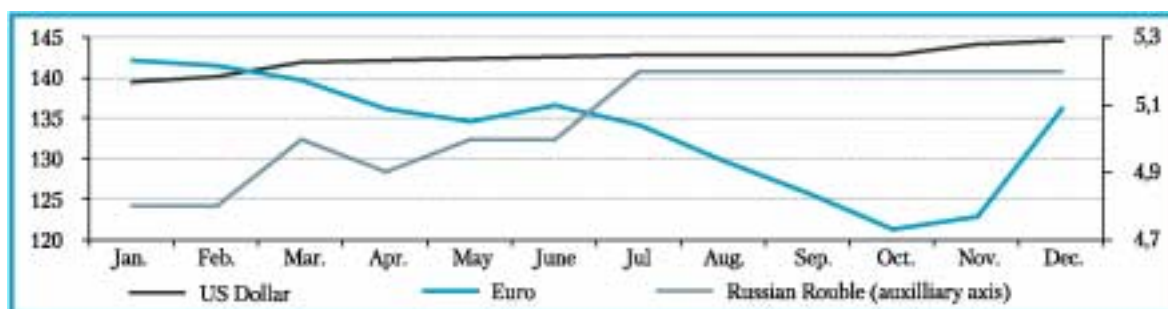
Dynamics of Exchange Rate Tenge vis-a-vis US Dollar at KASE



By the end of 2000 the official exchange rates of the national currency were as follows: 144.50 Tenge/USD; 5.16 Tenge/Russian Rouble and 136.21 Tenge/Euro (*Fig. 2.2*).

Figure 2.2.

The Official Exchange Rates of Tenge against Foreign Currencies, end of period

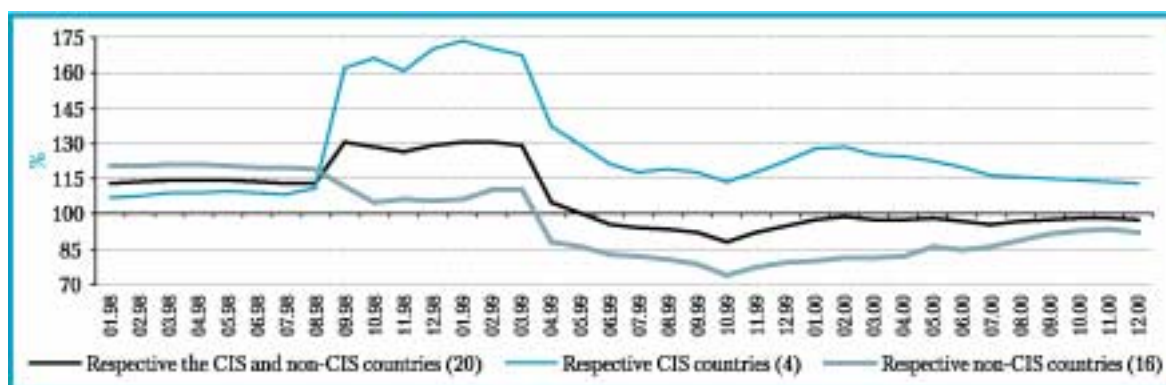


Moderate Tenge depreciation rates promoted a further recovery of the price parity with the countries – main trade partners of Kazakhstan. An index of Real Effective Exchange Rate (REER) of Tenge relative to the CIS countries fell down since the year beginning by 7.6%, which was related to a 8.5% strengthening of Russian Rouble. Over a year in a whole Tenge appreciat-

ed by 16% in real terms in respect of other countries' currency basket (mostly due to an average annual depreciation of Euro by 11.3%). In result within 2000 the REER index had increased by only 2.8% in respect of a group of 20 countries – major trade partners. Dynamics of real effective exchange rate indices in the period of 1998 – 2000 is given in the *Fig. 2.3*.

Figure 2.3.

Dynamics of Tenge Real Effective Exchange Rate (1996=100%)



2.1. Monetary Policy Instruments

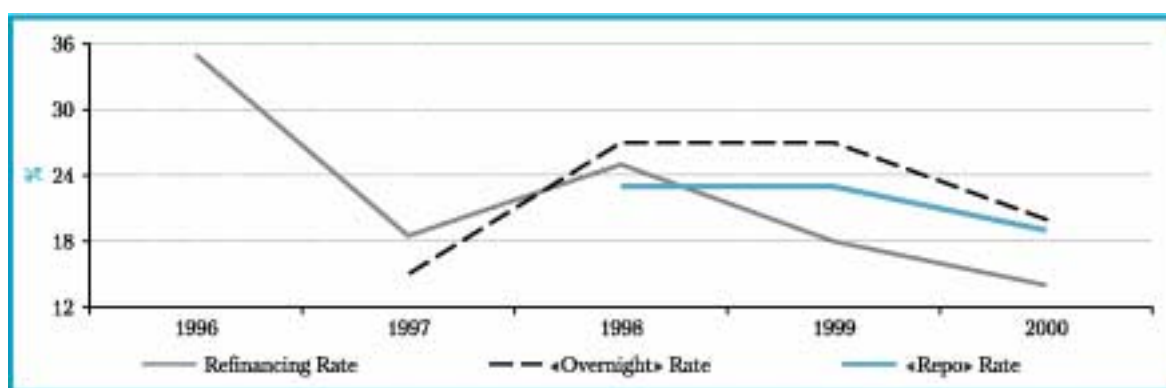
Official Rates. To induce the second-tier banks to lower the interest rates on commercial loans the National Bank maintained a slightly positive real refinancing rate and kept reducing the official rates over the year. The refinancing rate was lowered from 18% to 14% over

the year, the "overnight" loan rate – from 27% to 21% and "repo" operations rate – from 23 to 19% (Fig. 2.4).

To carry out promissory notes rediscount transactions the National Bank introduced and established an official discount rate of 12.5% starting June 20, 2000.

Figure 2.4.

Official Rates of the National Bank of Kazakhstan



Minimal Reserve Requirements. To ensure the money market equilibrium and regulate bank liquidity, starting 01.05.00 the minimal reserve requirements for the banks were reduced from 10 to 8% of total deposits from non-bank legal entities and individuals.

Lowering of the minimal reserve requirements did not weaken the protection of the interests of the bank depositors and creditors, but, in opposite,

enabled the banks to manage the raised resources more efficiently and enhance lending to the real sector of the economy.

Open Market Operations. To manipulate the banking system liquidity and sterilise the money supply in 2000 the National Bank carried out open market operations through selling and buying the securities and on REPO and reverse REPO (Table 2.1).

Table 2.1.

Open Market Operations of the National Bank

Transactions	Amount, bln. Tenge	Yield, %	Duration, days
Purchase of the Government Securities	16.2	10.78	954.08
Sale of the Government Securities	18.0	13.33	34.51
REPO		5.61	14.84
Opening	52.4		
Closure	51.4		
Back REPO		8.51	7.12
Opening	10.4		
Closure	4.4		

The National Bank Lending. The loans of the National Bank of Kazakhstan amounted to 1,401 mln. Tenge, of which 1,311.2 mln. Tenge were lent to the second-tier banks and 89.8 mln. Tenge – to the organizations.

To finance gold mining industry – an enterprise "ABS Balkhash", a bank consortium was established based the principles of syndicated bank lending. The National Bank did a partial refinancing of this consortium (699.2 mln. Tenge or USD 4.9 mln.).

Due to the EBRD loan repayment by the National Bank, a loan extended by the National Bank to the Close Joint Stock Company "Kazkommertsbank" under the EBRD program loan for the small and medium enterprise development was restructured. The made Consortium agreement restructured this loan into a bank loan in the amount of USD 4.3 mln. (612.0 mln. Tenge).

Disbursements under a special purpose loan to build up a payment system reserve centre of KCIS was continued. The disbursements made to KCIS in 2000 amounted to 89.8 mln. Tenge or USD 573.5 mln. (that of 1999–2000 period was 601.5 mln. Tenge).

The National Bank introduced a system of promissory notes rediscount with the following first promissory notes issuers identified – "Kazatomprom" Close Joint Stock Company (CJSC) and "Kazakhtelecom" CJSC. The General agreements on bill rediscount were made with 12 banks. In December 2000 the six bills of "Kazatomprom" CJSC with up to 6-month maturity amounting to 7.1 mln. Tenge were already accepted for rediscounting.

The National Bank made the agreements with 17 second-tier banks on "overnight" loans. The banks were monthly informed on the limits of the "overnight" lending by the National Bank, however, due to the sufficient liquidity of the banking system in 2000 the banks did not apply for the "overnight" borrowing.

Credit repayment amounted 238.2 mln. Tenge in 2000.

Classification of the loan portfolio was carried out monthly and provisions were made. The total amount of the provisions made in 2000 was 7.1 bln. Tenge.

The borrowers` debt on the National Bank`s loans extended during 1994–1996 was 6.1 bln. Tenge as of 01.01.01, including 2.3 bln. Tenge of principal and 3.8 bln. Tenge of unpaid interest and penalty.

Over 80% of the borrowers having arrears on the National Bank loans are currently in the process of liquidation or subject to the bankruptcy procedures. The overdue arrears and principal debts of these borrowers are estimated at 4.7 and 2.3 bln. Tenge, respectively.

The borrowers paid off the bank loss loans in the amount of 2.1 mln. Tenge.

Because of completion of the liquidation process the overdue debts of 9 banks (0.8 bln. Tenge) to the National Bank were cancelled. In above, the debts of the Ministry of Internal Affairs institutions in the amount of 71.9 mln. Tenge were cancelled as well.

The National Bank undertook legal action against all borrowers.

2.2. Money Aggregates

Past developments determined a behavior of money aggregates during the reporting period. Thus, in the beginning of the year a seasonal decline of money aggregates was observed. The monetary base and cash in circulation continued to decline during the first quarter and exceeded the year-

start level in September only. Reserve money and money supply growth (Figs. 2.5, 2.6) show their synchronic behavior in the course of the year. However due to the outpacing growth of deposits in the banking system the money supply exceeded the year-start level already in May.

Figure.2.5.

Dynamics of the Monetary Aggregates (to previous month, %)

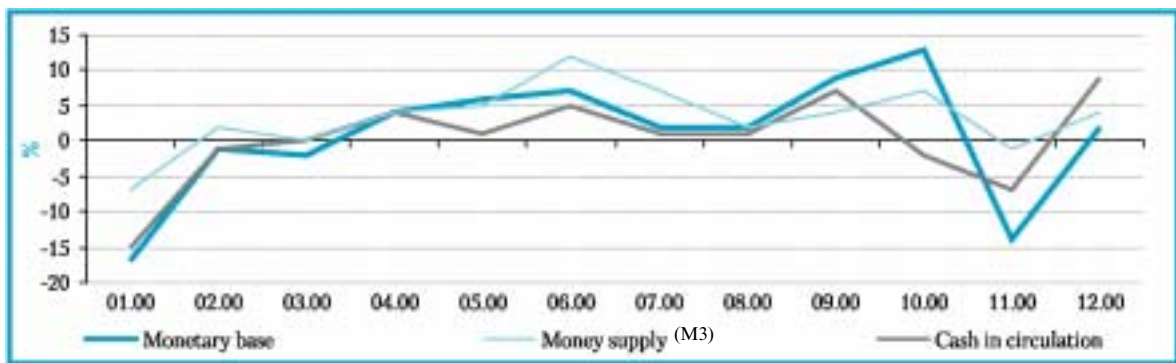
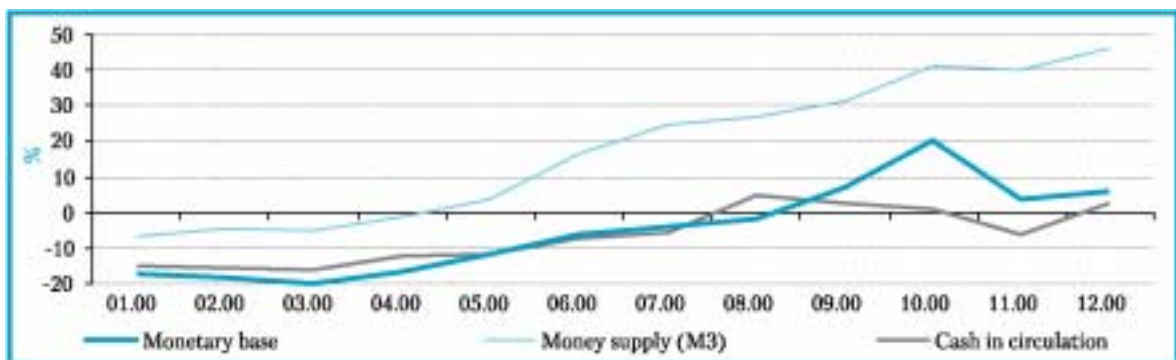


Figure 2.6.

Dynamics of Aggregate Changes (nominal to the year-start, %)



The Monetary Base. An increased foreign currency inflow onto the Ministry of Finance accounts in the National Bank and foreign exchange purchases by the National Bank in the domestic forex market promoted a considerable growth of the National Bank net international reserves by 37.6% up to USD 2,093.9 mln. However, the monetary base expanded by only 5.7% up to 134.0 bln. Tenge which was due to National Bank's sterilisation of the ex-

cessive liquidity in the second half of the year more actively. A rise of the National Bank net international reserves was offset by a 7.9 times increase of short-term notes in circulation (or by 43.0 bln. Tenge) and a 2.3 times increase of the Government deposits (or by 26.8 bln. Tenge).

Money Supply. A dynamics of the banking system assets was also positive in 2000. Thus, the net both

external and internal assets of the banking system increased up: the former – by 15.9% (or by USD 294.9 mln.) and the latter – more than 5.2 times (or by 71.3 bln. Tenge). An upsurge of the banking system internal assets was due a considerable (more than 1.8 times) increase (or by 137 bln. Tenge) of the claims to other sectors of economy (despite a reduction of net banking system claims to the Government by 26.9% and its other net internal assets decline by 30%). All indicated factors promoted a growth of the money supply by 45.9% up to 399.5 bln. Tenge.

The structure of the money supply retained a positive tendency of bank deposit growth – since the year beginning its share went up from 62.2% to 73.4%, causing an increase of the money multiplier from 2.16 to 2.98.

The cash in circulation went up slightly – by 2.8% up to 106.4 bln. Tenge, as in the beginning of the year its level was high due to the payouts of the accumulated pension and social benefit arrears in December 1999. During the first quarter the cash in circulation continued to decline mostly due to a seasonal effect and since April this indicator started growing. The highest rate of circulation cash growth was noted in December (by 9.4%) and September (by 7.5% up to 106.1 bln. Tenge), which is also due to a cyclic nature of its behavior.

A considerable upsurge of money supply led to a rise of economy monetisation from 13.6% in 1999 to 15.4% in 2000 (the highest level since Kazakhstan independence).

2.3. Foreign Exchange Regulations and Control

In 2000 foreign exchange regulation and control mechanism was improved to incorporate developments in the external and domestic forex markets, new financial instruments, and changes of investment and trade terms.

An adoption of the Law "On amendments and additions to certain legislative acts of the Republic of Kazakhstan on the forex regulation issues" furnishes an opportunity to work out a more flexible facility to regulate capital outflows and widen a list of norms, violation of which would entail punishment.

The changes tightening the requirements on the exchange bureaux premises and the applicable technical means to identify the authenticity of the money banknotes were brought into the regulating and legislative acts. In above, the changes made allow automation of the exchange transactions records.

The improvement of the export-import foreign exchange control was continued. The National Bank worked out the proposals to improve the export-import foreign exchange control mechanism as well as drafted a new version of the Instruction on organising the export-import foreign exchange control in the Republic of Kazakhstan.

An implementation of the submitted proposals in practice would allow strengthening the control over the export receipts inflow into the country and commodities imports against the respective import payments.

To strengthen monitoring of the forex movement for the carried out export-import transactions two new types of licensed transactions are introduced – an allocation of the forex received by a resident as a loan from a foreigner onto the third party's accounts, and a receipt of export earnings by a resident with maturity over 120 days.

To implement a government program on stock market development the licensing procedures of such operations for the pension assets managing companies were simplified. Six General Licences were extended in 2000 to the pension funds to make investment into foreign securities.

A need to unify requirements on the foreign currency cash takeout throughout the Customs Union countries has led to a change of requirements to prove a legal origin of the cash foreign currency taken by the individuals out of the Republic of Kazakhstan. While formerly an individual was required to provide to the customs authorities a justification

for a full amount of taken out foreign currency cash, now only the amount exceeding the established limit is subject for justification. In the Republic of Kazakhstan a norm of the cash foreign exchange to be taken out by an individual is equivalent to the amount of 3 thousand US Dollars.

The checks of the foreign exchange legislation compliance of the forex market operators was one of the main forms of the foreign exchange control. 15 banks, 3 legal entities were checked, the materials of 461 checks of the authorised organizations and 10 checks of the authorised banks carried out by the regional branches of the National Bank were reviewed.

A number of legal entities applied to the National Bank for a license on the capital movement transactions increased. Thus, while in 1999 121 licenses were issued on such transac-

tions, this number increased to 214 in 2000. A structure of licenses issued revealed that a number of licenses on funding the non-residents under the import transactions tends to increase, which is explained by a broadened coverage of the import transactions by the foreign exchange control.

In 2000, 497 licenses on exchange transactions with cash foreign currency were issued including the re-registration of licensed organizations, and a total number of their cash forex offices changed insignificantly (1,066 – as of 01.01.01 as compared to 1,137 as of 2000 beginning). A total number of the bank and non-bank cash forex offices was 2,485 and 2,402, respectively. A share of the bank cash forex offices dominates in the total volume of the carried out exchange transactions on foreign currencies (over 80% of turnover).

2.4. Gold and Foreign Exchange Assets Management

The gross gold and foreign exchange assets of the National Bank increased in 2000 by 4.6% (or by USD 92.6 mln.) up to USD 2,096 bln., and the

net gold and foreign exchange assets – by 37.6% (or by USD 572.7 mln.) up to USD 2,094 bln. (*Table 2.2*).

Table 2.2.

Gold and Foreign Exchange Assets of the National Bank

	01.01.00	01.04.00	01.07.00	01.10.00	01.01.01
Gross GFEA	2,003,237	1,872,693	1,911,101	2,189,828	2,095,849
Assets in FCC and SDR	1,480,460	1,375,620	1,386,943	1,685,483	1,594,308
Assets in precious metals	522,777	497,073	524,158	504,345	501,541
External liabilities (FCC)	482,057	423,522	3,289	1,935	1,975
Net gold and foreign exchange assets	1,521,180	1,449,171	1,907,812	2,187,894	2,093,873

mln. USD

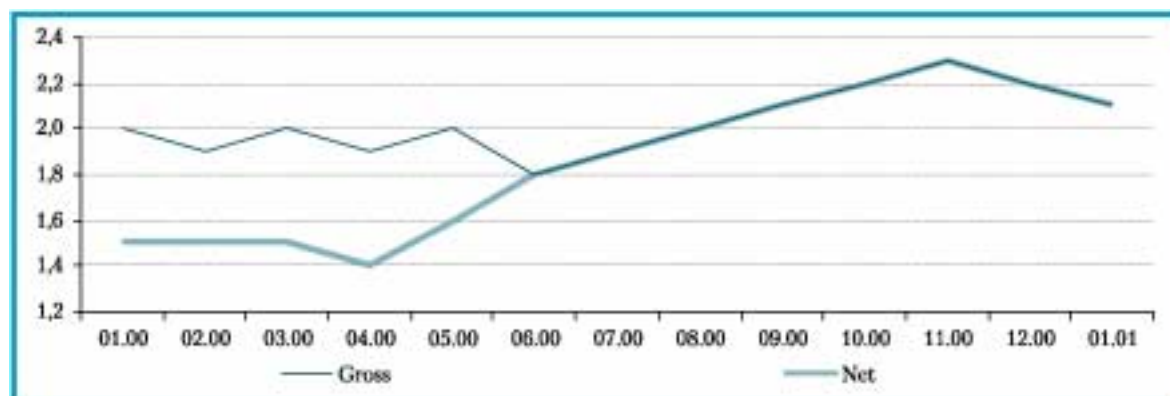
Gross gold and foreign exchange assets grew in general over the year, which was due to the following:

- Forex purchases by the National Bank in the domestic market;
- Forex inflow onto the accounts of the Ministry of Finance (including that from the 3rd issue of the Eurobonds made by Kazakhstan in the inter-

national capital markets, from the state property privatisation and rent payments of Russia for "Baikonur" space-ground, and tax payments by the foreign investors operating in the oil and gas sector).

