

ANNUAL REPORT
NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN
FOR THE YEAR 2010

ALMATY

2011

List of Abbreviations Used

President of the Republic of Kazakhstan	President
Parliament of the Republic of Kazakhstan	Parliament
National Bank of the Republic of Kazakhstan	National Bank
Agency of the Republic of Kazakhstan on Regulation and Supervision of the Financial Market and Financial Organizations	FSA
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 the Public Service Affairs	Agency for the Public Service Affairs
Agency of the Republic of Kazakhstan for Regulation of Activities of the Regional Financial Center of Almaty City	ARARFCA
Agency of Statistics of the Republic of Kazakhstan	Agency of Statistics
Commonwealth of Independent States	CIS
Eurasian Economic Community	EurAsEC
Shanghai Organization of Cooperation	SOC
International Financial Organizations	IFO
International Monetary Fund	IMF
second tier bank	bank
US Dollar	US\$

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EXECUTIVE SUMMARY

1. The outcomes of 2010 proved that the global economy is gradually moving from the phase of the post-crisis revival to the phase of a slow but stable growth; this phase will continue in the next two years, according to the projections. According to the IMF's estimates, in 2010 the global GDP increased by 5.0%. The growth in the US economy is estimated at 2.8%, in the Japanese economy – at 4.3%, and the aggregate GDP of the Euro zone countries increased by 1.8%. In 2011 and 2012 the global economy growth is expected to be at 4.4% and 4.5%, respectively.

2. The results achieved in 2009 allowed forecasting the real GDP growth in 2010 at 2-2.5%. However, gradual recovery of the global economy that contributed to the revived growth of prices and the demand for major items of the Kazakhstan's export and the beginning of the implementation of the governmental Program for Enforced Industrial and Innovation Development of the Country's Economy for 2010-2014 allowed outstrip the projections significantly. So, according to updated information, GDP have increased by 7.0% in 2010. The production of commodities increased by 5.0%, and the production of services increased by 6.0%. The volume of produced GDP amounted to KZT21 513.5 bln. in nominal terms.

3. In 2010 annual inflation was at 7.8%, which is fully in accordance with the National Bank's target band of 6-8% determined for 2010.

The growth of consumer prices in 2010 was mainly caused by the imbalance between the demand and supply in the economy. The impact of monetary factors on the inflation was minimal.

In 2011 the National Bank determined keeping the inflation within 6-8% at the year-end as the main goal of its monetary policy.

4. Actions taken by the National Bank as well as a favorable pricing environment for major items of the Kazakhstan's export contributed to maintaining a stable situation in the domestic foreign exchange market. In this environment the National Bank expanded the band of the Tenge exchange rate from February 5, 2010: KZT150/1US\$ (+)10% or KZT15, (-)15% or KZT22.5.

During 2010 the exchange rate of the Tenge versus the US Dollar remained within the given band with minor participation of the National Bank in the domestic foreign exchange market. Alongside with that, there was a trend of the domestic currency appreciation.

The volume of gross gold and foreign currency assets of the National Bank amounted to US\$27.7 bln. at end-2010, having increased by 23.0% over the year.

5. With a view to increase sustainability of the domestic sources when building up the funding base of banks, to ensure stability of the banking system and protect depositors' interests, in September 2010 the National Bank increased the equity of the Kazakhstan Deposit Insurance Fund by KZT 11 billion. Now the overall Fund's equity totals KZT 121 billion, the deposit payout reserve amounted to KZT126.1 bln. at end-2010.

In 2010 deposits of residents with depository institutions increased by 12.5%, where deposits of individuals increased by 15.9%, and corporate deposits – by 11.2%.

6. Despite a significant volume of liquidity accumulated by banks, the total volume of credits to the economy in 2010 decreased by 0.6% amounting to KZT7596.5 bln. Lending in the domestic currency increased by 11.1%, and in foreign currency – decreased by 13.1%. Activation of lending is mainly kept down because of a high percentage of bad quality credits in the banks' portfolio, persisting risks in the domestic and foreign capital markets, and unclear prospects in relation to creditworthiness of the real sector and the population. In 2011 the volumes of repayments and charge offs on bad loans are expected to offset the volumes of new credits. Therefore, no significant growth in the credit portfolio is expected in 2011.

