

ANNUAL REPORT
THE NATIONAL BANK OF
THE REPUBLIC OF KAZAKHSTAN
FOR THE YEAR 2008

ALMATY

2009

List of Abbreviations Used

| | |
|---|---|
| President of the Republic of Kazakhstan | President |
| National Bank of the Republic of Kazakhstan | National Bank |
| Agency for Regulation and Supervision of the Financial Market and Financial Organizations of the Republic of Kazakhstan | Agency for Regulation and Supervision of the Financial Market and Financial Organizations |
| National Fund of the Republic of Kazakhstan | National Fund |
| Government of the Republic of Kazakhstan | Government |
| Ministry of Finance of the Republic of Kazakhstan | Ministry of Finance |
| Ministry of Justice of the Republic of Kazakhstan | Ministry of Justice |
| Agency of the Republic of Kazakhstan for Fighting Economic and Corruption Crimes | Agency for Fighting Economic and Corruption Crimes |
| Agency of the Republic of Kazakhstan for Public Service | Agency for Public Service |
| Agency of the Republic of Kazakhstan for Regulation of Activities of the Regional Financial Center of Almaty | Agency for Regulation of Activities of the Regional Financial Center of Almaty |
| Statistics Agency of the Republic of Kazakhstan | Statistics Agency |
| Commonwealth of the Independent States | CIS |
| Eurasian Economic Community | EurAsEC |
| Common Economic Space | CES |
| Shanghai Organization of Cooperation | SOC |
| International Financial Organizations | IFO |
| US Dollar | US\$ |

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INTRODUCTION

In 2008 the global economy has entered into a considerable recession amidst the most severe financial shock in the developed financial markets since 1930-ies. According to the IMF, the global economic growth slowed down from 5.2% in 2007 to 3.2% based on the 2008 performance.

In this environment the economic growth of the Republic of Kazakhstan was characterized by a slowdown in 2008. The real GDP growth was 3.3% in 2008.

The macroeconomic development of the Republic of Kazakhstan in 2008 took place in the environment of reduced economic activity followed by stagnation in the lending operations of the banking sector, output decline in a number of industries, slowdown in the consumer demand. The major factors for such development were the slowdown of the global economy due to exacerbation of the financial crisis as well as aggravation of systemic problems in the Kazakh economy that had built up in the past years. This resulted in the deceleration in all sectors of the Kazakh economy in 2008 versus 2007.

The financial crisis that have commenced from the collapse of the US sub-prime mortgage loans market in August 2007, was aggravated in the following year and reached a new, turbulent phase in September 2008. Its impact was felt in the entire global financial system. As a result of increased concern about the solvency of companies, the urgent actions were undertaken to resolve financial problems of a number of top financial institutions in the US and Europe. In particular, the US and European regulators undertook emergency actions to stabilize the markets, including massive liquidity injections, immediate interventions with a view to turnaround weak institutions, increased ceiling of insured deposit amounts and recent legislative initiatives in the US on the use of public resources for the purchase of troubled assets from banks.

The combination of such factors as increased losses, reduced prices for assets and deepened economic recession gave rise to a lot of anxiety about viability of an ever broader segment of the financial system. The current process of reduction of leverage has accelerated and became more chaotic resulting in a dramatic drop-down in share prices of financial institutions, increased cost of funding and expenditures associated with the protection from default as well as falling asset prices.

Odd attempts to overcome the tension with liquidity and solve the problems of those institutions that faced financial difficulties failed to restore the confidence among the market makers since those actions couldn't resolve widely spread and underlying problems.

One of the factors that aggravated the global economic crisis appeared to be a cardinal change in the price of oil in the global market in the second half of 2008. The price of oil while reaching US\$ 145.7 per barrel in the summer of 2008, dropped down to US\$ 37.9 per barrel in the last weeks of 2008 thus showing the reduction of US\$ 110 versus the summer price.

All actions associated with the reduction in oil output and undertaken to stabilize the cost of oil happened to be inefficient, and the price of oil kept falling till the last day of 2008. The main reason for the falling price of oil appeared to be the reduced demand for oil as a result of the slowdown of economy in different countries.

According to projections made by the IMF experts, the decline in the global economy growth rates by (-1.3%) will be observed in 2009. In the countries with the high levels of revenue the GDP growth was 0.9% in 2008 and in 2009 the GDP in such countries will decrease by (-3.8%). Nonetheless, the economy of the developing countries grew by 6.1% in 2008, and in 2009 the growth will be 1.6%.

The global liquidity crisis resulted in that the access to foreign borrowings appeared to be virtually closed for the majority of the developing markets including Kazakhstan. The situation had aggravated in the second half of 2008 because of the burst of the so-called price bubble in

the global markets that caused a dramatic fall in prices for foodstuff, raw commodities and metals that are the basis of Kazakhstan's exports.

Due to the limited access to foreign borrowings and their increased cost in 2008, Kazakh banks, in their turn, had to increase interest rates on credits and tighten their lending terms and conditions, in order to maintain the required liquidity level. This happened to be a major factor that entailed the reduced lending to the domestic economy – both individual industries and the public. In 2008 the volume of credits to the economy increased by 2.7%.

Despite panicking moods among investors in the financial instability environment, the deposit base of the banking system is generally characterized by the stability of its structure and relatively positive trends. The amount of deposits of residents increased by 39.0% in 2008.

However, the deposit base as a source of the bank funding remains rather weak. Thus, deposits of individuals increased by 2.8% in 2008.

A complicated situation in the real and banking sector that will remain unchanged within the next years requires active measures to be taken by the government authorities.

To this end, by order of the President, a Plan of Joint Actions has been drafted involving the Government, National Bank and Agency for Regulation and Supervision of the Financial Market and Financial Organizations, for stabilization of the economy and financial system for 2009-2010.

In 2008 the National Bank took measures to provide short-term liquidity in Tenge to banks as well as to improve the system of bank refinancing. On a phase-by-phase basis the list of security items for reverse REPO transaction was extended. In addition to government securities of the Republic of Kazakhstan, the following securities were included in the list: foreign securities, securities of international financial organizations, securities of domestic national companies, debt securities and Eurobonds of banks, agency debt securities of JSC "Kazakhstan Mortgage Company".

From July 1, 2008 the official refinancing rate was lowered from 11.0% per annum to 10.5% per annum. From January 1, 2009 the refinancing rate was lowered to 10.0% per annum.

In 2008 the minimum reserve requirements for banks were lowered twice: in July – from 6% to 5% for domestic liabilities and from 8% to 7% for other liabilities, in November – to 2% and 3%, respectively.

As part of the increase in the minimum guaranteed recovery amount on individuals' deposits from KZT 700,000 to KZT 5 million the National Bank has increased the authorized capital of the Kazakhstan Deposit Insurance Fund to KZT 100 billion.

As a whole, despite the complicated macroeconomic situation, situation in the banking sector, the National Bank managed to comply with its inflation targets for 2008. The annual inflation in 2008 was at 9.5% that is in line with the projected band of 7.5-9.5% as defined by the Monetary Policy Guidelines for 2008-2009.

I. ECONOMIC DEVELOPMENT

1.1. Real Sector of Economy¹

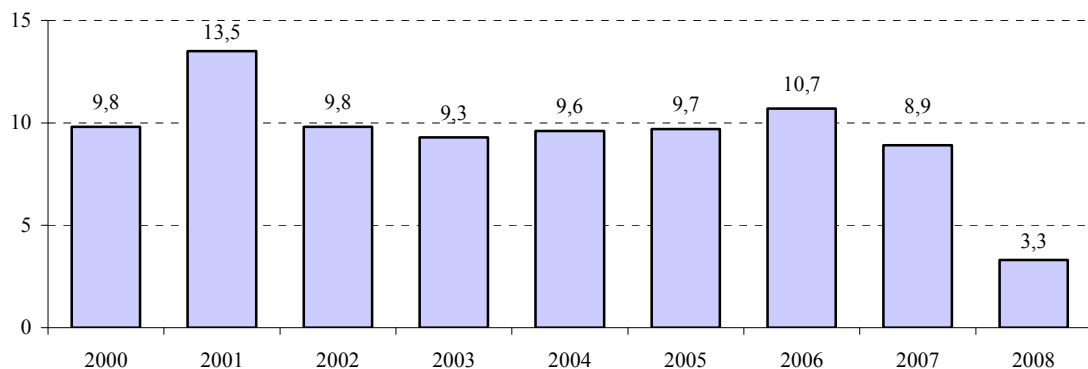
The macroeconomic development of Kazakhstan in 2008 reflected realization of risks accumulated over the past years. The risks manifested themselves both in the financial sector and the real sector. The situation has aggravated in 2008 by the slow-down of the global economy as well as a considerable price growth in the global commodity markets in the first half of the year and their unprecedented fall in the second half of the year. And even though, despite the above factors, the economic growth in the country retained, its rates decreased considerably.

The volume of GDP in the current prices in 2008 amounted to KZT 15.9 trillion. The real growth of GDP as compared to 2007 was 3.3% (Figure 1.1.1).

Figure 1.1.1

The Real GDP Dynamics, 2000-2008

as % of the Previous Year



Significant slow-down of the GDP growth rates was caused by the reduced output in the agricultural sector and manufacturing industry – by 5.5% and 2.9%, respectively. Construction volumes increased by 1.9% (2007 – 16.4%), industrial volumes – by 2.2%, including in mining industry – by 5.6%, production and distribution of electric energy and gas increased by 6.4% (Figure 1.1.2).

The major portion in the GDP was represented by industry (31.6%), where a share of the mining industry in 2008 increased by 4.8 percentage points amounting to 58.7%, and in the manufacturing industry it decreased from 40% to 36%. In 2000 the shares of these industries were almost equal and amounted to 45.5% and 45.3%, respectively.

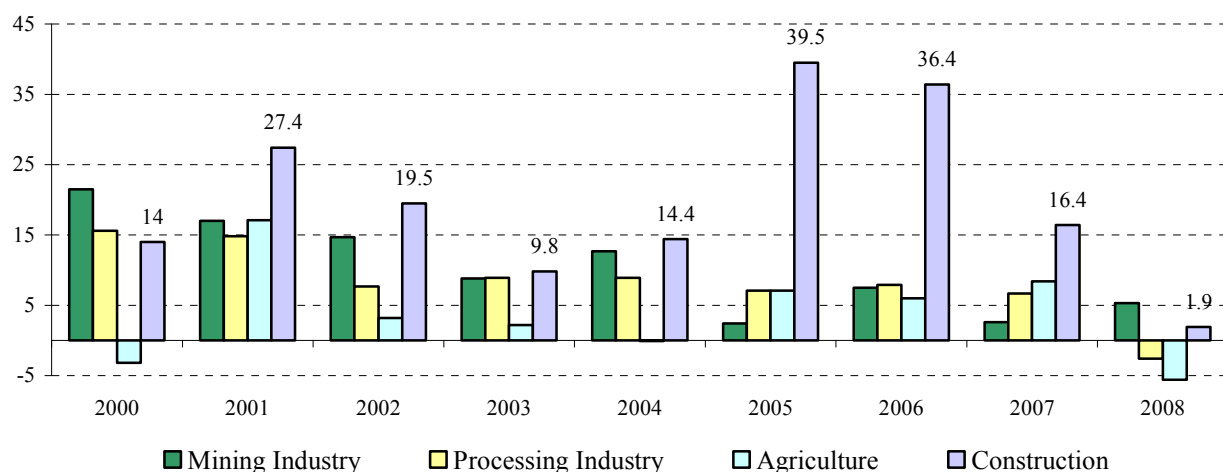
Service-producing industries were characterized by growth in such sectors as hotels and restaurants – by 12.8%, communications – by 10.4%, transport – by 7%, and the slow-down in the financial activity – by 0.5%.

¹ According to the Statistics Agency

Figure 1.1.2

Dynamics of the Physical Output Index in Individual Sectors of Economy in 2000-2008.

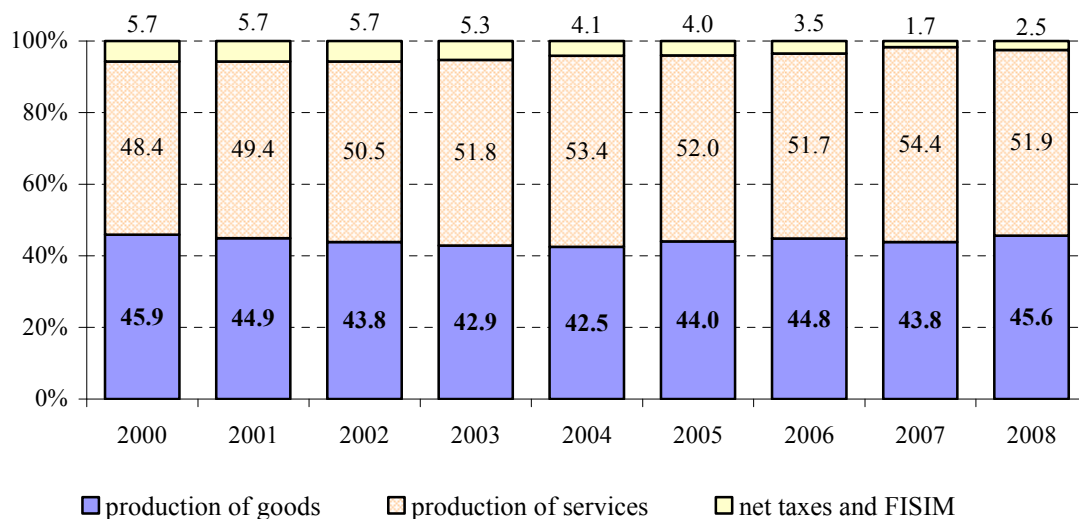
as % of the previous year



In the GDP structure the major portion still falls on services (51.9%), with their share steadily exceeding a half of the GDP production since 2002 (Figure 1.1.3).

Figure 1.1.3

The Gross Domestic Product Structure, 2000-2008

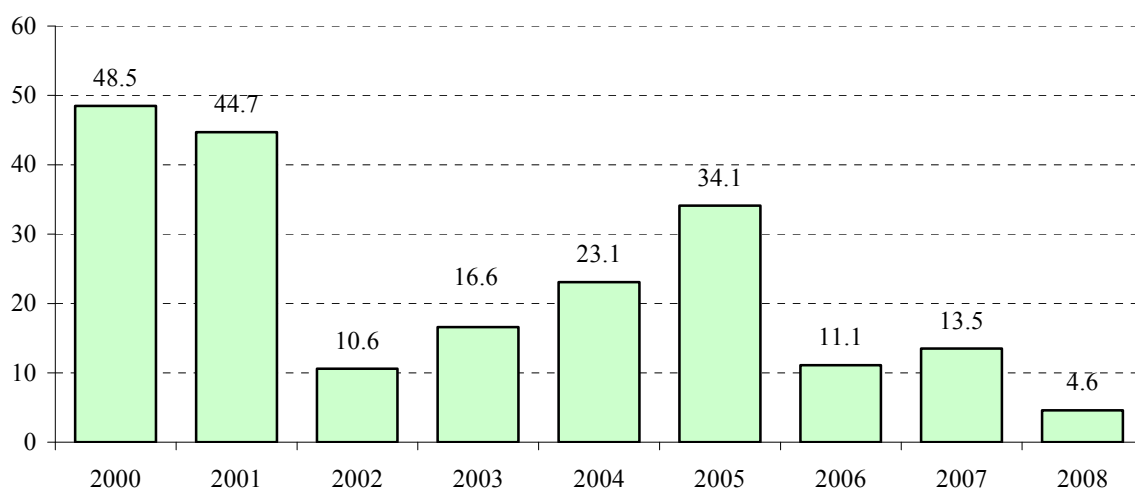


* FISIM – Financial intermediation services indirectly measured

In 2008 the growth rates of fixed capital investments decreased from 13.5% in 2007 to 4.6% (Figure 1.1.4). The reduced investment activity of enterprises in its turn had impact on the slow-down in the growth rates of the country's economy.

Growth Rates of Fixed Capital Investments, 2000-2008

as % of the previous year



The main sources for investments in fixed capital were own resources of economic entities (42.7%) and foreign investments (23%). The portion of budget resources was 19.9%, borrowed funds – 14.4%. The priority sectors for investments were real estate operations (23.6% of the overall volume of fixed capital investments), extraction of oil and natural gas and provision of services in these areas (21%), transport and communications (17.4%), manufacturing industry (8.9%).

In 2008 the growth rate of the construction works (services) volumes, taking account of appraisal, decreased and was only by 1.8% higher than that of 2007. Resources allocated for residential construction were by 16.1% less than in 2007. At the same time, 6832 sq/m of the floor area of residential buildings were put into operation, exceeding the 2007 level by 2.3%.

Transported loads in 2008 increased by 3.2%, the volume of services provided by communication enterprises increased by 10.4%, of which services provided to the public – by 11.1%.

The number of economically active population in 2008 reached 8.4 million people exceeding the previous year number by 2.3%. The number of people engaged in the economy increased by 3% and amounted to 79 million in 2008. The number of unemployed reduced by 6.6% to 557,700 individuals. **The unemployment rate** in 2008 was about 6.6%, with its sustained reduction over the last 8 years (from 12.8% in 2000).

In 2008 **the average monthly nominal salaries and wages** for the economy amounted to KZT 60 734, being by 14.1% higher than in 2007. In real terms, salaries and wages decreased by 2.5%. The growth rates of labor remuneration of wage earners slowed down in 2008 versus 2007, and reduced in some economic activities (Annex 1 to Section I Subsection 1.1, Fig. 1.1.1). Wages of agricultural workers increased by 27.6%, of those engaged in commerce – by 22.5%, in mining industry – by 21.9%, transport and communications – by 17.6%, construction – by 15%, public healthcare – by 8.5%, education – by 8.3%, public administration – by 3.5%, and in financial sector salaries reduced by 8.4%.

Nominal average income of individuals in 2008 amounted to KZT 30 509, exceeding that of 2007 by 20.9%. In real terms, income increased by 3.4%.

1.2. Monitoring the Real Sector Enterprises

During 2008 the number of enterprises – participants in the monitoring process increased from 1,533 to 1,662, including large- and medium-size enterprises – from 992 to 1,044. Provided that the survey among the enterprises is conducted on a voluntary basis, such increase was attained due to the enhanced interest of enterprises to participate in the National Bank's monitoring process through the improvement of analytical materials forwarded to the enterprises based on the monitoring feedback. Enterprises were selected to participate in the monitoring process with consideration of the sectoral and regional structure of the economy based on the representativity estimate of the enterprise selection. Proceeds from sales of the output (works, services) of the enterprises – participants in the monitoring process in 2008 amounted to KZT 9,354.8 billion accounting for about 49.4% of the total proceeds from the sale of output in the economy in 2007.

The outcomes of quarterly surveys conducted among enterprises allow making the following conclusions about the developing economic situation and the main trends in the real sector of economy in 2008.

Reduced growth rates in the demand for final products in the economy as a whole that were observed during 2008 turned into essential reduction in demand in Q4, this fact being mentioned by 37.2% of the interviewed enterprises (Annex 1 to Section I Subsection 1.2, Fig.1.2.1). Alongside with that the demand reduced in all sectors excluding “production and distribution of electric energy, gas and water”. As a result, growth rates of prices for final products of enterprises in the country's economy decreased in Q2 and Q3 2008. In the fourth quarter, for the first time in 2008, prices went down (Annex 1 to Section I Subsection 1.2, Fig.1.2.2).

The dynamics of demand and prices for final goods had effect on the business activity and financial condition of enterprises: by the year-end asset turnover noticeably decreased (from 22% in Q2 of 2008 to 16.5% in Q4 2008). The tendency to finance their current assets on own account mainly remained, the fact that was mentioned by approximately 80% of the enterprises.

In Q1-Q3 of 2008 no considerable change in the growth rates of prices for raw materials and supplies was observed. In Q4 of 2008 a significant slow-down in the rates of the price growth occurred: the number of enterprises that indicated the growth of prices for raw materials and supplies decreased by 25.5 percentage points (from 70.9% in Q1 2008 to 40.3% in Q4 2008) (Annex 2 to Section I Subsection 1.2, Fig.1.2.3) thus causing the reduction in the return on sales (before tax) in Q3 and Q4 2008.

The return on sales in the country's economy decreased in Q3 and Q4 of 2008 (by 4.5% and 13.4%, respectively) mainly due to the mining and manufacturing industries. Alongside with that, in the same period, the percentage of enterprises with high (above 40%) return on sales (before tax) decreased (to 19.9% and 17.7%, respectively) and the percentage of loss-making enterprises increased (to 15.9% and 18.1%, respectively). The mining industry still remains the most attractive for investments, as compared to other industries: the return on sales was at 60.6-73.3% during 2008.

Interest rates on credits received in foreign currency, after some degree of reduction in Q3 of 2008, increased to 14.2% by the year-end. In Q3 and Q4 2008 the interest rates on loans in KZT decreased insignificantly (to 16.3% and 16%, respectively) (Annex 2 to Section I Subsection 1.2, Fig.1.2.4), resulting in the increase of the number of enterprises that obtained loans (from 25.3% in Q2 to 26.4% and 26.9% in Q3 and Q4, respectively). The major growth was observed in the industry, construction and trade (Annex 2 to Section I Subsection 1.2, Fig.1.2.5).

During 2008 an overwhelming majority of enterprises didn't experience negative impact from the change of the exchange rate of KZT versus US Dollar, Euro and Russian Ruble. Only in

Q4 there was some increase in the number of enterprises that experienced negative impact from the change in the exchange rate of Tenge versus Euro and US Dollar. At the same time, there was an increase in the number of enterprises that were positively affected by the change in the exchange rate of Tenge versus Russian Ruble (up to 8.8%).

1.3. Public Finance²

From January 1, 2008 the VAT rate was reduced by 1%, thus making it 13%. This change was made with the view to implement the Message by the President of the Republic of Kazakhstan of March 1, 2006, when a phased reduction of the VAT rate was stipulated for by the law: in 2006 the VAT rate was 15%, in 2007 – 14%, in 2008 – 13%, and under the Tax Code of the Republic of Kazakhstan as dated December 10, 2008 № 99-IV, effective from January 2009, the VAT rate is 12%.

In May 2008 Kazakhstan had introduced export duty for oil and oil products that was calculated based on the world oil prices. The duty applied to all exporters of oil other than those whose contracts had provisions for the unchangeable customs treatment.

At 2008 year-end revenues increased by 39.7% as compared to 2007 and amounted to KZT 4 034.4 billion or 25.4% of GDP (in 2007 – 22.5% of GDP). The execution of the revenue plan was 99.6%. According to estimates, without account of export duties, execution of the state revenues would be 91.9% only with the deviation from the plan of KZT 326.3 billion and the rate of increase versus 2007 –1.5% only. Thus, the decision made by the Government to introduce the rate of export customs duty for oil from May 2008 helped to replenish the budget by KZT 310.3 billion.

Tax revenues in the revenue structure increased by 19.7% up to 17.7% of GDP (in 2007 – 18.5% of GDP). The biggest growth of tax revenues was observed in the international trade and foreign operations – by 2.8 times, due to the introduction of the customs export duty.

Revenues from corporate and personal income tax increased by 21.4% and 21.0%, respectively. Revenues from value-added tax grew by 1.9%, revenues from social tax decreased by 15.1%, revenues from excise taxes also decreased by 3.8%, both because of the reduction of rates on these taxes and overall slow-down in consumer revenues and, accordingly, in the demand.

Non-tax revenues in 2008 decreased by 52.7% and returned to the 2006-level in relation to the GDP – 0.54%. This is caused by decreased revenues from dividends on the government's shareholdings (55.5%), revenues from the public property (25.1%) as well as interest payments from budget deposits with bank accounts (34.8%). At the same time, the amount of non-tax revenues exceeded the expected level for 2008 by 30%.

The transfers from the National Fund amounted to KZT 1,072.4 billion in 2008, including the guaranteed transfer – KZT 461.4 billion, target transfer – KZT 607.5 billion, the amount of transfer residual for 2006 – KZT 3.5 billion.

Revenues under “the repayment of budget loans” item decreased by 38% in 2008 as compared to 2007.

Revenues from capital sales reduced by 38.6% to 0.4% of GDP in 2008 (0.7% of GDP – in 2007), because of a considerable reduction in revenues from sales of land and intangible assets by 61.3%.

The state budget expenditures in 2008 were KZT 3,394.1 billion or 21.3% of GDP (in 2007 – 21.0% of GDP). As a result, the annual plan for expenditure financing for 2008 was executed by 98.8%.

² According to the Ministry of Finance

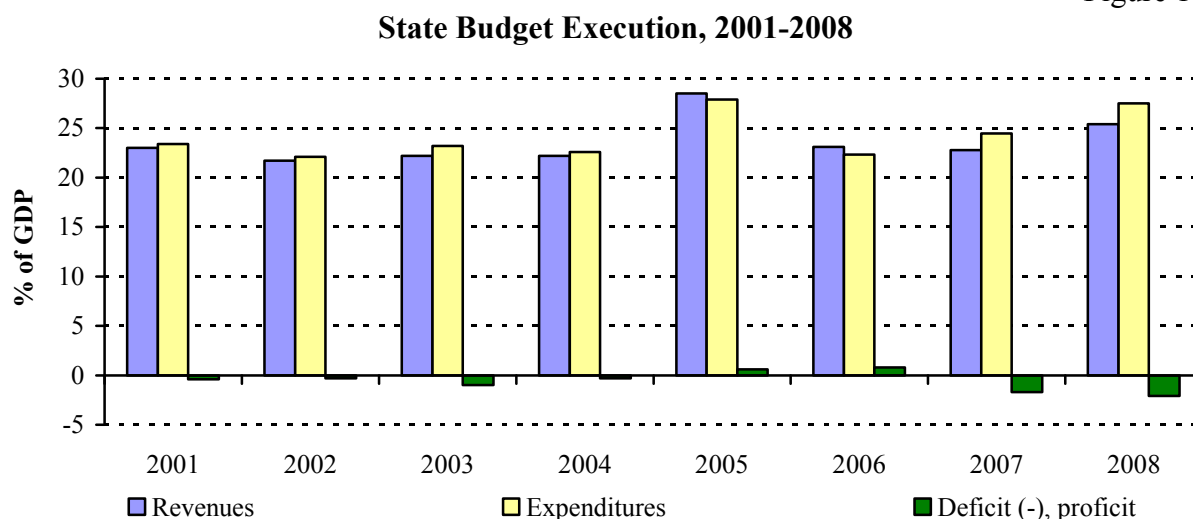
The highest growth rates were observed on items such as “industrial activity, architecture, urban planning and construction” comprising 1.2% in the total volume, “agriculture, water management, forestry, fishery, specially protected natural reservations, environmental and wildlife protection, land relations” (5.0% of the expenditure volume), “debt servicing” (2.8% of the expenditure volume), “public services of the general nature” (6.6% of the expenditure volume). Among social expenditures, financing of education accounted for 16.9%, public healthcare – 10.7%, social safety net – 18.3%.

In 2008 granted budget loans increased by 2.9 times while repayments of loans previously granted dropped significantly – by 38.1%. Net budget funding volumes increased by 5.2 times amounting to 0.27% of GDP.

State budget expenditures for the financial asset purchases increased by 2.2 times and proceeds from their sale reduced by 50.6%. As result, the balance of these transactions increased by 2.2 times amounting to 5.9% of GDP.

In 2008 the state budget was executed with the deficit of KZT 333.2 billion (2.1% of GDP), in 2007 the deficit was KZT 215.3 billion (Figure 1.3.1).

Figure 1.3.1



Revenues of the national budget amounted to KZT 3 317.6 billion in 2008, exceeding by 49.3% the level of 2007.

Tax revenues to the national budget increased by 27.3%, revenues from the sale of fixed capital – by 4.2%. Non-tax revenues dropped by 57.3% as compared to 2007, revenues from official transfers – by 2.8 times.

The growth in the national budget costs which amounted to KZT 2,703.6 billion was 30.7% as compared to 2007, with considerable increase observed in such items as “official transfers” (132.9%), “agriculture, water management, forestry, fishery and environmental protection” (71.1%), as well as “debt servicing” (71.1%).

The volume of net budget funding of the national budget in 2008 increased by 14 times – from KZT (-3) billion to KZT 42.1 billion due to the increase in the volume of budget loans by 41%, and the decrease in the amount of revenues from budget loan repayments by 68.7%. The balance of transactions with financial assets increased by 2.4 times versus 2007.

As a result, the national budget was executed with a deficit which amounted to KZT 327.5 billion (in 2007 the deficit was KZT 212.5 billion).

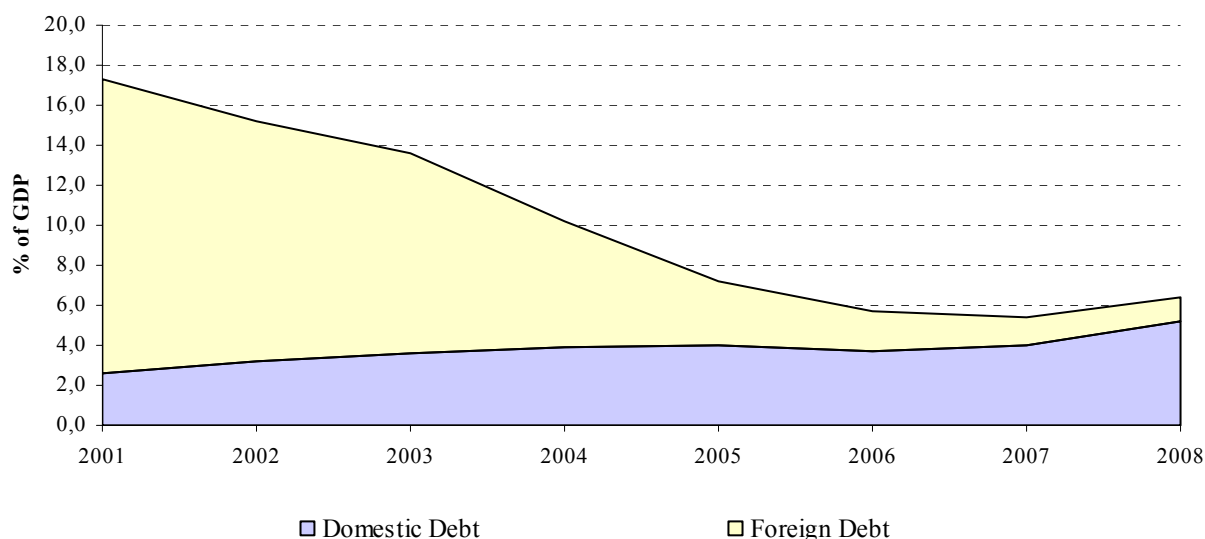
In 2008 the local budgets were executed with the deficit of KZT 12.8 billion (in 2007 there was a profit of KZT 9.1 billion) which occurred based on the increase in revenues by 20%, alongside with the costs increase of 22.5%, the balance of transactions with financial assets decreased by 23.6%, and net budget funding – by 10 times.

At 2008 year-end the government domestic debt was KZT 820.2 billion (5.2% of GDP) having increased by 60.3% over the year (Figure 1.3.2).

The growth of the domestic debt was mainly due to the increase in the short-term treasury obligations of the Ministry of Finance, with their debt increasing by 3.2 times, and their percentage in the total debt at the year-end of 2008 being 21.7% (10.9% - in 2007). The debt on long-term saving treasury obligations increased by 60%, and on long-term treasury obligations – by 67%.

Figure 1.3.2

The Governmental Debt of the Republic of Kazakhstan, 2001-2008



In 2008 the Government's external debt increased by 13.1% as compared to 2007 and amounted to KZT 1.6 billion. The portion of external debt guaranteed by the government has decreased by 6%.

1.4. Balance of Payments and External Debt

Global prices for the major items of Kazakhstan's exports, the volumes of foreign funding of infrastructure projects and servicing of the existing external debt remain as the determinants for the balance of payments of Kazakhstan (Annex 1 to Section I Subsection 1.4.).

The positive current account balance for 2008 was US\$ 7.0 billion (at the year-end of 2007 there was a deficit of US\$ 8.2 billion).

Exports of goods based on the balance of payments classification (based on the adjustments to the customs statistics) amounted to KZT 72 billion and increased by 49% as compared to 2007. The official exports (according to the customs statistics) were about US\$ 71.2 billion of which US\$ 43.5 billion fall on the export of oil and gas condensate (61 per cent of the official exports). With the reduction of physical volumes, the cost of ferrous metals increased by 67% due to the price factor, the non-ferrous metals export increased by 3%.

The import of goods was US\$ 38.5 billion exceeding that of 2007 by 15.6%. In 2008 the slowdown in the commodity imports was observed (in 2007 the import of goods increased by 38% versus 2006). The official imports accounted for US\$ 37.9 billion, of which 80% fall on the items of interim industrial consumption and investment goods. For the major product range the reduction in the imports was observed in the group of non-food consumer products whose imports fell down by 19%. The highest increase in imports was observed in the group of food

consumer products – by 33% as compared to 2007. The cost of imports for interim industrial consumer products increased by 30%, and investment imports – by 13%.

Despite falling world prices for energy in Q4 of 2008, net commodity exports increased by 2.2 as compared to that of 2007 and amounted to US\$ 33.5 billion, thus fully offsetting the net outflow of resources on other components of the current account.

The reduction in the import of international services by 5.4% was primarily associated with the completion of construction of the second generation plant in the Tengiz Oilfield. As a result, the deficit of international service balance reduced by 18%.

The deficit in the balance of revenue of US\$ 18.9 billion is primarily associated with the growth in revenue payments to the direct foreign investors (US\$16.6 billion) and interest on external debt of the banking sector (over US\$ 3 billion).

The net inflow of financial resources from the financial account transactions in 2008 amounted to US\$ 1.3 billion as compared to US\$ 8.4 in the net inflow of resources in 2007.

In 2008 the growth in foreign assets in the banking system in the form of debt capital issued to non-residents amounted to US\$ 1.6 billion. The reduction in the external debt commitments of banks amounted to US\$ 6.5 billion including by US\$ 0.6 billion on portfolio investments, by US\$ 2.9 billion – on other long-term commitments and by US\$ 3.0 billion – on short-term commitments.

The net inflow of direct foreign investments in Kazakhstan exceeded US\$ 14.5 billion. While investments by Kazakh residents in foreign subsidiaries continue to grow, the positive balance of direct investments was US\$ 10.7 billion. The net outflow of resources on direct investments to abroad exceeded US\$ 3.8 billion.

The net outflow of capital on portfolio investment transactions was US\$ 9.5 billion. This number includes the US\$ 6.4 billion growth in assets of the National Fund, reduction in foreign portfolio assets of the banking sector by US\$ 0.3 billion and growth in foreign assets of the private non-bank sector by US\$ 1.1 billion.

Significant export revenues and volumes of the real sector financing caused the growth in the foreign exchange supply over its demand – positive balance of payments (in analytical view) was US\$ 2.2 billion for 2008.

Gross external debt of the Republic of Kazakhstan was estimated at US\$ 107.8 billion at the year-end 2008 (US\$ 96.9 billion at the year-end of 2007), comprising 81.5% of GDP. The portion of a short-term debt (liabilities with the original maturity of up to 1 year) in the debt mix of residents of Kazakhstan was 9.9% as compared to 12.3% in 2007.