The net gold and foreign exchange assets were growing more dynamically due to the premature repayment by the National Bank to the IMF (*Fig. 2.7*).

Figure 2.7.

The Gold and Foreign Exchange Assets of the National Bank


A portfolio structure of the gold and foreign exchange assets had changed considerably in 2000: a share of the foreign exchange went up substantially (from 62.43 to 76.10%) along with a simultaneous decline of the share of gold (from 26.21 to 23.89%)

(Table 2.3). The share reduced due to a price fall as US dollar strengthening exerted a significant pressure on metal markets having invoked a wave of hedging gold sales by the producers and large central banks. SDR share dropped from 11.35 to 0.01%.

Table 2.3.

Structure of Gold and Foreign Exchange Assets

Assets	<i>in% of total</i>	
	01.01.00	01.01.01
FCC (freely converted currency)	62.43	76.10
Gold	26.21	23.89
SDR	11.35	0.01

The transactions of the National Bank with the Gold and Foreign Exchange Assets. In 2000 the management strategy of the National Bank for the overall gold and foreign exchange assets portfolio was aimed to enhance active foreign exchange portfolio management, expand the gold transactions in the external and domestic markets, and increase the yields of operations.

135 and 19 transactions were carried out on placing and raising, respectively, the foreign exchange assets. The deposit deals with US Dollar had the largest share, and most deposit transactions were held on 1–2 week base to gain temporary placement retaining the liquidity. The deposit transactions with the counterparties were carried out in accordance with the established limits.

The foreign exchange operations of the National Bank in the domestic market amounted to USD 1,078.3 mln., of which USD 1,076.7 mln. were in USD/KZT segment, and USD 1.6 mln. – in the USD/RUB segment. The transactions at the Kazakhstan Stock Exchange (KASE) amounted to USD 677.9 mln. (USD 327.4 mln. worth of sales and USD 350.5 mln. worth of purchases) with the net purchases making USD 23.1 mln. The National Bank operations in the domestic interbank market amounted to USD 398.8 mln., of which USD 112.2 mln. worth of sales and USD 286.6 mln. worth of purchases with the net purchase reaching USD 174.4 mln.

To maintain the liquidity of Kazakhstan's commercial banks 1 Swap transaction in the USD/KZT segment in the amount of USD 15.0 mln. was held.

The volume of the foreign currency exchange transactions carried out by the National Bank in the external markets amounted USD 462.8 mln., being due to a purchase of English Pounds Sterling and Euro for the US Dollars to restructure the NBK portfolio.

The reverse REPO operations with the US Federal Reserve Bank had average annual daily-re-

sidual balance of USD 628.9 mln., an average annual yield of 6.19%, and income USD 38.4 mln. worth. An income growth on reverse REPO operations was due to an increase of the REPO account balance and increased return.

The incomes on the current and term accounts reduced by USD 7.0 mln. as compared to the previous year and amounted to USD 3.6 mln. (Table 2.4).

Table 2.4.

Structure of Income, Accrued on Current and Call Accounts

Currency	In percent of total income			
	1997	1998	1999	2000
USD	3.60%	1.19%	1.58%	10.18%
EUR	-	-	3.51%	5.72%
GBP	1.67%	1.08%	0.51%	1.49%
CHF	-	-	0.10%	0.46%
DEM	1.14%	0.94%	-	-
FRF	-	0.04%	-	-
ECU	-	0.06%	-	-
RUR	0.06%	0.04%	0.04%	0.06%
JPY	0.39%	0.16%	0.01%	0.06%
SDR	93.14%	96.49%	94.25%	82.03%
Total	100.00%	100.00%	100.00%	100.00%

The volume of the transactions with the US government securities increased considerably with 64 security purchases amounting to USD 1 177 mln., 60 sales in the amount of USD 997 mln., and USD 235 mln. worth of redemptions.

The US Treasury bills portfolio reduced in 2000 by USD 55 mln. down to USD 325 mln. in nominal terms. The income from the US securities transactions went up by USD 2.6 mln. and amounted to USD 21.0 mln.

The National Bank sold 5 options with US Government securities in the amount of USD 100 mln., of which 3 – purchase options, and 2 – sale options. The options were not implemented and given this the transaction premium was at USD 331.3 thousand.

In order to increase the return of the gold and foreign exchange assets operations in the second half of 2000 the National Bank began trading the International Financial Organizations (IFO) securities with 68 purchases of IFO papers amounting to USD 977 mln., 38 sales of USD 364 mln. worth, and USD 70 mln. worth of redemptions. In result, the nomi-

nal value of the International Financial Organizations papers portfolio was USD 543 mln. worth by the end of 2000. The trade income amounted to USD 9.7 mln.

The portfolio of the German Government securities increased in 2000 from USD 62.4 to 122.5 mln. through 9 purchases in the amount of Euro 120 mln. The income from the FRG Government securities was USD 3.7 mln. worth.

1 purchase of the Great Britain government securities amounting to GBP 20 mln. was carried out in 2000. This portfolio increased by USD 29.7 mln. up to USD 55.7 mln. The income from the transactions with Great Britain securities amounted to USD 2.1 mln.

When conducting the gold transactions the National Bank adhered to the following strategy:

- Placing the long term and low risk deposits;
- Increasing gold share in external assets by physical exports of the gold assets to the external markets;
- Conducting arbitrage operations on gold within the established operational limits;

- Resuming the operations in the domestic market of gold.

The National Bank made a contract on actual delivery and placement of 10 metric tons of gold in the external market. Besides, 32 purchases of refined gold in the amount of USD 20 mln. were done in the domestic market.

To enhance the efficiency of managing the gold and foreign currency reserves the National Bank

made the agreements on external management for the amount of USD 300 mln.

Income Structure of the Operations with Gold and Foreign Exchange Assets.

The incomes from the gold and foreign exchange assets operations of the National Bank increased by 64.5% in 2000.

Table 2.5.

Income Structure based Accrual Method

№	Transaction type	In% of total income		
		1998	1999	2000
1.	Foreign exchange transactions	17.18%	11.94%	11.86%
2.	Money market operations	26.25%	21.88%	6.40%
3.	Stock market operations	53.24%	53.19%	67.61%
4.	Transactions with gold	3.33%	12.99%	2.54%
5.	External management	-	0.00%	11.59%
	Total:	100.00%	100.00%	100.00%

Correspondent and Dealing Relations of the NBK on GFEA operations

The National Bank has an extensive network of the correspondent banks in CIS and non-CIS countries (39), International Financial Organizations (4), specialised companies (14), and the banks of the Republic of Kazakhstan as well (28):

In the USA – 6 banks including the Federal Reserve Bank, 3 specialised companies, and 2 International Financial Organizations;

In Europe – 20 banks, of which 3 are central banks (Great Britain, Germany and Belgium), 11 specialised companies, and 1 International Financial Organization;

In Asia – 3 banks, including 1 central bank (Turkey), 1 International Financial Organization;

In CIS – 10 banks, of which 8 are central banks, 1 is interstate bank, and 3 are commercial banks.

III. EMISSION AND CASH FLOWS

Implementing a function of the state emitting bank the National Bank of Kazakhstan fully and timely met demand of the country's economy participants for the national currency cash. As of 01.01.01 the amount of cash in circulation was 106.4 bln. Tenge.

To implement the additional measures on national currency protection against forgery the National Bank introduced new 200 and 500 Tenge banknotes with enhanced protection elements starting September 1, 2000.

Issuance. During 2000 the National Bank emitted out of its reserve funds 192.1 bln. Tenge worth of banknotes, of which 72.9 bln. Tenge worth of new banknotes. At the same time 186.1 bln. Tenge worth, including the worn banknotes for the amount of 71.2 bln. Tenge, were taken out of circulation. In result the net issuance amounted to 6 bln. Tenge over the year, being considerably less than that in 1999 (37.5 bln. Tenge). A reduction of the issuance outcome was due to an increase of cash volumes out of circulation.

Memorial Coins. Pursuant the Concept of the jubilee and memorial coins issuance for 2000–2005, the National Bank issued the following coins in 2000:

- 50 thousand neusilber coins of 50 Tenge nominal value dedicated to 55-th anniversary of the Victory in the Great Patriotic War of 1941–1945;

- 50 thousand neusilber coins of 50 Tenge nominal value dedicated to 100-th birth anniversary of Sabit Mukanov;
- 50 thousand neusilber coins of 50 Tenge nominal value dedicated to 1 500-th anniversary of Turkestan foundation;
- 3 thousand silver (925/1,000) coins of 100 Tenge nominal value dedicated to 1,500-th anniversary of Turkestan foundation;
- 1 thousand golden (999/1,000) coins of 500 Tenge nominal value dedicated to 1,500-th anniversary of Turkestan foundation;
- 3 thousand silver (925/1,000) "Solar God" coins of 500 Tenge nominal value dedicated to "Sary-Arka and Mangyshlak Petroglifs" series.

Cash in circulation. In 2000 the second-tier banks received 1,233.9 bln. Tenge and paid out 1,221.1 bln. Tenge worth of cash, exceeding by 44% and 43%, respectively, the similar indicators of 1999 (Table 3.1).

A rose of cashflows was observed for nearly all inflow and outflow items.

A share of coins in the total cashflows between the National Bank and the second-tier banks increased:

- from 1.9 bln. Tenge to 3.2 bln. Tenge in cash paid to the STB (second-tier banks);
- from 1.6 bln. Tenge to 2.4 bln. Tenge in cash received from the STB.

Table 3.1.

Cash Turnover in the Second-Tier Banks

№	Cash flow Indicators	1999		2000	
		mln. Tenge	share, %	mln. Tenge	share, %
1.	Cash inflows to the banks:	660,331	100.00	1,029,591	100.00
1.1.	Corporate	289,706	43.87	452,755	43.97
1.2.	Foreign currency sales	229,839	34.81	371,626	36.09
1.3.	Deposit placements	26,072	3.95	40,563	3.94
1.4.	Sales of securities	281	0.04	374	0.04
1.5.	Loan repayments	4,138	0.63	8,420	0.82
1.6.	Taxes, duties and customs payments	22,973	3.48	30,169	2.93
1.7.	Other inflows	87,322	13.22	125,685	12.21
2.	Received from the National Bank	195,253	X	204,343	X
3.	Total INFLOW	855,584	X	1,233,934	X
4.	Outflows from the banks	690,423	100.00	1,022,702	100.00
4.1.	Corporate	353,691	51.23	548,652	53.65
4.2.	Foreign currency purchases	38,248	5.54	83,529	8.17

Continued

№	Cash flow Indicators	1999		2000	
		mln. Tenge	share, %	mln. Tenge	share, %
4.3.	Pensions and benefits	66,256	9.60	129,398	12.65
4.4.	Securities	1,087	0.16	897	0.09
4.5.	Loans	2,485	0.36	4,332	0.42
4.6.	Household deposits	120,498	17.45	104,295	10.20
4.7.	Other expenditures	108,159	15.67	151,600	14.82
5.	Delivered to the National Bank	158,648	X	198,433	X
6.	Total OUTFLOW	849,071	X	1,221,135	X

Withdrawal of the Worn Banknotes. During 2000 the branches of the National Bank classified as the worn-out banknotes in the amount of 71.3 bln. Tenge, of which 8.3 bln. Tenge worth of banknotes were destroyed in the same period.

To maintain the due quality of the national currency banknotes and intensify the measures on taking the worn banknotes out of the circulation all NBK branches and the commercial banks were instructed to terminate dispensing banknotes of the nominal value from 1 to 50 Tenge and replace them with the coins. To stimulate the involvement of the second-tier banks in a process of the worn banknotes withdrawal the National Bank cancelled levying the commercial banks with a tariff for the acceptance of 1, 3 and 5 Tenge banknotes.

To regulate and control the cashflows the amendments and additions were introduced into the regulatory acts of the Republic of Kazakhstan in part of cash flows control implementation:

1) empowering the National Bank to establish the requirements on organising cash servicing of the banks and their clients as well as cash storage, transportation and records by the banks and establishing rules and procedures for the cash settlements;

2) establishing the limits of the cash use in settlements among the legal entities.

To streamline various design coins circulation all NBK branches and the commercial banks terminated dispensing currently circulating coins of 1993 design.

IV. FINANCIAL SECTOR

4.1. The Banking Sector

Situation in the Banking Sector. In 2000 the banking sector was developing under conditions different from 1999. First, a stability of the national currency and reduction of the financial instrument yields should be noted. Besides, an introduction of a system on mandatory collective insurance for household deposits influenced considerably the change of the banks' balance sheet structure (both assets and liabilities) and their yields.

The banking sector consolidation process as moderately evolving in 2000. In particular, the

"Kustanaibank" OJSC was reorganized by its merges with the "Bank Apogei" OJSC, "Kaskelenskyi Regional Agroindustrial bank" OJSC was reorganised into a credit partnership, and "Societe Generale Kazakhstan" CJSC volunteered to be liquidated. The banking licenses of 5 financially unstable banks were revoked. In result, a total number of the second-tier banks reduced from 55 to 48 banks, including the banks with foreign participation – from 22 to 16 (due to liquidation of 3 banks and a reduction of foreign share in the capital of 3 banks) (*Table 4.1*).

Table 4.1.

Quantitative Composition of the Banks

	Indicator	01.01.00	01.01.01
1.	Number of banks (STB), incl.:	55	48
	– interstate	1	1
	– with 100% stake of the Government of the Republic of Kazakhstan in Authorised capital	1	1
	– banks with foreign participation	22	16
2.	Number of STB branches	426	418
3.	Number of settlement offices	1,065	964
4.	Number of STB representations abroad	3	5
5.	Number of non-resident bank representations in the Republic of Kazakhstan	17	15

A primary objective of the National Bank as an institution authorised to regulate banking business is to protect the interests of the bank depositors and strengthen trust to the banking system from the population. In this relation a decision was made to introduce conservation regime in "Kazagroprombank" OJSC starting 01.12.00 in order to protect the savings of the rural population – the bank depositors amounting to over 56 thousand people.

1 bank with 100% government stake ("ExIm-bank Kazakhstan" CJSC) is functioning. The state share in the authorised capital of Halyk Savings Bank of Kazakhstan OJSC declined down to 33.3% and that in the Bank "CentreCredit" OJSC is 17.9%.

A share of foreign capital in the banking sector of Kazakhstan had slightly reduced from 15.6 to

14.3% of consolidated banking sector assets due to a faster growth of Kazakhstan's banks.

A banking license was issued to the "Subsidiary Bank of "National Bank of Pakistan in Almaty" in 2000.

On December 31, 2000 the requirements were put forward for the second-tier banks under the Program on transition to the international standards became due. In the course of the Program implementation (1996–2000) a number of banks significantly reduced because of the financially unstable banks. Within the reporting year a number of the banks engaged in and excluded from the Program declined from 36 to 35, and from 14 to 9, respectively.

Table 4.2 shows the main indicators of the banking sector by the bank groups in their transition to the international standards.

Table 4.2.

Bank System Transition to the International Standards

Indicator	01.01.00	01.01.01
Banks included in I group	11	11
Banks included in II group	25	24
Banks, not included in the Program	14	9
Subsidiary banks of non-resident "A" rated parent banks	4	3
Banks that met the Program requirements	1	1

Most domestic banks are in an adequate financially sustainable position. This is proved by that a number of local banks obtained internationally recognised credit ratings increased from 7 to 8 over 2000. The assets of these banks accounted for 66.9% of the consolidated banking sector assets.

A number of the subsidiaries of similarly rated non-resident parent banks saw no change and stayed at 10. The assets of these banks accounted for 14.3% of the total assets of the second-tier banks.

Equity. As of 01.01.01 a consolidated equity capital of the second-tier banks amounted to 98.0 bln. Tenge (foreign currency equivalent – USD 678 mln.), having increased during 2000 by 29.0 bln. Tenge (or 42.0%) (Table 4.1). Much of equity growth was contributed by an increase of tier-

1 capital by 20.8 bln. Tenge or 36.8% (from 56.5 bln. Tenge to 77.3 bln. Tenge) due to a rise of the consolidated authorised capital by 15 bln. Tenge or 28% (as of January 1, 2001 – 68.5 bln. Tenge), which was in turn necessitated by a need to meet the National Bank requirements on the bank capitalisation. In above, the undistributed profits received by the banks in 2000 exceeded the similar indicators of 1999 by 7.0 bln. Tenge or 1.7 times (as of January 1, 2001 – 11.1 bln. Tenge). An increase of tier-2 capital was 9.2 bln. Tenge worth or 54.1% (from 17.0 bln. Tenge to 26.2 bln. Tenge). In its turn, the tier-2 capital went up due to both banks' profits in the amount of 7.1 bln. Tenge and increase of subordinated debt by 8 bln. Tenge. A necessity to meet the National Bank requirements on capitalisation explains these increases as well.

Figure 4.1.

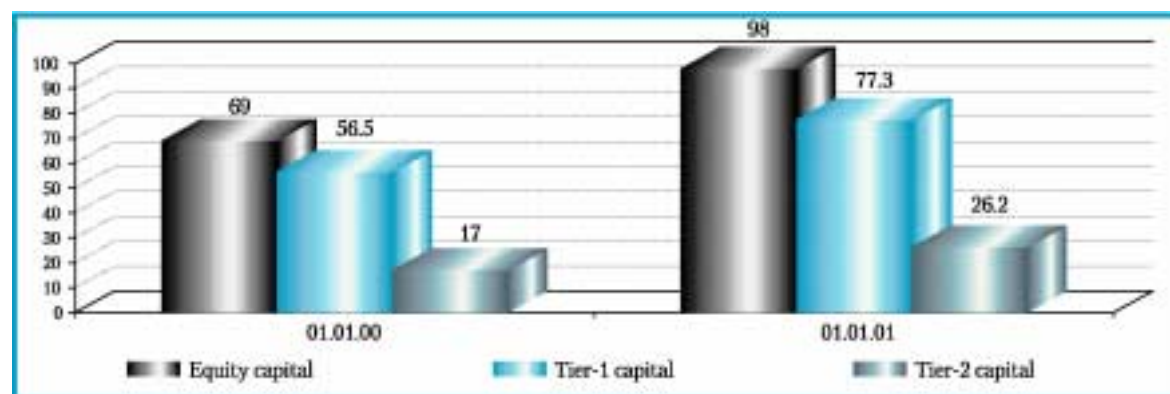
Dynamics of Banking Sector Equity Capital (bln. Tenge)

Table 4.3.

Consolidated Equity Capital

	01.01.00	01.01.01	
	bln. Tenge	bln. Tenge	Changes in%
Total Equity Capital	69.0	98.0	42.0%
Tier-1 capital	56.5	77.3	36.8%
<i>Authorised capital</i>	53.5	68.5	28.0%
<i>Additional capital</i>	4.3	5.4	25.6%
Retained profits	4.1	11.1	170.7%
Tier-2 capital	17.0	26.2	54.1%
<i>Current profit</i>	9.5	7.1	-25.3%
<i>Subordinated debt</i>	2.1	10.1	480.9%

A share of the domestic capital in the consolidated registered authorised capital of the banking sector increased from 73.1% to 77.0% (Table 4.4). This rise was gained due to the non-government equity capital, the share of which went up from 59.8% to 66.1%. The government continued to pur-

sue the policy of reducing its participation in the banking sector resulting in a drop of its share from 13.3% to 10.9%. The faster growth of Kazakhstan's banks led to a shrinkage of foreign capital share in the banking sector of Kazakhstan from 26.9% to 23.0%.

Table 4.4.

Consolidated Registered Authorised Capital (by ownership)

№		<i>In percent</i>	
		01.01.00	01.01.01
1.	Total domestic capital, incl.	73.12	76.97
	Government capital	13.29	10.88
	Non-government domestic capital	59.83	66.09
2.	Foreign capital	26.88	23.03
	Total of the banking sector	100	100

2000 saw a remarkably high growth rates of the consolidated banking sector assets, which outstripped the rates of an equity capital increase con-

siderably. In result the consolidated ratios of the equity capital adequacy went down slightly remaining, however, high (Table 4.5).

Table 4.5.