7. The expansion of reserve money in 2010 made up 5.0%, money supply increased by 14.1%, cash in circulation – by 25.7%. The issuing balance from the issue and withdrawal of cash was positive in 2010 and increased by 4.2 times as compared to 2009 totaling KZT (+)258.5 bln. The volume of payments processed through the payment systems of the Republican State Enterprise “Kazakhstan Interbank Settlement center” increased by 14.6%, the amount of payments increased by 17.5%. The number of payment cards in circulation increased by 10.2%.

8. In 2010 the restructuring of three banks – BTA Bank, Alliance Bank and Temirbank – has been successfully completed. The decisions of the Government made to rescue those banks and restructure their debt in many respects contributed to minimization of negative attitudes. The accomplished restructuring is an important factor, both for foreign investors and the domestic market.

9. As part of implementation of the Concept on the Development of the Financial Sector of the Republic of Kazakhstan in the Post-crisis Period, the Council for Financial Stability and the Development of the Financial Market in the Republic of Kazakhstan was established by the Presidential edict dated June 12, 2010. The strategic approaches to macro-prudential regulation focused on ensuring stability of the financial system of the Republic of Kazakhstan and minimizing systemic risks are elaborated at the sessions of the Council. The first session of the Council took place on June 30, 2010. All in all, 7 sessions of the Council were held where various issues concerning the functioning of the banking, insurance, pension sectors and various segments of the financial market were discussed.

10. The return of the National Fund where the National Bank is an investment manager in 2010 amounted to 3.02% in the base currency – US Dollars. Its return since its inception and up to December 31, 2010 amounted to 59.67%, which makes up 5.00% in annual terms.

11. The revenues of the National Bank in 2010 amounted to KZT64 018.5 mln., and expenditures amounted to KZT14 908.8 mln., net profit amounted to KZT49 109.7 mln. and increased by KZT14 945.0 mln. as compared to 2009 (43.7 %).

I. ECONOMIC DEVELOPMENT

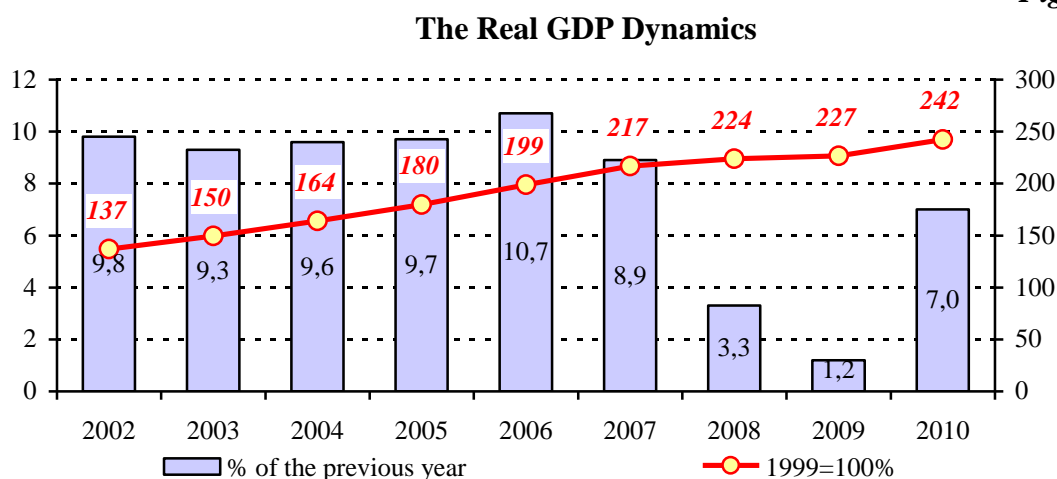
1.1. The Real Sector of the Economy¹

In 2010, the growth in prices and demand for major items of the Kazakhstan's export resumed as a result of a gradual recovery of the global economy. The revival of the global economy and the increase in the domestic demand stipulated the start of a speedy recovering growth of the Kazakh economy. The 25% increase in wages, social benefits and retirement benefits from the budget in 2010 contributed to the expansion of the domestic demand.