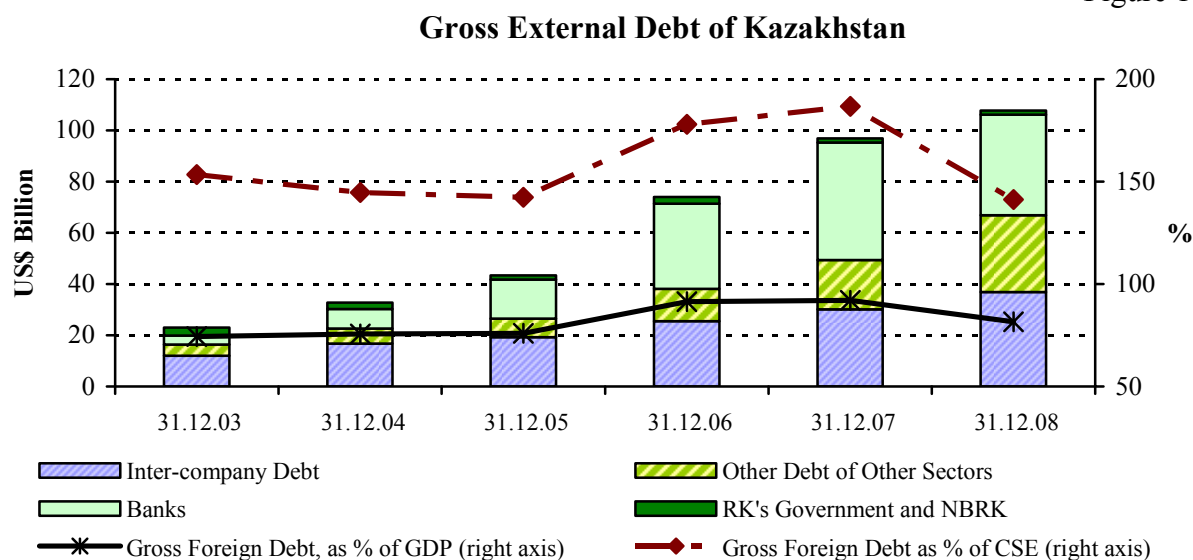
Less than 2% of the overall gross external debt falls on the foreign national debt which includes commitments of the Government and the National Bank – US\$ 1.7 billion.

From the second half of 2007 because of the dramatic drop in the finance inflow and significant payments made to repay the banking sector's foreign commitments, the banking sector's debt remained virtually unchanged until mid-2008. From the second half of 2008, foreign liabilities of the country's banking sector show the downward tendency and they were estimated at US\$ 39.2 billion or 36.4% of the gross external debt at the year-end of 2008 (US\$ 46 billion or 47.5%, respectively, at the year-end of 2007). In the debt mix of the banking sector long-term liabilities prevail (liabilities with the original maturity over 1 year) – their proportion in the debt mix of banks was 92% at the year-end of 2008 (86.6% at the year-end of 2007).

The external debt of the private non-bank sector amounted to US\$ 67 billion at the end of 2008 having increased by US\$ 17.5 billion over the year. Over a half of this debt falls on liabilities related to direct investments – inter-company indebtedness. As of the year-end 2008 the amount of inter-company indebtedness to non-residents was estimated at US\$ 36.9 billion or 34.2% of the gross external debt (US\$ 30.1 billion or 31.0% at the end of 2007). Foreign liabilities to non-affiliated creditors increased since the beginning of 2008 by US\$ 10.7 billion and amounted to US\$ 30 billion or 27.9% of gross external debt at the end of 2008, with near

the half of the amount falling on the short-term liabilities, mainly related to trade credits (Figure 1.4.1).

Figure 1.4.1



In 2008 relative parameters of external debt that are traditionally viewed as indicators of country's creditworthiness in the medium- and long-run have improved. In particular, the ratio of GFD to GDP have lately been quite high, it comprised 81.5% at the end of 2008 versus 92.1% in the previous year. The increase in the growth rates of commodities and services exports (CSE) gave rise to some improvement in the GFD/CSE ratio – 141.2% (186.7% at the end of 2007) and in repayments and servicing of gross external debt to CSE – 40.8% (48.3% in 2007).

A standard view of the gross external debt and absolute and relative parameters of Kazakhstan's external debt are given in Annexes 2 and 3 to Section I Subsection 1.4.

1.5. Ensuring Financial Stability

The rate of economic growth of the country in 2008 was influenced by the slowdown in the global economic growth; high volatility of prices for major Kazakh export items; tightened lending terms and conditions for all types of borrowers amidst considerable losses and bankruptcies among financial institutions; gradual reduction of investments and business activity. Alongside with that, remaining high prices in the global commodity markets till Q3 2008, on the one hand, ensured significant improvement in the capital flow balance and retention of the economic growth rates in the country. On the other hand, limited amount of liquidity in the international financial markets as well as reduced capacities of Kazakh banks to refinance their existing foreign liabilities. With significant adjustments of global prices for raw materials, reassessment of risks by investors in relation to developing economies resulted in the massive withdrawal of capital invested in securities issued by those entities thus affecting the risk assessments of default and pricing parameters of securities issued by Kazakh entities.

In this environment the following factors appeared as determinants for financial stability in Kazakhstan in 2008:

- loan portfolio deterioration against the backdrop of problems of a broader range of corporate borrowers representing various sectors of economy;
- further adjustments in the real estate market and the pressure on the financial position of the population through accumulated debt servicing as well as higher inflationary expenditures;

- tighter requirements to the level of profitability and capitalization of banks in the environment of reduced liquidity, tightened lending policy and the need in adequate provisioning to cover credit risks;
- deterrent effect of the curtailment in the bank lending activity on the economy growth rate.

In the environment when traditional factors of economic growth have a lower contribution, the main objective of the government expenditure encouraging policy in 2008 is to compensate for reduced private investments and consumption.

Given favorable pricing environment of the global commodity markets during 9 months of 2008, high foreign currency liquidity of corporate customers and retained capacities for the foreign liabilities refinancing by some banks (on average banks could refinance about 20% of their liabilities on the external debt repayment in foreign financial markets in 2008) enabled banks to maintain their currency liquidity position and sell surplus of currency at the stock exchange. In these conditions the liquidity position of the foreign currency market remained relatively high and an individual large transaction of the speculative nature could not materially affect the market's behavior. This, in its turn, allowed the National Bank minimize its costs related to restriction of the Tenge exchange rate volatility while gradually compensating losses of the prior year through the increase in gold- and foreign currency reserves. High foreign currency liquidity of customers and their offerings of foreign exchange also allowed removing the pressure of payments of the banks' foreign liabilities on foreign currency rates in the money market. This situation as well as the National Bank's transactions on the whole stabilized the total level of liquidity in the financial market.

At the same time, the extent of the adequacy of the country's international reserves in the environment of significant improvement in the country's balance of payments was not fully assessed because of the impact of unfavorable external factors. Given a further slowdown in the global economy, recession in major developed economies and instability of global financial institutions, the unfavorable environment not only in financial markets but also in commodity markets may lead to exacerbation of risks of a further slowdown in the economic growth of Kazakhstan and the funding deficit of the balance of payments thus increasing the potential pressure on the country's international reserves.

The deterioration in the economic environment resulted in that the credit market started to be characterized by the absence of effective demand on behalf of the general public and the prevailing need of borrowers in replenishing the working capital of non-financial entities. Under these circumstances the majority of banks demonstrated less inclination to be actively engaged in lending operations due to the funding deficit and impaired loan portfolio. The level of non-performing loans at the end of 2008 (doubtful loans of the 5th category and bad loans less homogenous loans based on their created provisions) grew up to 8% of the banks' loan portfolio. At that, the bank lending policy in 2008 continued to tighten thus proving the banks' desire to limit the inflow of unreliable customers in order to prevent proliferation of credit risk. Because of tightened lending standards the lending volumes in the sectors such as real estate and construction reduced notably as well as the small business lending that was significantly contributing to the country's economic growth in the recent years.

As a response to the impaired loan portfolio the banks set a task for themselves that involves more close collaboration with problem borrowers in order to prevent them from defaulting. In addition to standard banking procedures, an increasing number of banks began monitoring financial condition of their customers on a monthly basis (checking for availability of inventories, level of sales, application of financial ratios), improved the rating system of their borrowers, used financial and non-financial covenants in relation to customers depending on the company's industry, and conducted stress-testing of the borrowers' default. Moreover, such efforts as the mechanism for canceling the penalty for overdue loans, revision of industry limits

and financial advisory for problem borrowers with a view to maintain an acceptable level of loan servicing have been made more extensively.

Among the main efforts intended for improving the quality of loan portfolios, the banks outlined the following:

- forced restructuring of their borrowers' current debt;
- complete denial of lending to non-transparent business entities;
- thorough review and monitoring of the customer financial condition;
- setting strict rules and procedures for handling problem borrowers;
- suspending lending to risky sectors of economy.

The impaired loan portfolios also entailed increased reserving thus contributing to the reduced profitability ratios. Despite the increased amount of created provisions, their real adequacy was not tested in 2008 since, as has been already mentioned, banks were actively pursuing the policy of loan restructuring. In this situation the reduction in the portion of interest income and the increase in the non-interest expense didn't allow banks using the capacity of maintaining profitability based on the increased interest rate spread.

Liquidity ratios in the banking sector were adequate to the situation while showing the downward trend. Generally, the portion of liquid assets in the total assets of the banking system remained constant while demonstrating insignificant increase in bank assets. Currency liquidity ratios were met by the banks with surplus thus proving their adequate perception of potential risks.

At the same time, in spite of the controlled direct currency risk in the banking system, a short FX position of the bank borrowers bears significant indirect currency risk (credit risk) subject to Tenge exchange rate fluctuations.

Specifically, due to the excess of financial liabilities in foreign currency over financial assets, a negative FX position of large and medium-size enterprises comprised about 30% of equity and 40% of foreign currency proceeds from operations thus determining the possibility for credit risk of the banking system to increase in the event of increased volatility of the national currency exchange rate.

Construction enterprises, trading companies and companies engaged in services provision in the domestic market are mostly vulnerable to the exchange rate changes. Also, negative FX position of the general public makes about 4.5% of the population's disposable income.

The reduced income of population in real terms and reduced lending by banks builds up the pressure of demand factors on the further reduction of real estate prices. Thus, from December 2007 to December 2008 the fall in the real estate prices, according to the Statistics Agency, was as follows: in Kazakhstan on average – 11%, in Astana – 18%, in Almaty – 23%. At the same time the assessment of the equilibrium level, given affordability of housing and based on the people's earnings, shows that across Kazakhstan as a whole including Astana the price level is close to the equilibrium. In Almaty, however, a certain further adjustment of prices is possible given inflexibility in behavior of all market players that determine the situation in the real estate market, as well as due to uncertainty and lack of clear pricing benchmarks. The revival of the market is possible in the event if some of the "strong players" would establish a relevant pricing benchmark capable of encouraging implementation of the deferred demand and offer. One of the factors that may facilitate the revival of the real estate market is the allocation of financial resources for revival of the construction sector, mortgage lending, and real estate market as part of implementation of the Joint Action Plan of the Government, National Bank and the Agency for the Regulation and Supervision of the Financial Market and Financial Organizations for Stabilization of the Economy and Financial Sector for 2009 – 2010.

As a whole, US\$ 10 billion from the National Fund is intended to be used for stabilization of the economic situation. The Plan includes 5 areas of implementation:

- 1) stabilization of the financial sector – US\$ 4 billion (KZT 480 billion);

- 2) development of the residential sector – US\$ 3 billion (KZT 360 billion);
- 3) support of small- and medium-size business – US\$1 billion (KZT 120 billion);
- 4) development of the agro-industrial complex – US\$ 1 billion (KZT 120 billion);
- 5) implementation of infrastructure and break-through projects – US\$ 1 billion (KZT 120 billion).

Generally, given the lack of clear benchmarks of how deep the adjustment should be and the scale of costs, specific focus should be made on the efficiency of public resources utilization, especially given the reduced capacities of the budget and the use of the “safety bag” in the form of the National Fund.

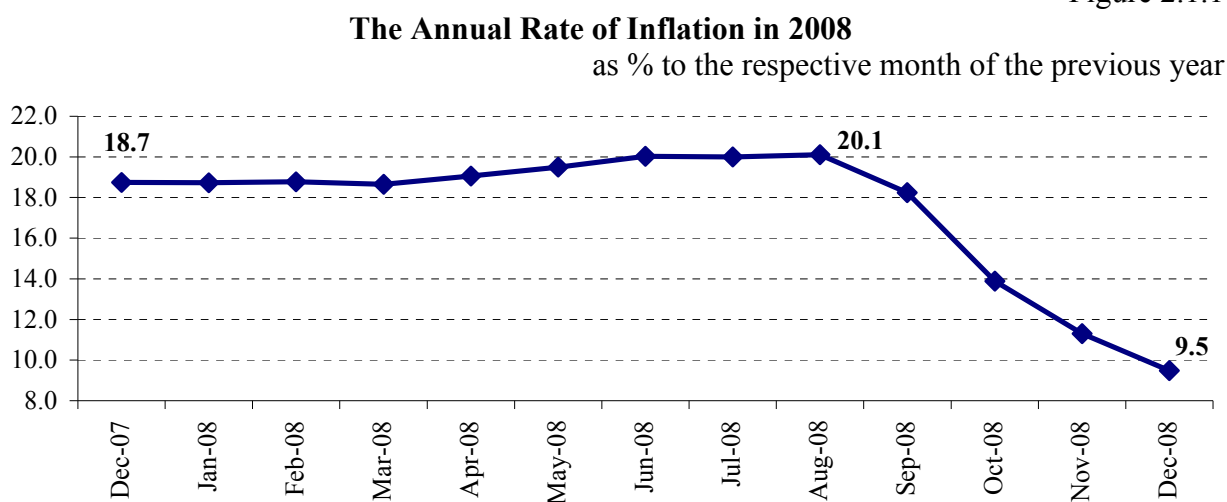
II. MONETARY POLICY, GOLD AND FOREIGN CURRENCY RESERVES MANAGEMENT, AND FOREIGN CURRENCY REGULATION

2.1. Monetary Policy

In 2008 the inflationary processes were of a multidirectional nature. In the 1st half of the year the increased inflationary pressures in the economy were observed: according to the Statistics Agency, annual inflation increased from 18.8% in December 2007 to 20.1% in August 2008. The major inflationary factors during this period were the growth in the global prices for foodstuff and energy as well as growth in production costs.

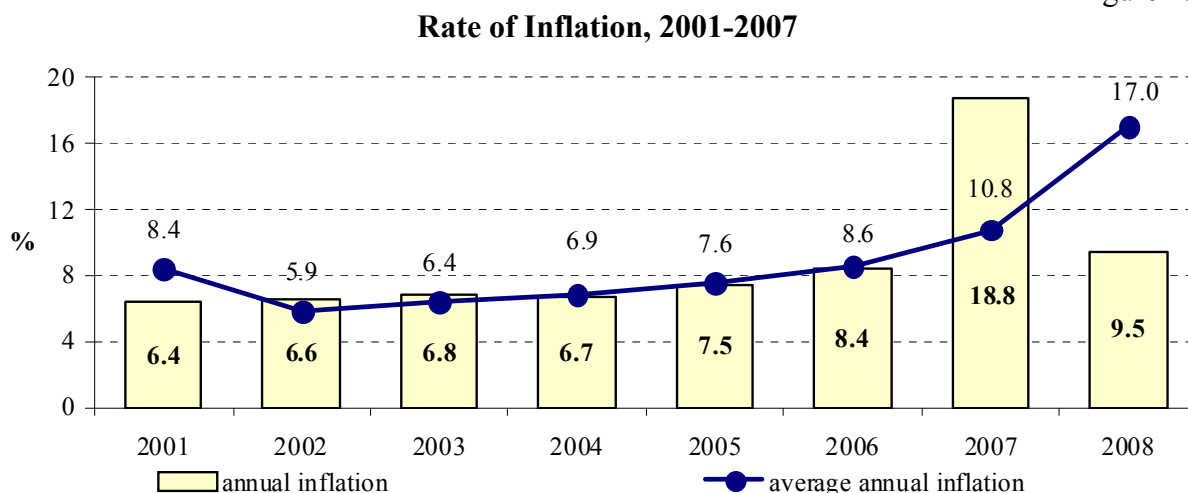
In the 2nd half of 2008 inflationary processes in the Kazakh economy slowed down. The annual rate of inflation in September-December showed a nearly two-fold reduction (Figure 2.1.1). The slowdown of the inflation rate was occurring on the background of the economic slowdown, unprecedented drop of global prices in the commodity markets, stagnation of the bank lending activities, limited consumer demand, and reduced prices in the real sector of economy.

Figure 2.1.1



As a whole, based on 2008 the annual rate of inflation was 9.5%. Average annual rate of inflation was 17.0% (Figure 2.1.2).

Figure 2.1.2



In the 1st half of 2008 a significant increase in prices in the global commodity markets was observed for such items as raw materials, foodstuff and other commodities. As a result, an unstable “pricing” bubble built up in the commodity markets that burst in the 2nd half of 2008 causing dramatic drop in the prices for foodstuff, raw materials and metals.

The dropdown in the global prices for raw materials including oil, entailed the slowdown in the growth of prices for individual items of output produced by enterprises in the real sector of the Kazakh economy in August-October 2008. In general the industrial output in 2008 became cheaper by 18.6% (in 2007 – there was a 31.9% growth). Prices for energy resources decreased by 33.4% during 2008 (in 2007 – 45.9% growth), including oil which became 40.5% cheaper (growth by 52.4%), gas condensate – by 42.4% (growth by 47.0%). Nonetheless, the price for natural gas increased by 35.7% (7.1%), coal – by 76.3% (3.8%), oil products – by 17.0% (14.1%).

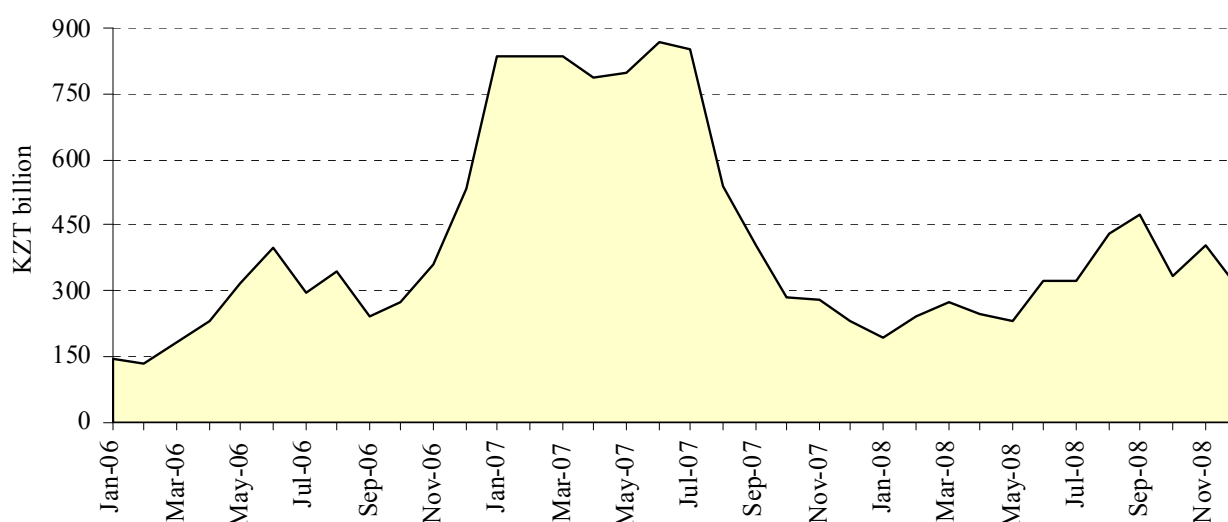
In these circumstances, in 2008 the National Bank implemented monetary policy aimed at ensuring the financial system stability and price stability. Given the slowdown of inflation and the absence of fundamental factors for its acceleration, the main focus was made on the stabilization of situation and maintenance of short-term liquidity in the banking system.

Monetary Policy Instruments. In 2008 the volume of issued short-term notes reduced by 30.7% as compared to 2007 and amounted to KZT 2.9 trillion. Their volume in circulation in 2008 increased by 36.4% to KZT 312.3 billion (Figure 2.1.3).

Figure 2.1.3

Short-Term Notes in Circulation

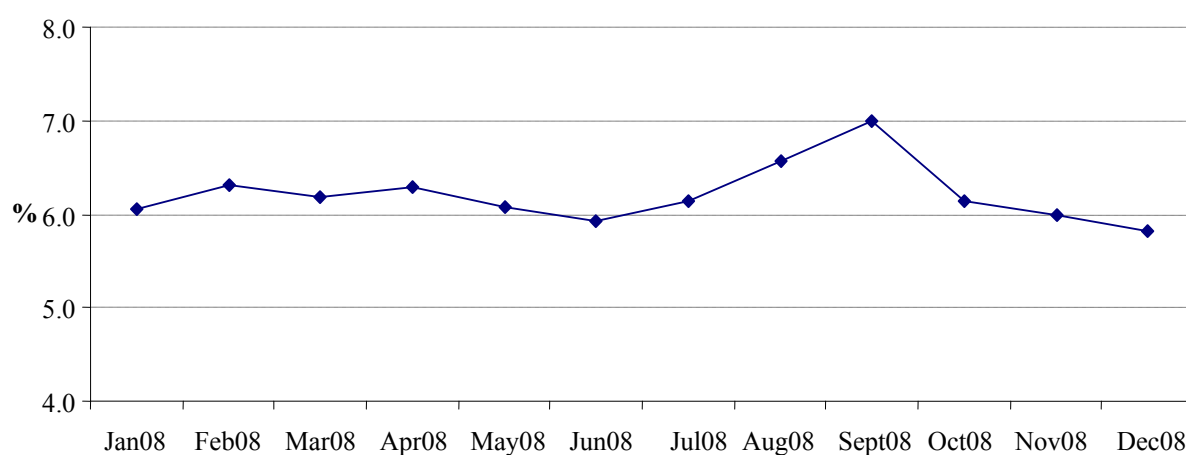
at the period-end



Average weighted yield on notes increased from 5.64% in December 2007 to 5.82% in December 2008 (Figure 2.1.4).

Figure 2.1.4

Effective Yield on Short-Term Notes of the National Bank in 2008



Starting from July 2008, in addition to the issue of short-term notes with the maturity of 28 days, the issues of notes with maturities of 3 months, 6 months and 12 months renewed.

In 2008 KZT 6.1 trillion of deposits were taken from banks exceeding the 2007 performance by 46.3%. Balances of deposits of banks with the National Bank increased from KZT 9.9 billion at the end of 2007 to KZT 33.0 billion at the end of 2008, i.e. by 3.3 times.

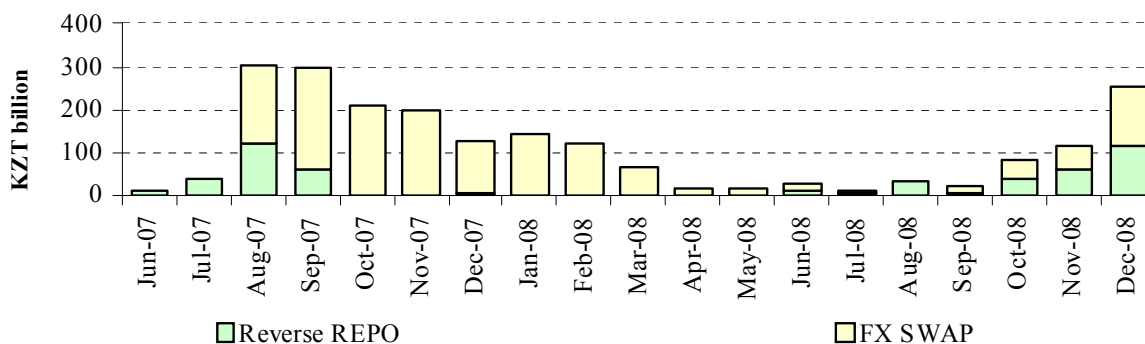
With a view to ensure financial stability measures were undertaken to provide short-term Tenge liquidity to the banks, as well as to improve the banking system refinancing by the National Bank.

During 2008 the National Bank has conducted reverse REPO transactions worth KZT 862.9 billion, swap operations – KZT 4 080.5 billion. They had a term of 7 days. At the end of December 2008 the volume of outstanding bank debt to the National Bank on reverse repo transactions amounted to KZT 118.5 billion, on swap operations – KZT 137.4 billion (Figure 2.1.5).

Figure 2.1.5

Outstanding Amount on Bank Refinancing Loans

at the period-end



In 2008, list of collateral under reverse REPO transactions was gradually extended. Government securities of the Republic of Kazakhstan, foreign government securities, securities of international financial organizations, securities of domestic national companies, debt obligations and Eurobonds of banks, and agency debt securities of JSC “Kazakhstan Mortgage Company” were included in the list.

In the domestic foreign currency market in 2008 the National Bank was mainly acting as the purchaser of foreign exchange. Over 2008 the net purchases by the National Bank in the domestic foreign currency market was US\$ 3.4 billion.

The National Bank’s operations in the domestic market resulted in that the bank liquidity was replenished by KZT 830.6 billion for 2008 (Table 2.1.1).

Table 2.1.1

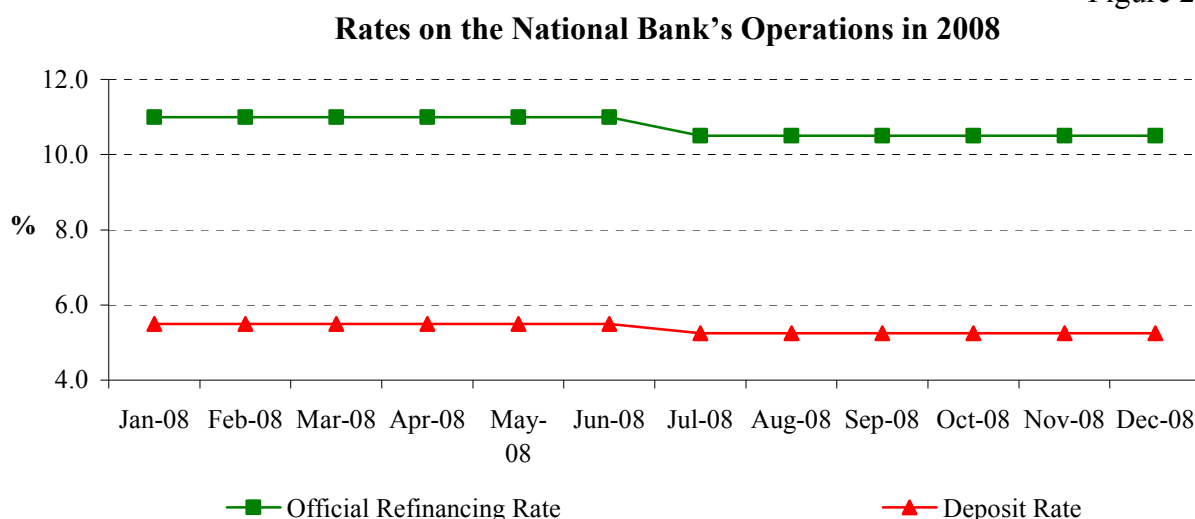
Balance of National Bank’s Transactions in the Domestic Market in 2004-2008

KZT billion

| | Balance of National Bank’s transactions in the money market ("-" - withdrawal, "+" – increase of Tenge liquidity) | National Bank’s participation in the FX market ("-" – net FX sale, "+" – net FX purchase) | Net liquidity withdrawal ("-" – liquidity withdrawal, "+" – increase in Tenge liquidity) |
|------|---|---|--|
| 2004 | -303.5 | 478.0 | 174.5 |
| 2005 | 211.2 | -48.6 | 162.6 |
| 2006 | -997.8 | 1271.0 | 273.2 |
| 2007 | 644.5 | -771.8 | -127.3 |
| 2008 | 425.8 | 404.8 | 830.6 |

From July 1, 2008 *the official refinancing rate* was reduced from 11.0% p.a. to 10.5% p.a., respectively, the rate on deposits with the National Bank taken from banks decreased from 5.5% to 5.25% (Figure 2.1.6).

Figure 2.1.6



In 2008 the minimum reserve requirements for banks were reduced twice. Their reduction from July 29, 2008 from 6% to 5% on the bank's domestic liabilities and from 8% to 7% on other liabilities of a bank released, based on the estimate, about KZT 90 billion. Further reduction of the minimum reserve requirements from November 18, 2008 to 2% and 3%, respectively, replenished the banks' liquidity by KZT 350 billion.

In 2008 bills were not accepted for discount. No bills were kept in the National Bank's portfolio at January 1, 2009. Alongside with that there are active general agreements for bill discounting with 9 banks. As of January 1, 2009 there were no prime issuers.

The debt under the bank loan to JSC Halyk Savings Bank, for the liability buyout of depositors of the liquidated OJSC Komirbank, amounted to KZT 2.1 billion as of January 1, 2009. This debt is off-balance sheet account.

Money Supply. The trends in the money supply in 2008 demonstrated insignificant rates of growth.

Over 2008 net international reserves of the National Bank in current prices have increased by 12.6% to US\$ 19.4 billion.

Net foreign currency reserves (FCC) in December 2008 as compared to December 2007 increased by 13.1% as a result of the FX purchase in the domestic FX market, re-conversion of the National Fund's assets into foreign exchange holdings of the National Bank, as well as FX proceeds to the Government's accounts with the National Bank, in spite of the reduced balances on bank correspondent accounts in foreign currency with the National Bank and operations for the Government's external debt servicing. Gold-denominated assets increased by 8.0% as a result of the conducted operations and the increase in the price for gold in the global markets by 4.4%.

As a whole, the country's international reserves including the National Fund's assets (US\$ 27,5 billion) increased during 2008 by 22.6% and amounted to US\$ 47.4 billion.

The increase in the net domestic and foreign assets of the National Bank during 2008 caused the extension of the *reserve money* by 4.2% to KZT 1 525.2 billion (in 2007 it contracted by 2.5%).

Narrow reserve money that is the reserve money not including term deposits of banks in the National Bank extended by 2.6% to KZT 1 492.2 billion.

During 2008 net domestic assets of the National Bank have increased by 38.2%. In their structure, net claims to the Government grew by 133.5% owing to decrease of balance of the

Government's accounts, claims to the financial organizations grew by 53.7% as a result of refinancing loans provided to banks; claims to the rest of the economy grew by 1.6%, other net domestic assets of the National Bank grew by 7.17%.

In 2008 the biggest contraction in the reserve money (by 17.3%) was observed in November, and the maximum reserve money extension happened in December (by 17.5%).

The increase in net foreign assets of the banking system during 2008 appeared to be the major factor for the increase in the *money supply* by 35.4% to KZT 6 267.2 billion.

In the structure of net foreign assets of the banking system, in December 2008 as compared to December 2007, net international reserves of the National Bank increased by 12.6%, net foreign assets of banks – by 40.8%. The increase in the foreign assets of banks is associated with the decrease in the liabilities to non-residents (by 14.9%).

In the structure of domestic assets of the banking system claims to the Government increased by 47.1%, claims to non-bank financial institutions – by 31.0%, whereas claims to non-financial institutions reduced by 16.3%, and claims to households – by 7.8%.

The excess of the money supply extension rates (by 35.4%) over the nominal GDP growth rates (by 24.6%) led to the growth in the economy monetization level from 36.3% at the end of 2007 to 39.4% at the end of 2008.

Money multiplier increased from 3.16 in December 2007 to 4.11 in December 2008 as a result of the outstripping growth rate of the money supply versus the rates of the reserve money extension. The growth of money multiplier was caused by the decrease of cash reserve ratio which, in its turn, was influenced by the reduced minimum reserve requirements.

In the structure of money supply, *cash in circulation* (M0) over 2008 has grown by 16.0% to KZT 857.8 billion, and deposits of residents – by 39.1% to KZT 5 409.4 billion. The positive trend of the increasing percentage of deposits in the money supply structure was retained owing to the outstripping growth rate of deposits of residents versus cash in circulation. During 2008 this ratio increased from 84.0% to 86.3%.

The growth of cash in circulation is related to the growth in payments of salaries and wages and withdrawals of individuals' time deposits.

Nonetheless, in 2008 the growth rates of cash in circulation (M0) decreased from 23.1% in 2007 to 16.0% in 2008. The following should be outlined among those factors that kept down the growth of cash in circulation: lending activity of banks, receipts to the bank cashier's departments of proceeds from the sale of goods, execution of works and services as well as cash receipts to time deposits of the general public.

2.2. The National Bank's Gold and Currency Assets, and Asset Management

Trends in the gold and foreign currency reserves. The Total amount of gross gold and foreign currency reserves of the National Bank at the end of 2008 amounted to US\$ 19.4 billion, thus exceeding the respective figure for 2007 by US\$ 1.8 billion. The change in the amount of gross gold and foreign currency reserves (GCRs) was affected by the increase in assets denominated in freely convertible currencies by US\$ 1.6 billion, and assets denominated in precious metals increased by US\$ 148.1 million.

The change in the foreign currency portion of assets in 2008 was caused by the receipt of US\$ 7.9 billion in favor of the Ministry of Finance from oil and gas companies in the form of tax payments. Alongside with that a part of proceeds in the amount of US\$ 4.9 billion have been converted into the National Fund's stabilization portfolio.

In 2008 net purchases of foreign exchange by the National Bank in the domestic market amounted to US\$ 3.4 billion, of which US\$ 2.3 billion were purchased for the National Fund.

In 2008 the National Bank wrote off US\$ 2.7 billion of balances of mandatory reserve accounts of the banks.

The National Bank has also made payments for the Ministry of Finance on the external debt for the total sum of US\$ 129.7 million.

In 2008 the National Bank conducted swap operations to provide currency liquidity to resident banks which had also some impact on the change in the foreign currency portion of the gold and foreign currency assets. As of December 31, 2008 exposures on foreign currency swaps amounted to US\$ 943.2 million.

Thus, based on transactions performed by the National Bank in 2008, net gold and foreign currency assets increased as compared to January 1, 2008 by US\$ 1.8 billion and amounted to US\$ 19.4 billion (Annex 1 to Section II Subsection 2.2, Table 2.2.1).

Management of Gold and Foreign Currency Assets of the National Bank and the National Fund. With a view to increase returns on assets, agreements were made and are in force with foreign banks under the programs of automatic balance reinvestments in the money market.

During 2008 the compliance of foreign asset managers of the National Fund with the investment strategy restriction was monitored.

The compliance with requirements set out in the Investment Strategy for Gold and Foreign Currency Asset Management as approved by the National Bank's Resolution No.105 of October 27, 2006 and the Procedures for Investments by the National Fund as approved by the National Bank's Resolution No. 65 of July 25, 2006 was monitored on a daily basis.

The return on gold and foreign currency assets of the National Bank and assets of the National Fund in solo management and in external management was calculated on a daily basis.

On a monthly basis the National Bank provided market rates and interest rates for revaluation of the National Bank's gold and foreign currency assets and the National Fund's assets.

Due to the situation in the global financial markets the National Bank's gold and foreign currency assets have undergone restructuring with the increase in the portion of more secure assets such as government securities. To minimize credit risk, credit quality of portfolios was improved, also the National Bank, as part of response to deterioration of the situation in foreign markets, has timely taken the following actions:

1. reviewed the list of its counterparts, having retained the safest counterparts in terms of transactions with the gold and foreign currency assets and assets of the National Fund;
2. suspended transactions on deposit-placing in order to avoid credit risk, because of degradation in the credit ratings of counterparts.

Current situation in the global financial markets proved the soundness of the National Bank's decision to secure the National Fund's assets in the stabilization portfolio. Despite violation of the Rules for Conducting Investment Transactions, the asset transfer from the stabilization portfolio to the savings portfolio was not made in 2008. This decision allowed preventing a further investment of assets in equities and, respectively, retaining over US\$ 762 million for the National Fund.³

Moreover, in 2008 there was a positive return of 2.40% on assets accumulated in the stabilization portfolio while the savings portfolio yield appeared to be a negative number of 4.58%. The National Bank has not performed a quarterly rebalancing of the savings portfolio (levelling to the reference weight: 75% in bonds and 25% in shares), which also helped preventing the equity investment of new resources and respectively ensuring the savings of the National Fund's assets in the amount in the order of US\$ 265 million.

In order to improve the process of management of the National Bank's gold and foreign currency assets and assets of the National Fund, the Investment Committee of the National Bank

³ As of December 31, 2008

was established by the Resolution of the National Bank's Management Board of June 18, 2007 No. 121 "On Approval of the Regulation on the Investment Committee of the National Bank of the Republic of Kazakhstan" and is functioning.

In 2008 the investment management agreement was terminated with a foreign manager of gold and foreign currency assets of the National Bank with the mandate Fixed Income – Goldman Sachs Asset Management (under the resolution of the National Bank's Management Board of February 11, 2008 No.6 "On Termination of the Discretionary Investment Management Agreement of September 13, 2001 No. 483 made between the National Bank and Goldman Sachs Assets Management International").