Equity Capital Adequacy Ratios

№	Coefficient	01.01.00	01.01.01
1.	Ratio of equity tier-1 capital to the consolidated assets (K1)	0.15	0.14
2.	Ratio of equity capital to the risk weighted assets (K2)	0.28	0.26
3.	Ratio of equity capital to classifiable assets	0.23	0.28
4.	Ratio of equity capital to the provisions	4.14	6.71
5.	Ratio of equity capital to loan portfolio	0.41	0.34
6.	Ratio of equity capital to bad loans	7.56	16.90

Assets. The banking consolidated assets went up in 2000 by 187.1 bln. Tenge, and were 528.2 bln. Tenge worth (foreign currency equivalent – USD

3,655 mln.) as of 01.01.01 (as of 01.01.00 – USD 2,468 mln.), having increased by 48.1% over a year (Table 4.6).

Table 4.6.

Dynamics and Structure of the Banking Sector Assets in 2000

№	Assets Item	01.01.00		01.01.01	
		bln. Tenge	in % of total	bln. Tenge	in % of total
1.	Cash	15.0	4.4	20.8	3.9
2.	Nostro accounts	68.0	19.9	32.4	6.1
3.	Government securities	37.0	10.8	99.2	18.8
4.	Deposits with other banks	12.6	3.7	26.7	5.1
5.	Credits and advances to other banks	1.3	0.4	4.9	0.9
6.	Accounts receivable from clients	154.7	45.4	272.9	51.7
7.	Other securities	7.5	2.2	19.0	3.6
8.	Capital investment	4.3	1.3	5.5	1.0
9.	Fixed assets and intangible assets	18.5	5.4	23.1	4.4
10.	Other assets	22.2	6.5	23.7	4.5
	Total Assets	341.1	100.0	528.2	100.0

A share of the assets denominated in foreign currency reduced from 52.8% (180.1 bln. Tenge) to 48.4% (255.4 bln. Tenge), which was due to the reduction of Tenge depreciation rates. In addition to a general growth of the consolidated assets their structure changed considerably. In particular, the claims to the clients surged up significantly – by 118.2 bln. Tenge or 76.4%, in foreign currency equivalent – by 68.7% (the share in the consolidated assets rose from 45.4% to 51.7%), and the portfolio of the government papers increased substantially – by 62.2 bln. Tenge or 2.7 times, the growth in foreign currency equivalent was 2.2 times (the share in the consolidated assets went up from 10.8% to 18.8%). Besides, the residual balances of the "nostro" accounts decreased by 35.6 bln. Tenge or 2.1 times, in foreign currency equivalent – 2.1 times (the share in the consolidated assets reduced from 19.9% to 6.1%).

The classifiable assets grew up in 2000 by 97.4 bln. Tenge (38.3%), including a rise of the loan portfolio by 119.0 bln. Tenge (by 71.1%) up to 286.4 bln. Tenge. It is worth noting that the quality of assets improved considerably over the year as a whole.

A share of the standard assets rose from 70.3% to 81.7%, and at the same time the share of the doubtful assets dropped from 26% to 16.7% due to the decline of the shares of the substandard (from 22% to 12.8%) and highly risky doubtful (from 1.8% to 1.6%) assets despite an increase of the unsatisfactory assets from 2.2% to 2.3%. The share of the bad assets fell from 3.7% down to 1.6%. Positive development in the assets quality was due to the improvement of the banks' policies on risk evaluation and strengthening of the financial sustainability of the banks' clients in the result of the economy stabilisation (Table 4.7).

Table 4.7.

Quality of the Consolidated Banking Sector Assets

Asset group*	01.01.00		01.01.01	
	Principal amount, bln. Tenge	in % total	Principal amount, bln. Tenge	in % total
<i>Standard</i>	180.9	70.3	289.8	81.7
Doubtful	67.0	26.0	59.1	16.7
<i>Substandard</i>	56.8	22.0	45.4	12.8
<i>Unsatisfactory</i>	5.6	2.2	8.2	2.3
<i>Highly risky doubtful</i>	4.6	1.8	5.5	1.6
Bad	9.5	3.7	5.9	1.6
TOTAL	257.4	100	354.8	100

* – loan portfolio, deposits placed with other banks, receivables.

Liabilities. Total liabilities of all second-tier banks amounted to 436.2 bln. Tenge or USD 3,019 mln. (Table 4.8) at the end of 2000. The growth rates of the consolidated liabilities in Tenge in 2000 slightly decreased against 1999. This should not be viewed as a negative dynamics since an increment of the consolidated bank liabilities in 1999 was largely due to the re-evaluation of the foreign currency denominated liabilities in the result of high depreciation of the national currency, while the growth in 2000 was driven mostly by an actual increase of the bank deposit base.

Thus, whereas the total consolidated liabilities rose in 1999 by 85.1%, and an increase in foreign currency equivalent was only 12.3%, in 2000 the liabilities went up by 61.1% and in foreign currency equivalent it made 54.1%.

Nearly all items of liabilities showed a positive growth. Like in 1999 a growth of the deposit base (increment in 2000 was 122.1 bln. Tenge or 61.8%, in terms of foreign currency – 54.8%) contributed the liabilities dynamics most considerably. A share of the raised deposits in the total sum of the consolidated banking sector went up from 72.9% to 73.3% in 2000.

Table 4.8.

The Consolidated Liabilities of the Banking Sector

bln. Tenge

№	Liabilities Item	01.01.00	01.01.01	Increment	
				Amount	%
	Total liabilities	270.8	436.2	165.4	61.1
1.	Total deposits (incl. Interbank deposits), incl.	197.5	319.6	122.1	61.8
	Demand deposits	123.6	148.8	25.2	20.4
	Time deposits	73.9	170.8	96.9	131.1
2.	National Bank credits	2.8	2.8	-	-
3.	Other bank credits	11.6	17.5	5.9	50.9
4.	Liabilities to the International Financial Organisations	5.1	7.4	2.3	45.1
5.	Loans received from the Kazakhstan Government	8.2	7.3	-0.9	-11
6.	Loans from the non-banking institutions	20.7	23.6	2.9	14.0
7.	Other	24.9	58.0	33.1	132.9

It is worth to note that growth of the clients` time deposits exceeded the expansion of the clients` demand deposits. Thus, the clients` time deposits increased in 2000 by 91.4 bln. Tenge or 2.4 times (as of January 1, 2001 – 156,2 bln. Tenge or USD 1.1 bln.), whereas the demand deposits – by 34.4 bln. Tenge or 29.9% only (149.4 bln. Tenge or USD 1.0 bln.).

During 2000 the deposits held by the individuals grew up by 36.7 bln. Tenge or 66.7% (as of 01.01.01 – 91.7 bln. Tenge or USD 635 mln.), of

which time deposits – by 30.9 bln. Tenge or 91.2% (64.8 bln. Tenge) and demand deposits – by 5.8 bln. Tenge or 27.5% (26.9 bln. Tenge) (Table 4.9). A share of the banks participating in the public deposits insurance system in the consolidated deposits held by the individuals increased from 89.1% to 92.7%, of which for time deposits – from 87.7% to 92.7%. The larger growth of time deposits, which are subject to insurance, is a direct consequence of the deposit insurance system introduction.

Table 4.9.

Clients` Deposits

		<i>bln. Tenge</i>	
№		01.01.00	01.01.01
1.	Total deposits, of which:	179.9	306.0
2.	Deposits held by legal entities, of which:	124.9	214.3
	Demand deposits	93.9	122.5
	Time deposits	30.9	91.4
3.	Deposits held by individuals, of which:	55.0	91.7
	Demand deposits	21.1	26.9
	Time deposits, of which:	33.9	64.8
	Time deposits subject to insurance	-	60.1

The corporate deposits increased by 89.4 bln. Tenge or 71.6%, of which time deposits – by 60.5 bln. Tenge or 3 times (91.4 bln. Tenge), and demand deposits – by 28.6 bln. Tenge or 30.5% (122.5 bln. Tenge).

The shares of banks` loans in the interbank market and from the non-banking institutions were not large in the consolidated banking sector liabilities, being 4.0% and 5.4%, respectively.

Liquidity. The liquidity of the banking system was excessive during 2000. An aggregate coefficient of current liquidity stayed at about the same level (0.95–1.01) throughout 2000 and was 0.98 as of 01.01.01 given the minimum ratio of 0.3. This was due to outstripping growth of the liquid and volatile demand liabilities and a deficiency of the profitable funding projects as well.

The size of the liability to assets ratio witnesses that as of the reporting date the share of liabilities

in the total assets was 82.6% and that of capital – 17.4% (for the previous year – 79.4% and 20.6%, respectively).

The share of the liquid assets in the consolidated banking system assets reduced slightly during the year (from 34.9% to 31.2%), and a share of the demand liabilities in the consolidated liabilities dropped from 46.3% to 38.5%.

A ratio of the banks` outstanding loans to the raised clients` deposits was 0.94 as of 01.01.01 (similar coefficient in 1999 was 0.85).

Profitability. 2000 results showed that the second-tier banks received the consolidated net income after income tax in the amount of 7.1 bln. Tenge (in 1999 – 9.5 bln. Tenge). The consolidated income and expenditures were 125.8 bln. Tenge (135.6 bln. Tenge) and 118.7 bln. Tenge (126.1 bln. Tenge) worth, respectively (*Table 4.10*).

Table 4.10.

Banking Sector Incomes

		<i>bln. Tenge</i>	
		01.01.00	01.01.01
	Net income related to interest received	18.1	27.5
	Allocations for provisions	18.4	14.6
	Net income from the main banking transactions	-0.3	13.5
	Net income from financial (dealing) operations	5.2	10.1
	Net income from other banking transactions	24.6	21.1
	Operational costs	21.1	24.8
	Net income	10.0	7.7
	Net income after income tax	9.5	7.1

The structure of the second-tier banks incomes and expenditures changed considerably. Whereas in 1999 the financial outcome of the main banking transactions was an incurred loss in the amount of (-0.3) bln. Tenge, in 2000 the net income on this item was 13.5 bln. Tenge. Such considerable growth was due to both the mentioned above increase of the banking operations volume and a reduction of expenses on provision – by 3.8 bln. Tenge or 20.7% (from 18.4 bln. Tenge for 1999 to 14.6 bln. Tenge for 2000).

The net income from other banking transactions declined in 2000 against the outcome of 1999 from 24.6 bln. Tenge to 21.1 bln. Tenge. Whereas in 1999 major profits resulted from the re-evalua-

tion gains, in 2000 the net income from other banking transactions was due to the net commission income and net income from the financial (dealing) transactions.

The tax payments of the banks (except the income tax) increased 2.3 times up to 4.6 bln. Tenge, whereas the income tax paid by the banks stayed almost unchanged and amounted to 0.6 bln. Tenge.

Relative ratios characterising the bank profitability were lower than the similar ratios of 1999 (Table 4.11), except a ratio of the net income from dealing transactions to that before the income tax. This was due to both the bank returns and a considerable growth of the assets and liabilities.

Table 4.11.

Consolidated Ratios Showing the Banking Sector Profitability

Coefficient	01.01.00	01.01.01
Ratio of net income before income tax to consolidated assets (ROA)	2.8%	1.5%
Ratio of net income before income tax to equity capital (ROE)	13.8%	7.9%
Ratio of interest income to consolidated assets	8.7%	8.7%
Ratio of loan interest income to consolidated loan portfolio	14.7%	12.1%
Ratio of dealing net income to consolidated net income before the income tax	52.7%	131.2%
Ratio of interest expenditures to consolidated liabilities	44.9%	4.3%
Ratio of spending on reserves to consolidated assets	5.3%	2.8%

4.2. Non-banking Institutions

Non-banking institutions deliver various types of banking services to wide groups of population (credit partnerships, pawn-shops and organisations engaged in lending and fi-

ancial leasing), and carry out specialised banking services (organisations engaged in settlement and transfer operations, clearing and cash).

Table 4.12.

Institution type	Quality	Number of branches/ Acceptance posts	mln. Tenge	
			Authorised capital	Assets
Pawn-shops	42	121	240	818
Credit partnerships	8		154	282
Organisations carrying out some banking operations	51	65	4,851	126,649
Total	101	186	5,245	127,749

General Information. In total there were 101 of the non-banking institutions as of 01.01.01 (as of 01.01.00 – 88), including:

- 8 credit partnerships;
- 42 pawn-shops;
- 51 organisations implementing some banking transactions.

Besides, 65 branches of the non-banking institutions and 121 pawn-shop acceptance posts were functioning as of beginning of 2001.

Out of 101 non-banks 26 are the legal entities with state participation. This is due to a necessity of the state policy conduction in the area of ensuring the settlements between the public organisations, small and medium business, development and implementation of the social programs aimed to support the poor people.

Non-banking institutions operate throughout all regions of the country, however, a concentration of the institutions strongly differs by the regions. This

is explained by different social and economic environment, including demand for their services, in particular, the availability of the profitable projects for financing. For example, a number of the non-banking institutions located in Almaty city is 43 or 42.6% of their total number and that in Astana city – 12 or 11.9%, what is far below the bank concentration in these regions.

Equity. The consolidated equity capital of the non-banking institutions was 8,490.3 mln. Tenge worth as of 01.01.01 having increased by 2,180.3 mln. Tenge or 34.6% over 2000. An increase of the authorised paid-up capital by 3 714 mln. Tenge or 3.4 times was a major reason for the equity growth. Besides, a rise of retained net income of the previous years by 435 mln. Tenge or 41.3%, due to which the dividends were unpaid mostly, influenced the growth of the non-banks` equity capital (*Table 4.13*).

Table 4.13.

mln. Tenge

Equity Capital Components	Pawn-shops		Credit Partnerships		Organisations implementing some banking operations		Total	
	2000	1999	2000	1999	2000	1999	2000	1999
	Paid-up authorised capital	240	189	154	30	4,851	1,312	5,245
Reserve capital	1	0.5	0.5	0.5	213	705	214.5	706
Premiums on stock								
Fixed assets re-evaluation fund			0.5				0.5	
Net past retained income	-29	-5	-1	0.5	1,517	1,056.5	1,487	1,052
Current retained income	33	-25	4		1,110	2,616	1,147	2,591
Recalled capital					-6	-0.4	-6	-0.4
Additional paid-up capital			0.3		5		5.3	
Additional unpaid capital	5	6			392	424	397	430
Equity capital	250	165.5	158.3	30.7	8,082	6,114	8,490.3	6,310

Equity capital yields were 13.5% based the outcome of 2000.

Assets. Consolidated assets of the non-banking institutions were 127,749 mln. Tenge worth, having increased by 49.8% during the reporting year. In

above, fund volumes (including bank accounts) went up by 11,086 mln. Tenge or 6.8 times, what is explained by an insufficiency of the profitable projects faced by the non-banks. At the same time a size of the loan portfolio decreased by 16,622 mln. Tenge or 44.4% (*Table 4.14*).

Table 4.14.

mln. Tenge

Assets Item	Pawn-shops		Credit Partnerships		Organisations implementing some banking operations		Total	
	2000	1999	2000	1999	2000	1999	2000	1999
	Intangible and fixed assets	1	1	2	3	336	194	339
Fixed assets	75	63	24		4,273	2,236	4,372	2,299
Long term investment					119	20	119	20
Participation in legal entities capital	11				1,358		1,369	
Receivable accounts	17	88			25,352	2,674	25,369	2,762
Other accounts receivable (less reserves for doubtful debts)	94			3	53,882	14,413	53,976	14,416
Commodity and tangible stocks	6	10			644	386	650	396
Short-term financial investment		11			1,265	473	1,265	484
Securities			57				57	
Cash funds (incl. Bank accounts less the losses provisions)	124	78	48	12	12,811	1,807	12,983	1,897
Credits and advances	457	316	127	23	20,270	37,137	20,854	37,476
Leased assets		4			5,543	4,182	5,543	4,186
Other assets	33	23	24	4	796	21,131	853	21,158
Total assets	818	594	282	45	126,649	84,653	127,749	85,292

Licensing. In 2000 the National Bank of Kazakhstan granted the licenses to 3 organisations carrying out some banking operations, 5 pawn-shops and 3 credit partnerships.

In above, the licenses for carrying out some banking operations of 2 pawn-shops and 1 credit partnership were cancelled and the license of 1 credit partnership was suspended due to their violation of the existing banking legislation norms.

Supervision measures. While supervising the activities of the non-banking institutions some cases of violating the Requirements of the existing banking legislation were discovered. In order to remedy such events the limited measures were applied to the respective non-banks pursuant the existing legislation. There were 29 cases of measures imposed, which included written warnings and prescriptive statements and requirement of the letters of commitment.

4.3. Banking Supervision

Licensing. The subsidiary bank "National Bank of Pakistan" CJSC received a license for banking activities in 2000.

Besides, the licenses of 39 banks were updated and the same number of banks got licenses for additional banking operations.

The licenses on all banking activities of 8 banks were nullified, of which:

- that of 1 bank due to its merge reorganisation;
- that of 1 bank due to its reorganisation into a credit partnership;
- that of 5 banks due to the systematic violation of the prudential norms, regulatory legal acts and non-performance of the National Bank written prescriptive statements;

– that of 1 bank due to its voluntary liquidation.

In result, a number of the second-tier banks holding the National Bank banking license reduced in 2000 from 55 to 48. 44 banks hold the license for carrying out the banking operations in Tenge and foreign currency (as of 01.01.00 – 49 banks).

The consent was issued to open 20 and close 24 bank branches. Besides, 289 newly opened settlement and cash offices were registered. Alongside 390 settlement and cash offices were closed during the year.

Prudential Requirements. A share of the banks violating the prudential requirements remained almost at the 1999 level (as of 01.01.00 – 30,9% banks, and as of 01.01.01 – 31,2%). Notably that both poorly capitalised banks and those engaged in the Program on transition to the International Standards violated these requirements. A number of banks that violated all prudential requirements either decreased or remained at the same level (*Table 4.15*).

Table 4.15.

Violation of the Prudential Requirements by the Second-Tier Banks

Prudential Requirement	As of 01.01.00	As of 01.01.01
Minimal paid-in Capital	4	1
Equity capital adequacy (K1)	5	2
Asset sufficiency coefficient (K2)	5	2
Minimal risk per single borrower (K3)	6	6
Minimal risk per single borrower having special relations with a bank (K3aff.)	6	5
Current liquidity coefficient(K4)	9	3
Maximum bank investment in fixed assets and non-financial assets (K5)	7	3
Open foreign currency position limits	7	7
Total number of banks violating prudential norms	17	15

Pursuant the existing banking legislation the limited measures and sanctions were imposed on the banks that violated the requirements of the banking legislation. In particular, the letters committing the banks to eliminate the deficiencies and remedy violations were required in 10 (in 1999 – 73) cases, the prescriptive letters indicating to eliminate the violations were forwarded to the banks 30 (67) times, warning letters – 55 (117) times, 11 penalties were imposed and 1 bank was put into the conservation regime.

On-site examinations. During 2000 22 second-tier banks were inspected, including 11 complex (planned) and 11 – selective inspections.

Based the results of the capital adequacy inspecting some banks` equity capital was reduced due to the re-classification of the assets and increase of the amounts needed for the loss provi-

sions for the active transactions. Facts were identified that the shareholders` equity stake exceeded the legitimate size limits (25%) and that the banks accept their own shares as collateral for the extended credits. Some banks did not meet the prudential requirements on their equity capital adequacy and other capitalisation norms.

While analysing the banks` assets quality the considerable adjustments were made in credit portfolio classification that negatively affected the financial results of some banks. At the same time the general improvement of the assets quality as compared to 1999 data was observed. It should be noted that not all banks evaluate the loan portfolio objectively, that some banks undertake no measures on the timely writing-off the bad assets and accrued interest in their balance sheets, do not monitor of the borrowers` financial position and

the borrowers credit files are not fully compiled. The instances of the violating the maximum risk per a borrower, low-interest lending to the persons having special relations with the banks and submission of unreliable information to the National Bank were found.

The checks of the banks liquidity showed insufficiency of the internal statements on the liquidity management. The inspection showed that many banks manage their assets and liabilities on a short term basis in order to meet the requirements on the current liquidity and no longer term planning of the liquidity is carried out.

In above, the inspection discovered a number of the bank management problems, as demonstrated by violations of the Kazakhstan`s existing legislative acts, the National Bank regulations, Kazakhstan`s accounting standards and internal policies, and own banks` procedures. In a number of instances it was discovered that regulatory and financial reports of the banks submitted to the National Bank were unreliable.