The anti-crisis measures of the government whose implementation continued in 2010 as well as the start-up of the Governmental Program for Enforced Industrial and Innovation Development of the Country's Economy for 2010-2014, contributed to the growth in the business activity in the sectors of the economy.

As a result, according to the updated information, from January to December 2010 the volume of GDP in current prices amounted to KZT21.5 trln. and the growth rate of real GDP accelerated significantly as compared to 2009 and amounted to 7.0% (Figure 1.1.1).

Figure 1.1.1



In 2010 all GDP components except three individual constituents demonstrated strong growth rates. The maximum growth rate occurred in the manufacturing industry which grew up by 18.4% (Figure 1.1.2). The decrease was observed in the following industries: “agriculture, forestry and fishery” – by 11.7%; “financial and insurance activity” – by 2.4%, “financial intermediation services indirectly measured” – by 25.5%.

After a record harvest of grain cultures in 2009, the decreased indicators in agriculture in 2010 were caused by a high comparative base as well as a lean year, due to unfavorable weather conditions.

Low lending activity of banks which caused an insignificant downturn in lending by 0.6% in 2010 was the reason for the decreased indicators in the other two types of economic activity.

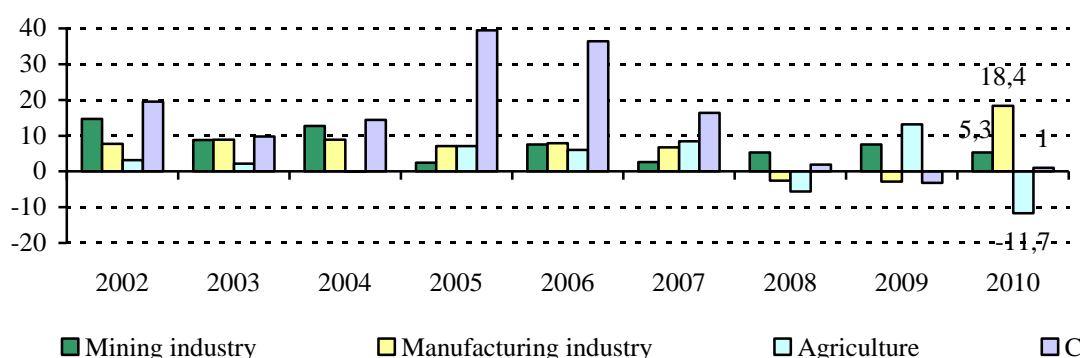
In 2010 the GDP growth was generally balanced and was secured by the growth in the production of goods by 5.0% and the growth in the production of services by 6.0%, whereas in 2009 the source of the GDP growth was the real sector of the economy, which increased by 3.3% over the year, while the production of services decreased by 1.5%.

¹ According to the Agency of Statistics

Figure 1.1.2

Dynamics of the Index of Physical Volume of Output in Individual Sectors of the Economy

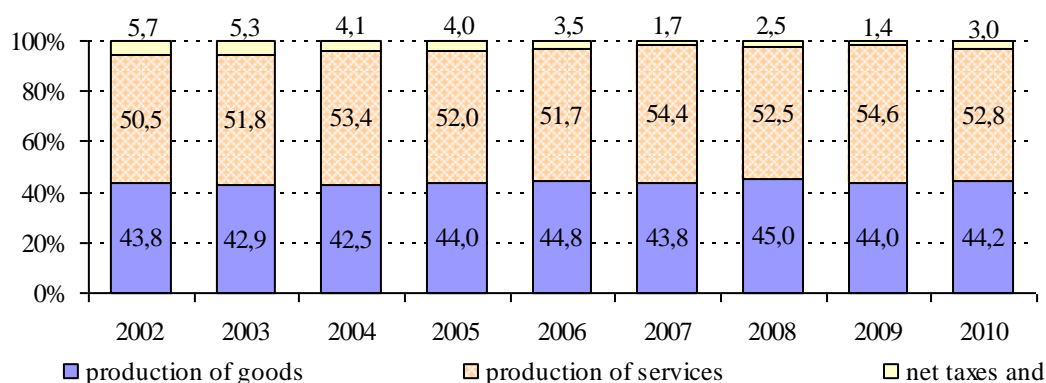
as % of the previous year



In the structure of GDP the major portion still falls on the services (52.8%), alongside with that their share has been steadily exceeding a half of the GDP volume since 2002 (Figure 1.1.3).