To ensure efficient management of gold and foreign currency reserves of the National Bank, its Management Board adopted Resolutions "On Amendments to the Resolution of the National Bank's Management Board of October 27, 2006 No.105 "On Approval of the Investment Strategy for Management of Gold and Foreign Currency Assets of the National Bank of the Republic of Kazakhstan" of September 22, 2008 No.81 and of December 5, 2008 No.104.

The performance of the National Bank's gold and foreign currency assets management. Investment portfolio of gold and foreign currency assets. The market value of the Investment portfolio of gold and foreign currency assets at the start of 2008 was US\$ 5.8 billion, and at the year-end 2008 – US\$ 6.0 billion. During 2008 an investment return of US\$ 237.9 million (realized and unrealized) was accumulated in the investment GCA portfolio, calculated in the US Dollars.

Return on the investment portfolio of GCA for 2008 denominated in the currency basket was 7.40%. Given the return on the benchmark portfolio of 7.04%, excess returns comprised 36 basis points.

Return on the investment portfolio of GCA for 2008 denominated in the US Dollars was 4.09%. Given the return on the benchmark portfolio of 3.74% excess returns comprised 35 basis points.

Under the Resolution of the National Bank's Management Board of September 22, 2008 No.81 "On Amendments to the Resolution of the National Bank's Management Board of October 27, 2006 No.105 "On Approval of the Investment Strategy for Management of Gold and Foreign Currency Assets of the National Bank of the Republic of Kazakhstan", the US Dollar sub-portfolio benchmark of the investment portfolio was changed from "ML US Treasuries and Agencies 1-5 years" to "ML US Treasuries, 1-3 year".

Absolute Yield Portfolio. The market value of the absolute yield portfolio of gold and foreign currency assets amounted to US\$ 370.5 million at the beginning of the year and US\$ 391.1 million – at the end of 2008.

The return on portfolio of the absolute yield portfolio of gold and foreign currency assets for 2008 was 5.55%. With the benchmark returns of 3.06%, excess returns were 249 basis points.

Investment return (realized and unrealized) for the reporting period was US\$ 20.6 million.

Liquidity portfolio of gold and foreign currency reserves. The market value of the liquidity portfolio of gold and foreign currency assets was US\$ 9.4 billion at the beginning of 2008 and US\$ 9.9 billion – at the end of 2008.

Liquidity portfolio of gold and foreign currency assets is intended for monetary policy and all flows and various payments are also performed through this portfolio. This portfolio is not included in the evaluation of returns on portfolios of gold and foreign currency assets and doesn't have a benchmark portfolio.

Gold portfolio. The market value of the gold portfolio of gold and foreign currency assets was US\$ 1.8 billion at the beginning of 2008 and US\$ 2.0 billion – at the end of 2008.

Net purchases of gold in the foreign market with the total volume of 141,000 ounces have affected the size of the portfolio. (Annex 2 to Section II Subsection 2.2, Table2.2.2).

2.3. Foreign Currency Regulation and Currency Control

Since January 1, 2007 when exchange restrictions for foreign currency operations on movement of capital were removed, all necessary conditions for a full convertibility of Tenge were provided, not only in respect of current transactions but also capital transactions. The absence of exchange restrictions for international operations is one of the main conditions for a further integration of Kazakhstan into the global economy and enhancement of its international competitiveness. At the same time, the openness of economy and free capital flow increase its vulnerability to external shocks.

At present, the exchange regulation regime includes licensing of activities associated with the use of currency valuables, and registration and notification of large foreign currency transactions. The requirements of the exchange regulation regimes aim at obtaining reliable information about the nature and the amount of the most significant foreign currency transactions. The monitoring efforts made on the basis of such information as compared to the data on the country's economic development allows identifying of such tendencies in the capital overflows that are negative for the country, assessing risks for a macroeconomic situation and, accordingly, developing adequate measures to minimize those risks.

Since the export of commodities is a critical source of foreign currency for the Kazakh economy, the currency exchange legislation has retained a repatriation provision – the return of monies that resulted from foreign trade operations into the country. The mechanism for control over the repatriation provision – export and import currency control is provided for within the Law of the Republic of Kazakhstan “On Currency Exchange Regulation and Currency Control”.

The evolution of crisis developments in the financial markets shows how important for the public regulators is to possess an advanced toolkit for the efficient adoption of adequate measures of response to systemic risks. The Law “On Currency Exchange Regulation and Currency Control” provides for the possibility of temporary introduction of currency exchange restrictions as a response to external shocks. In the event of threat to the country's economic safety and stability of its financial system the President may introduce the regime of special authorization of foreign currency transactions. The provisions for introduction of the regime of special authorization of foreign currency transactions established by the law specify the exclusive nature of its application and the move back to a liberal currency regime after the crisis is over.

The liberalization of the currency exchange regime undertaken by Kazakhstan and the established system of currency exchange regulation ensured that the intended goal was reached – removal of currency exchange restrictions preventing involvement in the international business without the loss of control over capital overflows. At the same time, the experience with the existing currency exchange regulation showed, on the one hand, a possibility of a further dispensation of currency exchange regulation and, on the other hand, the need in a more clear formulation of the repatriation provision and measures that can be undertaken in the time of the crisis, as well as enhanced effectiveness of provisions stipulating for accountability for non-compliance with the currency exchange regulation requirements. In this view, the draft law “on Amendments to Some Legislative Acts on Currency Control and Currency Exchange Regulation” was prepared in 2008.

In order to simplify the requirements of currency exchange regulation regimes and optimize the procedures of currency control, the draft law provides for:

- 1) excluding the licensing of the retail trade and services provisioning against foreign cash from the regime. At present this type of activities is carried out by the duty-free shops as well as when selling goods and providing services to passengers during their transit in international traffic. Since these activities involve limited volumes, are of a local nature and are under the customs control within the customs area (customs control regime), the licensing

requirement may be removed with minimum, in the context of currency exchange regulation, risk;

2) removing the requirement of advising the National Bank when opening bank accounts with foreign banks for natural persons - residents. The amounts of transfers by natural persons – residents from their own accounts (to their own accounts) with foreign banks would be reported by an authorized bank which would make such transfers;

3) possibility for increasing minimum thresholds for transactions that are subject to registration, notification and formalization of the deal ticket as well as for the exclusion of certain types of transactions on the capital movements from the list of those subject to registration or notification, by making amendments to by-laws and regulations. This means that the National Bank would be entitled to undertake further measures for liberalization of currency regimes while promptly responding to the changes in the economic situation and the growing volumes of foreign currency transactions;

4) setting up the notification form for contracts which are subject to notification by providing regular reports reflecting the information on currency transactions performed over the period. Such notification form, in the first instance, is applicable to banks and professional players in the securities market. Given the entire coverage of financial institutions with the electronic reporting system, such notification form, when introduced, would considerably simplify procedures and cut the costs for compliance with the notification regime requirements;

5) redefining the term of repatriation including allowing a resident as a party to a foreign trade contract independently determine the term of repatriation, based on the terms and conditions of the foreign trade contract;

6) comprehensive list of instances that do not suggest crediting of proceeds to the accounts with the Kazakh banks but are equated with the execution of the repatriation requirement.

The draft law redefines and extends the list of temporary restrictions on foreign currency transactions that may be introduced to eliminate the threats to the security of the Republic of Kazakhstan. Based on the ratings assigned to the country as part of the assessment of its international competitiveness, the mechanisms of special currency exchange regimes were specified more clearly, the time period for which the regime might be introduced was specified and the obligatory reversion to the liberal currency exchange regime.

In addition, in order to ensure the effectiveness of provisions that envisage responsibility for non-compliance with the requirements of the currency laws, the draft law provides for redefinition of the application of administrative and criminal responsibility for the failure to repatriate monies in the domestic and foreign currency as well as for the violation of the special currency exchange regime.

Introduction of the above changes provides a legislative framework for further alleviation of currency exchange regulation without a damage to effective monitoring of foreign currency transactions; optimization of control over the execution of the repatriation provision and others related to the currency control of administrative procedures; increases the capacity and effectiveness of anti-crisis measures in respect of the introduction of currency restrictions.

A priority area in the field of currency control is the introduction of the selective control system. Efforts made since January 2007 to improve the database of foreign trade operations provided a basis for an efficient transition from the authorization-based procedure of currency transactions to the system of follow up monitoring and selective control. Amendments made to the Administrative Code of the Republic of Kazakhstan that became effective from January 2, 2008 laid the groundwork for imposing responsibility only in respect of significant violations of the currency laws committed on a repeated basis.

At the same time, further efforts should be made in this area through improvements in the legislation and available information data bases. Based on that, when reviewing the drafts of the

Administrative Code of the Republic of Kazakhstan, amendments to the Regulation on Sanctions and Enforcement Measures to be Taken by the National Bank in Respect of the Banks and Institutions Performing Certain Types of Bank Operations, explicit proposals related to holding entities liable were prepared on the basis of clearly defined criteria such as regularity of violations, significance of the reporting volumes on foreign currency operations presented in an unreliable or untimely fashion, or an amount of the foreign currency transaction.

Currency Exchange Regulation Regimes. As part of the licensing of activities related to the use of currency valuables 70 licenses were issued in 2008 authorizing the setup of foreign exchange transactions.

As part of the registration of foreign currency transactions 2 580 registration certificates were issued in 2008, of which:

- 717 – on lending by residents to non-residents;
- 1513 – on lending by non-residents to residents;
- 204 – on direct and portfolio investments of non-residents in Kazakhstan;
- 123 - on direct and portfolio investments of residents to the abroad;
- 23 – on other transactions of capital movements.

As part of the notification on currency transactions 1 387 certificates of notifications were issued in 2008, of which:

- 662 – on lending by non-residents to banks;
- 22 – on direct and portfolio investments of non-residents in Kazakhstan;
- 69 – on direct and portfolio investments of residents to the abroad;
- 7 – on transactions with financial derivatives;
- 30 – on other transactions of capital movements;
- 597 – on the opening of accounts abroad by residents.

Export and import currency control. The activities of the National Bank in the area of export and import currency control in 2008 was aimed at further implementation of the modernized version of export and import currency control.

From the beginning of 2007 the repatriation provision in respect of foreign currency proceeds was set out, subject to the terms specified in the foreign trade contracts thus significantly simplifying the way foreign currency transactions were performed and reducing the costs of the parties to the foreign economic activities associated with the implementation of the currency legislation requirements.

In the framework of export and import currency control, the ticketing procedures for foreign trade transactions were simplified, redundant administrative barriers and elements of bureaucratic burden were removed. A deal ticket is to be formalized by exporters or importers when applying to the servicing bank and obligations arising while formalizing the deal ticket do not create additional requirements and conditions for foreign trade operations.

The system simplification is accompanied by a closer coordination of control on behalf of the National Bank, tax and customs authorities within the scope of relevant government authorities. In September 2008 a meeting was conducted in Astana with the Customs Control Committee of the Ministry of Finance regarding the information sharing, and in December 2008 the order by the Ministry of Finance “On Approval of the Form of the Opinion on Currency Proceeds” that was drafted in connection with the new Tax Code of the Republic of Kazakhstan.

The National Bank made efforts on further improvement of the information data base of foreign economic operations, with the view to ensure the efficient transition from the authorization-based procedure of currency operations to the system of follow up monitoring and selective control. The automated information system modification was completed in order to ensure information sharing with the National Bank branches in relation to deal tickets formalized by the branches, analysis of reasons for lengthy periods of the discharge of obligations and the results of review of the information provided by the banks in respect of the currency exchange

legislation violations committed by their customers. At present, this software product appears to be an information source not only for the currency control purposes but also is used in analyzing the efficiency of the currency exchange regulation and control measures as well as in analyzing the balance of payments.

As part of the information data base, in 2008 the National Bank's branches received 4 787 messages for consideration of the currency legislation violations.

Administrative proceedings in respect of the currency legislation violations. The National Bank continues its efforts in identifying and preventing administrative violations in the area of currency legislation.

At present a priority area in the currency exchange regulation is to build up an information database on currency transactions and capital flows and perform the analytical monitoring of currency transactions on the basis of that database.

In order to ensure that currency operations are recorded in a timely, full and reliable manner as part of the statistical monitoring, including for building up the external sector statistics, a provision is made for the administrative responsibility for the violation of the time frames within which an entity shall apply for registration certificates and certificates of notification, for provision of unreliable information as well as for untimely reporting on currency transactions.

In 2008 the National Bank initiated proceedings on 3 659 cases of administrative violations in the area of currency exchange legislation and statistical accounting. This is 5 times the number of case proceedings initiated in 2007 (755 cases).

The increase in the number of cases is associated with the amendments to the Administrative Code of the Republic of Kazakhstan enforced from January 1, 2008, that envisage responsibility for the violation of the reporting deadlines, submission of unreliable information and documents on currency transactions. However, penalties are imposed for repeated violations only and in case of violation for the first-time an entity would be warned, as a preventative measure.

In 2008 the National Bank inflicted punishment against 3 515 administrative cases, thus demonstrating 5 times increase as compared to 2007. The majority of those cases represented administrative punishments in the form of warnings – 3 068 cases.

The total penalties imposed in 2008 represent 1.5 times the number of penalties imposed in 2007: from KZT 36.7 million on 410 cases to KZT 53.6 million on 444 cases.

In addition, in 2008 proceedings on 137 cases were dismissed, 1 case was forwarded to a court for their consideration, based on that a penalty of KZT 0.2 million was imposed. At the end of 2008 6 cases were pending.

Thus, in 2008 one of the outcomes in the National bank's activities related to the consideration of cases on administrative violations in the area of currency exchange regulation was recharge of the national budget of KZT 53.8 million, as well as significant preventative efforts.

Inspections related to currency controls. In addition to planning of activities of the National Bank's branches in relation to inspections through coordination and preparation for further approval of the Inspection Plans for a respective quarter, the National Bank exercises control over inspections and analyzes their outcomes based on the inspection materials provided by the branches as well as based on the data which is input in the AIS "Collection and analysis of the outcomes of export and import currency control".

Since the currency legislation reduced the number of various restrictions in the area of currency exchange operations and generally simplified the procedure of currency exchange operations, the nature of inspections conducted by the National Bank changed its focus to analytical objectives as well as on the timeliness and reliability of information presented by the agents of currency control to the National Bank. New methods of inspections is based on a more

thorough review and analysis of the information obtained through the statistical monitoring systems, currency monitoring, collection of reports on the sources of foreign exchange demand and offer, outcomes of export and import currency control as well as other materials and information submitted as part of the currency legislation.

These circumstances contributed to annual reduction in the number of inspections conducted by the National Bank. Thus, as compared to 2006, the number of inspections conducted in 2007 reduced by 11.3% from 805 to 714. As compared to 2007, the number of inspections conducted in 2008 reduced by 3 times i.e. from 714 to 238 inspections.

On the overall basis, the National Bank (branches and the head-office) conducted 238 inspections of the banks, of institutions performing certain types of banking operations, and other legal entities in relation to compliance with the currency legislation, including 234 scheduled inspections and 4 and hoc inspections.

The Government adopted Decree No.178 of February 21, 2008 “On Announcing the Moratorium for Inspections of SMEs”.

Under that Decree, from February 21, 2008 and until December 31, 2008 inspections of small and medium-scale enterprises were suspended. On this account, the National Bank had suspended inspections of authorized entities and other entities in relation to compliance with the currency legislation (except for banks that are subjects of large-scale business).

Based on the conducted inspections, the branches imposed sanctions and other enforcement measures in respect of revealed violations of the procedure for exchange transaction with foreign cash, in respect of other violations the matter is forwarded to the National Bank’s head office for its consideration and undertaking of measures.

During the reporting period in respect of violations revealed in the course of inspections, besides warnings, administrative punishments in the form of penalties of around KZT 6,2 million were imposed.

In addition, 91 enforcement measures were undertaken in the form of: written warning – 21, request for a letter of commitment – 56 and improvement notices – 14.

Training and coordination of activities of the National Bank’s regional branches. In 2008 a workshop on export and import currency control was conducted for regional branches. The practice of demonstration inspections of the banks was continued. Thus, in 2008 inspections of four Almaty-based banks were conducted with the involvement of staff from the head-office, South-Kazakhstan, North-Kazakhstan, East-Kazakhstan, West-Kazakhstan, Kostanai, Zhambyl, and Pavlodar branches of the National Bank. Visits to the National Bank’s branches were continued with the aim of practical support, analysis of business-processes employed, for further optimization in the area of currency control.

For the purposes of unification and optimization of functions of the regional branches in the area of administrative proceedings and inspections, Methodological Recommendations have been developed to assist the National Bank staff in the application of the Administrative Code of the Republic of Kazakhstan, to conduct inspections on compliance with the requirements of the currency legislation of the Republic of Kazakhstan.

growth in cash receipts to the cash departments of banks (3.4%) exceeds growth of cash pay outs of the banks' cash departments (3.1%).

The amount of cash receipts to the cash departments of banks in 2008 was KZT 10 013.7 billion, having increased by KZT 324.6 billion as compared to 2007. Cash pay outs amounted to KZT 10 349.4 billion, having increased by KZT 314.9 billion. As can be seen from Table 3.2.1 (Annex 1 to Section III Subsection 3.2), the increase in turnovers happened in five items of the receipts section of cash turnover, mainly due to the inflationary processes observed in the economy. Within the cash payout section, payouts for the payment for goods, works and services, and payments to insurance companies decreased as well as payouts from deposit and loan accounts to natural persons and legal entities.

The ratio of cash returned to the cash departments of banks has virtually not changed, making 96.8% versus 96.6% for 2007.

The major portion of cash receipts to the cash departments of banks was represented by the following:

- from sales of goods, services and completed works – KZT 2,368.3 billion or nearly one fourth of the total cash receipts to the cash departments of banks. The increase was 4.3% (KZT 97.2 billion);
- to deposit accounts of natural persons – KZT 1,688.8 billion (16.9% in percentage terms), having decreased by 8.4% (KZT 154.0 billion);
- from sales of foreign exchange – KZT 1,682.0 billion, having decreased by 3.4% (KZT 59.4 billion).

The largest decrease among the cash receipt items to the cash departments of banks falls on the receipts to deposit accounts of natural persons and from sales of foreign exchange as well as taxes, duties and customs payments – by KZT 22.8 billion or 17.0%, caused by the reduced rates of VAT and other taxes.

The comparison of the disbursement section of cash turnover for 2007 with the numbers for 2007 shows that prevailing items in the disbursement section of cash turnover in the banks remain:

- cash for ATMs – KZT 2,188.9 billion or 21.1% of the total amount of cash paid out from the cash departments of banks. The increase amounted to 39.0% (KZT 613.8 billion).
- withdrawals from deposit accounts of natural persons – KZT 1 819.6 billion (17.6% in percentage terms). However, there is a reduction of 23.7% (KZT 565.0 billion) in this item;
- cash payouts for payment of goods, services and completed works – KZT 1,605.1 billion or 15.5% of the total amount of cash payouts from the cash departments of banks. The decrease versus 2007 amounted to KZT 30.0 billion or 1.8%. Reduced business activity caused by the lack of resources in the credit market reflected on the volumes of sold goods, works and services.

A distinguishing feature in the cash turnovers of the bank over the reporting period appeared to be a considerable decrease in both the deposit accounts withdrawals and withdrawals from loan accounts of natural persons and legal entities caused by the reduced lending, as well as a 29.5% increase in payouts for payment of agricultural produce that is explained by the increased purchase prices for agricultural produce.

IV. FINANCIAL MARKET

4.1. Foreign Exchange Market

In 2008 the situation in the foreign currency market was characterized by a relative stability of the exchange rate of Tenge.

During Quarters 1, 2 and 3 of 2008 the situation in the domestic foreign currency market was developing in the environment of insignificant excess of foreign currency supply over its demand. The main sources of foreign currency inflows were export proceeds in foreign currency. Foreign borrowings of the banking sector provided the supply of foreign currency during the first two quarters due to the limited access of the banking sector to borrowed resources in the international capital markets in Q3 2008 there was a net outflow of resources on foreign borrowings of the banks.

In the fourth quarter of 2008 because of the reduced export proceeds of oil companies resulting from the fall of the world oil prices, and the net outflow of resources on foreign borrowings of the banks, the situation in the domestic foreign currency market was characterized by the increased demand for foreign currency over its supply.

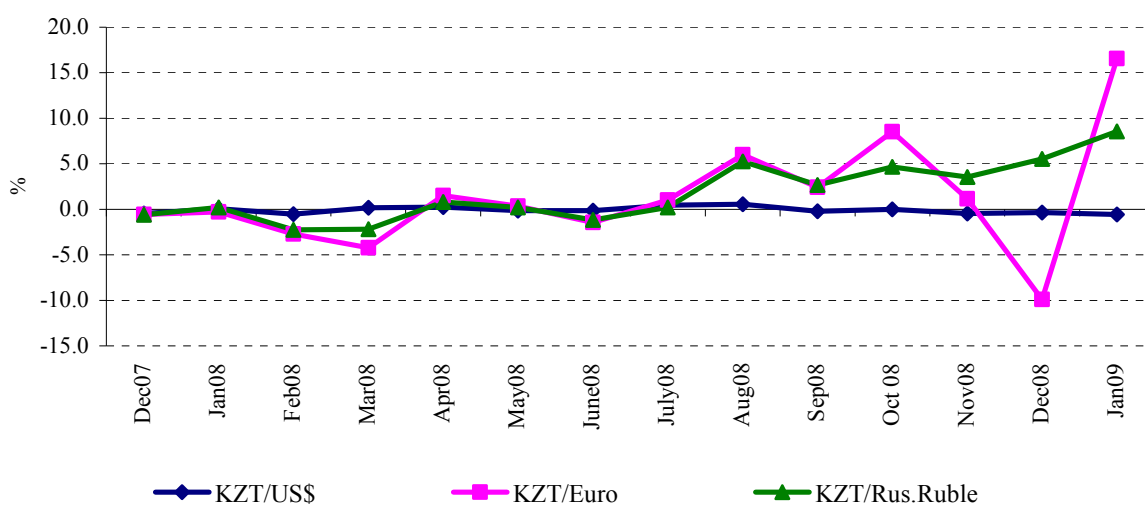
In 2008 the average weighted exchange rate of Tenge versus one US Dollar was KZT 120.31. The stock exchange price at the period-end was KZT 120.79 per a dollar. Over the year the Tenge depreciated in nominal terms versus US Dollar by 0.41%. The highest speed of devaluation could be observed in February and November (0.50% and 0.43%, respectively), and of revaluation – in July and August (0.47 and 0.53%, respectively).

Over 2008 the official exchange rate of Tenge versus Euro has depreciated by 3.54%, versus Russian Ruble – by 16.46% (Figure 4.1.1).

Figure 4.1.1

The Trend in the Exchange Rate of Tenge Versus US Dollar, Euro and Russian Ruble

as % of the previous month



* - «+» appreciation of KZT against foreign currency, «-» - depreciation of KZT against foreign currency.

In 2008 there was an insignificant reduction in the volumes of foreign currency transactions both in the Stock Exchange and in the Interbank market. The reduction in the trading volumes was determined by reduced export proceeds of oil companies caused by the fall of the world oil prices and the limited access of the banking sector to foreign borrowings in the international capital markets.

Thus, the volume of currency exchange trading in the Dollar position was US\$ 66.6 billion, with the increase of 9.1% versus 2007. In the off-exchange market the volume of transactions of resident banks decreased by 26.4% versus 2007 and amounted to US\$ 103.5 billion.

Transactions with the Russian Ruble and Euro comprised an insignificant portion of the Currency Exchange and Off-exchange segments of the forex market. In the off-exchange market

the volume of transactions in the Russian Ruble increased by 39.5% to RUR 573.8 million, the volume of Euro transactions increased by 83.3% to Euro 11 million. In the off-exchange foreign exchange market the volumes of conversion transactions with the Russian Rubles reduced by 2.1 times to RUR 1.9 billion, the volumes of conversion transactions with Euro increased by 57.5% to Euro 588.5 million.

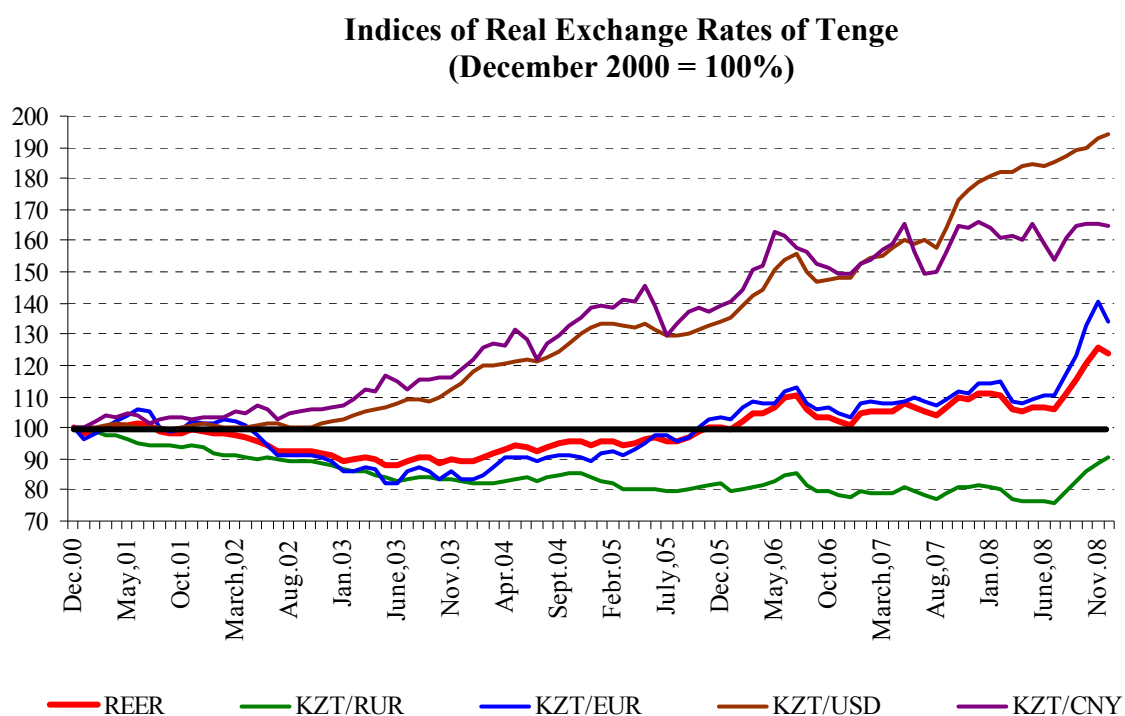
As in the previous years, the foreign exchange market preferred US Dollar and, therefore, in this segment of the market dominating were the transactions of Dollar purchases by the households. Thus, in 2008 net sales of the exchange offices amounted to US\$ 9.3 billion, going down by 10.4% against 2007.

Over the year the net sales of Russian Rubles by the exchange offices decreased by 2.8% and to RUR 5.7 billion, of Euro – by 35.0% to Euro 1.2 billion.

The devaluation of national currencies against US Dollar in a number of countries – trading partners of the Republic of Kazakhstan – from the second half of 2008 resulted in accelerated rates of appreciation of the Tenge real effective exchange rate. As a consequence, at the end of 2008 the appreciation of the Tenge real effective exchange rate in relation to the currencies of the trading partners comprised 11.5%, and the appreciation of the Tenge real effective exchange rate as compared to the basic value of the REER index calculated at the end of 2000 (December, 2000 = 100%), the appreciation of the Tenge real exchange rate was 24.1%.

At the year-end of 2008 the REER index calculated against the CIS-currency basket was 12.6% higher than that at the year-end of 2007. At the year-end Tenge had appreciated in real terms versus currencies of other countries by 11.2% (Figure 4.1.2).

Figure 4.1.2



On average, in 2008 as compared to the prior period, the index of the real effective exchange rate of Tenge appreciated by 5.3%. Alongside with that, Tenge has appreciated against CIS-currencies basket by 1.2%, and by 7% - to the basket of other currencies. As for bilateral real exchange rates for 2008, Tenge has appreciated against the US Dollar in real terms as compared to the prior period by 14.6%, against Euro – by 8.5%, against Russian Ruble – by 1.7% and to the Chinese Yuan – by 2.8%.

Raw materials prevail in the foreign trade structure of the Republic of Kazakhstan. The trends in the turnover of these commodities are determined by the global commodity markets environment thus significantly limiting the possibility of negative impact of the Tenge appreciation. Based on the reporting year performance consumer import from the Russian Federation as the most sensitive to the relative change in the exchange rate comprises 27% in the trading turnover of the country (24% for 2007). Therefore, if the trend for the Russian Ruble depreciation against Tenge increases, the consumer import from the Russian Federation which is the largest supplier of imports may get an additional significant impetus for growth.

4.2. Interbank Money Market

In 2008 the total amount of interbank deposits placed increased by 2.1 times compared to 2007 and made up an equivalent of KZT 86.9 trillion.

The amount of placed interbank deposits in Tenge grew by 38.0%, reaching KZT 8.5 trillion (9.7% of the total amount of interbank deposits placed in 2008). The average weighted interest rate on placed interbank Tenge deposits was 6.81% in December 2008 (in December 2007 – 6.94%).

Deposits taken by the National Bank from the banks in 2008 increased by 46.6% and amounted to KZT 6.1 trillion.

In 2008 placed deposits in US Dollar amounted to US\$ 475.2 billion with a double increase over a year (65.7% of the total deposits placed in 2008). The average weighted interest rate on placed Dollar deposits was 0.53% in December 2008 whereas in December 2007 it was 4.59%.

Placed deposits in Euro more than doubled against 2007 level and amounted to Euro 118.5 billion (24.0% of the total amount of placed deposits in 2008). The average weighted interest rate on placed Euro deposits decreased from 3.82% in December 2007 to 2.20% in December 2008.

The placements in Ruble deposits remain insignificant – less than 1% of the total deposits placed.

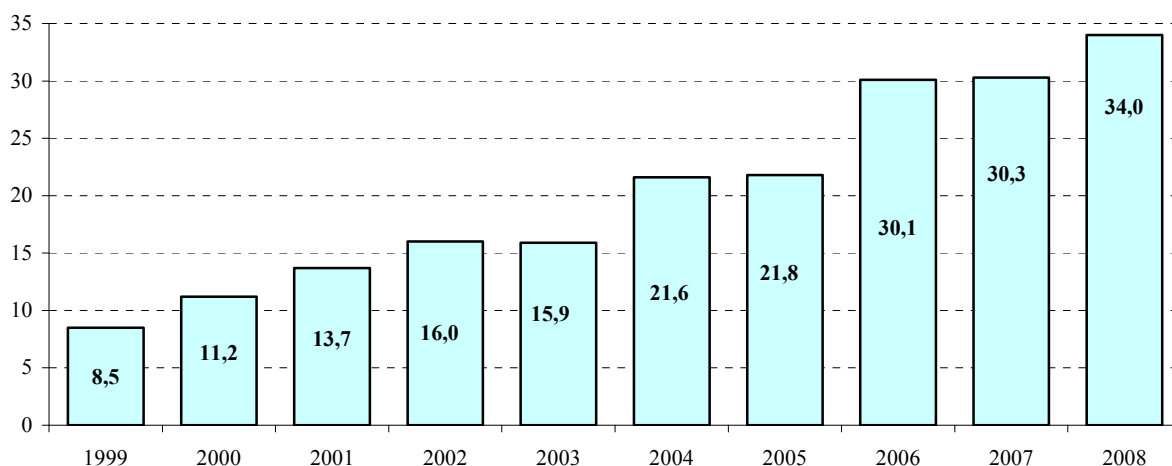
As a whole, the share of interbank deposits in foreign currency remains high – 91.1% of the total deposits placed. However, the major portion of foreign currency deposits (87.1%) is placed with non-resident banks.

4.3. Deposit Market

In 2008 the deposit market demonstrated growth. Thus, in 2008 deposits of residents with the depository institutions increased by 39.0% to KZT 5 408.6 billion (foreign currency equivalent – US\$ 44.8 billion) (Figure 4.3.1).

Figure 4.3.1
as % of GDP

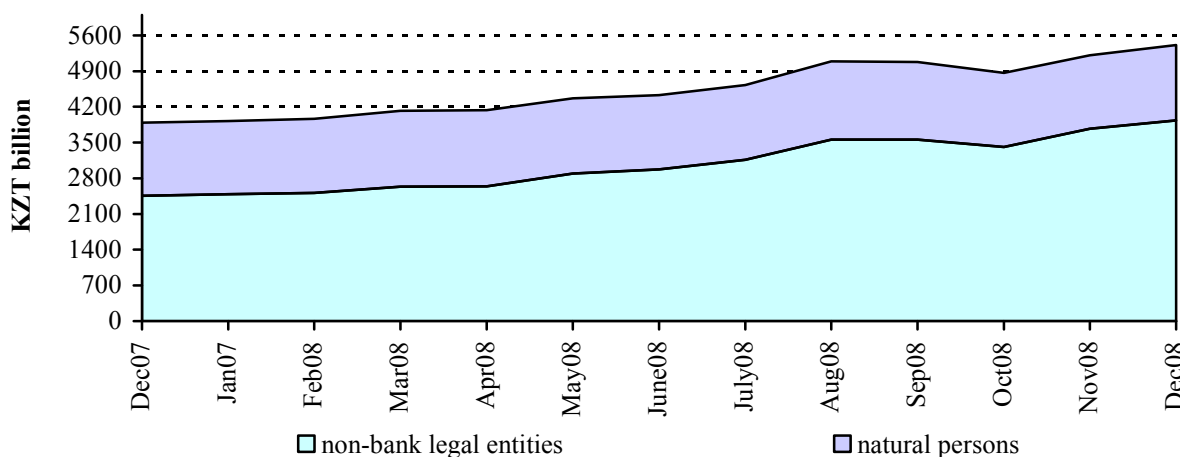
Trends in the Deposits of Residents with Depository Institutions



In 2008 there was active growth in the corporate deposits and insignificant growth in the deposits of natural persons: corporate deposits increased by 60.1% amounting to KZT 3 935.6 billion while deposits of natural persons grew up by 2.8% to KZT 1 473 billion (Figure 4.3.2).

Figure 4.3.2

Trends in Deposits of Non-Bank Legal Entities and Natural Persons



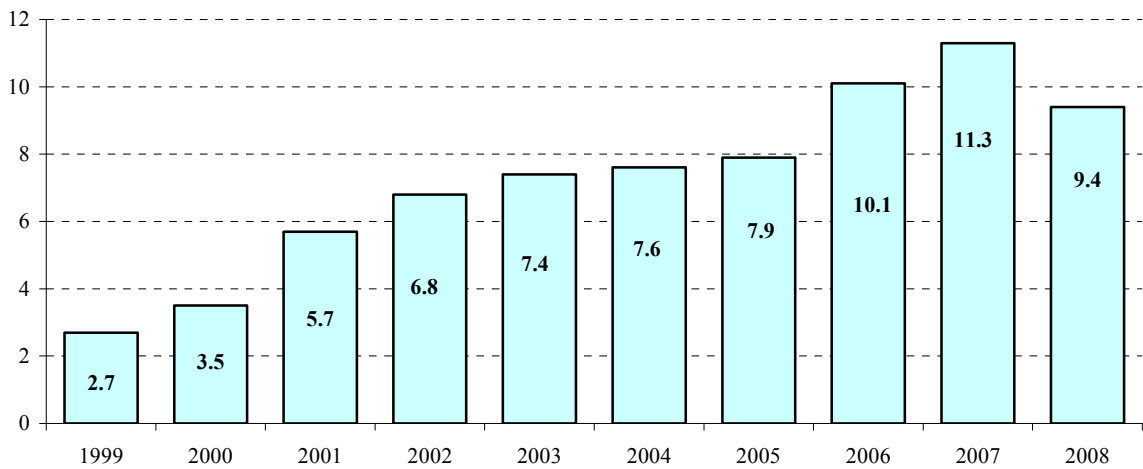
In 2008 in the deposit mix deposits in foreign currency outgrew deposits in the domestic currency. So, foreign currency deposits grew up by 54.0% to KZT 1,916.8 billion while deposits in the domestic currency grew up by 32.0% to KZT 3,491.8 billion. As a result, the percentage of Tenge deposits within total deposits decreased from 68.0% to 64.6% (Annex 1 to Section IV Subsection 4.3, Fig. 4.3.1).