It should be noted that current risk management systems are not sufficiently developed in the banks. In above, the high staff turnover and the deficiencies of the internal control systems including the inefficient internal audit have to be noted.

Following inspections` results a license for all banking transactions was cancelled for 1 bank and penalty sanctions were imposed on 5 banks for their violations of the banking legislation, including in-compliance with the prudential norms and submission of unreliable information.

Banking Audit Licensing. Nineteen auditing firms (14 local and 5 international auditing firms) and 37 individual auditors hold a license of the National Bank to carry out banking audit as of 01.01.01.

During 1999 the audit performed by the international auditing firms covered 29 banks (with total assets at 87.4% of the consolidated banking system assets). Based the data on the audit contracts made by the banks during 2000, as of 01.01.01 the international auditing companies will audit 32 banks or 97.0% of the consolidated banking sector assets. The indicated figures witness that the practice of the independent audit pursuant the International Standards in the banking sector of Kazakhstan had widened significantly and achieved high level.

In 2000 fourteen applications for the license on banking audit (3 from audit organisations and 11 from the auditors) were submitted. The review resulted in a decision to extend the licenses to 3 auditing companies and 4 individual auditors.

4.4. Liquidation Process of Insolvent Banks

One of the important objectives of the NBK in 2000 was to protect legal interests of the creditors and clients of the second tier banks liquidated in a compulsory (non-judicial) way through implementing the effective control over the completion of the bank`s operations, ensuring compliance by the liquidating commissions with Kazakhstan`s legislation, and for the purpose of methodological and organisational guidance over the bank liquidation process.

The undertaken by the National Bank measures resulted in a completion of the liquidation

process for 22 second-tier banks. This includes the approval of the liquidation reports and liquidation balance sheets by the NBK Board for 15 banks during the reporting year and preparation of the NBK Board decrees for 7 banks in January–February 2001 (*Table 4.16*). The liquidation commissions of the mentioned banks met the claims of the bank depositors (individuals) in total amount of 18,0 mln. Tenge, and had fully or partially repaid the liabilities to other priority creditors.

Table 4.16.

List of Second-Tier Banks, the liquidation of which the NBK completed in a compulsory (non-judicial) manner as of 01.01.01

№	Banks
1.	"Astana" JSB
2.	"Ogutai" PB
3.	"Soyuz" CB
4.	"Montazhbank" JSB
5.	"Kereit" JSB
6.	"Seimar" JSB
7.	"Arai" JSB
8.	"Darkhan" JSB
9.	"Municipal" JSB
10.	"Alatau" JSB
11.	"Zhaksylyk" JSB
12.	"Nursulu" PB
13.	"Adilet" JSB
14.	"Kontraktbank" JSB
15.	"Aktivbank" JSB

Based on the NBK presentation the Justice authorities registered the liquidation of 16 banks, including 5 banks, with the liquidation process of which was completed in 1999.

Thus, as of 01.01.01 26 banks and 48 bank branches were under the process of compulsory (non-judicial) liquidation. The liabilities of the indicated banks to their creditors were 10,795.7 mln. Tenge, and the banks assets were – 4,088.5 mln. Tenge, of which 3,730.6 mln. Tenge worth of loan liabilities. The registered property comprises to 262.4 mln. Tenge. 19 banks have cash assets of 9.5 mln. Tenge, including 10 banks having from 1.0 to 70.0 Tenge thousand. There are no cash assets in 7 banks. The liquidation process duration lasts over 5 years in 11 banks, in 12 banks – over 4 years and in 3 – over 3 years.

The liquidation commissions claims the debts from the bank debtors under the NBK's control and guidance. As a result a number of the loan borrowers decreased in 2000 by 1,238 (44.0%) with the debt amount of 4,564.6 mln. Tenge. This decrease was mainly caused by fulfilment of the claim and lawsuit procedures in 25 banks, to the debt repayment by the debtors, sales of the collateral property, netting-off and writing-off of the outstanding debts.

1,576 loan borrowers with total debt of 6,332.5 mln. Tenge (the "KRAMDS-bank" OJSC has the

largest share – 67.6%) were registered in 22 banks as of 01.01.01. In respect of the indicated debtors the courts made 1,242 decisions on the liquidation commissions aimed to collect the debt amounts of 3,627.2 mln. Tenge, of which 187 decisions are executed partially for the amount of 51.4 mln. Tenge and 530 court decisions are not executed for the amount of 2,049.2 mln. Tenge.

In 2000 the NBK performed 27 revisions of how was going the liquidation process for 20 banks and 6 bank branches as well as the revisions of the control over the liquidation process by 4 NBK branches. During the ongoing process of revision the practical assistance was delivered to the liquidation commissions in some banks. Based on the results of revision the measures were undertaken to eliminate the uncovered offenses against existing rules and unperfections in the work of the liquidation commissions of the banks and NBK branches.

The following factors prevent from the final settlements with the creditors and completion of the bank liquidation process in a whole: an actual absence of the indebted legal entities, a lack of funds to pay state fees, a lack of candidates to incur the tender management of the bank debtors bankruptcy, and delayed investigation of the criminal cases.

Loss of the files of credit cases in the period of the bank activities, blocked foreign currency accounts

and delayed execution of the court decisions, were additional obstacles. Accounting for this, the NBK delivered the methodological and practical assistance on these issues to the liquidation commissions.

To solve the problem with delayed execution of the court decision made in favour of the liquidation commissions of banks, the National Bank of Kazakhstan requested the Minister of Justice of the RK to promote the execution of 461 court decisions.

To ensure the maximum satisfaction of the bank creditors claims, the NBK introduced the restrictions on the certain items of the liquidation expenditures.

The National Bank kept reviewing the applications of the bank creditors and government bodies on the bank liquidation issues.

As of 01.01.01 twenty banks were in the process of the compulsory liquidation based on the court decision (in the course of 2000 liquidation of 25 banks was completed) and 6 banks were in the process of voluntary liquidation (liquidation of 2 banks was completed).

To ensure protection of the legal interests of the bank creditors, the National Bank delivers the methodological and practical assistance to the chairmen of the liquidation commissions (tender managers) of the banks, and continuously reviews the applications of the creditors, MP, President Administration and the Government on the creditor's debt recovery. The problems of the banks under liquidation were reviewed jointly with the Supreme Court of the Republic of Kazakhstan, the Ministry

of Justice of the RK, central banks of the CIS countries and Judiciaries.

Based the information led by the liquidation commissions the National Bank of Kazakhstan analysed the liquidation process of the banks to be closed down in judicial and voluntary order. However due to the lack of controlling powers the National Bank of Kazakhstan is not authorised to check the reliability of the received information as well as to oblige the liquidation commissions to undertake measures to eliminate deficiencies in the liquidation proceedings established by the analysis. The indicated circumstance gives bases for the NBK to initiate changes in the banking legislation on the bank liquidation issues.

The Rules of the voluntary bank liquidation in the Republic of Kazakhstan have been carried out, approved and registered at the Ministry of Justice. The draft Law of the Republic of Kazakhstan "On amendments and additions to some legislative acts of the Republic of Kazakhstan on the issues of banking activities" incorporates the provisions on establishing a single fashion of the bank liquidation; the controlling powers of the NBK over the liquidation commissions of the bank, irrespectively of the liquidation reason, are stated, and the participation of the bank creditors in the liquidation proceedings is stipulated. The indicated draft law is reconciled with the concerned ministries and institutions and the Supreme Court.

4.5. Insurance Market and Supervision

As of 2001 beginning 42 insurance companies held the license to carry out the insurance activities in the Republic of Kazakhstan, of which 1 was a life insurance company (as of 01.01.00 – 70, including 3 engaged in life insurance, as of 01.01.99 – 71, as of 01.01.98 – 68, and as of 01.01.97 – 65).

The licenses of 28 insurance companies were returned voluntarily, revoked compulsorily or expired. As of 01.01.01 the licenses of 9 insurance companies were suspended for different terms due to their failure to meet the legislation requirements.

Over 300 branches and representations of the insurance companies operate in the country and an

extensive network of the insurance agents exists (the full data on a number of the insurance agents absent, the insurance companies run their independent records).

The branches and representative offices are located throughout the oblasts in the following manner: Almaty – 24, Akmola – 36, Karaganda – 35, Pavlodar – 21, Western Kazakhstan – 25, Northern Kazakhstan – 19, Atyrau – 12, Eastern Kazakhstan – 46, Zhambyl – 13, Aktobe – 16, Mangystau – 7, Kostanai – 19, Kyzyl-Orda – 13, and South Kazakhstan – 17.

The consolidated paid-up authorised capital of all 42 insurance companies of the Republic of

Kazakhstan was 3,779.4 mln. Tenge worth, having increased since 2000 beginning about 1.8 times.

Total receipt of the insurance premiums amounted to over 8,155.3 mln. Tenge in 2000, which is 39.1% higher than the similar indicator of 1999 (*Table 4.17*).

Table 4.17.

Payment of Insurance Premium

mln. Tenge

Insurance Premium	1996	1997	1998	1999	2000
Life insurance – total	84.1	88.0	30.9	36.8	1.5
Total insurance, of which:	1,214.1	3,137.5	4,107.9	5,825.2	8,153.8
Obligatory insurance	89.0	1,891.5	1,542.9	1,340.8	1,124.9
Voluntary personal insurance	419.0	452.8	712.4	902.4	1,106.8
Voluntary property insurance	706.1	793.2	1,852.6	3,582.0	5,922.1
Total	1,298.2	3,225.5	4,138.8	5,862.0	8,155.3

Share of insurance premiums in GDP was 0.32% for 2000 (for 1999 – 0,29%). The average amount of insurance premiums per capita was about 543.7 Tenge worth for 12 months of 2000 (for 1999 – 390.8 Tenge). The share of the voluntary insurance premiums has increased.

The total insurance payments amounted to 1,120.5 mln. Tenge in 2000 and its average size per capita – 74.7 Tenge (66.2 Tenge – in 1999) (*Table 4.18*).

Table 4.18.

Insurance Payments

mln. Tenge

Insurance Payments	1996	1997	1998	1999	2000
Life insurance – total	53.6	103.3	16.8	4.2	5.2
Total insurance, of which:	176.9	411.2	1,187.0	989.5	1,115.3
Obligatory insurance	1.4	181.9	486.7	524.8	495.7
Voluntary personal insurance	134.1	160.7	350.1	286.9	269.5
Voluntary property insurance	41.4	68.6	350.2	177.8	350.1
Total	230.5	514.5	1,203.8	993.7	1,120.5

As of 01.01.01 an amount of the accrued insurance reserves was 2,280.8 mln. Tenge worth. In 2000 the insurance reserves declined because of their restructuring and partial investment in capitalisation of the insurance companies.

The equity capital of all insurance companies amounted to 4,617.0 mln. Tenge (growth against 1999 was 87%).

The consolidated assets of the insurance companies were 8,347.2 mln. Tenge worth as of

01.01.01, having increased by 14.4% since 2000 beginning.

The assets of high liquidity of the insurance companies (assets on the deposits and placed in the second-tier banks) amounted to 2,358 mln. Tenge as of 01.01.01 (as of 01.01.00 – 2,299 mln. Tenge). The current discount value of the insurance companies assets deposited in the second-tier banks in the form of the government securities was 673.3 mln. Tenge (*Table 4.19*).

Table 4.19.

The Insurance Organisations Assets deposited in the banks in the form of Government Securities*

mln. Tenge

	01.01.00	01.01.01
Short-term NBK notes	10.0	290.5
3-months treasury bills		28.0
6-months treasury bills		9.7
12-months treasury bills		11.0
2-years treasury bills		37.7
Eurobonds-99	0.3	80.3
Other government securities		244.1
Total	38.3	673.3

* current discount value

The total amount of the insurance premiums paid in 2000 under the re-insurance agreements

amounted to 5,881.6 mln. Tenge, of which 5,528.3 mln. Tenge or 94% was paid abroad.

Table 4.20.

mln. Tenge

	1996	1997	1998	1999	2000
Paid-up Authorised Capital, mln. Tenge	817	1,274	1,836	2,145	3,779
Assets, mln. Tenge		3,825.9	5,330.3	7,296.7	8,347.2
Insurance Reserves	1,018.0	2,481.7	3,126.69	3,859.9	2,280.8
Insurance premiums under the re-insurance agreements	1,114.0	2,738.2	5,881.6

Pursuant the new insurance legislation the additional requirements will be introduced during the current year for the insurance business including the prudential norms on the financial sustainability and solvency of the insurance operators.

According to the objectives of the insurance development in the country in recent years the National Bank puts an effort to constrict the requirements on the financial sustainability of the insurance companies, to develop the new insurance legislation and ensure transparency of the insurance market functioning. In October 2000 the NBRK became a fully-fledged member of the International Association of Insurance Supervisors (IAIS). Following the recommendations developed by the IAIS new standards of accounting and financial reporting, the principles and the standards of insurance market companies were introduced.

The requirements on capitalisation of insurance companies were significantly increased and the rules of making and placing the insurance reserves were revised. By the end of 2000 the minimal size of equity capital of the operating general insurance company was to be 100 mln. Tenge, and that for the operating life insurance – 150 mln. Tenge. The similar requirements were set on the paid-up authorised capital for the newly established insurance companies.

Not less than 75% of the actually received general insurance reimbursements have to be allocated to the insurance reserves and that for the life insurance is 100%. The insurance companies are liable to invest the insurance reserves in the assets listed by the legislation.

The National Bank undertook the measures within its responsibilities in respect of the insured rights and protection of their legal interests, and prevention of the illegal activities in the insurance

market. The regulating and supervising actions of the authorised government body ensured an exit from the market of the insolvent and unscrupulous insurance companies that systematically violated the insurance legislation.

During 2000 the Insurance Supervision Department got 79 complains from the individuals and legal entities on the unjustifiable actions of the insurance companies. Out of these complains 73 dealt with the obligatory civil and legal responsibility insurance of the transport vehicle owners.

As of 01.01.01 eighteen out of 42 insurance companies have fully met the main legislative requirements on financial sustainability and other legitimate norms and limits. The consolidated capital of these 18 insurance companies amounted to 2,088.0 mln. Tenge or 45.2% of total consolidated equity capital of all insurance companies in Kazakhstan. The insurance reserves made by these companies amounted to 1,061.7 mln. Tenge or 46.5% of the overall insurance reserves.

Being an authorised government body on the insurance supervision the National Bank of Kazakhstan adopted the following regulatory acts on insurance business in 2000:

1. The Rules of consent issue and rejection on opening the insurance (re-insurance) company branches and representations. The Rules were approved by the National Bank Board Decree on January 31, 2000 № 15, and registered at the Ministry of Justice of the Republic of Kazakhstan on March 9, 2000 under the № 1073.

2. Instruction on making the insurance certificate (policy), approved by the National Bank Board Decree on February 15, 2000, № 33 and registered at the Ministry of Justice of the Republic of Ka-

zakhstan on March 15, 2000, № 1080 (with the amendments and additions approved by the National Bank Board Decree on September 22 15, 2000, № 352 and registered at the Ministry of Justice of the Republic of Kazakhstan on October 27, 2000, № 1275).

3. The Rules of imposing and collecting by the National Bank of Kazakhstan the administrative penalties for the violations related to the insurance business, approved by the National Bank Board Decree on February 26, 2000, № 86 and registered at the Ministry of Justice of the Republic of Kazakhstan on March 28, 2000, № 1099.

4. The Rules of amending and supplementing the insurance and re-insurance company Shareholder`s documents and issuing a permission for their voluntary reorganisation and liquidation; approved by the National Bank Board Decree on May 24, 2000, № 243 and registered at the Ministry of Justice of the Republic of Kazakhstan on July 7, 2000, № 1180.

5. The Rules to issue (revoke) a permission for opening the insurance and re-insurance firm, approved by the National Bank Board Decree on May 24, 2000, № 244 and registered at the Ministry of Justice of the Republic of Kazakhstan on July 17, 2000, № 1198.

6. The Rules of the review of the employees to be elected (appointed) on the managing positions in the insurance (re-insurance) companies, and powers statement on a qualification commission of the authorised insurance regulating and supervising government body, approved by the National Bank Board Decree on August 24, 2000, № 328 and registered at the Ministry of Justice of the Republic of Kazakhstan on October 12, 2000, № 1256.

V. PAYMENT SYSTEM

Transformation of a System of Large Payments into the Interbank Money Transfer System (IMTS) was an important event of 2000. The IMTS is a system of gross settlements in real time regime.

The IMTS and RPS saw a growth of payments in 2000 as compared to 1999: a number of payments upsurged by 18.8% and amounted to 9.8 million of payments, and the payment volumes went up by 71.1% to 7,078.9 bln. Tenge. The share of IMTS payments was 66% of total payments quantity and 96% of total payment volume.

The increase in payments was due to that starting 01.06.00 the second-tier banks closed their direct correspondent accounts with each other and since 01.08.00 a 10%-restriction was introduced on the outgoing payments via the direct correspondent bank accounts. These measures were under-

taken to manage the risks arising in the course of payments through the direct correspondent accounts of the second-tier banks.

The consultants of the International Financial Organizations highly evaluated the work carried out by the National Bank on bringing the payment system to the international standards. According to the IMF mission report, the payment system of Kazakhstan is compliant with nearly all principles worked out by the Bank for International Settlements for the institutionally important payment systems.

The National Bank actions on the payment system development address the operational efficiency, reliability, speed and timeliness of the payment transactions along with the simultaneous risk reduction and evolvement of the favorable climate for using various payment instruments.

5.1. Interbank Money Transfer System (IMTS)

The Interbank Money Transfer System is the most safe and efficient payment system, therefore high priority payments are made in this system. The IMTS is characterised by the minimal liquidity and system risks; the single formats used for the data exchange between the users are based on the international standards and SWIFT oriented. In addition, the IMTS promotes risk reduction in the securities and foreign exchange transactions via the mechanisms of deliveries against payments in case of securities settlements or payment against payment in case of foreign exchange transaction. Final and irrevocable settlement and payment closure on

the transaction day in real time regime are the important principles of IMTS. The IMTS furnishes overdraft or overnight options to maintain the liquidity of the users.

76 users including 47 banks, 16 regional Treasury Committee Departments of the Ministry of Finance, 11 non-banking institutions, the National Bank and the Custodian Bank (Monetary operations Department of the National Bank) were registered in IMTS as of 01.01.01.

During the last five years (since 1996 through 2000) the IMTS shows a growth of payments every year (*Table 5.1*).

Table 5.1.

Payments via IMTS during 1996–2000

Indicators	1996	1997	1998	1999	2000
Quantity, thousand transactions	810.0	3,184.9	4,955.2	6,097.2	6,511.7
Volume, bln. Tenge	335.0	2,356.0	2,875.5	3,928.5	6,767.6

The quantity of transactions in IMTS increased in 2000 by 6.8% against 1999 with a total payment volume surging by 72.3%.

The Treasury Committee payments in IMTS in 2000 were 692.9 thousand transactions (10.7% of

total IMTS payments quantity) in the amount of 1,061.2 bln. Tenge (15.8% of total payment volume). As compared to the previous year the quantity of the Treasury Committee payments declined by 18.3% whereas the payment volumes went up by 21.1%.

5.2. Retail Payment System

As of 01.01.01 three clearing houses functioned in the Republic of Kazakhstan: Almaty Clearing House, the LLP "Financial and Industrial Company "Timei"" in Northern Kazakhstan and "Interregional Clearing House" OJSC in Karaganda region. Besides, the LLP "Clearing Company "Tamiris"", "Nurbank" OJSC and "Batys Samal Company" LLP obtained the clearing licenses in 2000.

The Almaty Clearing House carries out a main share (94%) of the payments in RPS. The basic features of the US National automated clearing system are laid down in the basis of this chamber. This includes, in particular, furnishing the users with an opportunity to revoke within an operational day

their payment documents transferred to the system, and make futures payments enabling the system participants to use the payment counterflows to a maximum extent, to manage and plan their liquidity.

In the period from 1996 through 2000 the RPS saw a decrease of the payments volume only in 1999 (*Table 5.2*), which was related to the closure of the clearing houses under the National Bank branches starting 01.08.99 (since this date a number of the clearing houses declined from 14 to 2). In 2000 the payments grew up: as compared to 1996 a number and volume of the payment documents increased by 161% and 144%, respectively, and similar figures against 1999 were 52.5% and 49.3%, respectively.

Table 5.2.