During 2008 the growth rate of retail deposits (including non-residents) with banks slowed down. The average monthly growth of deposits in 2008 was KZT 4.3 billion versus KZT 34.5 billion in 2007. Therefore, in 2008 retail deposits grew up by 3.6% to KZT 1,500.0 billion (in 2007 the growth was 40%) (Figure 4.3.3).

Figure 4.3.3

Trends in Retail Deposits (including non-residents)

as % of GDP



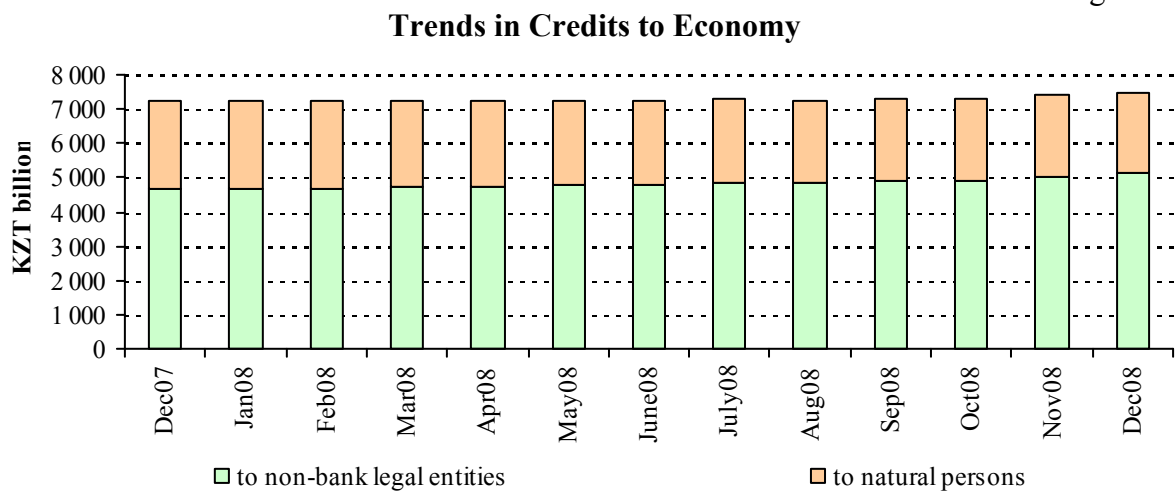
Within the deposit mix there was a growth in foreign currency deposits and a decrease in the number of the domestic currency deposits. Retail deposits in foreign currencies increased by 15.3% over the year, and deposits in the domestic currency decreased by 3.5%. This resulted in the decrease of the percentage of the Tenge-denominated retail deposits from 62.4% to 58.1%.

In 2008 the average weighted interest rate on time Tenge deposits of natural persons decreased from 11.5% to 11.3%, in foreign currency – from 9.5% to 9.3% (Annex 1 to Section IV Subsection 4.3, Fig. 4.3.2).

4.4. Credit Market

Because of aggravation of the global financial crisis in 2008 the credit market was in stagnation (Figure 4.4.1).

Figure 4.4.1



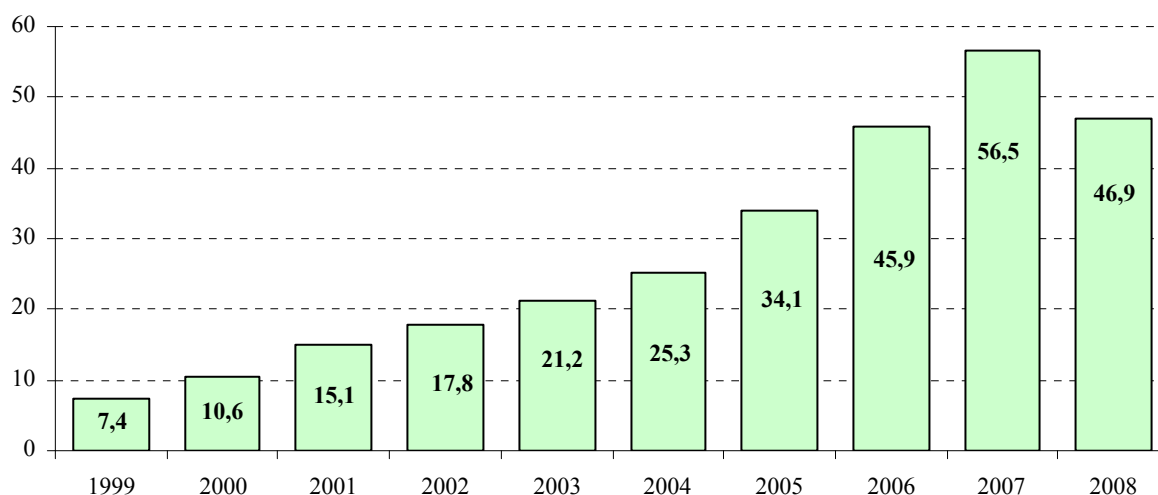
Over 2008 credits to economy grew up by 2.7% to KZT 7 454.1 billion (US\$ 61.7 billion). The ratio of bank credits to economy/GDP in 2008 against 2007 decreased from 56.5% to 46.9% (Figure 4.4.2).

Foreign currency loans outgrew loans in the domestic currency. Foreign currency loans in 2008 increased by 6.2% to KZT 3 291.9 billion (US\$ 27.3 billion), loans in the domestic currency – by 0.1% to KZT 4 162.2 billion. As a result, the percentage of Tenge loans decreased from 57.3% to 55.8% in 2008.

Figure 4.4.2

Trends in Credits

as % of GDP



In 2008 long-term loans increased by 2.3% to KZT 5,933.5 billion, short-term credits – by 4.3% to KZT 1,520.6 billion. The percentage of long-term loans decreased from 79.9% to 79.6% (Annex 1 to Section IV Subsection 4.4, Fig. 4.4.1).

In 2008 the ratio of loans to enterprises of the real sector to GDP decreased as against 2007 from 36.4% to 32.2%, personal loans to GDP decreased from 20.1% to 14.7% (Annex 1 to Section IV Subsection 4.4, Fig. 4.4.2).

In 2008 consumer loans decreased by 11.9% to KZT 1,063.7 billion, mortgage loans – by 4.7% to KZT 650.6 billion.

Over 2008 loans to small businesses increased by 4.3% to KZT 1,570.7 billion or 21.1% of total credits to economy.

The average weighted interest rate on personal loans in the domestic currency decreased 19.3% to 18.8% in December 2008 as compared to December 2007, and the rate on corporate loans increased from 14.8% to 16.1% (Annex 1 to Section IV Subsection 4.4, Fig. 4.4.3)

4.5. Government Securities Market

As of January 1, 2009 government securities of the Ministry of Finance denominated in the domestic currency amounted to KZT 816.0 billion at a discounted price increasing by 60.5% versus January 1, 2008, including:

Table 4.5.1

| Type of Government Securities | Amount, in KZT million |
|-------------------------------|------------------------|
| MKKM-6 | 31 380.28 |
| MKKM-9 | 41 965.07 |
| MKKM-12 | 100 709.84 |
| MEOKAM-24 | 65 422.66 |
| MEOKAM-36 | 67 786.67 |
| MEOKAM-48 | 20 861.75 |
| MEOKAM-60 | 42 027.06 |
| MEOKAM-72 | 49 808.60 |
| MUIKAM-72 | 40 909.00 |
| MEUZHKAM-72 | 24 100.00 |
| MEUKAM-72 | 22 259.00 |
| MEOKAM-84 | 26 956.91 |
| MUIKAM -84 | 12 000.00 |
| MEUKAM -84 | 14 271.43 |
| MEOKAM-96 | 2 834.00 |
| MEUKAM -96 | 21 507.00 |
| MEUZHKAM -96 | 23 600.00 |
| MEOKAM-108 | 3 904.00 |
| MEUZHKAM -108 | 26 000.00 |
| MEOKAM-120 | 4 173.58 |
| MEUKAM -120 | 25 980.43 |
| MEUZHKAM -120 | 75 985.71 |
| MEUZHKAM -168 | 8 500.00 |
| MEUZHKAM -180 | 63 123.00 |

50 auctions on trading government securities of the Ministry of Finance have been conducted over 2008 (Table 4.5.2).

Table 4.5.2

**Primary Distribution of Government Securities
of the Ministry of Finance, According to JSC “Kazakhstan Stock Exchange”**
million Tenge

| Type of Government Securities | Q1 2008 | | Q2 2008 | | Q3 2008 | | Q4 2008 | |
|-------------------------------|----------|------------------|-----------|------------------|-----------|-------------------|-----------|------------------|
| | Q-ty | Amount | Q-ty | Amount | Q-ty | Amount | Q-ty | Amount |
| MKKM-3 | 1 | 15 431.48 | | | | | | |
| MKKM-6 | | | | | 1 | 4 836.32 | 1 | 10 875.40 |
| MKKM-6 | | | | | 1 | 5 807.06 | 1 | 9 861.40 |
| MKKM-9 | | | 1 | 4 882.77 | 1 | 10 737.73 | 1 | 12 108.97 |
| MKKM-9 | | | * | 4 749.98 | | | 1 | 9 485.63 |
| MKKM-12 | 1 | 22 710.18 | 2 | 13 696.10 | 1 | 4 652.60 | 2 | 18 814.00 |
| MKKM-12 | | | * | 12 795.04 | * | 10 429.54 | 2 | 14 982.16 |
| MEOKAM-24 | 1 | 18 466.00 | * | 3 889.00 | 3 | 12 751.26 | | |
| MEOKAM-24 | | | | | * | 20 371.16 | | |
| MEOKAM-36 | | | 1 | 9 000.00 | 2 | 40 071.10 | 1 | 1 120.00 |
| MEOKAM-48 | | | | | | | 2 | 2 633.34 |
| MEOKAM-60 | | | | | | | 2 | 9 740.00 |
| MUIKAM-72 | 1 | 16 405.00 | | | * | 12 700.00 | | |
| MUIKAM -84 | | | 1 | 12 000.00 | | | | |
| MEUKAM-72 | | | | | | | 2 | 22 259.00 |
| MEUKAM -84 | | | 1 | 11 500.00 | | | | |
| MEUZHKAM -96 | 1 | 8 600.00 | | | | | | |
| MEUZHKAM -108 | 1 | 14 000.00 | 1 | 12 000.00 | | | | |
| MEUZHKAM -120 | | | 1 | 13 000.00 | | | 1 | 15 000.00 |
| MEUZHKAM -168 | | | | | | | 1 | 8 500.00 |
| MEUZHKAM -180 | | | | | | | 1 | 12 000.00 |
| Total: | 6 | 95 612.48 | 11 | 97 442.87 | 15 | 125 838.11 | 18 | 147 379.9 |

* - repeated auction

Current sales of short-term notes decreased by 30.7% over 2008 as compared to 2007 and amounted to KZT 2,946.5 billion (in 2007 – KZT 4,252.1 billion). The average weighted yield on the National Bank’s notes issued in 2008 was at 5.91% p.a., having increased versus 2007 (5.04%), with the average weighted maturity of 40.4 days which has reduced versus 2007 (56.84 days). As of January 1, 2009 short-term notes worth KZT 312.3 billion (at a discounted price) were in circulation.

Table 4.5.3

Primary Distribution of the National Bank’s Short-Term Notes

KZT million

| 2007 | | 2008 | |
|--------------|----------|--------------|----------|
| Amount | Yield, % | Amount | Yield, % |
| 4 252 056.06 | 5.09% | 2 946 489.78 | 5.91% |

National Bank’s operations in the secondary market of government securities. During 2008 the sales of the National Bank’s government securities amounted to KZT 8,983.4 million. Purchases amounted to KZT 68,321.9 million with the average weighted yield to maturity of 6.67% p.a. Average weighted maturity was 364 days.

In 2008 the National Bank engaged in transactions on early repurchase of its short-term notes. The amount of notes repurchased over 2008 was KZT 19,951.9 million with the yield to maturity of 11% p.a. for a purchaser (the National Bank’s official refinance rate).

No direct REPO transactions were made during 2008.

Reverse REPO opening transactions for KZT 862.9 billion were conducted, their maturity was 7.0 days, yield – 10.5% p.a.

Table 4.5.4

Reverse REPO transactions of the National Bank

KZT million

| 2007 | | | 2008 | | |
|------------|----------|----------------|------------|----------|----------------|
| Amount | Yield, % | Maturity, days | Amount | Yield, % | Maturity, days |
| 933 233.48 | 9.00 | 7.0 | 862 949.48 | 10.5 | 7.0 |

During 2008 such securities as MEOKAM-60 (KZK2KY050187) for the total amount of KZT 1,200 million were redeemed from the National Bank’s portfolio. The National Bank’s portfolio of government securities amounted to KZT 79,120.2 million at January 1, 2009.

V. PAYMENT SYSTEMS

In 2008 the National Bank’s payment system operations were focused on the regulatory improvements in the area of payments and money transfers, mechanisms of the payment system supervision and modernization in the payment system technical infrastructure.

To ensure that the status of “electronic money” is legally recognized and legal relationship arising in their issue and use for payments are regulated as well as the National Bank’s functions and authority in this area are determined, the Concept of the draft Law of the Republic of Kazakhstan “On Amendments to Certain Legislative Acts of the Republic of Kazakhstan Regarding “Electronic Money” as well as the draft law itself were developed and approved by the Interdepartmental Panel of Draft Law-Making with the Government. Amendments to be made in relation to electronic money concern the Laws of the Republic of Kazakhstan “Of the National Bank of the Republic of Kazakhstan”, «Of Banks and Banking Activity in the Republic of Kazakhstan”, and “On Payments and Money Transfers”.

To enhance operational reliability and production efficiency of the payments systems, the National Bank and the payment systems operator RGE “Kazakhstan Interbank Settlement Center” in 2008 have started a large-scale effort for modernization and strengthening of the technical infrastructure of the national payment systems and preparation for the payment systems migration to a new hardware and software platform.

As part of the effort to ensure timely and phased out transition to the use of a new bank account number structure as approved by the Resolution of the National Bank’s Management Board of October 24, 2007 No.123, in 2008 expedient efforts were made to arrange and coordinate the activities of all market players (banks and institutions performing certain types of banking operations), the payment systems operator – RGE “Kazakhstan Interbank Settlement Center” and stakeholders among the government authorities of the Republic of Kazakhstan for implementation of transition efforts.

To ensure the use of the Kazakh language while effecting payments and money transfers, on December 1, 2008 the payment systems of Kazakhstan had transited to the new code system with the Kazakh characters based on the standard ST RK 1048-2002 (the State Standard of the Republic of Kazakhstan ST RK 1048-2002 “Information Technology. 8-Bit Codified Table of the Kazakh Alphabet”).

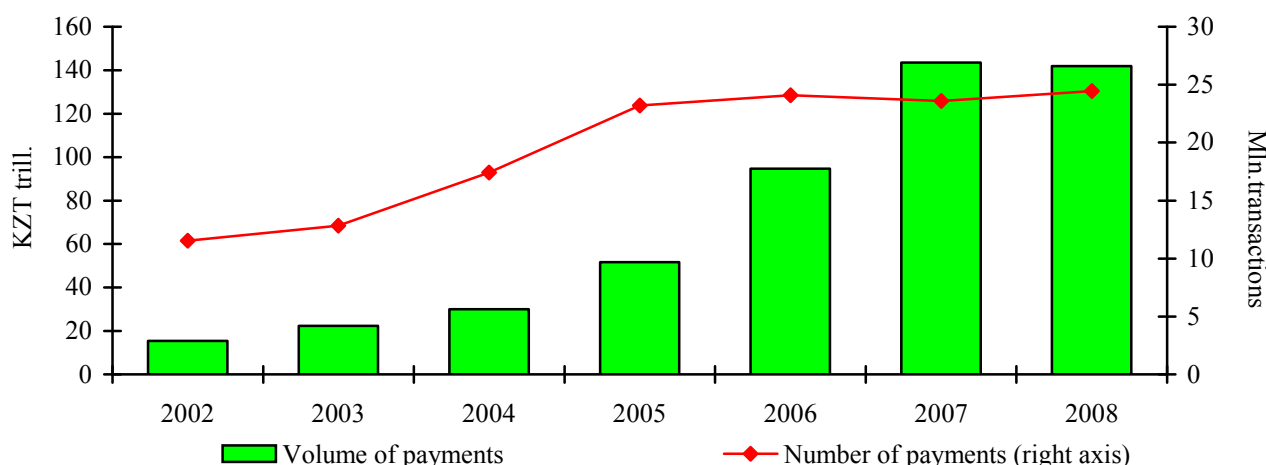
As part of its international cooperation, in the reporting period the National Bank participated in the meeting of the CIS central banks with international financial organizations that took place in the head-quarters of the Bank for International Settlements (Basel, Switzerland) as part of the CIS-countries initiative on payment and clearing systems. A joint decision was made at the meeting to establish the Working Group on Payment Systems of the CIS central banks. The National Bank of the Republic of Kazakhstan was unanimously elected as the Chair and the RGE “Kazakhstan Interbank Settlement Center” – as the Secretariat.

In September 2008 the international forum “Global Payments Week - 2008” organized by the World Bank took place, as well as the meeting of the Working Group on Payment Systems of the CIS central banks that was presided by the National Bank of the Republic of Kazakhstan. At the meeting a number of decisions were made regarding information sharing on the regulations in the area of payments and money transfers in the CIS countries and regarding the buildup of the system of parameters (indicators) to evaluate the efficiency and reliability of the payment systems operation.

On the whole, in 2008 24.4 million transactions were effected through the payment systems of Kazakhstan (Figure 5.1.) amounting to KZT 141.9 trillion (or US\$ 1,179.2 billion). As compared to 2007, the number of payments in the payment systems increased by 3.6% (by 844,200 transactions) while the volume of payments reduced by 1.1% (by KZT 1,601.1 billion).

Figure 5.1.

Behavior of Payment Flows in the Payment System of Kazakhstan



5.1. Interbank System of Money Transfer (ISMT)

As of January 1, 2009 51⁴ users were registered in ISMT, including 36 banks and JSC Kazakhstan Development Bank, Treasury Committee of the Ministry of Finance, Interstate Bank and Eurasian Development Bank, the National Bank and the Custodian Bank of the State Accumulation Pension Fund (Division of Monetary Operations Accounting of the National Bank), State Center for Pension Payments (3 accounts – for pension payments, social charges and social payments) and 6 institutions performing certain types of banking operations.

All in all in 2008 9.6 million transactions were effected through the ISMT amounting to KZT 139.6 trillion (or US\$ 1 160.1 billion). Compared to 2007, the number of payments increased by 12.8% (by 1 087,200,000 transactions), and the amount of payments decreased by

⁴ The KISC site comprises 50 users + CH of KISC.

1.1% (by KZT 1 590.0 billion). An average amount of one payment instrument in the ISMT in 2008 was KZT 14.5 million going down by 12.3% (by KZT 2.0 million).

On average 38 500 transactions passed through the ISMT every day amounting to KZT 560.5 billion, exceeding the 2007 level in terms of the number of transactions by 4 500 transactions (13.2%) and going down in terms of the amount – by KZT 4.1 billion (by 0.7%).

In 2008 the average daily amount of liquidity in the system (the amount of money transferred by the users to the system for payments and money transfers) was KZT 531.9 billion, thus going down compared 2007 by 8.3%. The average daily money turnover ratio⁵ (MTR) in the ISMT was 1.1. Money liquidity ratio⁶ (MLR) was 1.0 for the system on average.

Due to the main function of the ISMT to ensure settlements in the real-time mode, the users mainly direct large-value and urgent payments on financial sector transactions to the system. Thus, in 2008 mainly payments on transactions in securities of residents of Kazakhstan (29.4% of the total amount of transactions in the ISMT), foreign currency and precious metals transactions (21.5%, respectively) were channeled through the ISMT as well as on transactions with the interbank deposits and transfers of own funds of banks and their customers (24.7%).

The reduced amounts of payments in the ISMT was caused to a great extent by the reduced volumes of payments on transactions in securities of residents of Kazakhstan by 15.0% and foreign currency and precious metals transactions by 11.1%. In 2008 the payments for goods and services made 11.0% of total payments in the system and the increment of those payments versus 2007 was 8.0%, payments to the budget and payouts from the budget were 6.0% respectively, the increment of these payments – 54.5%.

98.4% of the total non-cash payments passed through the RGE “Kazakhstan Interbank Settlements Center” were processed through the ISMT in 2008 and 39.3% of their total number thus proving the ISMT’s designation for largest in value and top-priority payments.

5.2. Interbank Clearing System

As of January 1, 2009 the Interbank Clearing System comprised 36 users, 29 of which are banks, Treasury Committee of the Ministry of Finance, the National Bank, and the Custodian Bank of the State Accumulation Pension Fund (Division of Monetary Operations Accounting of the National Bank), State Center for Pension Payments (3 accounts – for pension payments, social charges and social payments) and JSC KazPost.

Within the Interbank Clearing System payments are made on the net basis and mainly retail payments in small amounts are directed to the system thus ensuring that over a half of all non-cash payments effected in the country pass through the system. So, in 2008 60.7% of all non-cash payments and 1.6% of the total volume were processed through this system.

In 2008 14.8 million payment instruments worth KZT 2 294.8 billion (or US\$ 19.1 billion) were passed through the Interbank Clearing System. Compared to 2007, the number of payment instruments in the clearing system decreased by 1.6% (by 243,000 instruments), and the amount of payment reduced by 0.5% (by KZT 11.1 billion). In 2008 an average amount of one payment instrument in the Interbank Clearing System was KZT 154,600 thus having increased versus 2007 by 1.1% (by KZT 1 800).

On average on a daily basis, in 2008 59 600 payment instruments of KZT 9.2 billion were passed through the clearing system. Compared to 2007, the number of payments reduced by 733.5 transactions (by 1.2%) and the amount decreased by KZT 7.5 million (by 0,1%).

The money turnover ratio (MTR) is used in the Interbank clearing system to analyze money turnover. Thus, in 2008 the average daily MTR was 4.9 thus representing high money turnover in the

⁵ Money turnover ratio is equal to the ratio of debit turnover in the ISMT in the system liquidity.

⁶ Cash liquidity ratio is equal to the ratio of the system liquidity (beginning balances of all users) to the sum of the debits turnover in the ISMT and unused (withdrawn) payments in the ISMT.

system. However, the percentage of the amount of net position of users in the clearing in relation to the amount of average daily turnovers of users in the ISMT for 2008 is insignificant – 0.5% thus reducing the possibility of liquidity risk and systemic risk occurrence in the system.

In 2008 the largest portion of payments passed through the system represented payments of economic entities in settlement for goods and intangible assets (percentage in the total payments in the system was 29.0%), provided services (percentage – 25.8%) as well as payments to the budget (tax payments and other mandatory payments to the budget) and payments from the budget (percentage - 27.9%). On aggregate, payments in settlement for goods and intangible assets reduced by 3.7%, payments to and from the budget – by 2.1%, at the same time payments for provided services increased by 1.9%.

5.3. Payment Instruments

In 2008 the banks and JSC KazPost (Table 5.3.1) performed 148.4 million transactions for KZT 109,875.7 billion (or US\$ 913.3 billion).

Table 5.3.1

Information on the Use of Payment Instruments

(in '000 transactions and KZT billion)

| Payment Instrument | | 2007 | | 2008 | | Change (%) |
|-----------------------------------|---------------|------------------|---------------|------------------|---------------|--------------|
| | | Abs. | as of % total | Abs. | as of % total | |
| Payment instructions ⁷ | Number | 35 239.8 | 26.6% | 36 355.9 | 24.5% | 3.2% |
| | Amount | 84 022.5 | 95.5% | 104 552.5 | 95.2% | 24.4% |
| Payment orders-instructions | Number | 230.4 | 0.2% | 475.5 | 0.3% | в 2.1 раз |
| | Amount | 132.6 | 0.2% | 269.9 | 0.2% | в 2.0 раза |
| Collection orders | Number | 492.0 | 0.4% | 783.6 | 0.5% | 59.3% |
| | Amount | 187.4 | 0.2% | 238.4 | 0.2% | 27.2% |
| Payment cards | Number | 86 847.4 | 65.7% | 102 875.6 | 69.3% | 18.5% |
| | Amount | 1 852.5 | 2.1% | 2 316.7 | 2.1% | 25.1% |
| Other instruments ⁸ | Number | 9 430.5 | 7.1% | 7 863.9 | 5.3% | -16.6% |
| | Amount | 1 810.3 | 2.1% | 2 498.3 | 2.3% | 38.0% |
| The bottom line | Number | 132 240.1 | 100.0% | 148 354.5 | 100.0% | 12.2% |
| | Amount | 88 005.2 | 100.0% | 109 875.7 | 100.0% | 24.9% |

As compared to 2007, the number of used payment instruments increased by 16.1 million transactions (by 12.0%), and their amount – by KZT 21.9 trillion (by 24.8%).

The growth in the number of payments is caused by the increase in the amount of payments with the use of payment instructions by KZT 20.5 trillion (by 24.4%). The average amount of one payment instruction increased versus 2007 by 20.6% and made up KZT 2.9 million for 2008. The total increase in the number of payments is mainly characterized by the increase in a number of transactions with the use of plastic cards by 16.0 million transactions (by 18.5%), as well as the number of transaction with the use of payment instructions by 1,1 million transactions (by 3.2%).

⁷ Including payment instruction of bank customers and KazPost's customers as well as payment instructions of banks and JSC KazPost on their own operations.

⁸ Other payment instruments include checks for settlement of goods and services, exercised letters of credit and direct bank account debiting.

The structure of non-cash payments hasn't changed significantly versus prior period in terms of types of payment instructions used. The most common within Kazakhstan still are payment instructions (24.5% of the total number of non-cash payments with the use of the above payment instruments) and payment cards (69.3%, respectively).

The biggest amount of payments is conducted by using payment instructions (95.2% of the total amount of non-cash payments with the use of the above payment instruments). The amount of payments with the use of payment cards comprises 2.1% of the total amount of non-cash payments. A high percentage of payment cards in terms of the number of payments and low percentage in terms of the payment amounts is characterized by the use of this payment instrument mainly for small cash withdrawals (in 2008 an average amount of one transaction for cash withdrawal was KZT 23,300). However, an average amount of one non-cash payment for goods and services with the use of payment cards was KZT 18,600 in 2008 thus having increased by 9.4% compared to 2007.

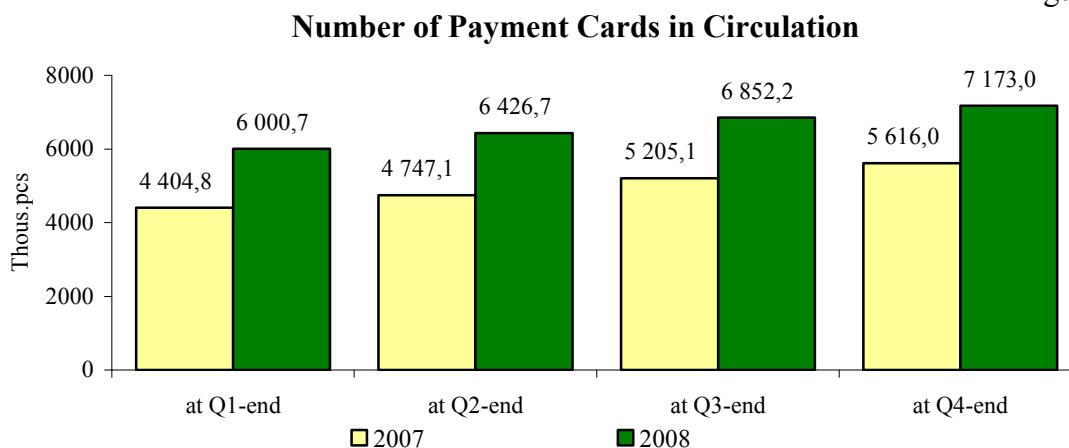
The portion of payment orders-instructions used is not significant (0.3% in terms of their number and 0.2% - in terms of payments), collection orders (0.5% in terms of number and 0.2% in terms of the amount of payments) and other instruments (5.3% in terms of their number and 2.3% - in terms of the amount of payments).

Payment cards. The Kazakh market of payment cards being one of prospective lines in the development of the country's financial sector is functioning efficiently and is successfully developing. At present the market is represented by a wide range of services and offers a considerable number of various payment card plans. In Kazakhstan currently 2 persons have on average one payment card while as of January 1, 2008 3 persons had one card, on average.

Payment cards are issued by 19 banks of the Republic of Kazakhstan and JSC KazPost. At the same time, the payment card market provides to the general public such international payment cards as VISA International, Europay International, American Express International, Diners Club International and China Union Pay. There are also some local projects such as cards of the following systems: Altyn Card, SmartAlemCard, TemirCard and local cards of JSC Tsesnabank or JSC Citibank Kazakhstan.

The overall number of payment cards in circulation amounted to 7.17 million pieces at January 1, 2009 thus exceeding the level of the relevant period of 2008 by 27.7% (Figure 5.3.1). The number of the card holders increased by 24.5% and amounted to 6.6 million people at January 1, 2009. Still, the cards most popular in the country are the cards issued by the international payment systems such as Visa International and Europay International representing 97.5% of the total number of cards in circulation. Currently 32.9% of the people in Kazakhstan use Visa International cards. Among the local cards the most common are those of the Altyn Card system (percentage of the total number of cards in circulation – 1.6%).

Figure 5.3.1.

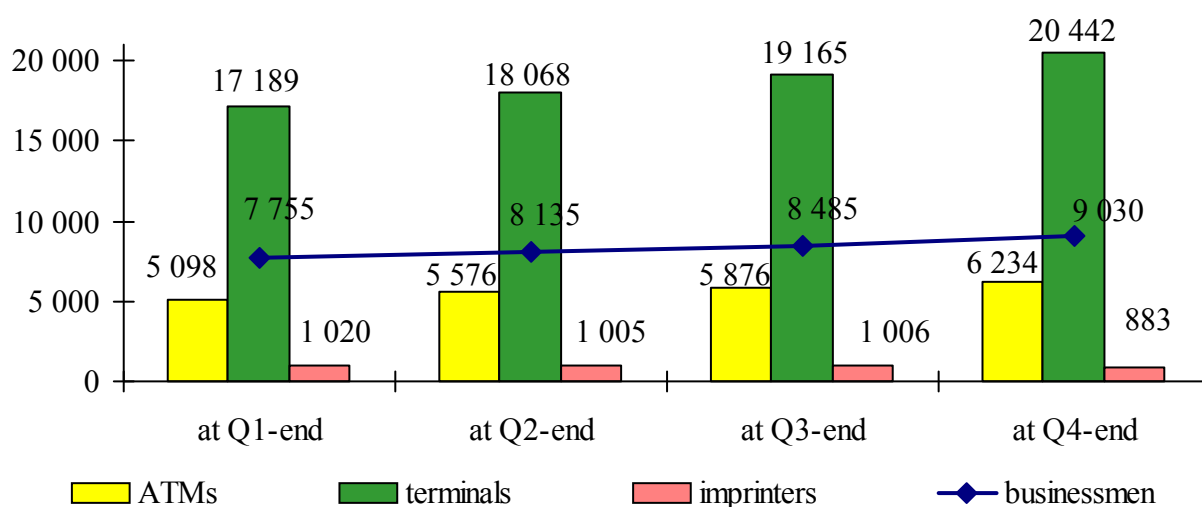


At January 1, 2009, 9 030 trade enterprises were in operation in Kazakhstan that accepted payment cards, thus exceeding their number recorded at January 1, 2008 by 22.2% (by 1,639 units.). Alongside with that the businesses placed the equipment for payment for goods and services with payment cards in 13,417 sales outlets (growth by 22.1% or by 2,430 units, respectively).

The service network of payment cards in Kazakhstan is represented as followed: 20,442 trade terminals, 6,234 ATMs and 883 imprinters. As compared to 2007, there is the growth in the number of trade terminals by 24.6% (by 4,030 units), ATMS - by 42.9% (by 1,870 units) and the decrease in the number of imprinters by 14.5% (by 150 units) that is explained by the removal of outdated imprinters (Figure 5.3.2).

Figure 5.3.2.

Trends in the Change of a Number of Enterprises and Payment Card Equipment in 2008



In 2008 transactions with the use of payment cards issued by the Kazakh entities and effected within Kazakhstan and abroad made up 102.9 million transactions for KZT 2.3 trillion (or US\$ 19.3 billion). Versus 2007, the number of transactions increased by 18.5% (by 16.0 million transactions), and the amount – by 25.1% (by KZT 464.3 billion).

The cash withdrawals with the use of cards issued by the Kazakh entities amounted to 86.0 million transactions for KZT 2.0 trillion (83.6% of the total number and 86.5% of the total payment amount). Non-cash payments for goods and services with the payment cards issued by the Kazakh entities in 2008 amounted to 16.9 million transactions for KZT 313.8 billion (16.4% of the total number and 13.5% of the total payment amount). Despite the tendency for using payment cards within Kazakhstan merely for cash withdrawals, there is a positive trend in the development of non-cash payments, namely the advancing growth in the number and amounts of non-cash payments by 34.7% and 47.4%, respectively as compared to the growth in the number and amounts of cash withdrawal transactions – 15.7% and 22.2%.

VI. REGULATORY ACTIVITIES

In 2008 the National Bank prepared a draft Law “On Amendments to Some Legislative Acts of the Republic of Kazakhstan Regarding the Improvement of the Laws of the Republic of Kazakhstan on Payments and Money Transfers, in Accounting and Financial Reporting of Financial Entities and the Activity of the National Bank of the Republic of Kazakhstan”. This draft law is focused on regulating the activities, functions and authority of the National Bank, other government authorities and financial entities and improving the financial and banking legislation in the area of payments systems as well as clarification of the procedure and the terms

and conditions of payments and money transfers, determining priority in which the orders of competent governments authorities entitled to suspend bank transactions on the client bank accounts are executed as well as the resolutions of competent government authorities or officials entitled to seizures of the client's monies kept with his/her bank accounts.

In addition, with a view to further liberalize the currency regulation, significantly simplify procedures under the currency regulation regimes and for repatriation of the domestic and foreign currencies, a draft Law "the Currency Regulation and Control" was developed.

As of the year-end of 2008 both draft laws are under the review of the Parliament's Majilis.

Also, in order to improve the structure and optimize the public service positions in the National Bank, fine-tune the Concept of design of the domestic currency in banknotes and coins – the Kazakh Tenge, with a view of providing conditions for the operations within the territory of Baikonur of the legal entities established pursuant to the laws of the Republic of Kazakhstan, whose sole type of operations is to conducted foreign exchange transactions, three Presidential edicts have been developed and passed:

«On Amendments to the Presidential Edict of the Republic of Kazakhstan of December 31, 2003 No.1271»;

«On Amendments to the Presidential Edict of the Republic of Kazakhstan of September 25, 2003 No.1193»;

«On signing the Protocol of Amendments to the Agreement Between the Republic of Kazakhstan and the Russian Federation Regarding the Status of Baikonur, the procedure for establishing its executive authorities and its status of December 23, 1995».

24 regulations of the National Bank have been registered with the Ministry of Justice regarding:

- the use of the market exchange rate in the financial entities and special purpose financial vehicles for the purposes of financial statements;
- provision of electronic banking services by the banks and institutions performing certain types of banking operations;
- opening, keeping and closing the bank accounts of clients with the banks of the Republic of Kazakhstan;
- financial statements presentation, timing of their publications;
- investment operations by the National Fund;
- issue, offering, circulation and redemption of the National Bank's short-term notes;
- standard Chart of Accounts: for individual entities in the financial market; in the banks and mortgage companies; with account details for the General ledger of the banks and mortgage companies;
- accounting by special purpose financial vehicles, individual entities in the financial market, as well as of operations with pension assets conducted by accumulation pension funds of the Republic of Kazakhstan, insurance and re-insurance operations in general insurance and life insurance industries;
- establishing correspondent relations between the National Bank and banks as well as institutions performing certain types of banking operations;
- requirements to the organizational measures and hardware and software that ensure access of banks and institutions performing certain types of banking operations to the payment systems of the Republican Government Enterprise "Kazakhstan Interbank Settlements Center" of the National Bank of the Republic of Kazakhstan»;
- money transfer within the interbank system of money transfer;
- licensing of retail trading and provision of services against foreign exchange in the Republic of Kazakhstan.

In addition, in 2008 the National Bank have conducted a legal expert review of 317 drafts of Codes, Laws and Presidential Edicts that were submitted for approval by Ministries and agencies of the Republic of Kazakhstan, including active efforts in reviewing the drafts of the Budget, Tax and Administrative Codes of the Republic of Kazakhstan, the draft law «On Amendments to the Law of the Republic of Kazakhstan «On the Public Procurements », as well as Government Decrees, Orders of the prime-Minister of the Republic of Kazakhstan, administrative and other regulations developed by other ministries or agencies of the Republic of Kazakhstan, and 56 drafts of international treaties and other documents in the sphere of international cooperation forwarded for approval with the government authorities as well as the Secretariat of the Eurasian Economic Community.

In order to restrict speculative demand in the domestic foreign currency market and present the threat to economic security of the Republic of Kazakhstan, the Resolution of the National Bank's Management Board was prepared as dated February 11, 2008 No.4 «On Approval of the Procedures for Foreign Exchange Purchase and Sale in the Republic of Kazakhstan and Money Transfers from the Republic of Kazakhstan Without Opening a Bank Account». However, due to the reduced level of risk for destabilization of situation in the foreign exchange market of the Republic of Kazakhstan from conversion transactions of legal entities as well as money transfers by natural persons from the Republic of Kazakhstan without opening a bank account – the Resolution of the National Bank's Management Board was adopted on April 14, 2008 No. 27 «On Cancellation of the Resolution of the National Bank's Management Board as dated February 11, 2008 No.4 «On Approval of the Procedures for Foreign Exchange Purchase and Sale in the Republic of Kazakhstan and Money Transfers from the Republic of Kazakhstan Without Opening a Bank Account».

In addition, the draft regulations were developed adopted as part of the special foreign currency regime introduced by the Act of the Leader of the State in case of the threat to the country's economic stability and the stability of its financial system. The said measures for stabilization of situation in the domestic foreign currency market have been included in the Anti-Crisis Package of the Government and if their introduction is necessary it would require prompt efforts made with the National Bank's departments as well as with the Presidential Administration and other government authorities.

Also, the National Bank was involved in the review and approval of the following regulations:

- the draft Law “On Amendments to Certain Legislative Acts of the Republic of Kazakhstan Related to Establishing and Operations of Islamic Banks and Instituting Islamic Financing”;
- the draft Law “On Counter-Acting the Legalization (Laundering) of Illicit Earnings and Terrorism Financing”;
- the draft Law “ On Amendments to Certain Legislative Acts of the Republic of Kazakhstan on Counter-Acting the Corruption”;
- the draft Law “ On Amendments to Certain Legislative Acts on Licensing”;
- the draft Law “ On Amendments to Certain Legislative Acts of the Republic of Kazakhstan on Counter-Acting the Terrorism”;
- the draft Law “ On Amendments to Certain Legislative Acts of the Republic of Kazakhstan on the Financial System Stability”;
- the draft Law “ On Amendments to Certain Legislative Acts of the Republic of Kazakhstan Related to the Prevention of Pseudo-Entrepreneurship”;
- the draft Law “ On Amendments to Certain Legislative Acts of the Republic of Kazakhstan on the Customs Affairs”;
- the draft Law “ On Amendments to Certain Legislative Acts of the Republic of Kazakhstan Related to the Protection of the Intellectual Property Rights”;

- the draft Presidential Edict “On Signing the Protocol of Amendments to the Agreement Between the Republic of Kazakhstan and the Russian Federation Regarding the Status of Baikonur”;
- the draft Code “On Taxes and Other Mandatory payments to the Budget”;
- the draft Law “On the Introduction of the Code of the Republic of Kazakhstan “On Taxes and Other Mandatory payments to the Budget”;
- the draft Law “On Amendments to Certain Legislative Acts of the Republic of Kazakhstan Related to Taxation”;
- the draft Concept for the Improvements in the Authorization System Providing for the Mitigation of the Administrative Burden on the Business and Simplification of the Authorization System, Primarily the Licensing, Certification, and Accreditation”;
- the draft Law “On Amendments to Certain Legislative Acts of the Republic of Kazakhstan Related to the Mitigation of Administrative Restrictions in the Republic of Kazakhstan”;
- the draft Order of the General Prosecutor “On Approval of the Statistical Report of the 1AД Format “On the Outcomes of Consideration of the Administrative Violations by the Authorized Bodies”;
- the draft Order of the Minister of Finance “On Approval of the Form of Opinion on Foreign Currency Proceeds” Developed Pursuant to the New Tax Code of the Republic of Kazakhstan;
- the draft Concept for the Customs Code of the Republic of Kazakhstan, and others.

The following Resolutions of the National Bank’s Management Board have been adopted: “On Amendments to the Resolution of the Management Board of the National Bank of the Republic of Kazakhstan of August 17, 2006 No.86 “On Approval of the Export and Import Currency Controls in the Republic of Kazakhstan”, “On Amendments to the Resolution of the Management Board of the National Bank of the Republic of Kazakhstan of September 15, 2005 “On Approval of the Licensing Procedures for the Retail Trade and Services Delivery Against Foreign Cash in the Republic of Kazakhstan”, “On Amendments to the Resolution of the Management Board of the National Bank of the Republic of Kazakhstan of October 27, 2006 No.106 “On Approval of the Regulation for Exchange Transactions with Foreign Cash in the Republic of Kazakhstan”.

VII. INTERNATIONAL COOPERATION AND PUBLIC AWARENESS EFFORTS OF THE NATIONAL BANK

7.1 International Cooperation

Cooperation with Far Abroad Countries. In July 2008 the regular Fourth Meeting of the Sino-Kazakhstan Financial Cooperation Subcommittee was held in the city of Rizhao, the People’s Republic of China. During the Subcommittee meeting the parties discussed the issues of mutual financial cooperation and determined the main directions for further perspective development of relationship between the financial communities of China and Kazakhstan. In particular, the following most important issues were considered and discussed: current situation in the financial and economic spheres of Kazakhstan and China; cooperation between Kazakhstani and Chinese banks in the cross-border trade zone; implementation of the Agreement between the People’s Bank of China and the National Bank concerning the inter-bank settlements in the cross-border trade; operations of the Credit Bureaus and possibility of information exchange between the People’s Republic of China and Republic of Kazakhstan, etc.

In September 2008 the National Bank's representatives took part in the Jubilee Twentieth Meeting of the Central Bank Governors' Club of the Central Asia, Black Sea Region and Balkan Countries.

During 2008 the National Bank was actively involved in elaboration of a mechanism for establishment and operations of the SCO Development Fund. In June 2008, the regular meeting of the Expert Working Group for establishment of SCO Development Fund was held in Beijing at the level of the Commission of Senior Officials of the SCO member states. In the course of the meeting the parties discussed and agreed a consolidated draft of the Proposals concerning the Main Principles of Establishment and Operations of the SCO Development Fund submitted by the Kazakhstani party. The issue of the establishment of the SCO Development Fund was also discussed during the meeting of the Commission of Senior Officials of the SCO member states (September 2008) and meeting of the Ministers of the SCO member states in charge of foreign economic and foreign trade activities (September 2008).

During the reporting period the National Bank's top management made 21 visits to the near abroad and far abroad countries. The National Bank regularly organizes protocol events related to reception of foreign delegations: 66 meetings were prepared and held in the National Bank's office during 2008.

Cooperation with the International Rating Agencies. During 2008 there were organized visits of Standard&Poor's, Moody's Investors Service and Fitch Ratings international rating agencies. In the course of visits there were held meetings of the analysts with the management of the National Bank, Agency for Regulation and Supervision of the Financial Market and Financial Organizations, Agency for Regulation of Operations of Almaty Regional Financial Center, second-tier banks and representative offices of the international financial organizations and companies.

Cooperation with International Financial Organizations. In April 2008 a regular meeting of the Country Group of the European Bank for Reconstruction and Development (EBRD) was held in Almaty and Astana. The Group members are Kazakhstan, Austria, Israel, Malta, Bosnia and Herzegovina and Cyprus. Considered at the meeting were the issues concerning the EBRD operations in the Country Group member states. In this regard the emphasis was made on Kazakhstan. The participants of the meeting included the Governors from the EBRD member states, representatives from EBRD and European Commission, Ministry of Economy and Budget Planning, "National Holding "KazAgro" JSC, "Sustainable Development Fund "Kazyna" JSC, "Kazakhstan Holding for Public Assets Managements "Samruk" JSC and Kazakhstan Investment Fund.

During 2008 the National Bank continued activities as a part of the technical assistance project TP 4431-KAZ of the Asian Development Bank. Two meetings of the working group were held during the reporting period under the Asian Development Bank's technical assistance project. In the course of the meetings there were heard the preliminary and final reports of the internal consultants related to the following components: "Improvement of the Management System of Gold and Foreign Exchange Assets of the National Bank and the National Fund" and "Development of a Macroeconomic Model to Implement the Inflation Targeting Regime".

In July 2008 the National Bank's representatives took part in the meeting of the Group of Coordinators of Technical Cooperation and Education held in Basel (Switzerland) under the aegis of the Bank for International Settlements; at the meeting they delivered a report and made presentation on "Prospects of Cooperation in the Technical Assistance Area".

Also, during the reporting period the National Bank worked on coordination of the draft Memorandum of Understanding between the National Bank and International Monetary Fund with regard to financing of a bank supervision project and Agreement between the National Bank and Agency for the Regulation and Supervision of the Financial Market and Financial Organizations concerning implementation of the Memorandum of Understanding between the

National Bank and International Monetary Fund with regard to financing of a bank supervision project. Said Memorandum was signed on November 7, 2008. The Agreement between the National Bank and Agency for the Regulation and Supervision of the Financial Market and Financial Organizations concerning implementation of the Memorandum of Understanding between the National Bank and International Monetary Fund with regard to financing of a bank supervision project was signed on November 28, 2009.

In accordance with the Resolution of the Board of Governors of the International Monetary Fund of 28 April 2008 “Increase in Quotas of the IMF Member States within the Frameworks of the Thirteenth General Review” the Board of the IMF Governors made decision to increase quotas of the IMF member states. The Republic of Kazakhstan’s quota in the IMF charter capital was increased up to SDR 427,800,000. In this connection, on 23 June 2008 the National Bank’s Board adopted a resolution to take the required measures on this issue.

Cooperation with the CIS Member States. During 2008 the National Bank carried out activities as a part of operations of the Subcommittee for Inter-Bank and Investment Cooperation between the Republic of Kazakhstan and the Russian Federation. In May 2008 a regular meeting of the Subcommittee was held in Pskov (the Russian Federation). Based on the results of the meeting the parties noted that the Russian and Kazakhstani banks had obtained certain results in such areas of cooperation as establishment of correspondent relations, development of documentary business and creation of conditions for growth of mutual investments. It was emphasized that said trends had good prospects for further development.

During 2008 the National Bank kept carrying out the domestic procedures related to signing of the draft Protocol for Making Amendments and Changes to the Agreement between the Republic of Kazakhstan and the Russian Federation concerning the Status of the Town of Baikonur, Procedure of Formation and Status of its Executive Bodies of 22 December 1995. The Edict of the President No.691 “On Signing the Protocol for Making Amendments and Changes to the Agreement between the Republic of Kazakhstan and the Russian Federation concerning the Status of the Town of Baikonur, Procedure of Formation and Status of its Executive Bodies of 22 December 1995” was adopted on 17 November 2008.

During 2008 the National Bank carried out work within the frameworks of EurAsEC Integration Committee, CIS Executive Committee, Interstate Bank and Interstate Foreign Exchange Committee.

For the reporting period the representatives of the National Bank and Agency for the Regulation and Supervision of the Financial Market and Financial Organizations took part in the meeting of experts and 19th session of the Council of Governors of the Central (National) Banks of the EurAsEC member states (September 2008, Minsk). The following issues were discussed during the session: results of analysis of dynamics in the exchanges rates of the national currencies of the EurAaEC member states and operations of the credit bureaus in EurAaEC member states. The National Bank’s representatives delivered a report related to the following point of the Agenda: “On Harmonization of Principles and Mechanisms of Carrying out the Monetary and Foreign Exchange Policy by the EurAsEC Member States”.

During 2008 the National Bank carried out work related to the domestic procedures on appointment of the Republic of Kazakhstan’s authorized representatives to the Interstate Foreign Exchange Committee. The draft Decree of the Government of the RK No.907 “On Appointment of the Authorized Representatives of the Republic of Kazakhstan to the Interstate Foreign Exchange Committee” was adopted in 3 November 2008.

During 2008 the National Bank carried out activities on settlement of debt liabilities between Kazakhstan and Belarus, Moldova, Ukraine, Lithuania and Latvia resultant from the trade and economic relations in 1992-1993. The National Bank’s representatives participated in the meetings of the interstate commissions and experts held between the Republic of Kazakhstan and Belarus (September 2008, Astana); the Republic of Kazakhstan and Moldova (April 2008,

Kishinev); the Republic of Kazakhstan and Ukraine (November 2008, Astana); between the Republic of Kazakhstan and Latvia (May 2008, Astana) and the Republic of Kazakhstan and Lithuania (August 2008, Palanga).

During 2008 in accordance with recommendations of the Interagency Commission for Inventory of the International Treaties of the Republic of Kazakhstan, the National Bank carried out work on invalidation of a number of international agreements in the financial and banking sphere previously signed by the National Bank. In addition, the work was carried out on making amendments and additions to a number of the international agreements.

7.2. Public Awareness Efforts by the National Bank

To inform the general public about the National Bank operations as a public body aimed at achievement of the National Bank's main purpose – to ensure stable prices, and to highlight the National Bank's proposals, initiatives and activities in the area of development and implementation of Kazakhstan monetary policy; ensuring proper functioning of the payments systems; exercise of the foreign exchange regulation and control; promotion of stability of Kazakhstan's financial system and for objective covering of the processes taking place in Kazakhstan's financial sector, the National Bank continued a large-scale work on information and creation of awareness in different mass media (printed editions, on TV, via radio).

The National Bank, within its competence, prepared positive information for the large audiences regarding the tasks set for the National Bank and ways to achieve the aims and implement priorities determined in the strategic plans, Addresses of the Presidents to the people of Kazakhstan and the Government's program as well as information on the specifics of the current economic situation and main directions in the National Bank activities.

In 2008 the National Bank activities on information and creation of awareness were carried out in the following directions.

Publications in the National and Foreign Mass Media. In 2008 the National Bank, in the course of monitoring of coverage of the National Bank activities in mass media, kept track of the following number of information materials where the National Bank, its branches and subsidiaries were mentioned: totally 5,893 news stories in the national (central and regional) and foreign mass media, including: printed editions - 3,350; information agency news – 1,230; electronic mass media – 1,133 and Internet sites – 180.

The national (central and regional) mass media published in the state languages produced 838 news stories with the National Bank mentioning.

During 2008 the National Bank received more than 300 information requests from the national and foreign mass media and provided the exhaustive answers to said requests.

In the process of monitoring of Kazakhstan's mass media that published materials related to the financial sector and banking system of the Republic of Kazakhstan, there were prepared 267 daily reviews "Mass Media on the Activities of the National Bank of the Republic of Kazakhstan» и 267 daily reviews "Mass Media on the Financial System", which make possible to keep track of the information about the National Bank for the purpose of providing the timely response and making appropriate decisions.

Special attention in the National Bank activities on information and creation of awareness is paid to the central political-and-public and business printed media as they are the official source of the information distribution in the Republic of Kazakhstan. For this purpose the National Bank initiated publication of special columns "The National Bank informs, explains and comments" in the state language and Russian language, that were kept publishing in 2008 in the central; political-and-public and business printed media. Using these information floors the National Bank kept explaining to the population the issues related to the main directions in the National Bank operations and functioning of the financial markets.

There were published 2 columns “The National Bank informs, explains and comments” in the state language in “Egemen Kazakhstan” newspaper and 8 columns “The National Bank informs, explains and comments” in the Russian language in “Kazakhstanskaya Pravda” newspaper, in which the general public was explained issues of the monetary policy, foreign exchange regulation, payment systems, National Fund, mortgage lending, gold and foreign exchange reserves, withdrawal and authenticity of banknotes.

In accordance with the resolutions of the Board and orders of the management of the National Bank, the National Bank’s regulations, press releases, announcements about tenders for state purchases were published in the nationwide newspapers “Egemen Kazakhstan”, “Kazakhstanskaya Pravda”, “Zan Gazeti”, “Yuridicheskaya Gazeta” (Legal Newspaper), “Bulleting of State Purchases”. More than 100 announcements were published during the reporting period.

Work with the National TV and Radio channels. In order to explain the ongoing economic reforms and strengthen confidence of the population to the financial system of the Republic of Kazakhstan and highlight the news and trends in the financial and economic markets, the weekly information and analytical program of the National Bank “Territory of Tenge” was kept broadcasting since January 2008 in a new format of a talk-show, oriented at a wide viewing audience.

The program is of information and analytical nature and covers the news and trends in the financial and economic markets. This program covers, on a regular basis, the progress in the financial sector reforms and informs Kazakhstani citizens about the progress in achievement of those purposes that the Head of the State set in the medium term.

The program presents of the entire picture of the synchronous and effective cooperation of the state authorities, the National Bank, Agency for Regulation and Supervision of the Financial Market and Financial Organizations and the Government with regards to the issues of further improvement of the macroeconomic policy.

The main participants, experts and commentators in the TV program “Territory of Tenge” of the National Bank are the National Bank, Agency for Regulation and Supervision of the Financial Market and Financial Organizations, Association of Financiers of Kazakhstan, second tier banks, deputies of the Parliament, representatives from the Government, Administration of the President, official representatives of the state regulators, top managers of the banks, pension funds, insurance companies and securities market players.

For the reporting period the program went on the air 52 times (and repeated on a weekly basis).

At the XI Eurasian TV forum held in Moscow in November 2008, the National Bank’s TV program “Territory of Tenge” was recognized as the best TV project in the category “The Best Eurasian Economic Program”.

To bring information about the protective elements of the national currency banknotes – Tenge - to the general public in the understandable form, the National Bank produced social newsreel in the state language and Russian language. The video materials were broadcasted free of charge on “Khabar” TV and Radio Channel and “Kazakhstan” TV and Radio Channel. Within the period from 16 April to 26 April 2008 the newsreel was broadcasted on “Kazakhstan” TV and Radio Channel and went on air 31 times in the state language and Russian language. On “Khabar” TV and Radio Channel said social newsreel went on air 48 times from 18 April till 29 April 2008 in the state language and Russian language.

In 2008 the top specialists of the National Bank participated as experts in the programs of the TV Project “Operating Money”, which is on air of “Khabar” Agency.

The National Bank’s management took part in the “Economic Kazakhstan” program, which is broadcasted on the regional TV channels under the auspices of “Inter News”

international organization for mass media development and support, where they covered the issues of measures for stabilization of economy of Kazakhstan and inflation.

Cooperation with the Information Agencies and Internet Portals The National Bank continued active cooperation with such information agencies as “Interfax Kazakhstan”, “Kazinform”, “Kazakhstan-Today”, “Reuter”, “Dow Jones Newswires”, “Blumberg”, “AKIpress” and promoted work with internet sites.

For the reporting period the information agencies released 1,230 news stories with mentioning of the National Bank, including: 542 by “Kazinform” Information Agency; “319 – by “Interfax Kazakhstan”; 182 – by “Kazakhstan Today”; 127 – by “AKIpress”; 35 – by Blumberg and 25 by “Dow Jones Newswires”.

Internet sites published 180 news stories, including: 32 – by Nomad; 28 – by Gazeta.kz; 19 – by Regnum; 27 – by Kaztag; 17 – by Wfin.kz; 17 – by KazakhStan; 12 – by Profinance.kz; 11 – by Trend.az; 7 – by Investfunds.kz; 6 – by Zona, and 4 – by GazetaSNG.ru.

The National Bank gave exclusive interviews regarding the information matters and held briefings for said information agencies.

Work with Foreign Mass Media. To form a positive image of the Republic of Kazakhstan abroad and explain the main trends in the monetary policy and condition of the financial sector in Kazakhstan, 4 special columns containing materials about the National Bank activities were published in the “Institutional Investor” magazine.

In the September 2008 issue of the magazine there was published a column with the interview of the National Bank’s Governor “Kazakhstan’s Monetary Policy Amid Global Financial Crisis”. This interview contains full information about Kazakhstan’s monetary policy amid global financial crisis. This issue of the magazine was devoted to the annual meeting of the IMF/World Bank held in September 2008 in Washington. This issue was also included in handouts of the First Investment Forum “Kazakhstan Investment Forum: The Gateway to Investing in Central Asia”, which was held on September 18 in New York and in which the Kazakhstan delegation headed by the National Bank’s Governor took part.

Totally 178 news stories mentioning the National Bank were published in the foreign mass media for 2008.

Based on the results of correspondence with the leading foreign publishing companies there were held interviews and meetings and provided the written responses.

Press Conferences and Briefings for Mass Media. During the reporting period the National Bank arranged 8 press conferences and the National Bank’s management took part in 4 press briefings for mass media.

During the reporting period the National Bank distributed 37 press releases covering such issues as setting of the official refinancing rate; international reserves and monetary base; qualitative parameters of the lending market development; round table devoted to the financial stability issues; approval of the National Bank’s annual report for 2007 and other issues.

Issue of the National Bank’s Printed Publications. To inform the foreign and national public and financial institutions about the monetary policy statistics; the National Bank’s regulations and analytical materials, the National Bank issued the following official periodicals and continued their publishing in 2008: “Kazakhstan Ulttyk Bankinin Khabarshysy”, “Bulletin of the National Bank of Kazakhstan”, “Statistikalyk Byulleten/Statistical Bulletin”, “KR Tolem Balancy”, “Balance of Payments and External debt of the Republic of Kazakhstan”, “Economicalyk Sholu/Economic Review”, “Inflyatsiyaga sholu/Inflation Report, Report on Kazakhstan Financial Stability in Kazakh, Russian and English languages; collections of the National Bank’s regulations; booklet for the private entrepreneurship entities, in which the National Bank’s authorities in certain spheres of activities are indicated, in the state language and Russian language and booklet “IN the National Bank Activity for 15 years”.

Work with the Regional Branches. The National Bank pays much attention to the work of its territorial branches with mass media, provision of comprehensive support in the issues related to the public relations and pursuance of the unified information policy of the National Bank.

During 2008 the National Bank's territorial branches distributed 1,953 information messages, including 984 in the printed editions, 556 – on TV, 269 – via radio and organized 144 PR events.

Events Devoted to the 15th Anniversary of the National Currency – Tenge. To achieve objectives with regard to formation and development of positive image of the Republic of Kazakhstan and to implement the information and image-creating policy, the National Bank jointly with interested subdivisions prepared and implemented a set of arrangements devoted to the 15th anniversary of Tenge.

On the threshold of the 15th anniversary of the national currency – Tenge, the National Bank organized a meeting of the new employees of the National Bank with its former Governors; each of them told about his activity in capacity of the National Bank's Governor in different years.

A documentary film devoted to the 15th anniversary of Tenge was shot and broadcasted on the national TV channels “Khabar” and “Kazakhstan”; the film covered the milestones in development of new Kazakhstani nationhood, where the national Tenge became was of the symbols.

The following printing products were issued by the Tenge jubilee date:

1) the book “... And All Polyphony of Finance” was produced jointly with the national newspaper “Kazakhstanskaya Pravda”; its issue was devoted to the 15th anniversary of Tenge. The book was based on the past year publications about the country's financial history in the printed media and said publications, when taken from the historic point of view, testified to the fact that after introduction of Tenge both the domestic and foreign experts recognized that only upon introduction of the independent currency Kazakhstan independence became objective phenomenon. Upon introduction of Tenge Kazakhstan became a sovereign state in the proper sense of the word, having all attributes of an independent state: national emblem, flag, anthem and national currency. The book (a collection based on the newspaper publications) allows tracing in dynamics, how everything happened and sweeping eyes over the trail. This collection of newspaper articles will be of interest not only for general readers; it is also oriented at the younger generation, for whom it would be undoubtedly interesting to read about what has been done by the generation of their parents, who built a young state of which they can be proud of today;

2) there was published the book for children “Aksha Turaly Akikat” (The History of Money”). The idea to issue the book for children “Aksha Turaly Akikat” devoted to the 15th anniversary of Tenge, for the children of primary school age in the state language and Russian language belongs to the National Bank. For the years of Kazakhstan' independence there was no publications devoted to the history of creation of the national currency – Tenge, were issued. The purpose of said book is to form, in the understandable manner, the visual idea of money among the children of primary school age: what money is, its functions and tasks, history of development and to provide idea about the images of the Symbols of State of the Republic of Kazakhstan. The book was published in a lively format with due account of the age specifics of the children and is of important educational and cognitive significance. Its content is presented in the entertainment and playing form, with practical exercises, problems and poster with Kazakh alphabet in order to enrich the children's scope and idea about the Motherland and place of Kazakhstan in the world. The National Bank presented the book for children “Aksha Turaly Akikat” to the schools of Almaty.

3) CD “Catalogue-Presentation devoted to the 15th Anniversary of Tenge”, which presents all coins and banknotes issued during the 15-year period.

The National Bank organized work with involvement of the interested subdivisions for preparation and holding of the international conference devoted to the 15th national currency of the Republic of Kazakhstan – Tenge, that were held on 12-22 November 2008 in Almaty (“the Conference”).

The main purpose of the Conference was to summarize results of the 15 year period of establishment and development of Tenge during the meeting of the partners that participated and still participate in development, manufacturing and issue of Kazakhstani money.

The reports delivered by the Conference participants said about the effective and fruitful joint activity with the partners engaged in production of first banknotes for Kazakhstan; work on improvement of the Tenge appearance with implementation of the new protection levels; establishment of the own production of Kazakhstani banknotes and coins; development and start-up of the cash turnover system within a short period of time. In addition, it was noted during the Conference that a special interest to Kazakhstan’s currency, in particular coins, was demonstrated on the part of foreign coin collectors, who in such way open for themselves the history and traditions of Kazakhstan. Also mentioned was the unique design and excellent quality of Kazakhstani coins.

To provide information support to celebration of the 15th anniversary of the national currency – Tenge, there were organized interviews and appearances of the National Bank’s management and specialists and materials were published in mass media. In the course of monitoring of Kazakhstani mass media there were traced and analyzed more than 60 press notices and stories devoted to the 15th anniversary of the national currency of the Republic of Kazakhstan - Tenge.

VIII. IMPROVING ACCOUNTING AND FINANCIAL REPORTING

The National Bank in 2008 continued its efforts for further refinement of regulations and guidance on accounting and financial reporting for financial entities and special purpose vehicles in line with the requirements of the International Financial reporting Standards (IFRS).

Specifically, the National Bank passed its resolution dated February 25, 2008 No.11 which established the procedure for using the market exchange rates by the above entities. Under the resolution, financial entities shall have daily translations of their asset and liability balances in the financial statements at the exchange rate at the close of trading of the day, in order to enhance the financial statements reliability and to ensure compliance with the requirements of IFRS 21, Changes in Foreign Exchange Rates.

In addition, amendments have been made to the financial reporting forms of insurance (reinsurance) companies and insurance brokers, institutions performing certain types of banking operations, and professional players in the securities market, for their improvement and compliance with IFRS. Thus, the items have been introduced on bonds issued in circulation and fee income from reinsurance, in respect of disclosures of long- and short-term loans provided by brokerage firms which have been granted the I category licensed (with the right of the customer accounts maintenance in the capacity of a nominal holder).

At the same time, because of the system delay in the presentation of audited financial statements of financial entities, the reporting deadline for institutions performing certain types of banking operations with subsidiaries have been extended to April 30 of the year following the reporting period.

Also, with the view to bring it in conformity with the changes made to the laws of the Republic of Kazakhstan on accounting and financial reporting and the most recent changes in IFRS in relation to redesignation of financial assets from the category at fair value through profit

or loss to available for sale or held to maturity, a new version of the Chart of Accounts was adopted for some of the entities in the financial market of the Republic of Kazakhstan and five accounting instructions have been revised.

Thus, new versions of accounting instructions were adopted for special purpose vehicles, some of the entities of the financial market of the Republic of Kazakhstan, for transactions with pension assets performed by accumulation pension funds (APFs) and insurance and reinsurance operations under general insurance and life insurance lines performed by insurance (reinsurance) companies.

Amendments were made to the Standard Chart of Accounts in the banks and mortgage companies for reliable accounting records in line with IFRS, optimization of financial derivative accounts as well as for recording securitizations, and reimbursements. Alongside with that, trust management accounts have been brought in conformity with the Law of the Republic of Kazakhstan «On the Securities Market».

In addition, with a view to improve accounting in the banks and ensure compliance with changes in the Standard Chart of Accounts in the banks and mortgage companies recommendations have been prepared on accounting of asset securitizations and on how the banks should account for transactions with their own shares such as equity offering, repurchase of shares, and resale of repurchased shares.

From October 1, 2008 the shareholders of the JSC “Insurance Indemnities Guarantee Fund” are those insurance companies that have entered into a participation contract with the Fund since as the Fund is no longer a subsidiary of the National Bank, the Regulation on Financial Reporting by the JSC “Insurance Indemnities Guarantee Fund” were recognized as lapsed.

According to the changes made by the Law of the Republic of Kazakhstan “On Amendments to Some Legislative Acts of the Republic of Kazakhstan on the Financial System Stability” paragraph 5 of Article 30 of the Law of the Republic of Kazakhstan “On Banks and the Banking Activity in the Republic of Kazakhstan”, when issuing a banking license to the banks the National Bank’s opinion is required stating that there is the automated banking system in place satisfying the requirements set to the automation of accounting and general ledger. Therefore the Regulation was developed regarding the issue of the National Bank’s opinion of the automated banking system in place satisfying the requirements set to the automation of accounting and general ledger.

In addition, pursuant to the provisions of the Law of the Republic of Kazakhstan “On Accounting and Financial Reporting”, further efforts have been made to refine the forms of financial statements of public entities and legal entities where fifty or more percent of shares (interest) or a controlling block of shares belong to the National Bank. Thus, the National Bank have made amendments to the Regulation on Financial Reporting by the National Bank’s subsidiaries to ensure the completeness and reliability of the information provided by them in line with IFRS.

In 2008 the National Bank continued exercising control over compliance by all financial entities with the requirements to the systems that automate the subsidiary records and the General ledger.

Thus, the National Bank conducted scheduled re-inspections of 6 APFs and 31 insurance (reinsurance) companies, of which 3 APFs and 11 insurance (reinsurance) companies completely met the requirements of the National Bank with regard to the automation of accounting records. The statements of inspections of those entities that failed to comply with the established requirements were forwarded to the Agency for Supervision and Regulation of the Financial Market and Financial Organizations to take the relevant enforcement measures.

Alongside with that during 2008 the National Bank reviewed the reports of APFs and insurance (reinsurance) companies on the elimination of identified violations as well as the

internal regulations of these entities that regulate the procedure for recording all performed operations. Based on their review, quarterly inspection schedules of the National Bank were prepared and, respectively, comments and proposals have been made.

In addition, the aggregation and analysis has been made on the data from the banks regarding the status of the information system employed, of all modifications including the module upgrades and replacements, that are presented to the National Bank annually by January 15. Based on the analysis of materials presented by the banks and on other documents the decision was made to start the examinations of the bank information systems in the 2nd half of 2009.

In 2008 the Civil and Tax Codes were amended to include the definitions and the types of financial derivatives and the procedure for their taxation. It should be mentioned that these amendments represent the result of persistent efforts of the National Bank through the working groups that are functioning both within the National Bank and in conjunction with the Agency for Supervision and Regulation of the Financial Market and Financial Organizations, representatives of financial entities, and the Taxpayers Association of Kazakhstan.

Additionally, the National Bank as part of the Working Group for the Introduction of Islamic Banking in Kazakhstan was actively involved in the development of the draft Law of the Republic of Kazakhstan “On Amendments to Some Legislative Acts of the Republic of Kazakhstan Related to Establishing and Operations of Islamic Banks and Instituting Islamic Financing”.

Based on the legislated National Bank’s function to develop and approve regulations on accounting and financial reporting for financial entities, the draft of a regulation providing for the procedure of accounting for Islamic products was developed and submitted to the Agency for Supervision and Regulation of the Financial Market and Financial Organizations. The draft regulation is currently used to draft accounting regulations for Islamic banks and Islamic special purpose vehicles.

Nowadays much focus is made on ensuring coordinated actions by the National Bank’s departments and the Agency for Supervision and Regulation of the Financial Market and Financial Organizations in refining the legislation on financial, statistical and regulatory reports of financial entities as well as in fine-tuning the requirements to the automation of accounting. In this connection, in 2008 a relevant Working Group was established by the order of the Governor of the National Bank. The objective of the Working Group is to address the financial sector challenges. Thus, such issues were considered as the exclusion of the concept of a “savings account” due to the deposit framework provided for in the automated bank information system “Temenos”, evaluation of financial instruments held in the investment portfolios of accumulation pension funds in the environment of underdeveloped stock market, and other problem issues.

To improve the professional level of the staff in financial entities, the National Bank on the basis of the Almaty Bank Training Center conducted specialized training courses dedicated to the most urgent problems of accounting and financial reporting in line with IFRS by insurance (reinsurance) companies, accumulation pension funds and the banks (6 training courses).

Also, on the basis of the National Bank the IFRS training course was arranged for the staff of the Agency for Supervision and Regulation of the Financial Market and Financial Organizations.

In 2008 the staff of the National Bank delivered lectures for students that undergo training in such disciplines as Financial Analyst, Risk Manager and Actuary, in the Masters School under the MBA Program with the Kazakh Economic University named after T.Ryskulov. As part of the lectures and seminars (90 hours) the basics of accounting, chart of accounts, financial reporting and accounting treatments for the major operations performed by financial entities were presented.

To get familiar with the National Bank's experience in the implementation of IFRS, as part of the cooperation agreement in the area of training for the staff of the central (national) banks of the EurAsEC member countries, training courses were arranged and conducted for the delegations from the central banks of Belarus, Russia and Turkmenistan. In addition, a six-day workshop on the transition to IFRS was conducted for the Central Bank of Turkmenistan.

IX. TRUST ASSET MANAGEMENT SERVICES

9.1. Management of the National Fund

The total market value of the National Fund's foreign currency portfolio amounted to US\$ 27.4 billion as of December 31, 2008, of which the stabilization portfolio was worth US\$ 10.5 billion (38.21%) and the savings portfolio — US\$ 16.9 billion (61.79%). The market value of securities and other financial instruments within the National Fund's portfolio is based on the data from the National Fund's custodian bank – BNY Mellon Asset Servicing B.V.

According to BNY Mellon Asset Servicing B.V., over the period from January 1 to December 31, 2008 an investment loss was incurred (retained and unretained) calculated in the functional (baseline) currency – US Dollars, that amounted to US\$ 656,287.2 thousand. Adjusted for the transaction costs, the investment loss, according to BNY Mellon Asset Servicing B.V. had amounted to US\$ 660,661.0 thousand over the same period.

Profitability in the Asset Management of the National Fund. Profitability of the National Fund from January 1 to December 31, 2008 was (-)2.28%. Profitability of the National Fund from its establishment to December 31, 2008 was 44.43%, making 4.96% in annual terms. Profitability was calculated versus the baseline currency of the National Fund – US Dollars (Annex 1 to Section IX Subsection 9.1, Figure 9.1.1).

Profitability of the stabilization portfolio from January 1 to December 31, 2008 was 2.40%, the benchmark portfolio's profitability (Merrill Lynch 6-month US Treasury Bill Index) was 3.58% for the same period. Therefore, the negative profitability of 1.18% resulted from the management of assets in the stabilization portfolio in 2008.

Returns on the savings portfolio from January 1 to December 31, 2008 was (-)4.58%. Profitability of the benchmark portfolio from January 1 to December 31, 2008 was (-)5.37%. Excessive returns on the savings portfolio for 2008 was positive – 0.79% (Annex 1 to Section IX Subsection 9.1 Figure 9.1.2).

Profitability ratios by the mandate (sub-portfolios) type of the savings portfolio in 2008 was as follows:

For the Global Bonds Mandate – 7.89%;

For the Global Bonds Tactic Asset Distribution Mandate - (-)11.74%;

For the Global Stocks Mandate - (-)40.36%.

(Annex 2 to Section IX Subsection 9.1 Figure 9.1.3).