The RPS Payments during 1996–2000

Indicators	1996	1997	1998	1999	2000
Quantity, thousand of transactions	1,274.8	2,882.1	3,742.4	2,181.0	3,326.7
Volume, bln. Tenge	127.4	338.2	472.1	208.5	311.3

In 2000 the Treasury Committee payments in RPS were 784.6 thousand transactions in the amount of 86.7 bln. Tenge, having exceeded by

300.9% and 125.8%, respectively, the similar indicators for 1999.

5.3. Payment Cards

Payment card development is one of the priorities in the National Bank activities in the area of payment system. An increase of the payments via the accounts allows reducing the cashflows in the retail trade.

The National Bank worked out the feasibility framework and designed the National E-money System based on the plastic cards with the microprocessors allowing to use a single payment infrastructure using debit and credit cards. "Processing Center" CJSC was established to address the unification of the existing payment card systems into a single payment space, the centralised processing of the card-based transactions and, further, establishment of the national interbank payment card sys-

tem with the use of cards equipped with microprocessors.

In 2000 the "Bank TuranAlem" OJSC, "Halyk Savings Bank of Kazakhstan" OJSC, the "Bank CentreCredit" OJSC and the "Bank Caspyiskyi" OJSC issued and started servicing payment cards of the local systems: Alem Card, ALTYN, Irtyshcard, and Tengry Card. 440.6 thousand cards of these systems were circulating by the end of the year. 2,479.2 thousands of transactions in the amount of 13.6 bln. Tenge were carried out using local system payment over the year.

The "Kazkommertsbank" OJSC, the "Bank TuranAlem" OJSC, "Halyk Savings Bank of Kazakhstan" OJSC, the "Almaty Merchant Bank" CJSC,

"ABN AMRO Bank Kazakhstan" Subsidiary CJSC, and "Nurbank" OJSC were issuing and servicing the international payment cards – EuroCard/MasterCard, VISA, American Exspress and Cirrus/Maestro. By the year-end 509.3 thousand of these cards were

in circulation. An annual number of the transactions via the international system cards reached 4 338.3 thousand in the amount of 47.9 bln. Tenge.

The transaction volumes (by transaction type) are given in the *Table 5.3*.

Table 5.3.

Card-based Transaction Volume in 2000, mln. Tenge

Transaction	Local system cards		International system cards	
	1999	2000	1999	2000
In trade terminals	47.2	57.8	993.0	3,334.1
Cash issue	12,896.6	13,556.3	10,337.7	44,530.7

VI. INTERNATIONAL CO-OPERATION

In terms of using, servicing and raising the funds of the International Financial Organizations aimed to develop Kazakhstan's financial system the National Bank of Kazakhstan made the following:

The use of the IBRD loan LN № 3642 KZ "Technical Assistance" was terminated.

Under the IBRD loan LN № 3867 KZ "Financial Sector and Enterprise Development" two-phase tenders were held to acquire the banking information systems for the National Bank and the second-tier banks, the international experts were invited to evaluate the payment system, the Audit Company "Arthur Andersen" made a review of the banking system vulnerability based an analysis of 100 largest borrowers of 5 largest second-tier banks, the staff of the insurance and banking supervision departments was trained and program of the institutional development of the second-tier banks was continued ("Twinning" Program).

On 10.03.00 the National Bank prematurely and completely repaid its liabilities to the EBRD under the loan "Small and Medium Enterprise Development", maintaining in 2000 only the monitoring records of the timely amortisation and interest repayment to the National Bank by the banks participating in the project.

On 24.05.00 the National Bank prematurely repaid its liabilities to the IMF in the amount of 295.8 SDR million or USD 390.5 mln., including the NBK's debt on three programs: STF (1993), STAND-BY-2 (1995), and EFF (1996). The premature repayment of the IMF credits allowed avoiding the credit commissions charges. Whereas during 1994–2000 Kazakhstan paid 21.5 SDR million worth of debt servicing, the amount of commissions for the further 7 years would exceed 33 SDR million. Reduction of the external indebtedness of the Republic of Kazakhstan has to affect positively the country's credit rating in terms of investment rating.

The meetings were held with the World Bank representatives on raising a loan by the National Bank for the financial infrastructure development in the amount of 25 mln. USD to develop mortgage lending, securities market and post-saving system. The meetings with the representatives of the central banks of Belgium, Austria, Hungary, Poland, Deutsche

Bundesbank on the issues of the balance of payments, external debt, foreign exchange regulation and control, banking supervision and international co-operation and the Austrian Mint activities were held.

The National Bank participated in the work of the missions of the International Credit Rating Agencies "Fitch", "Standard and Poor's", and "Moody's" to revise the sovereign credit rating (on 28.07.00 the "Standard&Poor's" Agency raised Kazakhstan's credit ratings on the long term foreign exchange credits and long term borrowing in local currency by one point to "BB-" and "BB", respectively).

The National Bank representatives took part in the International Economic Summit "Eurasia 2000" and were involved in the work of the bilateral intergovernmental commissions with Iran, China, Lebanon, France, Azerbaijan, Belarus, Tajikistan, Turkmenistan, Uzbekistan and Ukraine.

Within the co-operation with the CIS central banks in 2000 the National Bank participated in a meeting of the central (national) banks and inter-bank foreign currency (stock) exchanges of the CIS countries "Problems and Perspectives of National Currencies in Trade and Economic Relations among CIS States", at the Almaty conference of the central (national) banks, second-tier banks, stock and foreign currency exchanges of the CIS and Baltic countries "Problems and Perspectives of the CIS and Baltic Financial Market Development", in the meetings of the experts and working groups within the Integration Committee uniting the Republic of Belarus, the Republic of Kazakhstan, Kyrgyz Republic, Russian Federation and the Republic of Tajikistan, CIS Executive Committee, Interstate Bank and Central Asian Economic Community, and in the organisational activities within the Eurasian economic community.

A Protocol was signed on the rules and norms of cash foreign currency taken out by the individuals of the Customs Union countries to the third countries, bilateral meetings were held to reconcile the mutual debt liabilities of the Republic of Kazakhstan with the Republic of Belarus and Azerbaijan Republic, and the work was carried out to return the corporate and individual funds, owned by the residents of the Republic of Kazakhstan and frozen on the USSR Vnesheconombank accounts.

VII. REGULATORY ACTIVITIES

In 2000 the National Bank continued its regulatory work in the following main areas:

Insurance. Two Laws – "On Insurance" and "On amendments and additions to certain legislative acts on insurance", which address ensuring the compliance of the insurance regulation principles and standards in Kazakhstan with the major International Standards, developing a competitive environment and protecting legal interests of the insured, and providing financial sustainability and solvency of the insurance companies were adopted.

Foreign Exchange Regulation. A Law "On amendments and additions to certain legislative acts on foreign exchange regulation", which addresses the state control strengthening over the foreign exchange transactions on the territory of the Republic of Kazakhstan and foreign economic activities, provides for the following:

- reduction of the terms of the current foreign exchange transactions from 180 to 120 days;
- obligatory requirement to return the export receipt to the country within 120 days;
- obligatory reporting by the non-residents on their operations;
- an opportunity to withdraw the banking and insurance operators out of small business;
- identification of the major responsibilities for the foreign exchange controlling agents;
- establishment of the grounds to recall and suspend a license on the transactions involving foreign exchange valuables.

A Law of the Republic of Kazakhstan "On amendments and additions to the Law of the RK "On Licensing" developed mostly by the Ministry of Economy was adopted. Based on the National Bank proposal the clauses on the rules and order of the foreign exchange transaction licensing were included in to this Law.

Banking. Two Laws developed by the National Bank – "On amendments and additions to certain legislative acts of the Republic of Kazakhstan on bank confidentiality" and "On amendments and additions to certain legislative acts of the Republic of Kazakhstan on banking" were adopted.

The first law is aimed to enhance people's trust to the banking system through strengthening the protection on the issues related to confidentiality

and disclosure by the banks information about their depositors, and ensuring a normal functioning of the banking system as well as through streamlining the procedures of sequestering the funds placed in the banks and other property, procedures of suspending expenditure from the bank accounts, terminating the withdrawals from the accounts without the owners' approval and cash funds circulation as well. An order of receiving the bank confidential information was tightened.

Pursuant the second Law in order to protect the interests of the bank depositors and creditors a consolidated banking supervision was introduced to account for and evaluate objectively all risks the banks are exposed to. It envisages strengthening of the National Bank powers in part of receiving any information needed to carry out supervising functions on a consolidated basis, that is, to supervise the activities of the financial groups (financial and banking holdings).

Financing of the Economy. The Law of the Republic of Kazakhstan "On housing construction savings", addressing an establishment of the construction saving system was adopted. It defines a legal base and regulates the relations among the participants of the housing construction system and the conditions, content and form of government stimulation for this system.

Two Laws are adopted – "On Financing Leasing" and "On amendments and additions to certain legislative acts of the Republic of Kazakhstan on leasing", addressing the government incentives for the leasing, development of the favorable investment environment for small and medium business and agriculture. The Laws regulate the relations arising in the process of the financial leasing and aim to build the favorable conditions for the efficient development of leasing in the country.

Payments and Money Transfers. A Law of the Republic of Kazakhstan "On stamp duty on promissory notes and ordinary bills in the Republic of Kazakhstan" was adopted. It addresses the settlement of non-payments between the enterprises through developing promissory notes based relations. The Law was adopted because Kazakhstan joined a Convention on Stamp Duty on promissory notes and Ordinary Bills (pursuant the Edict of the President of the Republic of Kazakhstan "On the Republic of

Kazakhstan joining the Geneva Conventions dated 01.06.30" issued on 21.08.95).

The President of the Republic of Kazakhstan signed an Edict "On some issues of national currency functioning of the Republic of Kazakhstan" (January 2001) and another Edict introducing amendments and additions to the Edict "On approval of the National Bank statement and structure" (dated 11.08.99).

The first of these Edicts was worked out due to the actual termination of tiyn cash use and it en-

visages a withdrawal of the tiyns out of cash circulation.

The second Edict refined the functions of the National Bank as an authorised body in part of issuing (recalling) the permissions to open insurance and re-insurance companies, and licenses (and appendices thereto) to do insurance business.

The National Bank made amendments and additions to the Rules of interest charging for the National Bank credits, loans and deposits, and to the Rules of working with the overdue arrears.

VIII. IMPROVING ACCOUNTING PRACTICE IN BANKING AND INSURANCE SECTORS

Under the further movement of the banking system of the Republic of Kazakhstan to the International Accounting Standards, in 2000 a standard "Bank Financial Reporting" for the second-tier banks based on the international financial reporting standards was prepared. The Charter of accounts for the second-tier banks has been worked out following the IMF methodological recommendations. The methodological recommendations on recording the payments as of conversion date, accounting for the equity valued in foreign currency; fixed assets re-evaluation reserves; realised and unrealised revenues/expenses from the bank operations with foreign currency were made.

The Rules on compiling the consolidated financial reports by the second-tier banks, defining an order and terms for reporting to the National Bank, were approved. The banks are given the examples of the consolidated financial report compilation.

An accounting standard "Accounting and Reporting of the Insurance Companies" which includes the requirements arising from the international insurance practice was prepared. The methodological recommendations on accounting maintenance by the insurance companies were worked out, and a seminar was held for the chief accountants of all insurance companies with international consultants.

The NBK Board approved the individual quarterly control measures on moving to the International Accounting Standards with the aim of continuing the introduction on the General journal and auxiliary book-keeping conversion. The bank reports on their transition to the International Accounting Standards were analysed quarterly and, based on a year outcome, the implementation of the Individual quarterly control measures was checked.

Jointly with the second-tier banks the National Bank continued the second phase of a tender on acquiring the integrated banking package ensuring the maintaining of General journal and its link to the auxiliary book-records in compliance with the International Accounting financed by the World Bank.

In 2000 the National Bank accounting system was directed towards its further improvement and closer approach to the International Accounting Standards. In particular, the accounting policy

of the NBK for the reporting year was elaborated incorporating the recommendations of the external audit and International Accounting Standards requirements. The amendments and supplements were made in part of precious metals, foreign currency and securities re-evaluation as well as the securities classification by their categories and general reserves (provisions) compilation.

The accounting procedures of the National Bank operations related to the market expansion of the services delivered by the banks of Kazakhstan were described, for example: extending "Overnight" and "Overdraft" loans to the second-tier banks; accounting for the externally managed National Bank gold and foreign currency assets; the National Bank operations on trust management of the non-government financial institution assets, the National Bank custodian operations; the transactions related to re-accounting of the commercial promissory notes and ordinary bills; accounting for the guarantees granted by the National Bank; and the settlements in the form of the documented Letter of Credit.

The legal framework on the accounting for operations carried out by the National Bank branches and organisations was supplemented by the documents regulating the accounting maintenance in "Kazakhstan Public Deposits Insurance Fund" CJSC and cost accounting at the Banknote Factory (branch) of the National Bank. The accounting at the National Bank Banknote Factory was centralised in the process of centralisation of the auxiliary accounting and management of the National Bank branches.

To computerise the accounting maintenance the modules of auxiliary accounting of the transactions on the precious metals, foreign currency, securities, international payments, foreign exchange, deposits and others were finalized.

A workshop "NBK General journal and auxiliary record books of the National Bank of the Republic of Kazakhstan" was held for the banks to make them aware of the NBK General journal and auxiliary record books and the ongoing efforts on the operations codification. The explanations were prepared on some issues of auxiliary accounting conversion and General journal maintenance based the results of the held workshop.

IX. STRUCTURE AND INTERNAL ACTIVITIES

9.1. Organisational Structure of the National Bank

The National Bank organisational structure includes the headquarters, 14 regional branches, two branches in Almaty city (Banknote Factory and Cash operations and valuable storage unit), Representation in Russian Federation and 4 subordinate organisations (Republic State Enterprise (RSE) "Kazakhstan Interbank Settlement Center", RSE "Bank Service Bureau", RSE "Kazakh Mint" and

RSE "Motor transport depot"). In above, the NBK is a main shareholder of 3 Closed Joint-Stock Companies (with 100% stake in the authorised capital – "KIK" CJSC, "KPDIF" CJSC and "Processing Center" CJSC) and participates in the "IFTC" CJSC authorised capital (71.8% stake). The NBK headquarters comprises 10 Departments, 9 independent divisions and 1 independent sector.

9.2. Human Resource Policy and Staff Training

The number of employees in the National Bank as of 01.01.01 was 3 475 (actual 3,366), including 937 employees in the headquarters (actual 876), 1,917 employees at the branches (actual 1,912), of whom 348 staff at the Banknote Factory (actual 321), and 621 employees in the subordinate organisations (actual 578).

The headquarters is staffed at 91% and branches – at 96.7%, of which the Banknote Factory – at 92.2% and organisations – at 92.8%. As of 01.01.01 the staff number increased by 167 as compared to 01.01.00, including the headquarters and branches increase by 6 and 65 employees, respectively, of whom 59 – at the Banknote Factory and 96 – at the subordinate organisations.

With regard to of the educational level of employees, 54.5% of staff hold graduate degree (headquarters – 79.2%, branches – 47.3%, and organisations – 40.5%), 23.6% have higher specialised education

(headquarters – 9.6%, branches – 26.2%, and organisations – 37.1%), and 21.8% have intermediate college-level technical education (headquarters – 11.2%, branches – 26.5%, and organisations – 22.4%).

The share of government employees decreased by 43% within 2000; that of technical servicing staff increased by 42% up to 67.8%, and the share of the professional workers went up by 1% reaching 16%.

During 2000, 134 employees left the headquarters, 181 persons – the branches and 100 – organisations. New staff hired for the headquarters was 129 persons, for the branches – 194 persons and for the organisations – 164 persons. The NBK got 555 applications for the government service positions, of whom 411 persons were admitted to testing, 348 participated in a competition and 68 persons passed the competition successfully and were hired.

An attestation of the administrative government service staff was conducted.

9.3. Internal Audit

In 2000 the methodological framework of the internal audit was developed and further improved. A new edition of a number of documents forming unified basic requirements on the internal audit quality and reliability, its main principles and goals (standards) was adopted to bring the internal audit into a compliance with the international standards and legal acts of the Republic of Kazakhstan. To improve the audit methods and procedures and enhance its quality the methodological recommendations were worked out in 6 audit areas and the existing methodology re-

commendations in 7 audit areas were amended and supplemented.

An elaboration of the risk evaluation procedures of the National Bank divisions operations was continued to plan and identify the frequency of the audits to be made. The work on risk listing and mapping of the audit areas was started.

To analyze the efficiency, adequacy of the functions and procedures, accounting of the internal control mechanisms and elements, 186 drafts of the National Bank regulatory legal acts were reviewed.

The plan of checks was carried out timely and post-revision control was ensured over the elimination of the uncovered deficiencies and violations.

To eliminate the uncovered deficiencies and violations 243 recommendations were given, of which 73 dealt with the improvement of the National Bank regulatory legal framework and 170 – on the organisational issues. As a whole, the divisions implemented the measures to a quite high extent: in total 90,9% recommendations are fulfilled, 3,7% of recommendations are not implemented, however being taken out of control due to the inexpediency of fulfilment; and 1,7% – are not carried out and left under control.

As compared to 1999 a number of the revealed problems increased by 24.8% and that

of violations and shortcomings declined by 55.3%.

Substantial improvement of the quality of the adopted in 2000 internal procedure regulations conditioned a considerable reduction of (by 31.9%) of a number of the directions issued based the audit checks.

The external auditors in their preliminary recommendations made for the National Bank audit of 2000 noted a progress achieved in the area of internal audit development and elaboration of the regulatory documents. In the view of auditors, a lack of methodology to evaluate the results of internal audit system as well as that of an integral system of risk evaluation of the divisions operations for the internal audit purposes poses problems.

9.4. Financial and Economic Operation

The incomes of the National Bank system⁷ in 2000 were 35.8 bln. Tenge worth, expenses – 29.8 bln. Tenge, and net income was – 6.0 bln. Tenge, of which the net income of the National Bank organisations – 355.0 mln. Tenge. As com-

pared to 1999, the National Bank income increased by 84.7% reaching 34.8 bln. Tenge, and the expenses – by 86.5% to 29.1 bln. Tenge. In result, the net income amounted to 5.7 bln. Tenge (*Table 9.1*).

Table 9.1.
Financial Results of the NBK Operations for 1999–2000

	1999	2000	Growth rate, times
Total income	18,839.4	34,799.2	1.8
Total expenses	15,624.0	29,132.4	1.9
Net income	3,215.4	5,666.7	1.8
Average value of income earning assets	192,520.6	304,585.3	1.6
Expenses per one Tenge of income	0.829	0.837	1.0

In 2000 the volumes of operations in the external markets grew up providing an increase of the income earning assets share by 58.2%. However provisions made for the RSE "Rehabilitation Fund" and long-term Government securities resulted in an increase of expenses per one Tenge of income by 0.9%.

The income from transactions on the gold and foreign currency assets was 29.7 bln. Tenge (85.3%

of total amount) worth, the costs – 2.1 bln. Tenge (7.1%), and net income – 27.6 bln. Tenge. 2000 saw a rise of income from these operations by 89.4%, mainly due to the realised profit from operations with foreign currency and income from the transactions on the foreign state securities (*Table 9.2*).

⁷ The National Bank system comprises the NBK (headquarters and branches), and NBK organisations (RSEs and JSCs).

Table 9.2.

The National Bank Income and Expenditure Structure for 2000

	Incomes		Expenditures	
	mln. Tenge	Share, %	mln. Tenge	Share, %
1. Operations with refined gold	410.9	1.2	39.1	0.1
2. Operations with foreign currency	18,371.4	52.8	1,855.5	6.4
3. Operations with securities	14,633.0	42.0	1,812.3	6.2
4. Other	1,383.9	4.0	23,610.5	81.0
5. Kazakhstan Government deposits			1,815.0	6.2
Total	34,799.2	100.0	29,132.4	100.0

The incomes from operations with the government securities in the domestic market surged up 12 times and reached 3.7 bln. Tenge due to remuneration payment on 10-year MEAKAM in the amount of 3.4 bln. Tenge. These operations costs went up by 56.2% and were 1.6 bln. Tenge worth, of which 1.5 bln. Tenge – on the short-term National Bank notes. The net income from these operations amounted to 2.1 bln. Tenge.