Management of assets in the savings portfolio for the Global Bonds Mandate.

Management of assets in the savings portfolio for the Global Bonds Mandate. Management of assets in the savings portfolio for this type of mandate is performed both by the National Bank itself and by international investment managers (external managers). As of December 31, 2008 assets in the savings portfolio for this type of mandate managed by the National Bank itself amounted to 93.81% while the remaining 6.19% of assets in this sub-portfolio were in the external management. (Annex 2 to Section IX Subsection 9.1 Figure 9.1.4).

Profitability in the management of the bond sub-portfolio or the assets of the savings portfolio, under the Global Bonds Mandate Type amounted to 7.89%. Profitability of the benchmark portfolio for this sub-portfolio was in 2008. Thus, the excessive profitability achieved as the result of the management of this mandate type was (-) 0.09% for 2008.

Based on the management of assets in the savings portfolio of the Global Bonds Mandate Type in 2008, excessive returns on assets in external management was equal to (-)0.03%, and assets managed by the National Bank yielded (-) 0,10%. (Annex 3 to Section IX Subsection 9.1 Table 9.1.1).

Assets in the savings portfolio for the Global Stocks Mandate are managed both by the National Bank itself and by international investment management companies (external managers).

The returns on the management of assets in this mandate type was (-)40.36% while the benchmark return was (-)39.19%. Therefore, the result of the asset management in this mandate type as against the benchmark portfolio was negative, with excessive returns of (-)1.17%. As of December 31, 2008 management of this mandate type was performed by four external managers and the National Bank.

Management of assets in the savings portfolio for the Global Bonds Tactic Asset Distribution Mandate. Assets in the savings portfolio for the Global Bonds Tactic Asset Distribution Mandate in 2008 were managed by 2 international investment management companies (external managers).

Profitability from the management of assets in the savings portfolio of this mandate type was (-)11.74% while the benchmark portfolio yielded (-)5.37%. Thus, the result of the asset management of the savings portfolio for this mandate type was negative as against the benchmark portfolio, with the excessive returns of (-)6.37%.

The return on the benchmark portfolio from January 1 to December 31 was 7.98% for the bonds, and (-)39.19% for the stocks. (Annex 3 to Section IX Subsection 9.1 Table 9.1.2).

To increase the efficiency of trust management of the National Fund's assets the National Bank by its Management Board's Resolution of August 22, 2008 No.65 made amendments to the resolution of the National Bank's management Board of July 25, 2006 No.65 "On Approval of the Regulation for Investment Operations of the National Fund of the Republic of Kazakhstan" with the changes made by the Resolution of the National Bank's Management Board of April 30, 2007 No.49 "On Amendments to the Resolution of the National Bank's Management Board of July 25, 2006 No.65 "On Approval of the Regulation for Investment Operations of the National Fund of the Republic of Kazakhstan"

Given that the situation in the global financial markets has deteriorated, with the view to preserve the assets of the National Fund and increase the liquidity level the restriction for the amount of allowed cash in the National Fund's portfolio was removed.

Based on the domestic foreign currency market situation as well as the need in accumulating the Tenge-denominated assets for the transfer as part of the target and guaranteed transfers, the National Bank by its Management Board's Resolution of November 28, 2008 No.91 made a change in the Resolution of the Management Board of the National Bank of November 30, 2007 No.130 "On Approval of the Procedures for Conversion and Reconversion of Assets of the National Fund of the Republic of Kazakhstan" that allows for the deferral for an indefinite period of the conversion of Tenge revenues to the National Fund's account".

As part of implementation of the program for stabilization of the economy and the financial system of the Republic of Kazakhstan, in 2008 KZT 607.5 billion was allocated from the National Fund by way of target transfers for capitalization of the Samruk-Kazyna Wealth Fund, in doing so a part of these assets equal to US\$ 1.2 billion was reconverted from the foreign currency portfolio of the National Fund.

9.2. The National Bank's Customer Services Including Custodial, Broker's and Other Activities

During 2008 the National Bank, as part of its custodial activity, continued providing services to 2 customers – JSC State Accumulation Pension Fund and JSC Development Bank of

Kazakhstan. From November 2008, after the signing of the custodial agreement No.438HB of 26.09.08, services started to be provided to the JSC «Kazyna Capital Management». Total assets of the customers under the National Bank's custody reached KZT 244.9 billion as of January 1, 2009 having increased by 19.4% versus the previous year.

KZT 42 billion of pension assets have been credited to the custody account of JSC State Accumulation Pension Fund over 2008, transfers from other accumulation pension funds amounted to KZT 12.4 billion, and KZT 317.4 million of fines for untimely transfers of mandatory pension contributions. At the same time, pension accumulations have been paid out from the custody account of JSC State Accumulation Pension Fund "GNPF", transfers of pension accumulations to other pension funds and insurance companies have been made as well as income tax withholds of KZT 21.7 billion, refunds of amounts over[paid were KZT 526.7 million.

At the beginning of 2008 the National Bank had 8 customers to which it provided fiduciary services - JSC Kazakhstan Deposit Insurance Fund, JSC National Processing Center, JSC Insurance Indemnity Guarantee Fund, JSC "State Insurance Corporation for the Insurance of Export Credits and Investments", JSC Investment Fund of Kazakhstan, JSC State Social Insurance Fund, RGE Kazakhstan Interbank Settlement Center. Since June 2008, under the public procurement contract for fiduciary management made on 04.05.08 No.150HB, fiduciary management services began to be provided to the JSC National Analytical Center with the Government and the National Bank of the Republic of Kazakhstan». From September, JSC "The Backup Center of the National Bank of Kazakhstan «Q-Bro»" started receiving fiduciary services under the public procurement contract for fiduciary management made on 08.09.08 No.381HB. The total customer assets under fiduciary management reached KZT 199.1 billion at January 1, 2009 having increased by 31.3% versus January 1, 2008.

In 2008 the National Bank provided broker's services to 2 customers – JSC National Wealth Fund "Samruk-Kazyna" as well as JSC "Kazyna Capital Management" (since August 2008), under the Contract on Broker's Services No.286HB of 24.07.08. The value of securities purchased under the broker business was KZT 35.4 billion at January 1, 2008 showing almost 6 time increase over the year.

The key numbers representing customer services transactions of the National Bank are provided in Annex 1 to Section IX Subsection 9.2.

X. ORGANIZATION AND INTERNAL ACTIVITY

10.1. Organization Structure

The structure and total staff numbers (3,580 units) of the National Bank were approved by the Presidential Edict of December 31, 2003 No.1271 "On the Approval of the Statute and the Structure of the National Bank of the Republic of Kazakhstan".

To implement the Presidential Edict of December 28, 2007 No.501 "On the Measures for Optimization of Positions of Administrative Public Employees", in 2008 arrangements were made to optimize the structure and the manning table of the National Bank.

Based on the Presidential Edicts of January 30, 2008 No.527 and of August 20, 2008 No. 647, the National Bank's structure was supplemented with an independent division (Risk Management Division), in addition one independent unit was transformed into an independent division (Division for Protection of State Secrets).

Based on its changes, at the reporting period-end the organization structure of the National Bank comprises 11 departments (1 department in Astana) and 12 independent divisions of the head-office, 18 branches, 2 representation offices abroad (in the Russian federation and the United Kingdom of Great Britain and Northern Ireland) and 4 accountable entities (Annex 1

to Section X Subsection 10.1 Fig. 10.1.1)

In addition, the National Bank is a sole founder (with 100.0% shareholding) of the JSC Kazakhstan Deposit Insurance Fund and JSC “Backup Center of the National Bank of the Republic of Kazakhstan «Q-BRO» and one of the shareholders in the JSC State Accumulation Pension Fund “GNPF” (57.61%) and JSC National Analytical Center with the Government and the National Bank of the Republic of Kazakhstan (50%)*.

Subject to the amendments made to the Joint-Stock Companies Law, the National Bank has realized 100% shareholding of the JSC Insurance Indemnity Guarantee Fund. As a result, since October 1, 2008 31 insurance companies – members in the Fund – have become its shareholders.

10.2. Human Resources Policy

At the year-end of 2008 the staff numbers of the National Bank haven't faced significant changes compared to 2007. In terms of joint-stock companies, the staff numbers increased by 17.8%, mainly due to the establishment of the JSC National Analytical Center with the Government and the National Bank of the Republic of Kazakhstan in September 2007.

Roster strength of the National Bank increased by 2.5% at the end of 2008 as compared to, in the joint-stock companies – by 32.1% (Annex 1 to Section X Subsection 10.2, Table 10.2.1).

Pursuant to the Presidential Edict of 28.12.2007 No.501 ““On the Measures for Optimization of Positions of Administrative Public Employees”, 251 staff have been appointed based on the new manning table in 2008.

At the end of 2008, versus 2007, the personnel turnover ratio in the National Bank decreased by 4.3 percentage points and made up 12.4%. The personnel turnover ratio in the head-office of the National Bank decreased by 9.1 percentage points and made up 4.7%. In the branches this ratio decreased by 8 percentage points and made up 8.3%. In the entities (RGEs) the personnel turnover ratio decreased by 5.9 percentage points and made up 10%. There is a growth of 41.2% in the personnel turnover by 17.6 percentage points versus 2007 in the joint-stock companies.

In terms of the education, the people with the university education represent the major portion (62.7%) of the National Bank's staff, 16.3% of the staff have specialized secondary education, and 21% have secondary education (over 60% of the total number of the staff with secondary education are represented by “blue collar” jobs). In the National Bank's entities the education background is represented, respectively, by 54.5%, 22.2%, 23.3%, in the joint-stock companies - 87%, 12.2%, 0.8%.

Within the staff composition the percentage of women in the head-office is 69.9%, in the branches – 59.4%, in the entities – 42.2%, in the joint-stock companies – 69.6%. The portion of women on the managerial positions as percent of the managerial staff in the head-office and in the branches of the National Bank is 53.4% (of the total number of the senior management – 43.6%, of the total number of the middle-level management – 57.5%).

The National Bank's human resources policy is focused on ensuring a stable, reliable staff composition. The employees that “have been with the National Bank from ten to twenty years” represent a more stable category, similar to 2007. Their percentage amounts to 29.8%, the staff “with the working experience from one to three years” - 20%, “from three to five years” –

* Present percentage of the National Bank's shares (as %):

in JSC “State Accumulation Pension Fund “GNPF” – 69.272% (from January 28, 2009);

in JSC “National Analytical Center with the Government and the National Bank of the Republic of Kazakhstan» - 37.74% (from January 1, 2009).

14.5%, “from five to ten years” – 16.7%, “over twenty years” – 10.5%. The lowest percentage is represented by those who have worked with the National Bank less than one year.

In 2008 5 competitive tenders have been conducted: to occupy 32 vacancies of the administrative public positions in the National Bank’s head-office, 6 vacant “nomenclature” administrative public positions in the branches and in the National Bank’s, with 55 applicants participating. 31 persons have passed the competition, 18 persons have been enlisted in the succession pool of the Agency for the Public Service Affairs.

In order to evaluate the professional level of the staff, 26 administrative public employees of the National Bank have undergone professional evaluation based on which 24 employees fit their current positions, 2 staff from the head-office have been enlisted in the succession pool of the administrative public service to occupy positions in the higher rank. 3 managers of the National Bank’s entities have been evaluated, based on the evaluation 2 managers fit their current positions and 1 has to undergo a reevaluation.

For the purposes of professional development, the employees have undergone training on the National Bank’s basis, in the training centers of the Republic of Kazakhstan, Public Administration Academy under the President and other government authorities, foreign central banks and international organizations, as part of the program for the reduction of information disparity in the Republic of Kazakhstan. The number of people that have undergone training was: 629 persons – in the training courses and internship within the National Bank (including 152 representatives from outside agencies); in the training centers of the Republic of Kazakhstan – 1,130; within the CIS and abroad – 195 employees.

The National Bank in line with the Concept for the development of financial sector of the Republic of Kazakhstan has organized workshops on the International Financial Reporting Standards, the workshop on the Regulatory Impact Analysis (RIA) as part of its efforts on adaptation and implementation of the guidelines on the Regulatory Impact Analysis (RIA) for the staff of the Agency for Regulation and Supervision of the Financial Market and Financial organizations and the banks, for the National Analytical Center – on monetary and financial stability with the involvement of representatives from Deutsche Bundesbank, and on explanation of provisions of the new legislation on public procurements and the activities of the National Bank. The workshop on financial supervision has been organized for representatives of banks from the EurAsEC member countries with lectures delivered by the instructors from the Agency for Regulation and Supervision of the Financial Market and Financial Organizations and 8 internship sessions on IFRS, foreign currency regulation and control, macroeconomic modeling, financial stability, and accounting.

In 2008 1 employee entered the Master’s Degree School at the Public Administration Academy under the President to specialize in the “Government and Local Administration”.

In 2008, as part of the Cooperation Agreement, the National Bank continued its cooperation with the Kazakh Economic University after T.Ryskulov in relation to the Master’s Degree School under the MBA (“the MBA”).

In 2008-2009 academic year 39 students entered the MBA program to get such specializations as financial analyst, financial risk management, actuary, insurance business, finance (full-time education), 30 of which (76.9%) studied on a gratis basis.

In 2008 there was the fifth graduation of the candidates for a master's degree. Of 38 graduates from the intramural department (10 of which graduated with merit) 7 was hired by the National Bank, 15 – by the Agency for Regulation and Supervision of the Financial Market and Financial organizations, and 14 – by other institutions.

22 university students have had their professional on-job-training at the National Bank’s head-office, including 13, magistrands from the MBA School.

To raise the image of the competition for the payment of nominal scholarships announced by the National Bank and to select promising candidates for their subsequent employment, the

new version of the Regulation for Awarding Nominal Scholarships of the National Bank was approved. The announcement about the competition was published in the official press and on the National Bank's web-site. Since the applicants submitted only one document set, the tender Committee decided to regard the competition as invalid.

Based on the Plan of Arrangements of the National Bank for 2007-2008 to ensure implementation of the State Program for the Functioning and Development of Languages for 2001-2010 approved by the Resolution of the Board of Directors of July 19, 2007 No.145, efforts have been made in 2008 to introduce and develop the Kazakh language in the National Bank's system.

For those employees who didn't have a command of the Kazakh language as well as those who might wish to improve their command of the language the Kazakh language courses have been organized based on the Kazakh language proficiency levels. 369 employees attended language courses in the reporting period (of which: 112 staff from the head-office and 257 staff of the branches). When each training stage finished, the National Bank's senior management was informed about training efficiency at the Kazakh language courses.

There is an ongoing effort for independent preparation of some documents in the Kazakh language by the staff in the departments, the permanent committee was established to prepare standard forms of statements, resolutions and other regulations of the National Bank, 47 forms have been approved and introduced over the reporting period.

Inspections were conducted in 5 National Bank's branches to check the efficiency of efforts for introduction of the Kazakh language, based on those inspections relevant recommendations were made to the branch managers. On-the-job training was arranged for 17 translators working in the branches, in order to improve their qualification.

The "Menin Kazakstanym" Competition dedicated to the Day of Languages of the Nations of Kazakhstan was conducted among the non-Kazakh speakers to test their knowledge of Kazakh. The winners were awarded merit certificates and memorable gifts.

In line with the Governmental Decree of February 14, 2007 No.108 "On the Plan of Arrangements for 2007-2008 for Implementation of the State Program for the Functioning and Development of Languages for 2001-2010" the consolidated reports of the National Bank for the 1st and 2nd half-years of 2008 were sent to the Ministry of Culture and Information.

Staff Motivation. In order to further provide social protection for its staff, the National Bank continued its efforts in the health insurance and casualty insurance of the staff.

In 2008 the number of employees that have got health insurance as part of the insurance efforts exceeded 93% of the total number, and those that have received casualty insurance amounted to over 90%.

In 2008 the following staff of the National Bank were awarded the state awards by the Presidential Edict dated 05.12.2008 No.708: Parasat Order - 2 persons, Curmet Order - 2 persons, Yeren Yenbegi Ushin Medal - 8 persons, Honorable Diploma of the Republic of Kazakhstan - 5 persons. 23 employees have been awarded the jubilee medal "Astananyn 10 Zhyldygy".

In addition, 40 employees of the National Bank were awarded the lapel badges "Honored employee of the National Bank of the Republic of Kazakhstan" and 45 employees received acknowledgments from the National Bank's Governor.

In 2008 the National bank continued providing support to its ex-employees – non-working pensioners whose number reached 916 persons at January 1, 2009 or over 36% of the total number of the National Bank's staff. In 2008 they have received over 35 million Tenge as charity.

In order to provide non-financial incentives for the staff including the identification of the best employees based on the annual performance of the branches, the National Bank assigned ratings for its branches. Based on 2007 performance, the best were the East-Kazakhstan, Central

and Aktobe branches of the National Bank which were awarded certificates of merit and memorable gifts.

10.3. Development of Information Technologies

Design and Research Efforts. In 2008 design work has been done on 28 projects. In the reporting period 18 projects have been completed, 16 of which were put in commercial operation, the remaining ten will be continued in 2009. The software for 15 tasks was developed/finished in-house by the programming staff of the IT Department. The design efforts have been made in relation to the following areas:

1. In order to improve the functionalities the existing automated information subsystems (AIS) have been fine-tuned based on the requests from the National Bank's departments.

2. To automate the accounting and contract maintenance in the National Bank's branches efforts have been made to develop the sub-systems for monitoring the contract execution in the branches and to put them into operation.

3. In order to prepare the AIS software for the migration to the unified customer bank account structure the respective AISs were fine-tuned.

4. To ensure the automated information exchange on the export and import currency control between the head-office and the branches of the National Bank in relation to the deal tickets formalized by the branches and the information exchange on violations, efforts have been made to bring into commercial operation the sub-systems for the collection and review of the outcomes of export and import currency control in the Republic of Kazakhstan.

5. In order to download the data from the fine-tuned source sub-systems to the automated data warehouse, the respective AIS was fine-tuned.

6. To support the Kazakh language in the payment systems of the Republic of Kazakhstan the relevant AISs have been fine-tuned and implemented to ensure the migration to the use of the codepage with the Kazakh language support based on the CT PK 1048-2002 Standard.

7. To meet the objectives set by the National Bank's Plan of Arrangements for Implementation of the State Program for the Functioning and Development of Languages, efforts have been made to translate manuals, output forms and interfaces to the Kazakh language in three AISs.

8. To automate the analysis of financial instruments and markets, and the credit risks of counterparts and security issuers, the software to manage and analyze assets, and manage risks for the Monetary Operations Department was purchased and started to be implemented.

9. To automate the User Help Desk the HP OpenView SM 7.0 software was purchased and started to be implemented.

10. To fulfill the Plan of Arrangements for the Implementation of the Concept for Functioning and Development of the National Bank's web-site for 2008-2012 approved by the Resolution of the Board of Directors dated August 19, 2008 No.152, the existing National Bank's web-site was modified to change its appearance, improve the feedback with the visitors and improve the Module where the tender documents on the public procurements are published, as well as efforts were made to migrate the National Bank's web-site to the Portal platform.

11. To implement pp.3-2 of the Plan of Arrangements for the Development of e-Government in the Republic of Kazakhstan for 2008-2010 approved by the Governmental Decree of November 30, 2007 No.1155-1, efforts were made to tryout the possibility of connecting the National Bank to the Unified Secure Transportation System (UTS) and Unified System of Electronic Workflow in the Government Authorities of the Republic of Kazakhstan (USEWF). The survey has been conducted to formulate the requirements for development of the

internal workflow system of the National Bank for its integration with the USEFW and advice was obtained relating to the connection of the National Bank to USEWF.

12. To automate the procedure for setting and calculation of the credit risk limits on transactions with foreign counterparts and the banks of the Republic of Kazakhstan the automation object of the Monetary Operations Department has been surveyed by the Information Technologies Department and the survey report was prepared, coordinated and approved.

13. To automate the operation of the National Bank's Museum a review of the off-the-shelf solutions has been conducted. The "Museologist" Software developed with the support from the UNESCO and intended exclusively for the museum funds data base creation, was installed, tested and training on the software was provided.

14. In order to automate the operations of the Financial Stability Division the automation object was surveyed to formalize the requirements for the development of new AIS.

Information technologies development and standardization. In 2008 the Strategy for the Development of Information Technologies in the National Bank for 2008-2010 was approved by the Resolution of the Board of Directors of the National Bank, also the Strategy Implementation Plan drafted was approved.

Efforts were made to develop the regulatory framework for information technologies of the National Bank.

In order to support the quality management system (QMS) of the IT Department an internal audit of the QMS was conducted. The recertification audit conduct based on the TUV CERT methodology confirmed compliance of the quality management system with the requirements of ISO 9001-2000. TUV Rheinland InterCert gave a statement of recertification. Now the QMS documentation is being revised.

Maintenance and support of the existing information systems. 47 tasks and IAIS sub-systems were maintained and administered in the National Bank's departments and branches. The financial year was completed without failures and complaints from the users. Advisory and technical assistance was provided, reports were designed and modified to improve the user efficiency.

In line with the Guidance for the application of the Unified Rules for the salaries and wages calculation approved by the Order of the Minister of Labor and Social Protection of the Republic of Kazakhstan of June 3, 2008 No.135-II, AIS was modified to calculate salaries while applying the increase factor.

In order to receive, analyze and prepare reports a remote access to the data bases of the Agency for Regulation and Supervision of the Financial Market and Financial Organizations was provided for the staff of the Financial Stability Division.

Administration and operation of the existing information systems. At the reporting date 3,379 hardware units were in operation and maintenance as compared to 3,284 units in 2007, including: servers – 152, personal computers – 2,138, laptops – 112, laser printers – 837, high-speed printers «Genicom» – 26 and scanners – 114. In addition, the following communication devices: automatic telephone exchanges – 20, fax machines – 164.

Servers, active equipment of the structured cable network, data bases and mail systems have been maintained in the operational condition, the solution and information output on the set of the ECM room applications were provided. Work has been completed on the hardware technical maintenance and system support as well as the overhaul of computer equipment and communication facilities of the National Bank's head-office and its branches.

In parallel efforts were made to develop and update a number of operations aimed at improving the quality of administration, maximum satisfaction of the increasing needs of the users of the National bank's information systems in line with the current status of information technologies, elimination of identified shortcomings in terms of reliability, capacity and safety.

The existing information systems were backed up and maintained. The operation of the standby computation center of the National Bank standing separately from the main processing center was ensured. The information back up for the critical systems was provided in the real-time mode, in line with the technological procedure determined by the National Bank's internal regulations.

Improving the technical infrastructure. Efforts have been made in the head-office and branches of the National Bank to remove physically and morally obsolete hardware, in connection with their replacement for the new ones. To this end 34 servers, 285 personal computers and 15 laptops have been purchased during the reporting year. One management commercial telephone exchange Alcatel was purchased to unify the National Bank's corporate telephone network.

In order to speed up and increase the information exchange with the regional branches of the National Bank under IP-VPN protocol the communication channel capacity was double increased (to 512 Kbit).

Implementation of the Temenos T24 bank information system. The last stage in the accounting reform at the National Bank is the automation of bank operations and the transition from the memorial order system of book-keeping to the sub ledger system. This stage implementation started in 2006 when the implementation project for T24 was launched which is scheduled to be completed in the 1st half of 2009.

In 2008 preparations were on the way to launch the bank operations system into commercial operation. Also, T24 was modified to ensure support of some operations on administrative and household activities of the National Bank, including on the control of budget execution ("the Administrative and Household Activities Module"). The system was to be commissioned into operation on November 10, 2009.

To support operations of the head-office and the oblast branches of the National Bank in issuing and cash transactions from June 30, 2008 the core of the system (security management system, persistent data directory, and financial accounting) and Module of Issuing and Cash Operations and Accounts Module were put into commercial operation ahead of schedule.

From August 5, 2008 the Interbank Deposits Module of placed foreign currency deposits of gold and currency reserves of the National Bank and in precious metals, International Financial Reporting Standards and interfaces with Reuters and SWIFT were also put into operation ahead of schedule.

From October 6, 2009 the "Non-Cash FOREX Transactions in the Foreign Market" Module was put into operation.

In October 2008 the T24 was prepared to migration to the unified bank account number structure scheduled for 2009.

According to the implementation schedule, from November 10, 2008 the following T 24 modules were put into commercial operation: Money Transfers, Purchase/Sale of Refined Precious Metals, Transactions with the Short-Term Notes of the National Bank, Securities Transactions, REPO/Reverse REPO Transactions as well as all Tenge transactions including settlements in the domestic currency, transactions through the previously implemented Modules – Issuing and Cash Operations, Non-Cash FOREX Transactions and Interbank Deposits. In addition, the following system interfaces were put into operation: Payment System of the Republic of Kazakhstan, Sub-System for the Management of the Interbank System of Money Transfer, Electronic Auction, Personnel Management, Accounting for Precious and Non-Precious Metals, Gems and Jewelry at the Center for Cash Operations and Valuables Depository and the Trading System of the Kazakhstan Stock Exchange.

When implementing the Money Transfer Module, the migration to the unified bank identification code of the National Bank was accomplished.

Since December 1, 2008 Loan Module and Delinquency Module were put into commercial operation.

Support of the Kazakh language in the T24 system was provided including migration to the use of the codepage with the Kazakh language support based on the CT PK 1048-2002 Standard in the payments systems of the Republic of Kazakhstan.

Efforts were made to close the 2008 financial year in T24.

The implementation of the remaining modules was postponed till the first half-year of 2009, namely: Administrative and Household Activities, Bill Business, IRS Transactions – Interest Rate Swap, FRA Transactions – Forward Rate Agreement, Transactions with Loans from International Financial Organizations, Derivatives – Futures, Options, Fiduciary and Broker's and Custody Services, Verification of Nostro Accounts, transactions across accounts related to foreign currency transfers (Nostro, Loro, customer accounts), as well as fine-tuning of the Limits Module.

From January 5, 2009 the Administrative and Household Activities Module has been put into commercial operation.

10.4. Internal Audit

In 2008 34 audits have been conducted based on the Schedule of Audits for 2008 approved by the resolution of the National Bank's management Board of December 24, 2007 No.153. In addition, by the National Bank senior management's order 4 ad hoc inspections were conducted. Based on the audits conducted, 136 recommendations to the National Bank departments were made in respect of the improvement of the internal control system of which 26 recommendations were aimed at the regulatory improvements. Based on the majority of audits conducted, the internal control system was assessed as adequate.

In order to improve the internal control system in 2008 the program for Guaranteeing and Improving the Quality of Internal Audit in the National Bank was developed.

The Internal Audit Department has undergone the internal and external assessment of the quality of its operation. The external quality assessment was conducted in line with the International Standards of the Institute of Internal Auditors by the certified auditor of the Bank of Belgium. Based on the assessment, the operation of the Department was characterized as "partially compliant" with the Standards and Code of Ethics of the Institute of Internal Auditors.

Pursuant to the resolution issued by the National Bank's Board of Directors dated 19.08.2008 No.145 "On the Approval of the Department Structure in the Head-Office of the National Bank of Kazakhstan", some changes in the structure of the Department were made: Risk Management Division was singled out as an independent unit and the Department of Monitoring and the Internal Audit Methodology was established.

10.5. Financial and Administrative Activities (Annex 1 to Section X Subsection 10.5, Table 10.5.1).

In 2008 the National Bank earned net profit of KZT 30,197.0 million (the result of its operations in 2007 was net profit of KZT 37,245.6 million).

The National Bank's earnings over the reporting period amounted to KZT 68,017.9 million having decreased by KZT 20,252.2 million (22.9%), its costs amounted to KZT 37,820.9 million having decreased by KZT 13,203.6 (25.9%).

Profit of the National Bank's subsidiaries amounted to KZT 3,855.5 million (RGE – KZT 967.9 million, JSC – KZT 2,887.6 million).

Consolidated net profit of the National Bank (including subsidiaries) amounted to KZT 34,052.5 million.

In monetary operations of the National Bank (Annex 1 to Section X Subsection 10.5, Table 10.5.2) in 2008 as the result of operations in the foreign and domestic markets net income amounted to KZT 43,339.9 million with the reduction of KZT 5,438.7 million (11.1%).

In the foreign market operations net gains were KZT 67,183.1 million, with the decrease of KZT 19,894.6 million (22.8%) as a result of the decrease in the net gains on the foreign currency portfolio by KZT 20,478.3 million (23.5%).

The gold and currency reserve management of the National Bank is characterized by the following:

- in the gold portfolio net gains increased by KZT 566.4 million (3.8 times) and amounted to KZT 418.4 million due to the growing gold prices;

- in the foreign currency portfolio net gains amounted to KZT 66,782.1 million with the drop of KZT 20,478.3 million (23.5%), including the reduction of net gains in the domestic management by KZT 20,536.1 million (23.5%) and amounted to KZT 66,796.5 million, in the foreign management net costs amounted to KZT 14.4 million with the reduction of KZT 57.8 million (80.1%).

In the domestic market operations net costs decreased by KZT 15,081.6 million (38.8%) and amounted to KZT 23,783.0 million.

Net costs related to transactions in government securities decreased by KZT 16,261.9 million (51.4%) and amounted to KZT 15,369.6 million.

Costs on the Government deposits reduced by KZT 101.9 million (34.8%) because of reduced amounts of placed deposits.

The amount of costs from transactions with the domestic financial system increased to KZT 8,219.2 million (18.5%), since the deposit rate increased from 4.5% to 5.4%.

In the reporting period provisions for loans to banks and natural persons were created and cancelled, thus resulting in net costs of KZT 2.9 million.

On non-monetary operations of the National Bank (Annex 2 to Section X Subsection 10.5, Table 10.5.3) earnings for 2008 were KZT 834.8 million and increased by KZT 207.9 million (33.2%), costs incurred were KZT 13,977.7 million and increased by KZT 1,817.8 million (14.9%), including expenses related to the financing of the FSA's operations – KZT 2,811.7 million. The resulting net costs were KZT 13,142.9 million.

Costs on non-monetary operations have primarily increased from:

- operations with fixed assets, intangible assets and material assets (fixed assets depreciation costs, costs related to maintenance of diesel generators, specialized cash equipment and measuring devices);

- costs for communications and telecommunications services;

- costs related to the financing of operations of the Agency for Regulation and Supervision of the Financial Market and Financial Organizations that are associated mainly with the increase of its staff numbers as per the Presidential Edict dated April 23, 2008 No. 575.

Capital Expenditures (Annex 3 to Section X Subsection 10.5, Table 10.5.4) borne by the National Bank amounted to KZT 88,732.8 million, with the increase of KZT 65,154.0 million (2.8 times), mainly because of the increase in expenses made to build up the authorized capital of the National Bank's entities pursuant to the decisions of the National Bank's Management Board.

Organizations of the National Bank

Earnings of the republican government enterprises of the National Bank gained from the sales of production (works, services) amounted to KZT 9,279.4 million in 2008, expenses related to the production (delivery of works, services) – to KZT 7,912.8 million. Net income of those enterprises after corporate income tax payment to the budget was KZT 967.9 million.

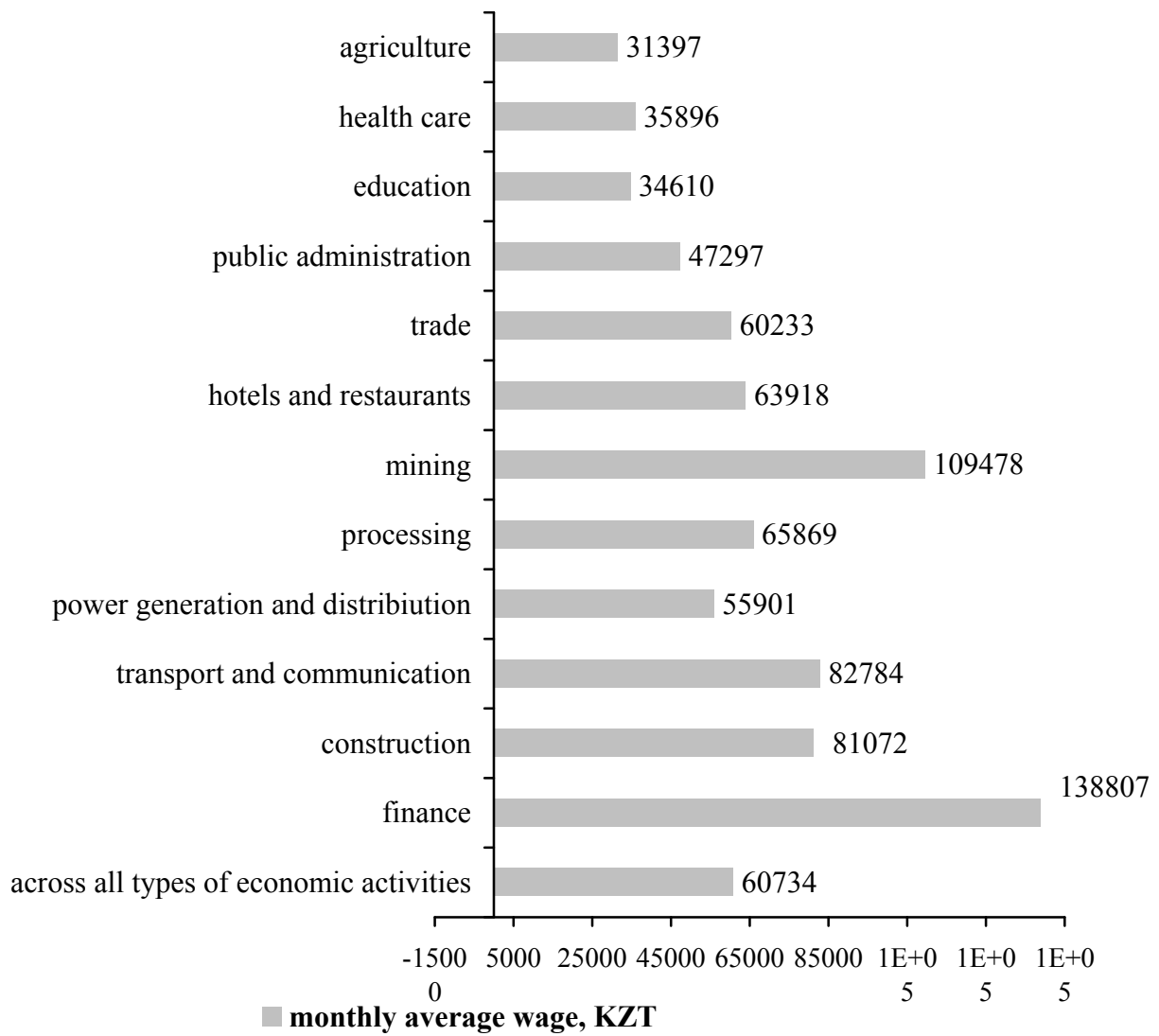
Joint-Stock Companies of the National Bank

In 2008 earnings of the joint-stock companies amounted to KZT 5,954.9 million, expenses – to KZT 2,646.3 million. Net income after corporate income tax payment to the budget was KZT 2,887.6 million.