The expenses on interest on the short-term Government deposits increased considerably – from 1.4 mln. Tenge in 1999 to 1.8 bln. Tenge in 2000. During the year the amount of placement in foreign currency was 33.6 mln. USD at the average rate of 4.58% and that in the national currency was 6.5 bln. Tenge at average rate of 7.92%.

Other income (the transactions with the banks, financial and non-financial organisations, sales of golden, silver and other coins, income of the independent organisations, contingent incomes, etc.) reduced by 48.2% and was 1.4 bln. Tenge worth (3.9% of total income), of which income of the Banknote Factory amounted to 238.5 mln. Tenge. Other expenses (the transactions with the banks, financial and non-financial institutions, contingent costs, paid-out commissions, etc.) increased 2.8 times and amounted to 23.6 mln. Tenge (81.0% of total costs) (see *Table 9.2*).

In accordance with the International Accounting Standards the provisions were made on the long-term Government securities to adjust their value to the market level (with the costs at 8.9 bln. Tenge) and on the loan of the RSE "Rehabilitation Fund" (7.1 bln. Tenge).

The spending on wages including social tax and employee social benefit expenses achieved 1.9 bln. Tenge in 2000. Their share in total expenditures was 6.6% (in 1999 – 7.5%).

Pursuant the International Accounting Standards the depreciation terms of the National Bank buildings and facilities were revised. In this relation the fixed assets depreciation costs went up 3.3 times and were 1.4 bln. Tenge worth.

The costs of the national currency issuance and delivery rose by 20.1% up to 786.2 mln. Tenge due to the issuance of the new design 200 and 500 Tenge banknotes along with a simultaneous withdrawal of the old design banknotes out of circulation and enhanced demand for the coins, and a withdrawal of the worn out small denomination banknotes as well.

The administrative expenses increased by 14.4% to 666.1 mln. Tenge due to a growth of the transport service tariff, renovation works in the regional branches and advertising campaign on the deposit policy.

The taxes paid in 2000 amounted to 392.7 mln. Tenge (in 1999 – 306.8 mln. Tenge), of which the VAT – 279.8 mln. Tenge, the non-resident income tax – 33.4 mln. Tenge, VAT for the non-residents – 16.8 mln. Tenge, and other taxes – 62.7 mln. Tenge.

Based on the National Bank initiative Kazakhstan Mortgage Company and Processing Center were established. The allocations to their authorised capital were 1.0 bln. Tenge worth. The contribution to an authorised capital of Kazakhstan Public Deposit Insurance Fund was 500.0 mln. Tenge.

The growth of the expenditures was also due to the acquisition of the computers and copying machines, security equipment and other equipment. The spending on the capital investment increased 3.4 times to 2.6 bln. Tenge.

The National Bank Enterprises. The assets of the National Bank organisations rose by 53.4% and their equity capital – by 64.2%.

Table 9.3.

The Results of the National Bank Organisations Operations for 2000

mln. Tenge

	Total Income	Total Spending	Net income
Republican State Enterprises	1,603.9	1,278.3	228.1
– Kazakhstan`s Mint (KM)	797.7	642.8	95.6
– Kazakhstan Interbank Settlement Center (KISC)	590.2	431.4	127.8
– Banking Service Bureau (BSB)	84.2	75.6	3.6
– Motor transport depot (MTD)	131.8	128.4	1.2
Joint Stock Companies	634.4	490.7	126.9
– Interbank and Financial Telecommunication Center (IFTC)	470.5	443.6	10.2
– Kazakhstan Public Deposits Insurance Fund (KPDIF)	163.9	47.1	116.7
Total:	2,238.3	1,769.0	355.0

In 2000 the incomes of the organisations went up 1.9 times to 2.2 bln. Tenge, of which 1.6 bln. Tenge of the RSEs and 634.5 mln. Tenge – JSCs. The incomes of KM and KCIS had the largest shares in the total income (35.6% and 26.4%, respectively). The output (works, services) costs increased 1.5 times and were 1.8 bln. Tenge worth, including those for the RSEs in the amount of 1.3 bln. Tenge and for the JSCs – 490.7 mln. Tenge.

The consolidated income of the organisations was 469.4 mln. Tenge, of which that of the RSEs was 325.8 mln. Tenge and that of the JSCs – 143.6 mln. Tenge.

The net income of the organisations after income tax paid to the budget in the amount of 114.4 mln. Tenge was 355.0 mln. Tenge, of which that of the RSEs was 228.1 mln. Tenge and that of the JSCs – 126.9 mln. Tenge.

9.5. Information Technologies Development

The design and research work in the area of the information technologies focused on the further development of the National Bank information systems with the aim of expanding the scope of the computerised functions and enhancing quality of the information systems implementation.

In 2000, 26 computerised information systems design and launching projects were initiated, out of which 14 projects were completed in 2000. The total amount of the project activities increased by 53% against 1999.

The main areas of the works were as follows:

- creation of a centralised database on the payments carried out through the banking system;
- development of a sub-system "Collection and processing of the balance of payments information";
- elaboration and introduction of an information analytical sub-system "Real sector enterprises monitoring";

- elaboration of the computerised sub-system "Insurance supervision";
- elaboration and introduction of a sub-system "Management of the interbank money transfer system";
- further computerisation of the accounting – development of "KUBAZH-3C" system;

Within the framework of building the analytical and decision making support systems based on Data Warehouse a tender was carried out to select an instrumental program platform. Based on the tender results an agreement was made with SYBASE company to work out and put into operation a pilot project FADEYA and elaborate the infrastructure for the Data Warehouse for a full project scope .

To improve the document circulation a sub-system of the electronic document flows was modernised.

To implement the functions of compiling the archive database and change the technology of the

SAPF software operations, a prototype CIS "Custodian Bank" was adjusted. Also, pursuant a decision of the National Bank Payment Council on a need to move the SCPP to a Retail Payment System of the KCIS the technology of the custodian bank and SAPF operations was changed and the software was adjusted to ensure the document acceptance from the SCPP and carrying out payments through the retail payment system.

A complex of the tasks to process the applications for the "overnight" credits issued by the National Bank was worked out.

The accounting system of the Banknote Factory was centralised and sub-system "Wage calculation" was finalized to make settlements incorporating the specific nature of production at the BF. Since the payments to the National Bank employees are made through the plastic cards the sub-systems on maintaining the enquiry information were upgraded.

Licensed Software. 2,681 licenses were acquired in 2000, out of which 976 were the updates. As a result, all installed software both in the headquarters and branches of the National Bank of Kazakhstan is licensed entirely.

The National Bank Internet site and, in particular, an information server (site) was further developed. Taking account proposals of the concerned visitors and the National Bank divisions further site improvement were carried out. The technical support of the National Bank Internet site servers and

system of the site automatic information replenishment was set up.

Technical Infrastructure Improvement. To ensure a needed capacity of the telecommunications given permanently increasing volumes of the transferred and accepted information between the divisions of the NBK headquarters and its branches the following was carried out:

- the network equipment was acquired to additionally equip the structured cable network of the NBK headquarters administrative building, a network management server, two specialised software complexes were purchased, the local computer network of the branches was modernised and SCN working desk were installed,;
- the server equipment was installed in a special computer hall, new servers were put into operation, a Reserve Center for Calculations relocated to the buildings of COVSU;
- the work was carried out to develop a system of optical fabric communications between the National Bank headquarters, Banknote Factory and Security producing workshop;
- the capacity of the office telephone station of the National Bank was expanded and office telephone stations were acquired for the National Bank branches;
- 769 personal and 32 notebook computers were acquired;
- the computer equipment was granted to the budget financed organisations.

9.6. Public Relations Development

The National Bank carries out an active information campaign on public awareness of the National Bank and banking system activities. During 2000, the National Bank management officials and specialists repeatedly reported in the live broadcast of "Kazakh Radio". 50 public speeches were arranged, over 60 exclusive interviews and articles were published, over 30 public interviews and meetings in live TV programs of the TV channels "Kha-

bar" Agency", "KTK" and "Kazakhstan" were conducted.

16 press-conferences of the National Bank management were held and 39 National Bank press-releases were made.

A course of the educating workshops for the journalists specialising in the economic topics was continued.

The web-site information was updated and replenished regularly.

X. FINANCIAL STATEMENTS

National Bank of Kazakhstan
Consolidated Financial Statements for 2000

Form 1
Approved by the Governing Board of the NBK
Resolution № 450 of December 8, 2000

Consolidated balance sheets for 2000 and 1999

thousand tenge

	Notes	2000	1999
ASSETS			
Monetary gold	10	72,577,598	72,359,274
Assets denominated in foreign currency:		234,651,641	216,113,276
Foreign cash currency		135,174	502,387
Accounts receivable from foreign banks and financial institutions	11	77,306,456	138,832,499
Debt securities	12	154,434,446	67,443,776
incl. accrued interest by previous holders		1,055,385	4,029
Accounts receivable from domestic banks and financial institutions	13	2,774,389	9,310,189
Accounts receivables – other		1,176	24,425
Assets denominated in tenge:		49,468,344	60,414,455
Accounts receivable from domestic banks and financial institutions	14	6,437,114	308,381
Government debt securities	15	26,688,924	43,641,868
Loans and promissory notes	16	211,674	188,548
Accrued interest (revenue)		1,137,263	1,149,332
incl.: <i>denominated in foreign currency</i>		945,607	992,465
<i>denominated in tenge</i>		191,656	156,867
Capital investments	17	22,402	19,802
Fixed assets, net	18	11,763,550	12,883,275
Intangibles, net	19	305,440	277,142
Other assets	20	2,901,977	1,946,107
<i>incl. organisations' commodity accounts receivables – other</i>		201,503	95,991
Total assets		356,697,583	348,887,005
LIABILITIES			
Banknotes and coins in circulation	21	116,341,513	110,414,542
Liabilities denominated in foreign currency		21,867,018	73,512,436
Foreign banks and financial institutions	22	590,636	907,724
Loans denominated in SDR	23	0	63,919,093
Government agencies	24	16,582,768	6,713,577
Domestic banks and financial institutions		3,940,795	987,248
Non financial organisations		684,412	937,948
Other liabilities		68,407	46,846
Liabilities denominated in tenge		104,785,088	46,137,765
Government agencies	24	28,687,705	13,245,083
Domestic banks and financial institutions		23,222,446	23,869,249
Non financial organisations		3,284,933	829,772
NBK securities	25	48,807,773	6,148,306
Accrued interest (expense)		12,922	546,660
Other liabilities		769,309	1,498,695
Total liabilities		242,993,619	230,064,743
Minority share		181,477	191,525

Continued

	Notes	2000	1999
CAPITAL			
Paid-in capital	26	10,000,000	10,000,000
Reserve capital	26	2,266,760	2,266,760
Common reserves (reserves on banking assets)	26	2,001,507	1,257,791
Reserve fund of KPDIF	26	428,890	-
Special reserve fund	26	87,155,402	101,668,758
Retained earnings from previous years	26	185,387	267,728
Retained earnings	26	11,484,541	3,169,700
Total capital		113,522,487	118,630,737
Total liabilities and capital		356,697,583	348,887,005

1. Tenge/US dollar exchange rate:

31.12.99 – 138.20

31.12.00 – 144.50

2. London Precious Metals Market Association (LPMMA) fixing rate:

31.12.99:

gold – 290.85 US dollar

silver – 5.1900 US dollar

31.12.00:

gold – 272.65 US dollar

silver – 4.5750 US dollar

Governor

G. A. Marchenko

**Accountant general –
Accounting department head**

N. T. Shalgimbaeva

29 March 2001

Almaty, Kazakhstan

National Bank of Kazakhstan
Consolidated Financial Statements for 2000

Form 2
Approved by the Governing Board of the NBK
Resolution № 450 of December 8, 2000

Consolidated income statements for 2000 and 1999

thousand tenge

	Notes	2000	1999
Interest income	3	17,126,081	7,812,576
Interest expense	4	4,775,198	4,555,499
Net interest income		12,350,883	3,257,077
Operations with precious metals, net	5	216,086	510,743
Operations with foreign currency, net	5	14,975,669	4,444,050
Operations with securities, net	5	493,579	45,757
Other revenues, net		497,249	1,959,290
Unforeseen revenue		40,105	86,028
Non interest revenue		16,222,688	7,045,868
GROSS INCOME OF ORGANISATIONS	6	942,781	382,680
<i>from production</i>		545,766	54,992
<i>from services</i>		397,015	327,688
Personnel related expenses	7	2,085,916	1,213,676
<i>incl. National Securities Commission</i>		69,817	46,474
Administrative expenses		601,826	700,744
Banknotes and coins issue related expenses		786,227	654,448
Depreciation		1,414,125	433,739
Securities discount	8	1,016,647	-
Other expenses		782,989	610,178
Non interest expense		6,687,730	3,612,785
REVENUE BEFORE PROVISIONS FOR LOSSES		22,828,622	7,072,840
Provisions for possible losses	9	16,009,609	3,297,090
INCOME BEFORE TAXES		6,819,013	3,775,750
Assessments to reserve capital		-	550,192
Income-tax of organisations		114,354	42,954
Net income before minority share		6,704,659	3,182,604
Minority share		2,866	12,904
Net income		6,701,793	3,169,700

Governor

G. A. Marchenko

Accountant general –
Accounting department head

N. T. Shalgimbaeva

29 March 2001
Almaty, Kazakhstan

National Bank of Kazakhstan
Consolidated Financial Statements for 2000

Form 3
Approved by the Governing Board of the NBK
Resolution № 450 of December 8, 2000

Consolidated cash flows statement for 2000 and 1999

thousand tenge

	2000	1999
CASH FLOW FROM OPERATIONS		
Net income	6,701,793	3,169,700
Adjustments made to put net profit in order with net proceedings:		
Depreciation	1,414,125	433,739
Provisions for possible losses on loans	7,136,459	3,297,089
Common provisions for possible losses on assets	-	550,192
Securities discount	1,016,647	-
Discount on long-term government securities	8,873,150	-
Unrealised difference in exchange rates	6,383,690	55,445,109
Realised difference in exchange rates from previous years	(12,609,986)	(4,425,704)
Operational profit before changes in net operational assets	18,915,878	58,470,125
(Increase) decrease in assets placed:		
Monetary gold and precious metals	(218,323)	(30,087,051)
Holdings in SDR	31,294,636	1,044,141
Foreign exchange assets in external management	(44,887,179)	-
Securities denominated in foreign currency	(20,138,076)	(74,192,890)
Securities denominated in tenge	9,189,793	(11,750,706)
Placements with domestic banks	(6,019,754)	(4,971,794)
Loans gave and promissory notes received	(20,149)	23,455
Other assets	(924,077)	178,262
Increase (decrease) operational liabilities:		
Banknotes and coins issued	5,926,970	37,431,609
Assets received from foreign banks	(317,088)	413,011
Accounts of government agencies	22,109,909	14,762,944
Assets received from domestic banks	1,196,743	7,315,190
Amortized loans in SDR	(63,919,093)	9,360,000
Non financial organisations	2,201,625	1,595,671
Other liabilities	(1,268,104)	255,582
Cash in operations	(46,876,289)	9,847,549

Continued

	2000	1999
CASH FLOW FROM INVESTING ACTIVITIES		
Capital investments	(2,600)	6,200
Intangibles acquisition	(107,586)	(342,346)
Fixed assets acquisition	(431,625)	(1,081,792)
Cash in investing activity	(541,811)	(1,417,938)
Cash flow from financing activities		
Debt securities issued (NBK notes)	42,659,466	(5,777,261)
KPDIF reserve fund forming	428,890	-
Transferred to Government	(3,201,905)	(108,806)
Cash from financing activities	39,886,451	(5,886,067)
Decrease in cash assets and equivalents, net	(7,531,649)	2,543,544
Cash and its equivalents as of the beginning of the year	23,066,893	20,523,348
Cash and its equivalents as of the end of the year	15,535,244	23,066,892

Governor

G. A. Marchenko

**Accountant general –
Accounting department head**

N. T. Shalgimbaeva

29 March 2001
Almaty, Kazakhstan

Notes to 2000 and 1999 financial statements (thousand tenge)

1. General information

The National Bank of Kazakhstan was established by the Resolution of the Supreme Counsel of the Republic of Kazakhstan #2134-XII on 13.04.93. In accordance with this Resolution the State Bank of Kazakh SSR was renamed into the National Bank of the Republic of Kazakhstan (hereinafter – NBK).

NBK performs its functions as a bank, financial consultant and agent to the Republic's government system on the basis of agreements signed with them.

These consolidated financial statements contain balance sheet, income and cash flow statements of the NBK Almaty headquarter, its 17 branches and 8 legal entities (hereinafter – organisations) including 4 – CJSC⁸ and 4 – RSE⁹ over which it has control and exerts considerable influence.

The balance value and income statements value at the beginning of 2000 differs from the published 1999 figure. The balance value has decreased by 57,892 thousand tenge as a result of changes caused by transferring discount accrued from assets to decrease in liabilities, change in subsidiaries financial results (according to the IFTC's audit), re-classification of balance sheet accounts. In the income statements net income has decreased by 1,094 thousand tenge as a result of changes made by the audit of IFTC.

2. Consolidation and key directions in the accounting policy

As of 31.12.00 the National Bank had equity investments, which allowed it to control and exert considerable influence over the following organisations:

	Country	Main activity	Share of NBK
RSE Kazakh Mint (KM)	Kazakhstan	Coin production	100%
RSE Kazakhstan Interbank Settlement Center (KISC)	Kazakhstan	Electronic money transfer	100%
RSE Motor transport depot of the NBK (MTD)	Kazakhstan	Transportation services	100%
RSE Bank Service Bureau (BSB)	Kazakhstan	Computer services	100%
CJSC Interbank and Financial Telecommunication Centre (IFTC)	Kazakhstan	Telecommunication services	71,8%
CJSC Kazakhstan Public Deposits Insurance Fund (KPDIF)	Kazakhstan	Public deposit insurance	100%
CJSC Kazakhstan Hypothecary Company (KHC)	Kazakhstan	Hypothecary lending and securities secondary market development	100%
CJSC Processing Centre (PC)	Kazakhstan	Payment cards transactions processing	100%

KM, KISC, IFTC, BSB, MTD, KPDIF, KHC and PC on an item by item basis were consolidated with those of NBK in 2000 financial statements in order to form a Group. These organisations are owned by the National Bank and were consolidated in order show a financial position of the Group.

According to Kazakh legislation, the National Bank has the right to develop and adopt its own accounting policy. Below are listed the key elements of such a policy, which were used when preparing of NBK's financial statements.

⁸ CJSC - Closed Joint-Stock Company

⁹ RSE - Republic State Enterprise

Fundamentals of accounting

The financial statements were prepared according to the original cost principle with fixed assets being revalued, excluding financial instruments which are accounted for at current value.

Currency used in reporting

The currency used in the financial statements is Kazakh tenge, denoted by symbol KZT. The numbers are in thousands of tenge.

Accounting for revenues

Revenues and expenses are accounted for on an accrual basis and thus are recorded as they occur.

Monetary gold

Refined gold is recorded at market value of the morning fixing rate on the last day of the fiscal year determined by the London Precious Metals Market Association (LPMMA).

Refined gold is revalued daily and at the end of every month at the morning fixing rate of LPMMA on the revaluation rate. During the year revaluation gains or losses are reflected in profit or loss accounts. At year end the difference between unrealised revenues and expenditures is reflected in the revaluation account.

Profit or loss generated from the sale of gold and determined on the basis of the balance amount on a sale date are reflected in the revenues and expenditures accounts. At fiscal year end the weighted average method of calculation is used to determine a realised profit which is recorded as revenue from operations with precious metals.

The value of unrefined precious metals is recorded at an acquisition cost and only a realised profit or loss from sale is reflected in revenue and expenditures account.

Foreign currency

On a balance sheet data assets and liabilities priced in foreign currency are converted at the National Bank spot exchange rate of the same date. All revenues and expenses associated with exchange operations are recorded in foreign currency revaluation accounts.

At year end the weighted average method of calculation is used to determine a realised profit from foreign currency sales. The difference between unrealised profits and losses from revaluation is reflected in revaluation accounts.

The following table shows the exchange rates that NBK used to determine the value of some assets and liabilities at January 1 of 2000 and 1999:

Currency	31.12.00	31.12.99
US dollar	144.50	138.20
SDR	188.67	190.72
Euro	136.21	143.65
Deutsche mark	69.64	73.45
10 Japanese yen	13.11	13.63

Transactions valued in foreign currency are accounted for at the NBK exchange rate on the transaction date.