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Monthly average wages by basic types of economic activities in 2008



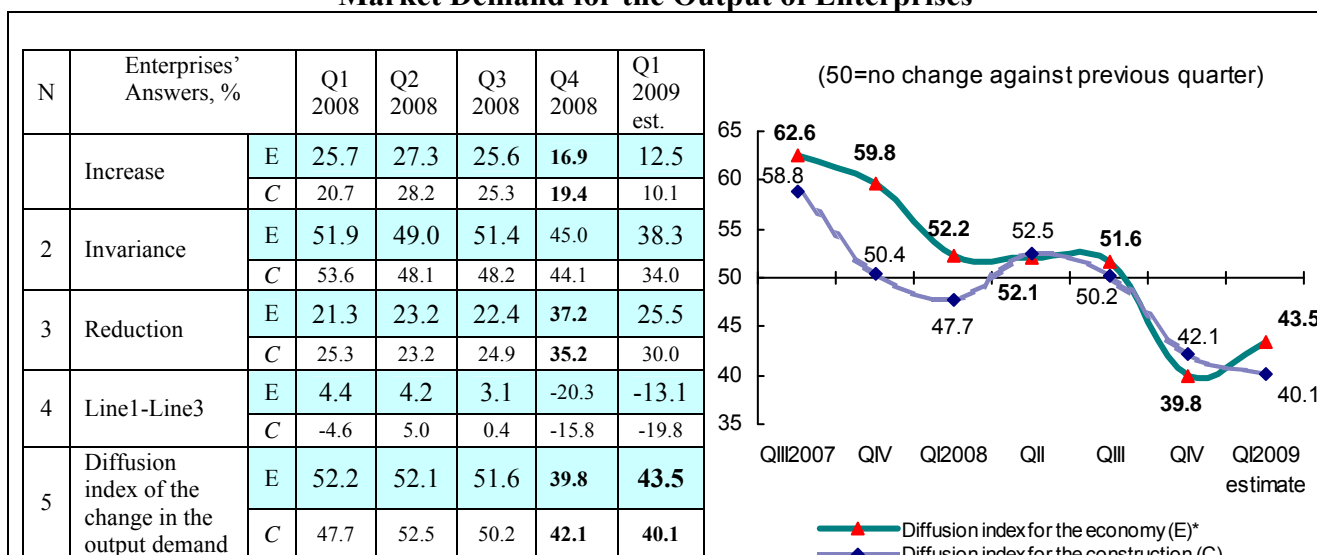
Annex 1 to Section I Subsection 1.1

Figure 1.1.1

Annex 1 to Section I Subsection 1.2

Figure 1.2.1

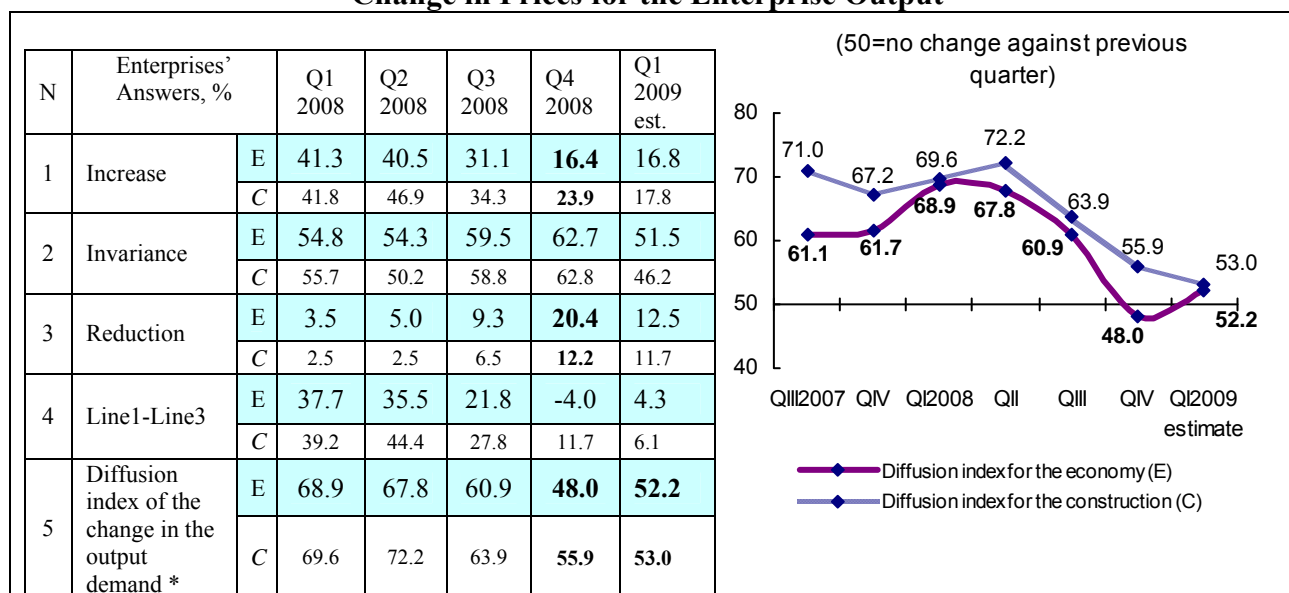
Market Demand for the Output of Enterprises



If in the beginning of 2008 there were insignificant growth rates in the output demand (the diffusion index was above 50), in the 4th quarter of 2008 the demand decreased considerably against the previous quarter, for the first time in the reviewed period (the index for the country's economy decreased to 39.8). In Q1 2009 a further reduction in the demand for the enterprise output is anticipated, but with the lower pace.

Figure 1.2.2

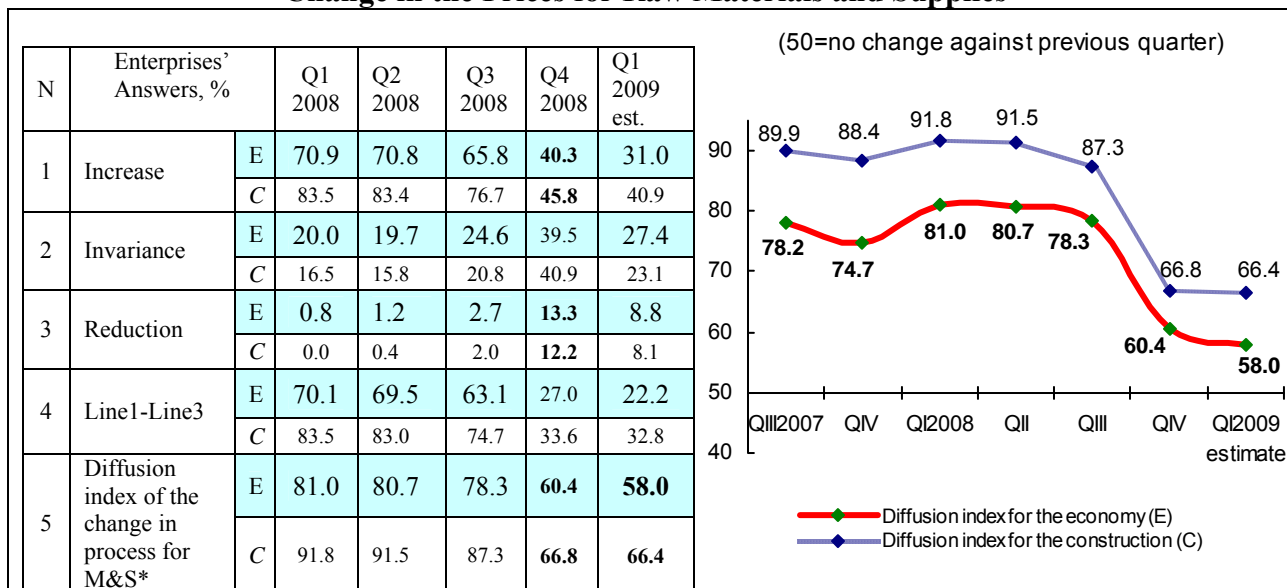
Change in Prices for the Enterprise Output



For the first time since the beginning of 2008 in Q4 the diffusion index of the change in the output price in the country's economy decreased below 50, thus meaning that prices dropped against the previous quarter (percentage of enterprises that reported the growth in output prices decreased to 16.4%, and the number of enterprises that reported their reduction increased to 20.4%). In the construction sector the prices kept going up but with a lower pace (55.9). In Q1 2009 enterprises anticipate an insignificant price increase.

Figure 1.2.3

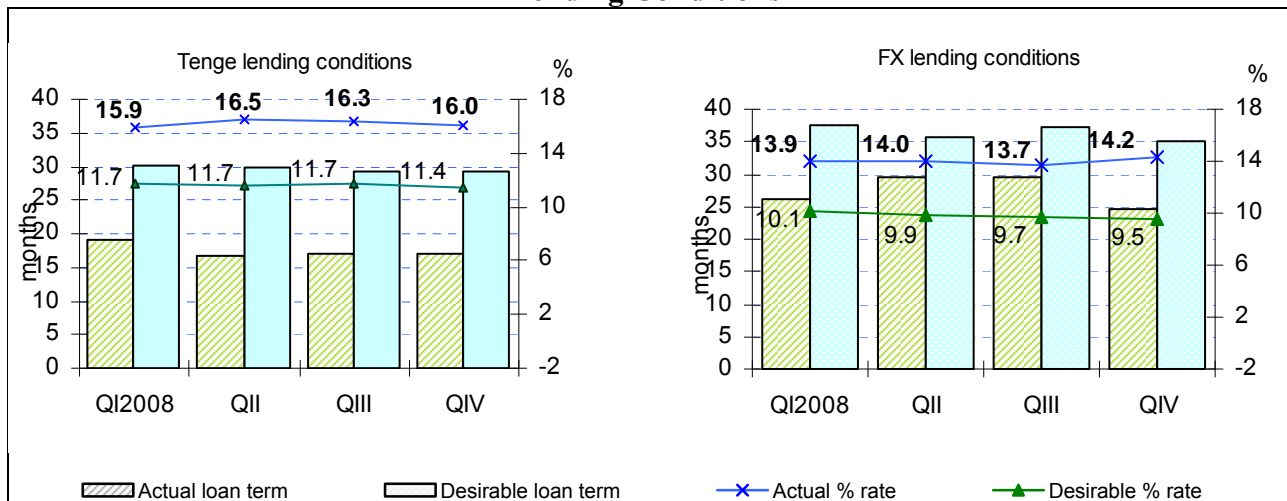
Change in the Prices for Raw Materials and Supplies



In Q4 2008 the prices for materials and supplies tend to grow but with a lower pace (diffusion index for the economy was 60.4; for the construction sector – 66.8). In Q1 2009 no significant changes are anticipated (diffusion index for the economy was 58, for construction – 66.4).

Figure 1.2.4

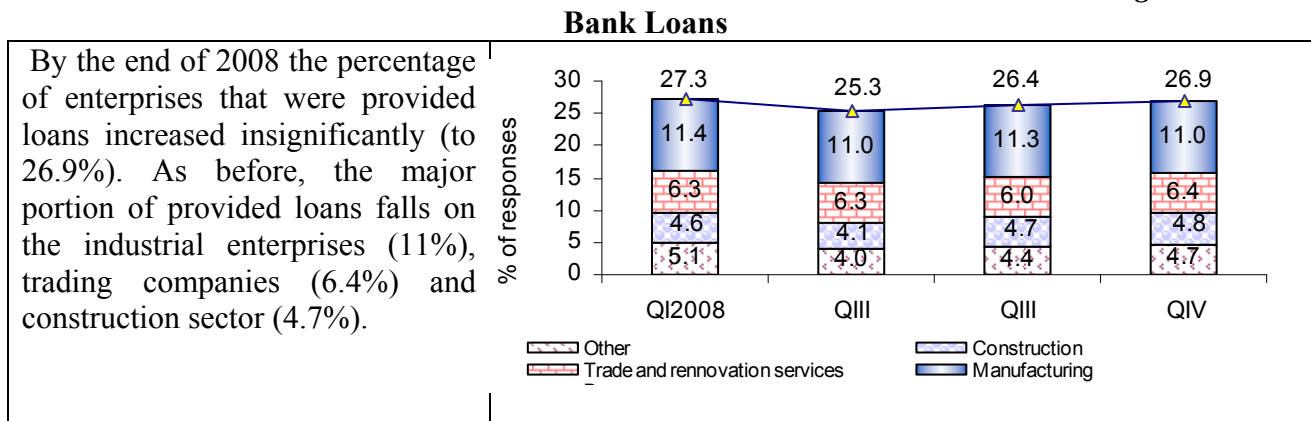
Lending Conditions



In 2008 there were no dramatic fluctuations in interest rates. In Q4 2008 the average interest rate on Tenge loans reduced insignificantly (to 16.0%) while the interest rate on foreign currency loans increased (to 14.2%). Interest rates desirable for enterprises decreased both in respect of Tenge loans and foreign currency loans (11.4% and 9.5%, respectively).

Annex 3 to Section I Subsection 1.2

Figure 1.2.5



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

Indicators in the diagrams are presented by the following estimated data: percentage ratio between the response groups of enterprises, difference between the number of positive and negative answers, etc. In addition, the diagrams represent the so-called “diffusion index” (index) that is derived as a sum of positive answers and half of the answers are “without any change”. This index is a generalized indicator that characterizes the trend of the indicator in question. If its positive value is higher than 50 – this means a positive change, if less than 50, then the change is negative (based on the experience of Moscow People’s Bank, England).

Annex 1 to Section I Subsection 1.4

Balance of Payments of the Republic of Kazakhstan: Analytic Presentation

| | 2007 | 2008 | 2008 | | | |
|--|----------|----------|---------|----------|----------|---------|
| | | | I | II | III | IV |
| A. Current account | -8226.4 | 6978.1 | 2790.1 | 1014.6 | 2858.1 | 315.3 |
| Trade Balance | 15091.0 | 33518.8 | 8648.2 | 9322.8 | 10182.4 | 5365.4 |
| Exports f.o.b. | 48351.1 | 71970.8 | 15931.7 | 19484.3 | 21290.0 | 15264.9 |
| Imports f.o.b. | -33260.2 | -38452.0 | -7283.5 | -10161.4 | -11107.5 | -9899.5 |
| Services | -8071.8 | -6615.7 | -1385.5 | -1834.3 | -1923.1 | -1472.9 |
| Exports | 3555.0 | 4383.0 | 935.9 | 1111.6 | 1228.7 | 1106.8 |
| Imports | -11626.8 | -10998.7 | -2321.4 | -2945.9 | -3151.8 | -2579.7 |
| Compensation of Employees Balance | -1203.2 | -1452.0 | -340.2 | -351.3 | -409.0 | -351.5 |
| Investment Income Balance | -11882.8 | -17488.3 | -3910.5 | -5977.5 | -4660.1 | -2940.3 |
| Credit | 3452.4 | 3541.5 | 801.0 | 781.5 | 980.4 | 978.6 |
| Interest on reserves and assets of the National Fund | 1461.1 | 1189.1 | 290.6 | 323.6 | 301.3 | 273.6 |
| Income on direct foreign investments, net | 59.4 | -57.0 | -42.9 | -37.4 | 67.4 | -44.1 |
| Other investment income | 1931.9 | 2409.4 | 553.4 | 495.3 | 611.6 | 749.1 |
| Debit | -15335.2 | -21029.8 | -4711.5 | -6759.0 | -5640.5 | -3918.8 |
| Income on direct investments in Kazakhstan, net | -11304.4 | -16566.8 | -3606.3 | -5623.4 | -4544.5 | -2792.7 |
| Interest on debt | -3930.3 | -4436.8 | -1105.1 | -1119.8 | -1095.2 | -1116.8 |
| Dividends from portfolio investments | -100.4 | -26.2 | -0.1 | -15.9 | -0.8 | -9.4 |
| Current transfers balance | -2159.5 | -984.6 | -221.9 | -145.1 | -332.1 | -285.5 |
| | | | | | | |
| B. Capital and Finance Account | 8366.3 | 1219.2 | -1228.9 | -383.5 | 978.2 | 1853.5 |
| Capital account balance | -37.6 | -41.5 | 1.9 | -4.8 | -14.4 | -24.2 |
| Financial account | 8403.8 | 1260.8 | -1230.9 | -378.7 | 992.6 | 1877.7 |
| Direct investment balance | 7974.9 | 10731.5 | 1815.9 | 3224.1 | 2756.7 | 2934.8 |
| Direct investment abroad | -3151.3 | -3811.9 | -874.1 | -252.3 | -1542.5 | -1143.0 |
| Assets | -2325.9 | -3727.3 | -884.0 | -426.5 | -1558.9 | -857.8 |
| Liabilities | -825.4 | -84.6 | 9.9 | 174.3 | 16.4 | -285.2 |
| Direct investments in Kazakhstan | 11126.2 | 14543.4 | 2690.0 | 3476.4 | 4299.2 | 4077.8 |
| Assets | -1679.5 | 369.9 | -86.8 | 264.7 | -525.9 | 717.9 |
| Liabilities | 12805.7 | 14173.6 | 2776.8 | 3211.7 | 4825.0 | 3360.0 |
| Portfolio investment balance | -4583.1 | -9475.4 | -1502.4 | -3276.4 | -1389.7 | -3306.9 |
| Assets | -4101.3 | -7207.1 | -1324.2 | -3163.7 | -552.8 | -2166.4 |
| <i>including:</i> | | | | | | |
| Central bank and general government | -6144.8 | -6408.8 | -1584.2 | -2542.8 | -511.3 | -1770.5 |
| Banks | 1875.5 | 335.6 | 701.9 | -482.0 | 145.7 | -30.0 |
| Liabilities | -481.8 | -2268.3 | -178.2 | -112.7 | -836.9 | -1140.5 |
| <i>including:</i> | | | | | | |
| Central bank and general government | -2111.4 | -136.3 | -5.9 | -59.0 | 29.1 | -100.6 |
| Banks | 610.2 | -1517.6 | 68.8 | -373.7 | -482.7 | -730.0 |
| Financial derivatives (net) | -366.6 | 157.2 | -210.1 | 117.7 | 247.4 | 2.2 |
| Medium- and long-term loans and credits | 11373.6 | 4384.1 | 50.7 | 1394.1 | 2576.3 | 363.0 |
| Assets | -4940.6 | -1824.4 | -198.6 | -353.5 | -371.1 | -901.2 |
| <i>including:</i> | | | | | | |
| Central bank and general government | -189.6 | -94.0 | 0.3 | -94.9 | 0.3 | 0.3 |
| Banks | -3751.3 | -1131.2 | -158.0 | -130.6 | -365.7 | -476.9 |
| Liabilities | 16314.2 | 6208.4 | 249.3 | 1747.6 | 2947.4 | 1264.2 |

| | | | | | | |
|-------------------------------------|---------|---------|---------|---------|---------|---------|
| <i>including:</i> | | | | | | |
| Central bank and general government | -57.9 | 23.5 | -10.8 | 24.4 | 17.3 | -7.3 |
| Banks | 12155.8 | -2736.6 | -1071.6 | 1168.8 | -1519.0 | -1314.8 |
| Other short-term capital | -5994.9 | -4536.7 | -1385.0 | -1838.3 | -3198.0 | 1884.6 |
| Assets | -6818.1 | -3071.7 | -1563.8 | -819.8 | -3090.5 | 2402.4 |
| <i>including:</i> | | | | | | |
| Central bank and general government | -369.0 | 151.4 | -164.9 | 59.2 | -756.8 | 1013.9 |
| Банки | -2715.7 | -822.0 | 175.8 | 187.2 | -2005.7 | 820.7 |
| Liabilities | 823.2 | -1465.1 | 178.8 | -1018.5 | -107.5 | -517.9 |
| <i>including:</i> | | | | | | |
| Banks | -564.1 | -3226.0 | -265.9 | -1206.4 | -1480.1 | -273.7 |
| | | | | | | |
| C. Errors and omissions | -3168.5 | -6025.9 | -532.4 | 1453.6 | -2599.7 | -4347.4 |
| | | | | | | |
| D. Total balance | -3028.7 | 2171.4 | 1028.7 | 2084.7 | 1236.7 | -2178.7 |
| | | | | | | |
| E. Financing | 3028.7 | -2171.4 | -1028.7 | -2084.7 | -1236.7 | 2178.7 |
| Reserve assets of the NBK | 3028.7 | -2171.4 | -1028.7 | -2084.7 | -1236.7 | 2178.7 |
| IMF credits | 0.0 | 0.0 | 0.00 | 0.00 | 0.00 | 0.00 |

Annex 2 to Section I Subsection 1.4

Standard Presentation of Total External Debt
(US\$ mln.)

| | 31.12.03 | 31.12.04 | 31.12.05 | 31.12.06 | 31.12.07 | 31.12.08 |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| TOTAL | 22 920.2 | 32 713.2 | 43 428.5 | 74 014.1 | 96 914.3 | 107 812.8 |
| <i>Short-term</i> | 2 812.9 | 3 942.8 | 8 151.4 | 12 660.9 | 11 958.9 | 10 637.1 |
| <i>Long-term</i> | 20 107.3 | 28 770.4 | 35 277.1 | 61 353.2 | 84 955.4 | 97 175.7 |
| General Government | 3 073.2 | 2 496.1 | 1 478.9 | 1 495.2 | 1 491.5 | 1 641.9 |
| <i>Short-term</i> | 0.0 | 0.0 | 0.0 | 38.8 | 60.3 | 23.8 |
| Money market instruments | 0.0 | 0.0 | 0.0 | 38.8 | 60.3 | 23.8 |
| Loans | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade credits | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| <i>Long-term</i> | 3 073.2 | 2 496.1 | 1 478.9 | 1 456.4 | 1 431.2 | 1 618.1 |
| Bonds and other debt securities | 650.0 | 113.4 | 52.3 | 14.3 | 0.0 | 0.0 |
| Loans | 2 423.2 | 2 382.7 | 1 426.6 | 1 442.1 | 1 431.2 | 1 618.1 |
| Trade credits | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Monetary authorities | 0.0 | 3.5 | 103.5 | 1 076.8 | 106.9 | 12.1 |
| <i>Short-term</i> | 0.0 | 1.6 | 101.6 | 1 074.9 | 105.0 | 10.2 |
| Money market instruments | 0.0 | 0.0 | 99.8 | 1 073.0 | 104.8 | 10.0 |
| Loans | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash and deposits | 0.0 | 0.3 | 1.0 | 0.8 | 0.0 | 0.3 |
| Other liabilities | 0.0 | 1.2 | 0.9 | 1.2 | 0.2 | 0.0 |
| <i>Long-term</i> | 0.0 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| Bonds and other debt securities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash and deposits | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other liabilities | 0.0 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| Banks | 3 519.3 | 7 681.5 | 15 316.3 | 33 323.4 | 45 946.2 | 39 220.0 |
| <i>Short-term</i> | 1 354.7 | 2 290.2 | 6 297.2 | 7 465.5 | 6 102.8 | 3 083.7 |
| Money market instruments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans | 1 354.7 | 1 728.7 | 5 318.2 | 5 801.4 | 3 747.5 | 2 010.9 |
| Trade credits | 0.0 | 386.5 | 804.2 | 1 297.9 | 1 863.9 | 692.8 |
| Other liabilities | 0.0 | 174.9 | 174.8 | 366.2 | 491.4 | 380.0 |
| <i>Long-term</i> | 2 164.6 | 5 391.3 | 9 019.1 | 25 857.9 | 39 843.4 | 36 136.3 |
| Bonds and other debt securities | 120.2 | 754.1 | 1 824.8 | 2 984.1 | 3 266.2 | 2 526.7 |
| Loans | 2 044.4 | 4 436.5 | 6 885.9 | 22 386.5 | 35 875.9 | 33 082.0 |
| Trade credits | 0.0 | 200.8 | 308.3 | 487.3 | 701.4 | 527.6 |
| Other liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other sectors | 16 327.7 | 22 532.1 | 26 529.8 | 38 118.7 | 49 369.7 | 66 938.7 |
| <i>Short-term</i> | 1 458.2 | 1 651.0 | 1 752.6 | 4 081.7 | 5 690.8 | 7 519.3 |
| Money market instruments | 0.0 | 4.0 | 4.2 | 1.6 | 0.3 | 0.1 |
| Loans | 212.9 | 275.0 | 369.2 | 1 162.7 | 1 443.4 | 2 172.1 |
| Cash and deposits | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade credits | 998.3 | 1 216.0 | 1 259.4 | 2 684.0 | 3 704.0 | 4 742.9 |
| Other liabilities | 247.0 | 156.0 | 119.9 | 233.5 | 543.1 | 604.3 |
| <i>Long-term</i> | 14 869.5 | 20 881.1 | 24 777.2 | 34 037.0 | 43 678.9 | 59 419.4 |

| | | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Bonds and other debt securities | 112.1 | 149.7 | 148.7 | 89.7 | 671.4 | 427.7 |
| Loans | 13 399.7 | 19 003.5 | 22 637.1 | 31 699.4 | 40 142.7 | 55 828.4 |
| Cash and deposits | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade credits | 1 357.8 | 1 727.8 | 1 991.4 | 2 247.9 | 2 864.8 | 3 163.2 |
| Other liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| <i>For reference: Direct investments: intercompany debt</i> | 11 983.0 | 16 675.0 | 19 228.1 | 25 513.0 | 30 088.5 | 36 904.1 |
| Liabilities to affiliated entities | 177.4 | 1 701.7 | 2 047.0 | 3 283.5 | 2 458.8 | 2 329.1 |
| Liabilities to direct investors | 11 805.6 | 14 973.3 | 17 181.1 | 22 229.5 | 27 630.2 | 34 575.0 |

Annex 3 to Section I Subsection 1.4 Absolute and Relative Indicators of External Debt

| Item | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| A. Absolute indicators (US\$ mln.) | | | | | | |
| 1. Gross external debt (at period-end) | 22 920.2 | 32 713.2 | 43 428.5 | 74 014.1 | 96 914.3 | 107 812.8 |
| <i>Of which, intercompany debt</i> | <i>11 983.0</i> | <i>16 675.0</i> | <i>19 228.1</i> | <i>25 513.0</i> | <i>30 088.5</i> | <i>36 904.1</i> |
| 2. Gross external debt excl. intercompany debt (at period-end) | 10 937.2 | 16 038.2 | 24 200.5 | 48 501.1 | 66 825.8 | 70 908.6 |
| 3. Payments for debt extinction and servicing (including i/c debt)* | 5 258.7 | 8 185.3 | 11 053.8 | 11 847.5 | 25 088.1 | 31 136.7 |
| 4. Payments for debt extinction and servicing (excluding i/c debt)*: | 2 626.4 | 3 519.5 | 5 495.1 | 5 817.1 | 16 926.2 | 22 831.3 |
| 5. Export of goods and non-factor services for the period (EGNFS) ** | 14 944.9 | 22 612.3 | 30 529.0 | 41 580.8 | 51 906.1 | 76 353.8 |
| B. Relative indicators | | | | | | |
| 1. Gross external debt per capita (US\$, excl. intercompany debt) | 731.4 | 1 063.9 | 1 590.3 | 3 150.5 | 4 293.2 | 4 494.1 |
| 2. Gross external debt to GDP (as %, incl. intercompany debt) | 74.3 | 75.7 | 76.0 | 91.4 | 92.1 | 81.5 |
| 3. Gross external debt to GDP (as %, excl. intercompany debt) | 35.5 | 37.1 | 42.4 | 59.9 | 63.5 | 53.6 |
| 4. Gross external debt to EGNFS (as %, incl. intercompany debt) | 153.4 | 144.7 | 142.3 | 178.0 | 186.7 | 141.2 |
| 5. Gross external debt to EGNFS (as %, excl. intercompany debt) | 73.2 | 70.9 | 79.3 | 116.6 | 128.7 | 92.9 |
| 6. Payments for debt extinction and servicing to EGNFS (as %, incl. intercompany debt) | 35.2 | 36.2 | 36.2 | 28.5 | 48.3 | 40.8 |
| 7. Payments for debt extinction and servicing to EGNFS (as %, excl. intercompany debt) | 17.6 | 15.6 | 18.0 | 14.0 | 32.6 | 29.9 |
| 8. Interest payments to EGNFS (%) | 4.8 | 4.2 | 5.6 | 6.5 | 10.2 | 7.5 |
| 9. International reserves to short-term external debt, % | 176.4 | 235.3 | 86.7 | 151.1 | 147.4 | 186.5 |
| 10 International reserves to short-term external debt on remaining maturity basis (Guidotti Rule) | - | - | - | 77.1 | 56.1 | 64.5 |
| For reference: | | | | | | |
| Population (thousand individuals) *** | 14 953.9 | 15 074.8 | 15 217.7 | 15 394.6 | 15 565.6 | 15 778.2 |
| GDP (KZT billion)*** | 4 612.0 | 5 870.1 | 7 591.0 | 10 213.6 | 12 849.8 | 15 907.0 |
| GDP (US\$ billion) | 30.8 | 43.2 | 57.1 | 81.0 | 105.2 | 132.3 |

* From 2000 – extinction and servicing of external debt

** RK's balance of payments, NBK's estimate

*** RK's Statistics Agency

Annex 1 to Section II Subsection 2.2

Table 2.2.1

Gold and Currency Reserves of the National Bank

| | Items | Amounts | |
|------|---|------------|------------|
| | | 01.01.08 | 01.01.09 |
| 1. | Gross GCR, total | 17 629.275 | 19 400.513 |
| | Including: | | |
| 1.1. | Monetary Gold | 1 852.526 | 2 000.657 |
| 1.2. | Assets in freely convertible currency and SDR | 15 776.749 | 17 399.856 |
| | Foreign cash (FCC) | 169.476 | 92.352 |
| | Transferrable deposits (FCC) | 5 417.834 | 8 097.362 |
| | Other deposits (FCC) | 904.992 | 161.885 |
| | Credits (FCC) | 1 395.958 | 33.936 |
| | Securities other than shares (FCC) | 7 888.478 | 8 952.807 |
| | Financial derivatives and other accounts | 0.011 | 61.513 |
| 2. | Foreign liabilities (FCC) | 2.920 | 4.296 |
| | including: | | |
| 2.1. | Transferrable deposits of non-residents and IMF credits | 0.725 | 1.555 |
| 2.2. | Medium- and long-term credits | 1.903 | 1.903 |
| 2.3. | Financial derivatives | 0.001 | 0.838 |
| 2.4. | Other accounts | 0.291 | 0.000 |
| 3. | Net international reserves (1-2), total | 17 626.355 | 19 396.217 |

Annex 2 to Section II Subsection 2.2

Table 2.2.3

Comparative Table of Excessive Returns on the GCR Portfolio Managers for 2008
(returns are calculated in own currency of each sub-portfolio)

| Manager | Market Value (in US\$ mln.) | Return on Portfolio | Return on the Benchmark Portfolio | Excessive Returns |
|---|--------------------------------|------------------------|---|----------------------|
| <i>Investment portfolio of foreign currency assets</i> | | | | |
| Total* | 6 041.02 | 7.40% | 7.04% | 0,36% |
| <i>Sub-portfolio denominated in US Dollars</i> | | | | |
| NBRK | 2 762.92 | 7.20% | 6.60% | 0,60% |
| <i>Sub-portfolio denominated in Euro</i> | | | | |
| NBRK | 1 795.29 | 7.85% | 7.59% | 0,26% |
| <i>Sub-portfolio denominated in pounds of sterling</i> | | | | |
| NBRK | 502.32 | 10.77% | 10.48% | 0,30% |
| <i>Sub-portfolio denominated in Australian dollars</i> | | | | |
| NBRK | 282.38 | 15.22 | 16.14% | 0,92% |
| <i>Sub-portfolio denominated in Japanese Yen</i> | | | | |
| NBRK | 698.12 | 1.76% | 1.88% | -0,12% |
| <i>Portfolio of absolute returns</i> | | | | |
| Total | 391.09 | 5.55% | 3.06% | 2.49% |

Annex 1 to Section III Subsection 3.2

Table 3.2.1

Cash Flows in the Banks

| Cash Flows Through the the Bank Cash Departments | For 2008 (KZT mln.) | For 2007 (KZT mln.) | Change for the Period | |
|--|------------------------|------------------------|-----------------------|-------|
| | | | (KZT mln.) | as % |
| Receipts to Cash Departments of the Banks | 10 013 684.0 | 9 689 060.3 | 324 623.7 | 3.4 |
| from sales of goods, works, services | 2 368 300.5 | 2 271 131.9 | 97 168.6 | 4.3 |
| from utilities payments | 147 645.1 | 136 622.6 | 11 022.5 | 8.1 |
| from transport enterprises | 55 806.3 | 61 500.3 | -5 694.1 | -9.3 |
| from communication services companies | 85 923.7 | 80 867.8 | 5 055.9 | 6.3 |
| from hotels, gambling and show-business | 7 298.8 | 8 015.4 | -716.6 | -8.9 |
| from insurance companies | 4 676.1 | 4 766.3 | -90.1 | -1.9 |
| from sales of foreign exchange | 1 682 018.0 | 1 741 408.8 | -59 390.8 | -3.4 |
| to deposit accounts of natural persons | 1 688 795.9 | 1 842 783.5 | -153 987.5 | -8.4 |
| tax revenues, charges and customs payments | 111 501.2 | 134 345.2 | -22 844.0 | -17.0 |
| loan repayments | 225 579.7 | 245 274.4 | -19 694.7 | -8.0 |
| removed from ATMs | 596 152.7 | 378 100.7 | 218 051.9 | 57.7 |
| other proceeds | 3 039 986.2 | 2 784 243.5 | 255 742.7 | 9.2 |
| Payments from Cash Departments of the Banks | 10 349 372.4 | 10 034 457.9 | 314 914.5 | 3.1 |
| for payment of goods, works and services | 1 605 130.7 | 1 635 090.5 | -29 959.8 | -1.8 |
| for salaries and wages | 379 414.5 | 350 458.6 | 28 955.9 | 8.3 |
| for agricultural produce | 107 004.7 | 82 631.4 | 24 373.3 | 29.5 |
| to communication and transportation enterprises | 731.5 | 634.7 | 96.8 | 15.2 |
| to insurance companies | 376.1 | 617.8 | -241.7 | -39.1 |
| for purchases of foreign exchange | 581 672.4 | 522 477.7 | 59 194.7 | 11.3 |
| from deposit accounts of natural persons | 1 819 587.3 | 2 384 569.1 | -564 981.8 | -23.7 |
| corporate loans and loans to natural persons | 115 021.3 | 318 253.4 | -203 232.1 | -63.9 |
| for retirement benefit and allowance payments | 344 498.0 | 288 070.6 | 56 427.4 | 19.6 |
| to support ATMs | 2 188 861.9 | 1 575 093.7 | 613 768.2 | 39.0 |
| other payments | 3 207 074.1 | 2 876 560.5 | 330 513.6 | 11.5 |
| Ratio of cash recovery to cash departments of the banks, % | 96.8 | 96.6 | | |

Annex 1 to Section IV Subsection 4.3

Figure 4.3.1

Percentage of Deposits in the Domestic and Foreign Currency of Total Deposits

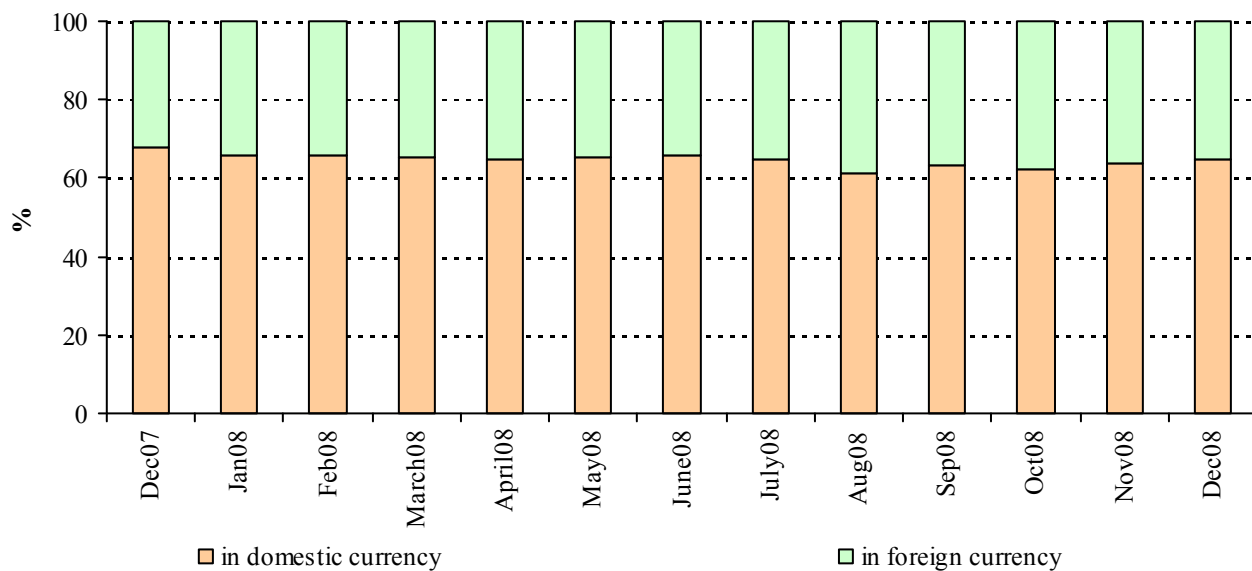
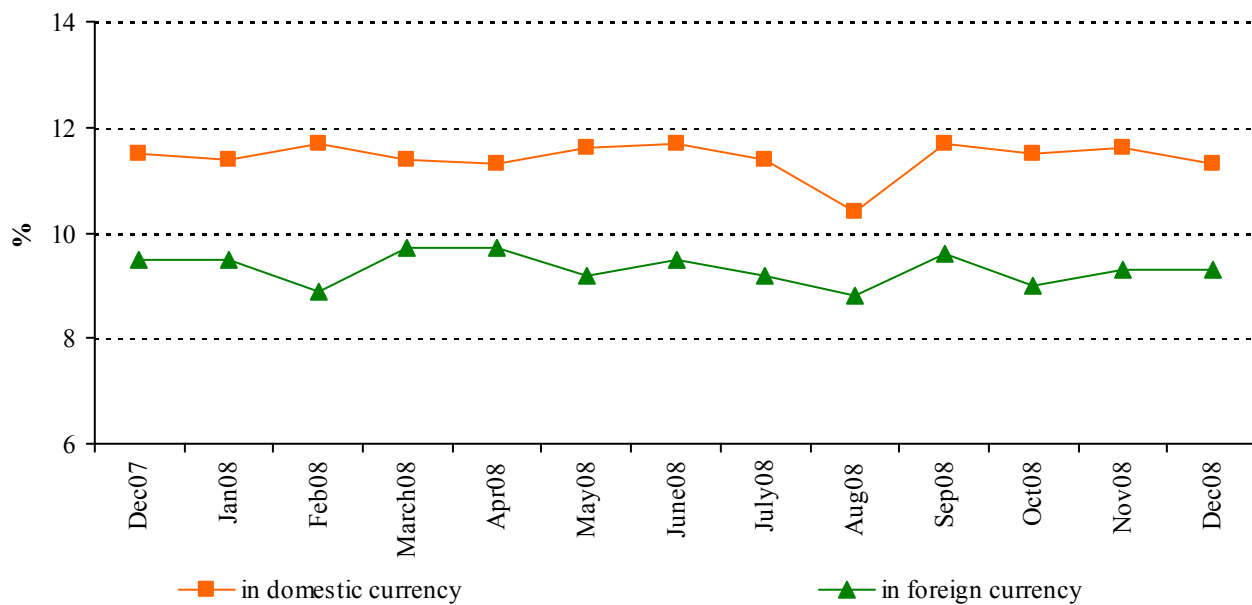