NBK operates with the derivatives. As at 31.12.00 NBK had foreign currency forward contracts.

Securities valued in foreign currency

These are discount US Government Treasury obligations and securities of other foreign governments, banks and state financial organisations. Securities valued in foreign currency are accounted for at their market values. The discount is recorded as future income while the amortisation over the securities' life gets included in interest revenue.

Repo operations are financial operations, so securities sold are recorded in the balance of NBK while other accounts payable are reflected in the balances of banks and credit institutions or clients' balances. Expense emerged as a result of a difference in prices of such securities is reflected as an interest expense the same period when operation took place. Reverse repo operations are recorded as indebtedness of credit institutions.

Asset categorisation and reserves on possible loss

NBK places assets with other credit institutions. Special-purpose reserves to cover possible losses on some loans are created. Other loans are loans to em-

employees after deducting common and special-purpose reserves for possible losses. Every period reserve for possible losses which is estimated on the basis of previous losses on loans is reflected in income statements.

Capital investments

These are long-term investments of NBK in subsidiaries' pays and shares. Such investments are accounted for at the cost of acquisition.

Fixed assets

They are accounted for at revalued prices after deducting accumulated depreciation. Fixed assets revaluation was conducted annually until the end of 1997 according to coefficients of the State Statistics Committee.

Straight-line method of depreciation based on an asset's useful life is applied to all fixed assets except for some assets of the Banknote factory, which are depreciated by the production method. In 2000 the useful buildings life categories were revised and in accordance with it the following are the useful asset life categories:

Buildings	10–40 years
Equipment	2–28 years
Vehicles	3–27 years

Intangibles

They are accounted for at the historic-cost or at revalued prices after deducting accumulated depreciation. Straight-line method of depreciation based on an intangibles' useful life is used.

The following are the useful intangibles life categories:

Software	1–3 years
Licenses and technical documentation	2–3 years

Cash in circulation

It includes banknotes and coins issued by the NBK. The issuance costs are expensed at the time of issue. Banknotes and coins printed and minted but not put in circulation are accounted for at their prime cost among other assets.

NBK short-term notes

They are accounted for at their sale value. The difference between the nominal and the discounted value is expensed by the accrual method.

Capital and reserves (hereinafter – funds)

Paid-in capital

Its structure is determined by the Decree of the President of the Republic of Kazakhstan issued on 30.03.95 (with amendments and additions) and by the Statute on formation and renewing of paid-in capital of the NBRK passed by the NBK's Board resolution #85 on 31.03.97 with amendments according the NBK's Board resolution #439 on 28.11.00. The amount of the Bank capital is generated from assets invested by the Republic of Kazakhstan and from retained earnings and is valued at 10 billion tenge.

Reserve fund

Its structure is determined by the Statute on formation, renewing and using the NBK reserve fund passed by the NBK's Board resolution #477 on 30.12.97 with amendments according to the NBK's Board resolution #439 on 28.11.00. The value of the fund must be equal to that of paid-in capital to ensure that possible losses are covered.

Revaluation accounts

Their structure is determined by the Statute on revaluation accounts and amounts passed by the NBK's Board resolution #345 on 19.10.00. Unrealised gains and losses from revaluation of gold, foreign currency assets and obligations, tenge denominated securities, fixed and intangible assets are reflected in these accounts. Unrealised gains and losses emerged as a result of change in tenge exchange rate and in market value of securities are recorded in revaluation accounts.

Any negative revaluation of foreign currency or precious metal is charged against their revaluation accounts. Any amount of negative revaluation that can not be dealt with in this way is simply expensed over the year.

Taxation

In accordance with the legislation, the NBK does not pay income taxes (except non-residents income tax) and state duties. However, it does pay certain types of other taxes and make mandatory payments associated with its employees. Organisations of the NBK do pay all kinds of taxes except transport tax and VAT on financial services (as they were chartered by the NBK and hence exempt from those taxes).

The amount of value added tax previously paid on services provided to the NBK is not shown. The amount of value added tax paid by the Bank on purchased goods and services gets expensed.

3. Interest revenue

	2000	1999
	KZT ('000)	KZT ('000)
	Group	Group
Gold and precious metals deposits	155,644	403,401
Foreign currency denominated accounts receivable from banks	2,579,817	2,053,493
Accounts receivable from international financial organisations	163,668	208,160
Tenge denominated accounts receivable from banks and non-banking financial institutions	100,173	11,928
Discount debt securities	13,956,628	5,123,053
Discount debt securities	16,193	12,541
Revenue from investment activity of KPDIF	153,958	-
	17,126,081	7,812,576

4. Interest expenses

	2000	1999
	KZT ('000)	KZT ('000)
	Group	Group
Foreign currency denominated liabilities to banks	-	-
Liabilities to international financial organisations	1,227,171	2,968,808
Liabilities to government agencies	1,814,981	1,427
Tenge denominated liabilities to banks and non-banking financial institutions	104,622	544,436
NBK short-term notes	1,628,424	1,040,828
	4,775,198	4,555,499

5. Non interest revenue and expenses

	2000	1999
	KZT ('000)	KZT ('000)
	Group	Group
Revenue from operations with precious metals	255,209	900,565
Expense from operations with precious metals	(39,123)	(389,822)
Operations with precious metals, net	216,086	510,743
Revenue from foreign currency operations	15,604,012	7,199,555
Expense from foreign currency operations	(628,343)	(2,755,505)
Operations with foreign currency, net	14,975,669	4,444,050
Revenue from operations with securities	676,420	77,147
Expense from operations with securities	(182,841)	(31,390)
Operations with securities, net	493,579	45,757

6. Organisations total income

	2000	1999
	KZT ('000)	KZT ('000)
	Group	Group
Total income from main activity, including:	3,211,571	952,852
Income from main activity of organisations producing goods	2,191,010	209,472
Income from main activity of organisations rendering services	1,020,561	743,380
Total prime cost, including:	2,268,790	570,172
Prime cost of realised products	1,645,244	154,480
Prime cost of realised services	623,546	415,692
Total gross income, including:	942,781	382,680
Gross income from production	545,766	54,992
Gross income from services rendering	397,015	327,688

Goods and services produced by the organisations of the NBK are required for activity of the National Bank and banking system. Banknote factory and Kazakh Mint produce banknotes and

coins, KISC provides money transfer, IFTC – telecommunication services, BSB – computer services, Motor transport depot – transportation services.

7. Personnel related expenses

	2000	1999
	KZT ('000)	KZT ('000)
	Group	Group
Salary,	1,034,292	601,636
– incl. NSC ¹⁰	32,485	21,205
Bonuses,	563,606	329,379
– incl. NSC	21,804	13,074
Taxes and fees,	360,185	208,610
– incl. NSC	12,980	10,744
Other,	127,833	74,051
– incl. NSC	2,549	1,450
	2,085,916	1,213,676

According to the IAS consolidation principles data on organisations of the NBK are included in

the personnel related expense, accordingly amounts for 1999 has changed.

¹⁰ NSC – National Securities Commission of the Republic of Kazakhstan

	National Bank		Organisations	
	2000 KZT ('000) Group	1999 KZT ('000) Group	2000 KZT ('000) Group	1999 KZT ('000) Group
Salary,	883,092	541,125	151,200	60,511
– incl. NSC	32,485	21,205	-	
Bonuses,	527,016	320,124	36,590	9,255
– в Incl. NSC	21,804	13,074		
Taxes and fees,	360,185	208,610	-	
– incl. NSC	12,980	10,744		
Other,	125,748	74,051	2,085	
– incl. NSC	2,549	1,450		
	1,896,041	1,143,910	189,875	69,766

8. Securities value discount

Foreign currency denominated foreign governments securities are accounted for at par value. In accordance with IAS there was a discount of secu-

rities value to market value by 1,016,647 thousand tenge in 2000.

9. Reserves for possible losses

	Loans	Banks liabilities	Other assets	Total reserve	Total KZT ('000)
Reserves on 01.01.99 – NBK/Group	993,768	186,174	231,064	697,640	2,108,646
Annulment	-	(186,174)	-	-	(186,174)
Write – off	-	-	(127,680)	(200)	(127,880)
Increase in provision during the year	3,376,596	-	63,984	550,192	3,990,772
Reserves on 31.12.99 – NBK/Group	4,370,364	-	167,368	1,247,632	5,785,364
Annulment	-	-	(49,249)	-	(49,249)
Write – off	(11,423,979)	-	(42,064)		(11,466,043)
Increase in provision during the year, incl.					
National Bank	7,053,615	-	8,998,176		16,051,791
Organisations			7,067		7,067
Reserves on 31.12.00 – NBK	-	-	9,081,298	1,247,632	10,328,930
Consolidation effect			5,686		5,686
Reserves on 31.12.00 – NBK/Group	-	-	9,086,984	1,247,632	10,334,616

In 2000 reserves for possible losses were created in the amount of 16,051,791 thousand tenge, of which 7,053,615 thousand tenge was reserves against a loan to the Rehabilitation Fund, 8,873,150 thousand tenge – reserves on long-term government securities, 125,026 thousand tenge – other. A write-off of doubtful assets in the amount of 11,466,043 thousand tenge, of which 11,423,979 thousand

tenge was amount of a loan to Rehabilitation Fund, took place.

A special loss reserve is deducted from respective assets, while a general loss reserve is accounted for on the Reserve Fund account. At fiscal year end the balance on the Bank's general reserve was 1,247,632 thousand tenge.

10. Monetary gold

	2000	1999
	KZT ('000)	KZT ('000)
	Group	Group
Monetary gold	20,517,339	30,883,484
Monetary gold deposits	51,955,374	41,364,230
Gold investments coins	104,885	111,560
	72,577,598	72,359,274

The official morning fixing rate established by the LPMMA on 31.12.00 was 272.65 dollars for an ounce (\$290.85 on 31.12.99). In 2000 NBK purchased gold at the domestic market including purchases from "Kazprombank", "Avangard",

"Balkhash" company. The removal of gold from NBK's vault to foreign banks in order to place gold on deposits with them took place. Average interest rate on term gold deposits in 2000 was 0.298% (in 1999 – 1.142%).

11. Foreign currency denominated accounts receivable from foreign banks and financial institutions

	2000	1999
	KZT ('000)	KZT ('000)
	Group	Group
Correspondent accounts	14,528,941	1,719,594
Deposits	434,011	20,536,520
Correspondent foreign currency accounts of IMF	29,625	31,324,261
Foreign currency in external management (Asset Management)	44,887,179	
Reverse repo agreements	17,426,700	85,269,399
Total:	77,306,456	138,849,774
Less: reserves for losses	0	(17,275)
Total:	77,306,456	138,832,499

In 2000 accounts receivable in foreign currency deposits and reverse repo agreements from foreign banks and financial institutions has decreased due to increase in purchases of foreign government securities and securities of international financial organisations. Correspondent foreign currency ac-

counts of IMF decreased in connection with repayments in the amount of 335.1 billion SDR, of which 295.8 billions SDR were pre-term repayment of the debt (24.05.00).

NBK transmitted foreign currency assets to an external asset management of foreign banks.

12. Foreign currency denominated debt securities

	2000	1999
	KZT ('000)	KZT ('000)
	Group	Group
Foreign government securities		
German Treasury obligations	18,410,471	9,810,333
UK Treasury obligations	8,697,646	4,299,210
US Treasury obligations	45,903,134	51,385,813
Russia Treasury obligations	28,365	-
	73,039,616	65,495,356
Foreign bank securities ¹¹	78,570,006	-
Foreign government agencies securities	1,429,647	1,378,144
Kazakhstan government securities	339,792	566,247
Interest accrued by previous holders of securities	1,055,385	4,029
Total:	154,434,446	67,443,776

13. Foreign currency denominated accounts receivable from domestic banks and financial institutions

	2000	1999
	KZT ('000)	KZT ('000)
	Group	Group
Loan to Rehabilitation Fund	-	10,925,909
Correspondent accounts	4	11
Short- and long-term loans	1,338,821	121,265
Long-term loans	1,435,564	2,633,367
Total:	2,774,389	13,680,552
Less: Reserve for losses	-	(4,370,363)
Total:	2,774,389	9,310,189

In 2000 NBK granted short- and middle-term loans to commercial banks participating in Consortium of banks – lenders of gold – mining industry.

In accordance with Resolution of the NBK's Board on 15.08.97, the Bank during 1998-2000 cre-

ates a reserve against the Rehabilitation Fund loan as follows: 15% in 1998, 25% in 1999 and 60% in 2000. The amount of the reserve for these years is respectively 993,767 thousand tenge, 3,376,597 thousand tenge and 7,053,615 thousand tenge. The loan was written-off in 2000.

¹¹ In 2000 NBK purchased securities of banks of international financial organisations: IBRD, ADB, EIB, IFC

14. Foreign currency denominated accounts receivable from domestic banks and financial institutions

	2000	1999
	KZT ('000)	KZT ('000)
	Group	Group
Reverse repo agreements with NBK short-term notes	6,000,000	-
Organisations' accounts	437,114	308,381
	6,437,114	308,381

15. Government debt securities

	2000	1999
	KZT ('000)	KZT ('000)
	Group	Group
Short-term discount government securities	-	9,200,743
Short-term interest bearing government securities	298,656	822,293
Middle-term interest bearing government securities	822,293	-
Long-term interest bearing government securities	34,441,125	34,441,125
Reserves on government securities	(8,873,150)	-
	26,688,924	43,641,868

Long-term government securities have maturity of 10 years (maturing in 2007). They were issued as interest bearing securities with coupon rate of 9.75%. The balance cost less amount of discount was 25,567,975 thousand tenge. Middle-term government securities were issued in 2000 maturing in

2002–2003 with coupon rate of 16.3% and 17.25% respectively. In accordance with the IAS securities are accounted for at their current value. In 2000 NBK received interest payments on long-term government securities in amount of 3,358,010 thousand tenge.

16. Loans and promissory notes

	2000	1999
	KZT ('000)	KZT ('000)
	Group	Group
Middle-term loans to other residents (individuals)	1,057	1,286
Long-term loans to other residents (individuals)	195,826	184,919
Loans backlogged by other residents (individuals)	10	-
Reserves for loans granted to other residents (individuals)	(7,935)	(10,912)
Promissory notes rediscounted	7,100	-
Fixed assets and intangibles with payment by instalment	15,616	13,255
	211,674	188,548

In order to enhance NBK employees' workmanship they took up loans.

As of 31.12.00 the interest rate set by the NBK varied around 10% p. a. for tenge borrowing. At the

beginning of 2001 the total amount of loans was valued at 212.5 million tenge, of which 15.6 million tenge were assets transferred on credit. At the beginning of 2000 the total loan value was 199.4 million tenge.

17. Capital investment

	2000 % share	1999 % share	2000 KZT ('000) Group	1999 KZT ('000) Group
RSC KISC	100	100	-	-
CJSC IFTC	71.8	71.8	-	-
RSC BSB	100	100	-	-
RSC KM	100	100	-	-
CJSC Kazakhstan Stock exchange	25	25	19,802	19,802
CJSC Central Depository	32.5	-	2,600	-
RSC MTD	100	100	-	-
CJSC KPDIF	100	100	-	-
CJSC KMK	100	-	-	-
CJSC Processing Centre	100	-	-	-
			22,402	19,802

During the fiscal year 2000 NBK purchased shares of 3AO "Center for Interbank and Financial Communications" for KZT ('000) 8,900 plus stock of CJSC "Central Depository for Securities" for KZT ('000) 2,600. The amount of KZT ('000) 500,000 was paid in equity capital of CJSC "Kazakhstan Public Deposits Insurance Fund" and KZT ('000) 500,000 was paid into stock of

CJSC Kazakhstan Mortgage Company. Another KZT ('000) 500,000 were paid into equity of CJSC Processing Centre. There was additional payment in equity capital of organisations due to retained earnings of previous years for KZT ('000) 10,641, including BSB of KZT ('000) 4,038, and RSC MTD of KZT ('000) 3,603.

18. Fixed assets

	2000 KZT ('000) Group	1999 KZT ('000) Group
Buildings	8,258,718	8,694,122
Equipment	7,407,682	6,662,264
Fixed Assets in Stock	4,334	-
Other items	316,456	185,495
	15,987,190	15,541,881
Less: Accumulated Depreciation	4,237,076	2,685,726
Uncompleted Construction	13,436	27,120
	11,763,550	12,883,275

Decrease in cost of buildings by KZT ('000) 435,404 is explained by the sell-off of storehouse in Petropavlovsk, buildings of the non-production purpose (kindergarten in Shymkent), residential buildings for KZT ('000) 26,796, gratuitous donation of some residential buildings for KZT ('000)

8,836, transfer of the equipment costs from costs of buildings into elements of buildings for KZT ('000) 399,772.

An increase in the costs of equipment by KZT ('000) 745,418 is explained by purchase of the equipment on KZT ('000) 238,108, transfer of the

equipment costs from costs of buildings into elements of buildings for KZT ('000) 399,772, transfer of materials into fixed assets item for KZT ('000) 92,216, other for KZT ('000) 15,322.

On December, 31 of 2000 incomplete investments were KZT ('000) 13,436, including invest-

ment in Mint Establishment of Kazakhstan of KZT ('000) 4240,0, and amount of KZT ('000) 8,983 in Centre for Interbank Settlements plus amount of incomplete investments on the National Bank itself for KZT ('000) 212,0 (costs of installation work and equipment).

19. Intangible Assets

	2000	1999
	KZT ('000)	KZT ('000)
	Group	Group
Software	369,273	286,377
Technical documentation and licenses	151,486	127,057
Acts on property in land	785	697
Other	864	692
	522,408	414,823
Less: Accrued amortisation	216,968	137,681
	305,440	277,142

20. Other Assets

	2000	1999
	KZT ('000)	KZT ('000)
	Group	Group
Materials	1,192,713	867,893
Banknotes and coins in stock	944,028	358,823
Advance payment on purchasing fixed assets and materials	499,656	85,844
Tax Payable	90,413	559,359
Provisions on non-monetary activity	(193,146)	(139,181)
Other	368,313	213,369
	2,901,977	1,946,107

21. Banknotes and coins in circulation

Changes in the amount of paper money and coin circulation during years 1999 and 2000 could be analysed by its face value the following way.

	Banknotes KZT ('000)	Coins KZT ('000)	Total KZT ('000)
Total in circulation on January, 1, 2000	110,137,663	744,041	110,414,543
Gold investment coins classified as monetary gold and cash in n cash-points of affiliates and organisations of NBK on January, 1, 2000	-	-	467,162
Put into circulation	189,924,040	2,207,443	192,131,483
Taken out of the circulation	184,812,324	1,325,313	186,137,637
In the circulation on January, 1st, 2001 – NBK	115,249,380	1,626,171	116,875,551
Gold investment coins classified as monetary gold and cash in n cash-points of affiliates and organisations of NBK on January, 1, 2000.	-	-	(534,038)
Money in circulation on January, 1st, 2001 – NBK	115,249,380	1,626,171	116,341,513

Cash in circulation less cash balance at NBK and NBK organisations had comprised to KZT ('000) 110,414,543 by January, 1st, 2001 and KZT ('000) 116,341,513 by January, 1st, 2001 respectively.

22. Liabilities in respect to foreign banks and financial institutions

	2000 KZT ('000) Group	1999 KZT ('000) Group
Liabilities on IBRD loans received	315,694	278,888
Long-term deposits and loans given by the foreign states government	274,942	262,955
Liabilities on EBRD loans received	-	365,881
	590,636	907,724

Loans given by the international financial institutions are nominated in USD with interest of 5.11 per cent per annum on December, 31, 2000 were KZT ('000) 315,694 or \$2.2 million. There are \$2.0 million on IBRR credit line № 3867 and \$0.2 million on IBRR credit line № 3642 that comprise to above amount. The total amount of debt in respect to the international financial institutions had been \$4.7 million by the beginning of considered year including \$2.7 million given by EBRD and \$2.0 million given by EBRD. There was a payoff of the total amount of the debt in respect to EBRD on March, 10, 2000. There was also first part principal repayment of the loan given by IBRD credit line № 3642 of \$0.1 million. The total amount of the liabilities to IBRD by the end of considered period had grown by \$0.2 million on account of spending the amount of \$0.3 million and repayment of \$0.1. Principal repayment takes place from March, 1999 to September, 2010 of credit line № 3642 and from January, 2001 to July, 2,012 of credit line № 3687.

Interest rate is determined by IBRD as costs of skilled lending based on the preceding half year.

23. Liabilities in SDR

The amount of NBK liabilities to IMF on January, 1, 2000 were KZT ('000) 63,919,093 or 335.1 million in SDR. NBK had not had liabilities to IMF by the beginning of the year 2001. In the considered year there were repayments of SDR 335.1 million including paying off the principal of SDR 295.8 million on May, 24th, 2000.

24. Institutions of State Governing

Accounts of state Institutions in foreign currency include creditors on L/C operations in foreign currency of the Ministry of Finance RK of KZT ('000) 250,221 denominated in USD and current accounts in foreign currency of KZT ('000) 16,332,548 for total amount of KZT ('000)

16,582,768 denominated in DM, USD and other currencies.

Accounts of state Institutions in local currency include creditors on L/C in tenge of KZT ('000) 303,885, Ministry of Finance deposits of KZT ('000) 19,495 and Unified Treasury Account of KZT ('000) 28,364,325 for total amount of KZT ('000) 28,687,705.

25. Short-term notes of NBK

The maturity of short-term notes ranges between 7 and 84 days. Short-term notes in the amount of KZT ('000) 49,166,652 are accounted with a discount of KZT ('000) 358,879 on December, 31st, 2000.

26. Capital and reserve (funds) flow statement

	Paid-in capital	Reserve capital	General Provisions	Reserve Fund KPDIF	Revaluation accounts	Retained earnings	Total
1	2	3	4	5	6	7	8
Funds on December, 31st, 1998 – NBK	10,000,000	2,266,760	697,641		50,456,686	108,806	63,529,893
Negative revaluation of gold investment coins in 1998					(4,849)		(4,849)
Funds on December, 31st, 1998 – NBRK	10,000,000	2,266,760	697,641		50,451,837	108,806	63,525,044
After consolidation	-	7,158			246,245	79,615	333,018
Funds and net income on December, 31st, 1998 – Group	10,000,000	2,273,918	697,641		50,698,082	188,421	63,858,062
Transferred into state budget						(108,806)	(108,806)
Total loss reserves			550,191				550,191
Revaluation, net							
Gold					27,426,125		27,426,125
Foreign currency					23,771,121		23,771,121
Fixed assets					(238)		(238)
Net income – NBRK						3,215,403	3,215,403
Other			(200)				(200)
Funds on December, 31st, 1999 – NBRK	10,000,000	2,266,760	1,247,632		101,648,845	3,215,403	118,378,640
After consolidation		10,159			19,913	267,728	297,800
– net subsidiary loss						(32,799)	(32,799)
– minority share in net income						(12,904)	(12,904)
Funds on December, 31st, 1999 – Group	10,000,000	2,276,919	1,247,632		101,668,758	3,437,428	118,630,737
Transferred into state budget						(3,201,905)	(3,201,905)
Total loss reserves			682,895			(682,895)	0
Revaluations, net							
Gold					(1,363,136)		(1,363,136)
Foreign currency					(13,173,233)	5,451,096	(7,722,137)
Securities					42,294		42,294
Fixed assets					(14,682)	14,547	(135)
Net income – NBRK						6,349,641	6,349,641
Other							
Funds on December, 31st, 2000 – NBK	10,000,000	2,266,760	1,930,527	0	87,140,088	11,145,887	112,483,262
After consolidation			70,980	428,890	15,314		515,184
– net subsidiary profit for the previous years						171,889	171,889
– net subsidiary profit for the year 2000						355,018	355,018
– minority share in net income						(2,866)	(2,866)
Funds on December, 31st, 2000 – Group	10,000,000	2,266,760	2,001,507	428,890	87,155,402	11,669,928	113,522,487

Net retained earnings of the Group for the year 2000 was KZT ('000) 6,704,659, в том числе по НБРК KZT ('000) 6,349,641 including earnings of organisations of KZT ('000) 355,018 and decrease in minority share income for KZT ('000) 2,866. As a result net income was KZT ('000) 6,701,793.

Due to bad loans write-off from NBK balance on Rehabilitation Fund the amounts of KZT ('000) 5,451,096 as revaluation for 1998-2000 and KZT ('000) 14,547 as written-off fixed assets were taken against net income.

The following table illustrates changes in the revaluation accounts for 2000.

	December. 31 st , 1999 Bank	Increase	Decrease	December. 31 st , 2000 Group
Gold	43,979,333	90,090,390	91,453,527	42,616,196
Foreign currency	55,666,012	40,543,654	53,716,887	42,492,779
Securities	-	42,294	-	42,294
Fixed Assets	2,003,501	264,285	278,967	1,988,819
Total:	101,648,846	130,940,623	145,449,381	87,140,088

27. Pension payments plans

The NBRK employees receive pension payments from the government in accordance with the laws and resolutions of the Republic of Kazakhstan. As of December, 31st 2000 the National Bank did not have any additional pension and pension related, medical and insurance payment

liabilities to its employees both retired and presently working.

28. Liabilities and contingent expenses

On 31.12.99 the amount in foreign currency denominated accounts payable to suppliers amounted to KZT ('000) 138,180.

	2000 KZT ('000) Group	1999 KZT ('000) Group
Unissued banknotes and coins	114,177,515	64,259,197
Derivative instruments	2,058,988	5,777,900
Gold swap contracts	0	718,422
Deposit forwards with second-tier banks	73,003	5,059,478
Foreign Currency forwards (USD to JPY)	1,301,985	-
Possible obligations on issued and confirmed liabilities	684,000	-

29. Affiliated parties

These are the members of the Board and Council of Directors, NBRK employees and government agencies.

As of 31.12.99 the National Bank conducted the following transactions with them:

	2000 KZT ('000) Group	1999 KZT ('000) Group
Ministry of Finance securities	27,028,716	44,208,114
– tenge denominated debt securities	26,688,924	43,641,868
– foreign currency denominated debt securities	339,792	566,246

Continued

	2000	1999
	KZT ('000)	KZT ('000)
	Group	Group
Loans	204,574	188,548
– to NBK employees	201,770	183,235
– CJSC Central Depository of Securities	2,804	5,313
Liability to the Ministry of Finance	28,687,705	13,245,083

During the year ended in December, 31st 2000 NBK received interest on loans given to NBK employees of KZT ('000) 16,193 and made interest payments on sort-term deposit denominated in foreign currency to the Ministry of Finance of KZT ('000) 806,968.

Total amounts on Loan item do not correspond to analogous amounts published in 1999. It is explained by the decrease in provisions written for bad loans of KZT ('000) 10.912

with consequent changes in Loans to NBK Employees.

30. Maturity of assets and liabilities

The following table illustrates the NBRK's liquidity risk by comparing its asset and liability maturity dates. Assets and liabilities for which maturity dates could not be determined were designated in the "No maturity" column.

2000 Group

	Less than a month	1–3 months	3 months–1 year	1–5 years	More than 5 years	No redemption data	Total
ASSETS							
Monetary gold	55,740,642	2,804,288	14,032,668	-	-	-	72,577,598
Foreign currency	45,528,736	32,447,319	52,402,248	86,126,420	18,146,918	-	234,651,641
Claims to the local banks and Financial Institutions	6,437,114	-	-	-	-	-	6,437,114
State Debt Securities	5,300	268,499	24,858	39,253	26,351,014	-	26,688,924
Loans and promissory notes	5,011	2,100	-	3,861	200,702	-	211,674
Total Assets	107,716,803	35,522,206	66,459,774	86,169,534	44,698,634	-	340,566,951
LIABILITIES							
Banknotes and coins in circulation	116,341,513	-	-	-	-	-	116,341,513
Foreign currency	19,551,939	240,159	1,380,568	-	396,135	298,217	21,867,018
Institutions of State Governing	28,364,325	143,942	159,943	-	-	19,495	28,687,705
Local banks and financial institutions	23,122,446	100,000	-	-	-	-	23,222,446
Non-financial institutions	3,284,933	-	-	-	-	-	3,284,933
Securities issued by NBK	20,872,016	27,935,757	-	-	-	-	48,807,773
Total liabilities	211,537,172	28,419,858	1,540,511	-	396,135	317,712	242,211,388
Net	(103,820,369)	7,102,348	64,919,263	86,169,534	44,302,499	(317,712)	98,355,563

1999 Group

	Less than a month	1-3 months	3 months-1 year	1-5 years	More than 5 years	No redemption data	Total
ASSETS							
Monetary gold	69,616,290	2,742,984	-	-	-	-	72,359,274
Foreign currency	139,359,322	711,730	39,671,486	34,918,327	1,452,411	-	216,113,276
Claims to the local banks and Financial Institutions	308,381	-	-	-	-	-	308,381
State Debt Securities	-	1,458,609	7,742,134	-	34,441,125	-	43,641,868
Loans and promissory notes	-	-	-	6,599	181,949	-	188,548
Total Assets	209,283,993	4,913,323	47,413,620	34,924,926	36,075,485	-	332,611,347
LIABILITIES							
Banknotes and coins in circulation 110,414,542	-	-	-	-	-	110,414,542	-
Foreign currency	8,381,374	304,245	-	34,414,709	30,149,153	262,955	73,512,436
Institutions of State Governing	13,225,588	-	-	-	-	19,495	13,245,083
Local banks and financial institutions	23,869,101	-	-	-	-	148	23,869,249
Non-financial institutions	829,772	-	-	-	-	-	829,772
Securities issued by NBK	4,171,752	1,976,554	-	-	-	-	6,148,306
Total liabilities	160,892,129	2,280,799	-	34,414,709	30,149,153	282,598	228,019,388
Net	48,391,864	2,632,524	47,413,620	510,217	5,926,332	(282,598)	104,591,959

Data in table of December, 31st, 1999 do not correspond NBK financial statement of 1999 due to changes in the balance. The Total item has been changed in the following:

On the asset side

- Foreign currency item has been decreased on KZT ('000) 293,440 due to organisations current account balance exclusion for KZT ('000) 308,381 provisions written on personal loans of +KZT ('000) 10,912 and interest on securities in foreign currency inclusion accumulated by the previous holder for KZT ('000) 4,029.
- Claims to the local banks and Financial Institutions new item has been introduced including balance of the current accounts of organisations of KZT ('000) 308,381.
- Securities item has been changed into State Debt Securities item. Total Item has been reduced by the amount of the capital investment of KZT ('000) 19,802.
- Credits item has been changed into Loans and Promissory Notes. Total amount was decreased

by KZT ('000) 10,912 due to written provision exclusion of KZT ('000) 10,912.

- Total Assets item has been reduced by KZT ('000) 15,773.

On the Liabilities side

- National currency item has been excluded.
- Institutions of State Governing item has been introduced including KZT ('000) 13,245,083 taken from the National Currency item.
- Local Banks and Financial Institutions item has been introduced including KZT ('000) 23,869,249 taken from the National Currency item.
- Non-Financial Organisations item has been introduced including current account balance of the non-financial organisations of KZT ('000) 829,772 taken from the National Currency item.
- Securities issued by NBK item has been introduced including the amount of short-term NBK notes taken from the National Currency item, and notes accrued discount of KZT ('000) 57,812 with total amount of KZT ('000) 6,148,306.
- Total liabilities item has been reduced by KZT ('000) 57,812.

31. Assets and liabilities denominated in foreign currencies

2000 Group

	US\$	DM	EUR	JPY	SDR	GBR			
	\$1=	1 DM=	1 EUR=	10 Yen=	1 SDR=	1 GBR=			
	KZT	KZT	KZT	KZT	KZT	KZT	Other	Total	
	144,50	69,64	136,21	13,11	188,57	214,58			
1	2	3	4	5	6	7	8	9	10
ASSETS									
Monetary gold	72,577,598	-	-	-	-	-	-	-	72,577,598
Assets in foreign currency	-	196,366,873	1,039	27,221,530	223,689	30,763	10,701,958	105,789	234,651,641
Claims to the local banks and Financial Institutions	6,437,114	-	-	-	-	-	-	-	6,437,114
State Debt Securities	26,688,924	-	-	-	-	-	-	-	26,688,924
Loans and promissory notes	211,674	-	-	-	-	-	-	-	211,674
Accrued interest (income)	1,137,263	-	-	-	-	-	-	-	1,137,263
Capital investment	22,402	-	-	-	-	-	-	-	22,402
Fixed assets	11,763,550	-	-	-	-	-	-	-	11,763,550
Intangible Assets	305,440	-	-	-	-	-	-	-	305,440
Other Assets	2,901,977	-	-	-	-	-	-	-	2,901,977
Assets Total	122,045,942	196,366,873	1,039	27,221,530	223,689	30,763	10,701,958	105,789	356,697,583
LIABILITIES									
Banknotes and coins in circulation	116,341,513	-	-	-	-	-	-	-	116,341,513
Foreign currency	-	20,544,375	337	4,198	1,311,000	-	86	7,022	21,867,018
Institutions of State Governing	28,687,705	-	-	-	-	-	-	-	28,687,705
Local banks and financial institutions	23,222,446	-	-	-	-	-	-	-	23,222,446
Non-financial organi- sations	3,284,933	-	-	-	-	-	-	-	3,284,933
NBK issued securities	48,807,773	-	-	-	-	-	-	-	48,807,773
Accrued interest (exp.)	12,922	-	-	-	-	-	-	-	12,922
Other liabilities	769,309	-	-	-	-	-	-	-	769,309
Minority Share	181,477	-	-	-	-	-	-	-	181,477
Paid-in capital	10,000,000	-	-	-	-	-	-	-	10,000,000
Reserve Fund	4,014,262	-	-	-	-	-	-	-	4,014,262
Special Reserve Fund	87,155,402	-	-	-	-	-	-	-	87,155,402
Retained Net Earnings	12,352,823	-	-	-	-	-	-	-	12,352,823
Total capital and reserve liabilities	334,830,565	20,544,375	337	4,198	1,311,000	0	86	7,022	356,697,583
Balance	(212,784,623)	175,822,498	702	27,217,332	(1,087,311)	30,763	10,701,872	98,767	0

1999 Group

	KZT	US\$ \$1= KZT	DM 1 DM= KZT	EUR 1 EUR= KZT	JPY 10 Yen= KZT	SDR 1 SDR= KZT	GBR 1 GBR= KZT	Other	Total
		138,20	73,45	143,65	13,63	190,72	225,00		
ASSETS									
Monetary gold	72,359,274	-	-	-	-	-	-	-	72,359,274
Assets in foreign currency	-	169,152,510	55,216	10,199,415	572,263	31,325,354	4,540,780	267,738	216,113,276
Claims to the local banks and Financial Institutions	308,381	-	-	-	-	-	-	-	308,381
State Debt Securities	43,641,868	-	-	-	-	-	-	-	43,641,868
Loans and promissory notes	188,548	-	-	-	-	-	-	-	188,548
Accrued interest (income)	1,149,332	-	-	-	-	-	-	-	1,149,332
Capital investment	19,802	-	-	-	-	-	-	-	19,802
Fixed assets	12,883,275	-	-	-	-	-	-	-	12,883,275
Intangible Assets	277,142	-	-	-	-	-	-	-	277,142
Other Assets	1,946,107	-	-	-	-	-	-	-	1,946,107
Assets Total	132,773,729	169,152,510	55,216	10,199,415	572,263	31,325,354	4,540,780	267,738	348,887,005
LIABILITIES									
Banknotes and coins in circulation	110,414,542	-	-	-	-	-	-	-	110,414,542
Foreign currency	-	9,171,275	129	-	408,900	63,919,093	-	13,039	73,512,436
Institutions of State Governing	13,245,083	-	-	-	-	-	-	-	13,245,083
Local banks and financial institutions	23,869,249	-	-	-	-	-	-	-	23,869,249
Non-financial organisations	829,772	-	-	-	-	-	-	-	829,772
NBK issued securities	6,148,306	-	-	-	-	-	-	-	6,148,306
Accrued interest (exp.)	546,660	-	-	-	-	-	-	-	546,660
Other liabilities	1,498,695	-	-	-	-	-	-	-	1,498,695
Minority Share	191,525	-	-	-	-	-	-	-	191,525
Paid-in capital	10,000,000	-	-	-	-	-	-	-	10,000,000
Reserve Fund	3,524,551	-	-	-	-	-	-	-	3,524,551
Special Reserve Fund	101,668,758	-	-	-	-	-	-	-	101,668,758
Retained Net Earnings	3,437,428	-	-	-	-	-	-	-	3,437,428
Total capital and reserve liabilities	275,374,569	9,171,275	129	0	408,900	63,919,093	0	13,039	348,887,005
Balance	(142,600,840)	159,981,235	55,087	10,199,415	163,363	(32,593,739)	4,540,780	254,699	0

Data in the above table for December, 31 1999 do not correspond published NBK statements for 1999 due to changes in the balance. The Total item has been changed in the following:

On the assets side

- Foreign currency item has been decreased by KZT ('000) 293,440 because of the current account balance of organisations exclusions of

- KZT ('000) 308,381, provisions written on personal loans of + KZT ('000) 10,912 and interest on securities in foreign currency inclusion accumulated by the previous holder for KZT ('000) 4,029 taken from Other Assets item;
- Claims to the local banks and Financial Institutions new item has been introduced including balance of the current accounts of organisations of KZT ('000) 308,381.
 - Securities item has been changed into State Debt Securities item.
 - Credits item has been changed into Loans and Promissory Notes. Total amount was decreased by KZT ('000) 10,912 due to written provision exclusion of KZT ('000) 10,912.
 - Accrued interest (income) item has been introduced including amount of interest of KZT ('000') 1,149,332 taken from Other Assets item.
 - The amount of Fixed assets item has been decreased by the amount of Intangible Assets of KZT ('000') 277,142.
 - Intangible Assets item has been introduced.
 - Other Assets item has been decreased by the amounts of accrued interest (income) and KZT ('000') 80 (according to the auditing conducted by IFTC) and accrued discount on NBK short-term notes of KZT ('000') 57,812 transferred to NBK Issued Securities item of liabilities
 - Total Assets item has been reduced by KZT ('000) 57,892.
- On the liabilities side**
- Cash in Circulation item has been changed into Banknotes and Coins in Circulation.
 - National currency item has been excluded.
 - Institutions of State Governing item has been introduced including KZT ('000) 13,245, 083 taken from the National Currency item.
 - Local Banks and Financial Institutions item has been introduced including KZT ('000) 23,869,249 taken from the National Currency item.
 - Non-Financial Organisations item has been introduced including current account balance of the non-financial organisations of KZT ('000) 829,772 taken from the National Currency item.
 - Securities issued by NBK item has been introduced including the amount of short-term NBK notes taken from the National Currency item, and notes accrued discount of KZT ('000) 57,812 with total amount of KZT ('000) 6,148,306.
 - Accrued interest (exp.) item has been introduced including the amount of accrued interest (exp.) of KZT ('000') 546,660 taken from Other Liabilities item.
 - Other Liabilities item has been decreased by the amount of accrued interest (exp.) and increased by KZT ('000') 1,443 (according to the auditing conducted by IFTC).
 - Minority share item has been decreased by KZT ('000') 429 (according to the auditing conducted by IFTC);
 - Revaluation ("Revaluation accounts") item has been changed into Special Reserve Fund
 - Retained Earnings item has been decreased by KZT ('000') 1,094.

English translation from the original issued in Russian

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Independent Auditor's Report

To the Governing Board of the National Bank of Kazakhstan

We have audited the accompanying consolidated balance sheet of the National Bank of the Republic of Kazakhstan (the "National Bank") as of 31 December 2000 and the related consolidated statements of operations and cash-flows for the year then ended. These financial statements are the responsibility of the management of the National Bank. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Financial statements of the National Bank for 1999 was audited by other auditor, whose report dated 6 April 2000 expressed unqualified opinion.

We conducted our audit in accordance with Kazakhstani and International Standards on Auditing and requirements of the National Bank. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from materials misstatements. An audit also includes assessing the accounting principles used and significant estimates made by management of the National Bank, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present, in all material respects, the financial standing of the National Bank of the Republic of Kazakhstan and its subsidiaries as of 31 December 2000, and the results of their operations and cash flows for the year then ended, in accordance with the accounting policies developed and approved by the National Bank's Governing Board.

ARTHUR ANDERSEN ZhAK

Susanne Stenfors
Managing Partner

Nurtaza Baitenov
Director of Audit

29 March 2001
Almaty,
The Republic of Kazakhstan