Figure 4.3.2

Behavior of the Average-Weighted Interest Rate on Total Deposits of Natural Persons



Annex 1 to Section IV Subsection 4.4

Figure 4.4.1

Percentage of Long-Term and Short-Term Credits of Total Credits

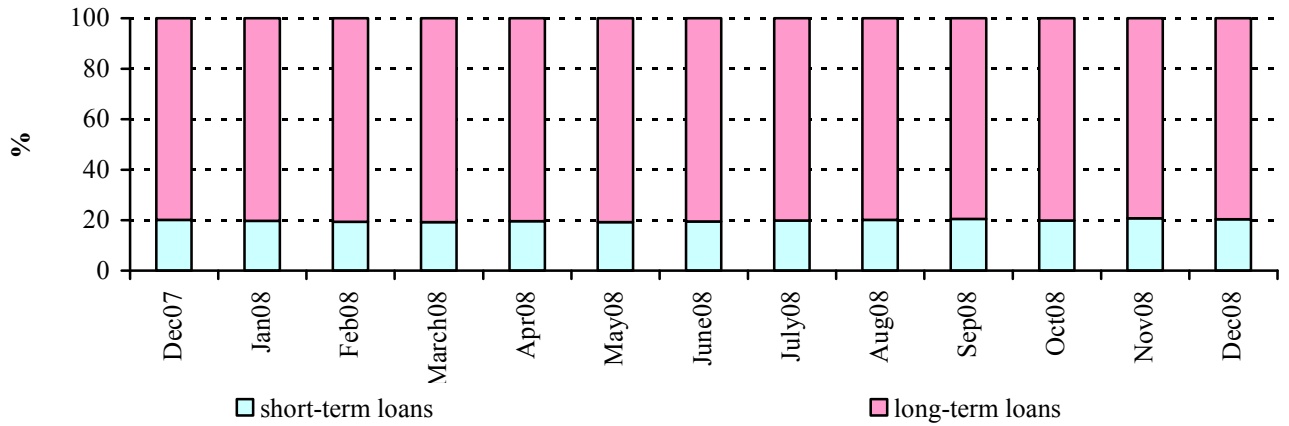


Figure 4.4.2

Percentage of Credits to Natural Persons and Legal Entities of Total Credits

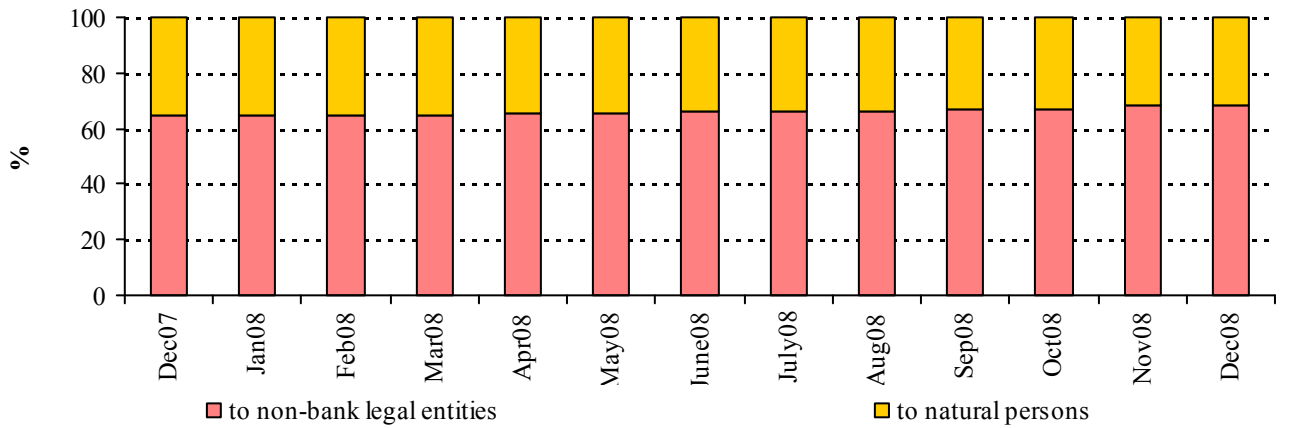


Figure 4.4.3

Behavior of the Average Weighted Interest Rate on Bank Credits in Domestic Currency

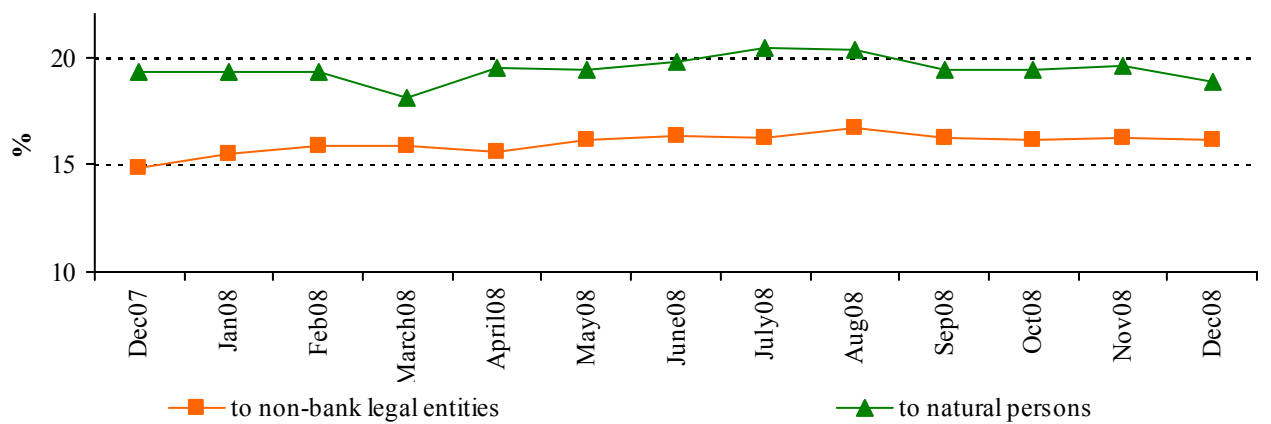


Figure 9.1.1

Profitability of the National Fund Since its Establishment, in US Dollars

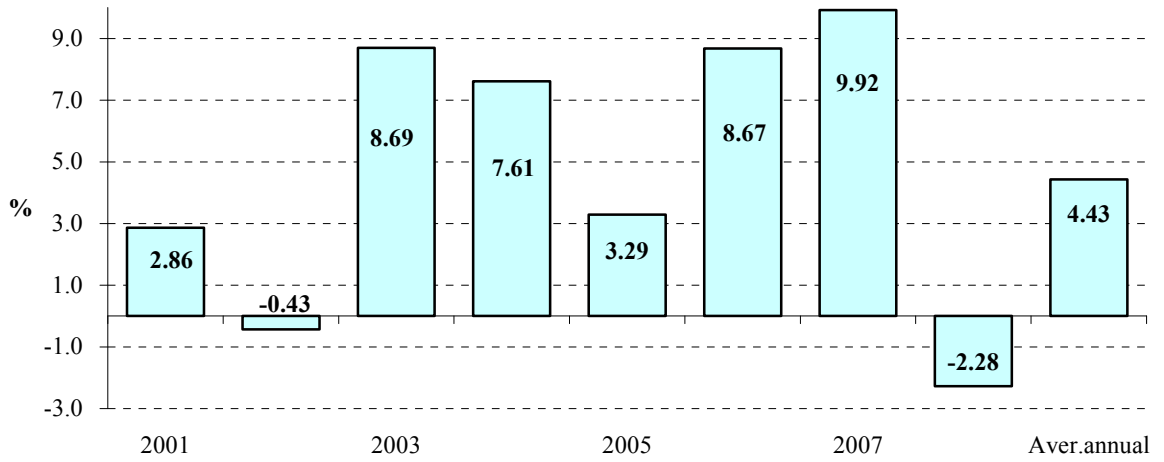


Figure 9.1.2

Returns on the Savings Portfolio in 2008

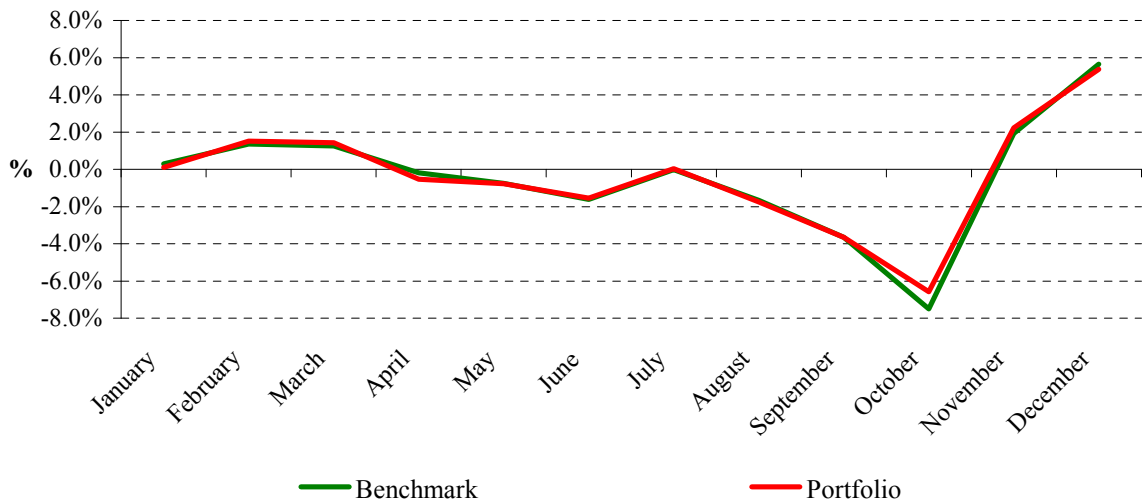


Figure 9.1.3

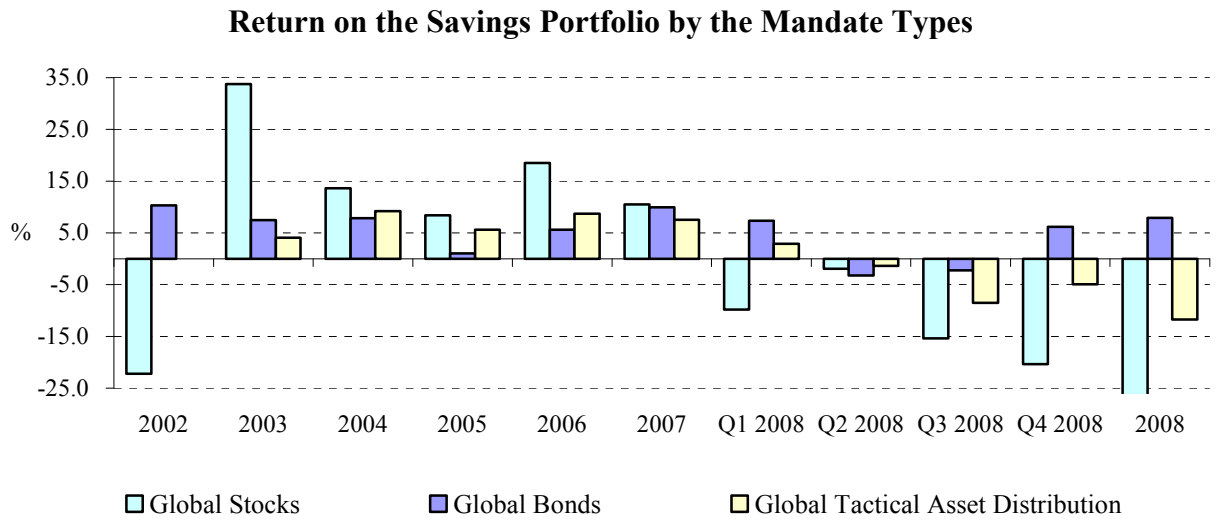


Figure 9.1.4

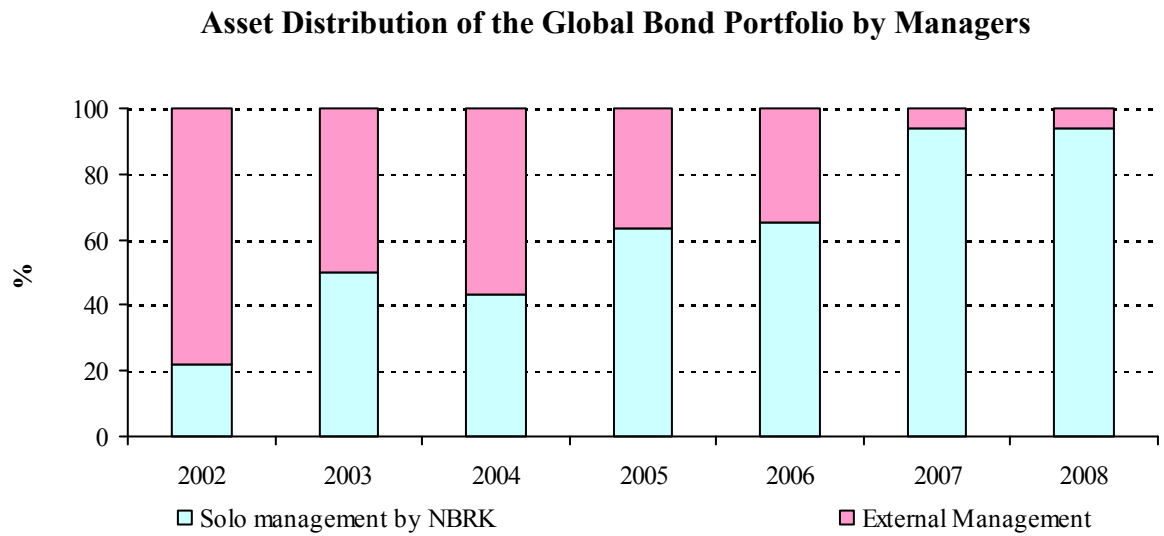


Table 9.1.1

Comparative Table of Returns on the Global Bonds Sub-Portfolio Versus the Benchmark Portfolio.

| | Portfolio | Benchmark | Excessive Returns |
|----------------------------|-----------|-----------|-------------------|
| Own management by the NBRK | 7.88 | 7.98 | -0.10 |
| Foreign Management | 7.95 | 7.98 | -0.03 |
| Total sub-portfolio | 7.89 | 7.98 | -0.09 |

Table 9.1.2

Comparative Table on the Excessive Returns of the Savings Portfolio Managers in 2008.

US\$

| Manager | Market Value at the year-end 2008 | Portfolio Yield | Benchmark Portfolio Yield | Excessive Returns |
|------------------------------------|-----------------------------------|-----------------|---------------------------|--------------------------|
| Global fixed income bonds | | | | |
| Manager 1 | 229 402 225 | 8.35% | 7.98% | 0.37% |
| The National Bank | 12 797 836 038 | 7.88% | 7.98% | -0.10% |
| Manager 2 | 614 659 920 | 7.81% | 7.98% | -0.17% |
| Global bonds | | | | |
| Manager 3 | 648 759 465 | -38.41% | -39.19% | 0.78% |
| The National Bank | 127 638 184 | -27.93% | -28.32% | 0.39%⁹ |
| Manager 4 | 676 649 335 | -39.96% | -39.19% | -0.77% |
| Manager 5 | 657 901 242 | -40.22% | -39.19% | -1.03% |
| Manager 6 | 415 257 341 | -44.05% | -39.19% | -4.85% |
| Global tactical asset distribution | | | | |
| Manager 7 | 264 458 564 | -7.06% | -5.37% | -1.69% |
| Manager 8 | 504 197 238 | -13.79% | -5.37% | -8.42% |

⁹ since April 1, 2008

Annex 1 to Section IX Subsection 9.2

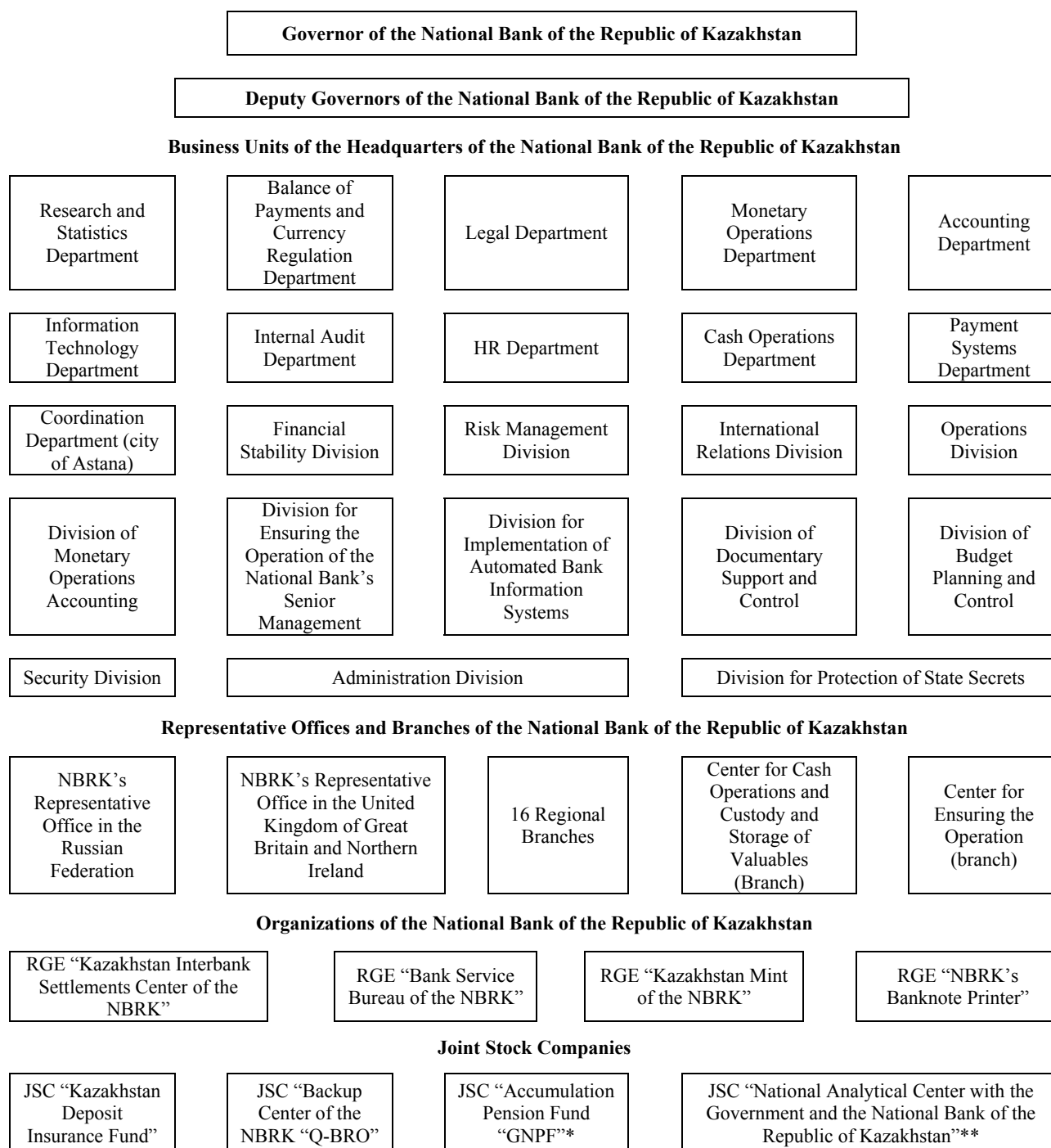
Table 9.2.1

Key figures on Accounting for Customer Service Operations of the National Bank

KZT mln.

| Customers | Total Assets at January 1, 2008 | Total Assets on January 1, 2009 | Total Inflows for 2008 | Total Charge Offs For 2008 | NBRK's Earnings from Services Provided for 2008 | Amount of Reimbursed Costs for 2008 |
|--------------------------------|---------------------------------|---------------------------------|------------------------|----------------------------|---|-------------------------------------|
| In Fiduciary Management | 151 640.2 | 199 127.6 | 77 915.8 | 30 428.4 | 311.5 | 29.6 |
| JSC KDIF | 24 250.7 | 49 796.9 | 25 642.8 | 96.6 | 24.9 | 4.9 |
| JSC KMC | 15 742.5 | 9 466.4 | 15 604.9 | 21 881.0 | 4.5 | 4.1 |
| JSC NPC | 289.0 | 0.0 | 33.5 | 322.5 | 1.0 | 0.05 |
| JSC IIGF | 645.3 | 943.8 | 393.0 | 94.5 | 6.6 | 0.2 |
| JSC "SIC" | 6 955.2 | 2 931.9 | 693.7 | 4 717.0 | 2.2 | 1.8 |
| JSC IFK | 12 440.9 | 10 476.7 | 1 249.9 | 3 214.1 | 2.4 | 6.2 |
| JSC SCIF | 90 920.7 | 121 056.9 | 30 230.3 | 94.1 | 255.1 | 11.6 |
| RGE "KISC" | 395.9 | 391.2 | 3.9 | 8.6 | 0.5 | 0.1 |
| JSC NAC | 0.0 | 1 544.1 | 1 544.1 | 0.0 | 10.6 | 0.4 |
| JSC RC of NBRK | 0.0 | 2 519.7 | 2 519.7 | 0.0 | 3.7 | 0.2 |
| In Custodial Service | 205 138.8 | 244 918.6 | | | 81.4 | 16.3 |
| JSC GNPF | 205 138.8 | 242 296.8 | | | 81.3 | 16.3 |
| JSC KDB | 0.0 | 0.0 | | | 0.0 | 0.0 |
| JSC "KCM" | 0.0 | 2 621.8 | | | 0.1 | |
| In Broker's Service | 5 939.3 | 35 435.1 | | | 5.1 | 5.3 |
| JSC NWF "Samruk-Kazyna" | 5 939.3 | 7 871.2 | | | 2.9 | 2.9 |
| JSC "KCM" | 0.0 | 27 563.9 | | | 2.2 | 2.4 |
| TOTAL: | 362 718.3 | 479 481.3 | | | 398.0 | 51.2 |
| | | | | | | |

Organization Chart of the National Bank and JSC



* The National Bank of the Republic of Kazakhstan is one of the shareholders in the JSC Accumulation Pension Fund "GNPF".
 ** JSC National Analytical Center with the Government and the National Bank of the Republic of Kazakhstan was included in the list of entities under the jurisdiction of the Office of the Prime-Minister of the Republic of Kazakhstan pursuant to the Government Decree of September 3, 2007 No.762.

Annex 1 to Section X Subsection 10.2

Table 10.2.1

Staff Numbers of the National Bank and JSC

| | Staff numbers at the reporting-period end | | | | Staff Turnover Ratio, % | |
|-----------------------------|---|-----------------|-----------------|--------------|-------------------------|-------------|
| | Under the staffing table | | Actual, persons | | | |
| | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Head-Quarters | 732 | 732 | 682 | 711 | 13.8 | 4.7 |
| Branches | 1 818 | 1 822 | 1 796 | 1 832 | 16.3 | 8.3 |
| Total: | 2 550 | 2 554 | 2 478 | 2 543 | 15.6 | 7.3 |
| NBRK's organizations (RGEs) | 1 005.25 | 987.25 | 951 | 973 | 15.9 | 10 |
| Total for the NBRK: | 3 555.25 | 3 541.25 | 3 429 | 3 516 | 15.8 | 8.2 |
| JSC | 495 | 583 | 396 | 523 | 24.5 | 42.1 |
| Total: | 4 050.25 | 4 124.25 | 3 825 | 4 039 | 16.7 | 12.4 |

Annex 1 to Section X Subsection 10.5

Table 10.5.1.

Performance of the National Bank of the Republic of Kazakhstan*

KZT mln.

| | 2007 | | | | 2008 | | | | deviations | |
|--|----------|----------|---------|-----------|----------|---------|---------|----------|------------|-------|
| | NBK | RGE | JSC | Total | NBK | RGE | JSC | Total | (+/-) | (%) |
| Earnings | 88 270.1 | 10 209.2 | 4 185.2 | 102 664.5 | 68 017.9 | 9 279.4 | 5 954.9 | 83 252.2 | -19 412.3 | -18.9 |
| Costs | 51 024.5 | 8 074.9 | 1 797.4 | 60 896.8 | 37 820.9 | 7 912.8 | 2 646.3 | 48 380.0 | -12 516.9 | -20.6 |
| Retained profit (loss) | 37 245.6 | 2 134.3 | 2 387.8 | 41 767.7 | 30 197.0 | 1 366.6 | 3 308.6 | 34 872.2 | -6 895.4 | -16.5 |
| Corporate income tax | | 682.2 | 581.4 | 1 263.6 | | 398.7 | 421.0 | 819.7 | -443.9 | -35.1 |
| Balance of retained profit (loss) | 37 245.6 | 1 452.1 | 1 806.4 | 40 504.1 | 30 197.0 | 967.9 | 2 887.6 | 34 052.5 | -6 451.5 | -15.9 |

* Consolidated financial statements of the National Bank are prepared in line with IFRS 27 "Consolidated and Separate Financial Statements". Consolidated net profit of the National Bank for financial year 2008 is KZT 34,084.6 million. Difference between consolidated net profit of the National Bank for the financial year 2008 and the amount of KZT 34,052.5 mln. results from the following consolidation procedures:

- 1) adjustment for the amount of proceeds from the sale of shares of JSC "IIGF";
- 2) adjustment for the amount of difference between the equity and net assets of JSC "KAC" due to its liquidation;
- 3) adjustment for the amount of tax expenditures of RGE KISC.

Table 10.5.2
Income and expenditures of the National Bank from Monetary Activity
(on a net basis)

KZT mln.

| # | Item | Net Result | | Deviations | |
|----------|--|------------------|------------------|------------------|---------------|
| | | 2007 | 2008 | (+/-) | (%) |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | Foreign market | 87 077.7 | 67 183.1 | -19 894.6 | -22.8 |
| 1.1 | GCR management | 87 112.4 | 67 200.5 | -19 911.9 | -22.9 |
| 1.1.1 | Gold portfolio | -148.0 | 418.4 | 566.4 | в 3.8 раз |
| 1.1.2 | Foreign currency portfolio | 87 260.4 | 66 782.1 | -20 478.3 | -23.5 |
| 1.1.2.1 | In foreign management | -72.2 | -14.4 | 57.8 | 80.1 |
| 1.1.2.2 | In domestic management | 87 332.6 | 66 796.5 | -20 536.1 | -23.5 |
| 1.2 | Other | -34.7 | -17.4 | 17.3 | 49.9 |
| 2 | Domestic Market | -38 864.6 | -23 783.0 | 15 081.6 | -38.8 |
| 2.1 | Transactions with the RK's Government | -293.2 | -191.3 | 101.9 | 34.8 |
| 2.2 | Transactions in government securities | -31 631.5 | -15 369.6 | 16 261.9 | 51.4 |
| 2.3 | Transactions with the domestic financial system, non-financial organizations and natural persons | -6 938.5 | -8 219.2 | -1 280.7 | -18.5 |
| 2.4 | Provisioning and their cancellation | -1.4 | -2.9 | -1.5 | -107.1 |
| 3 | Revaluation result | 565.5 | -60.2 | -625.7 | -110.6 |
| | Result from monetary operations | 48 778.6 | 43 339.9 | -5 438.7 | -11.1 |

Annex 2 to Section X Subsection 10.5

Table 10.5.3

Income and expenditures of the National Bank from non-monetary operations

KZT mln.

| # | Item | 2007 | 2008 | Deviations | |
|----------|--|------------------|------------------|-----------------|-------------|
| | | | | (+/-) | (%) |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | Total income | 626.9 | 834.8 | 207.9 | 33.2 |
| 1.1 | Current income | 579.8 | 718.0 | 138.2 | 23.8 |
| 1.1.1 | Reimbursed costs | 26.6 | 13.5 | -13.1 | -49.2 |
| 1.1.2 | Yield on investment securities – invested capital | 96.4 | 157.8 | 61.4 | 63.7 |
| 1.1.3 | Other income | 456.8 | 546.7 | 89.9 | 19.7 |
| 1.2 | Contingent income | 47.1 | 104.6 | 57.5 | 122.1 |
| 1.3 | Cancellation of previously created provisions | | 12.2 | 12.2 | |
| 2 | Total costs | 12 159.9 | 13 977.7 | 1 817.8 | 14.9 |
| 2.1 | Current costs | 11 334.4 | 13 906.8 | 2 572.4 | 22.7 |
| 2.1.1 | Costs related to delivery and transportation of domestic currency | 68.7 | 55.6 | -13.1 | -19.1 |
| 2.1.2 | For payment of transaction fee on the National Bank's operations | 1.5 | 1.0 | -0.50 | -33.3 |
| 2.1.3 | On transactions with fixed assets, intangible assets and inventories | 1 393.3 | 2 089.6 | 696.3 | 50.0 |
| 2.1.4 | Other | 619.2 | 659.7 | 40.5 | 6.5 |
| 2.1.5 | Costs associated with the financing of the FSA | 2 087.2 | 2 811.7 | 724.5 | 34.7 |
| 2.1.6 | Administrative costs and personnel costs | 7 164.5 | 8 289.2 | 1 124.7 | 15.7 |
| 2.2 | Contingent costs and costs for provisioning | 825.5 | 70.9 | -754.6 | -91.4 |
| | Result from non-monetary activity | -11 533.0 | -13 142.9 | -1 609.9 | 14.0 |

Annex 3 to Section X Subsection 10.5

Table 10.5.4.

Capital Expenditures of the National Bank

| № | Item | 2007 | 2008 | Deviation | |
|---|--|-----------------|-----------------|-----------------|---------------------|
| | | | | (+,-) | (%) |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | Construction of facilities | 0.3 | 4.1 | 3.8 | by 12.7 times |
| 2 | Reconstruction and expansion of units in operation | 30.0 | 14.5 | -15.5 | -51.6 |
| 3 | Overhaul of fixed assets | 105.7 | 83.5 | -22.2 | -21.0 |
| 4 | Fixed assets acquisition | 766.8 | 733.9 | -32.9 | -4.3 |
| 5 | Intangible assets acquisition | 142.0 | 296.4 | 154.4 | 108.8 |
| 6 | Other expenses | 22 534.0 | 87 600.4 | 65 066.4 | by 2.9 times |
| | Total capital expenditures | 23 578.8 | 88 732.8 | 65 154.0 | by 2.8 times |

Performance of the National Bank's Organizations for 2008

KZT mln.

| # | Name | Income | | | Expenses | | | Corporate income tax | | | Net gain (loss) after tax | | |
|---|--|-----------------|-----------------|----------------------------|----------------|-----------------|----------------------------|----------------------|--------------|----------------------------|---------------------------|----------------|----------------------------|
| | | 2007 | 2008 | Growth (reduction) rates,% | 2007 | 2008 | Growth (reduction) rates,% | 2007 | 2008 | Growth (reduction) rates,% | 2007 | 2008 | Growth (reduction) rates,% |
| | Total | 14 394.4 | 15 234.3 | 5.8 | 9 872.3 | 10 559.1 | 7.0 | 1 263.6 | 819.7 | -35.1 | 3 258.5 | 3 855.5 | 18.3 |
| | Republican government enterprises | 10 209.2 | 9 279.4 | -9.1 | 8 074.9 | 7 912.8 | -2.0 | 682.2 | 398.7 | -41.6 | 1 452.1 | 967.9 | -33.3 |
| 1 | Kazakhstan Mint | 2 949.1 | 1 570.0 | -46.8 | 2 467.1 | 1 445.3 | -41.4 | 150.9 | 49.7 | -67.1 | 331.1 | 75.0 | -77.3 |
| 2 | KISC | 1 455.7 | 1 589.3 | 9.2 | 885.3 | 1 118.0 | 26.3 | 219.4 | 147.0 | -33.0 | 351.0 | 324.3 | -7.6 |
| 3 | BSB | 272.3 | 368.3 | 35.3 | 247.6 | 321.8 | 30.0 | 6.8 | 12.6 | 85.3 | 17.9 | 33.9 | 89.4 |
| 4 | Banknote Printer | 5 532.1 | 5 751.8 | 4.0 | 4 474.9 | 5 027.7 | 12.4 | 305.1 | 189.4 | -37.9 | 752.1 | 534.7 | -28.9 |
| | Joint-stock companies | 4 185.2 | 5 954.9 | 42.3 | 1 797.4 | 2 646.3 | 47.2 | 581.4 | 421.0 | -27.6 | 1 806.4 | 2 887.6 | 59.9 |
| 1 | KDIF } IIGF ¹⁰ } KAC ¹¹ } Q-BRO } 100% | 699.2 | 2 519.6 | 3.6 times | 249.9 | 821.8 | 3.3 times | -0.5 | 38.2 | 76.4 times | 449.8 | 1 659.6 | 3.7 times |
| 2 | | 60.5 | 76.8 | 26.9 | 41.3 | 29.6 | -28.3 | 1.6 | - | - | 17.6 | 47.2 | 2.7 times |
| 3 | | 20.1 | - | - | 8.8 | - | - | - | - | - | 11.3 | - | - |
| 4 | | 4.7 | 160.6 | 34.2 times | 31.5 | 104.1 | 3.3 times | 1.4 | 32.6 | 23.3 times | -28.2 | 23.9 | 1.8 раз |
| 5 | NPC ¹² (NBRK's share – 66,9%) | 32.4 | - | - | 112.8 | - | - | - | - | - | -80.4 | - | - |
| 6 | APF “GNPF” (NBRK's share 71,85%) | 3 368.3 | 3 197.9 | -5.1 | 1 353.1 | 1 690.8 | 25.0 | 578.9 | 350.2 | -39.5 | 1 436.3 | 1 156.9 | -19.5 |

¹⁰ Shares of JSC “Insurance Indemnity Guarantee Fund” were sold pursuant to the Resolution of the National Bank's Management Board of 21.07.08 No. 64.

¹¹ JSC “Kazakhstan Actuarial Center” has been liquidated by the decision of the shareholder of 17.10.2007 No. 4.

¹² JSC “National processing Center” on a gratis basis was signed over to the Public Property and Privatization Committee with the Ministry of Finance of the Republic of Kazakhstan based on the Resolution of the Management Board of the Republic of Kazakhstan dated 24.09.2007 No.108.