Figure 1.1.3

The Structure of the Gross Domestic Product



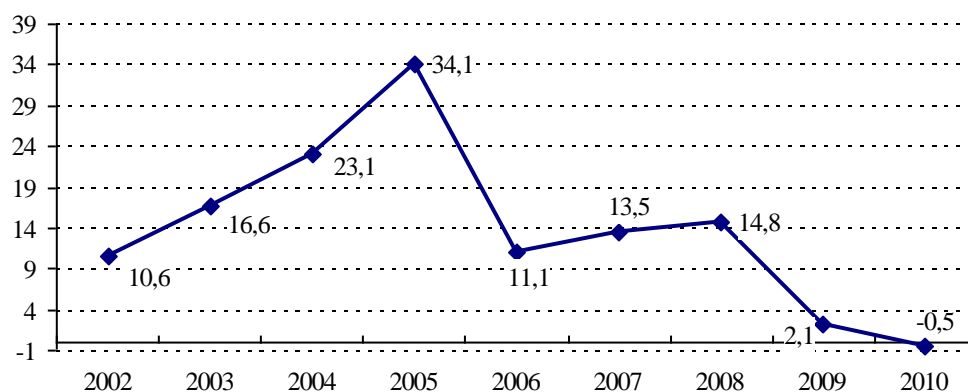
* FISIM – financial intermediation services indirectly measured

After significant slowdown in the growth rates of fixed capital investments in 2009, in 2010 investments decreased by 0.5% (Figure 1.1.4). Such decrease was caused by the decrease in the fixed capital investments in a number of sectors which faced serious difficulties during the crisis.

Figure 1.1.4

The Growth Rates of Fixed Capital Investments

as % of the previous year



The decrease in investments in 2010 was noted in the following lines of activities: wholesale and retail trade, repair of cars and motorcycles – by 22.7%, transport and warehousing – by 28.0%, accommodation and catering services – by 47.4%, information and communication – by 17.9%, financial and insurance activity – by 23.7%, professional, scientific and technical activity – by 51.1%, provision of other services – by 3.5%. The share of these sectors in the total investment volume accounted for 21.9%.

The highest percentage of fixed capital investments falls on the industry (55.6%), transport and warehousing (15.2%) as well as real estate operations (8.4%). The mining industry and quarry operations are still attractive for investments, with their share in the total volume of fixed capital investments accounting for 36.0%.

In 2010 the structure of fixed capital investments has undergone significant changes. Broken down by sources of funding, the percentage of resources from the state budget increased from 18.9% to 21.1% in the total volume; own funds – increased from 32.6% to 45.9%, whereas the percentage of foreign investments decreased from 37.0% to 24.4%, of borrowed funds – decreased from 11.5% to 8.6%.

In terms of the technological structure, an increase in capital investments in construction works and major overhaul of buildings and structures and investments for the purchase of machinery, equipment, tools and inventory (by 2.5% and 11.7%, respectively) is observed.

In 2010 investments in housing construction decreased by 2.1%, representing a much better situation than in 2009 when the decrease made up 36.9%. As a result, the index of physical volume of commissioned housing increased by 0.1%, and the total volume of construction works (services) increased by 1.0%.

The economically active population amounted to 8.6 mln. individuals in 2010, which is by 1.8% higher than in 2009. The population employed in the economy increased by 2.7% to 8.1 mln. individuals. The number of unemployed decreased by 10.4% to 496,600 individuals. **The unemployment rate** in 2010 was at 5.8% (2009 – 6.6%).

In 2010 **the average monthly nominal wage** was KZT 77482, which is by 14.6% higher than in 2009. In real terms, wages increased by 7.0% (in 2009 – the growth by 3.2%). The growth in the remuneration of labor of employees in 2010 was observed in all sectors of the economy (Appendix 1 to Section I Subsection 1.1, Figure 1.1.1).

Per capita nominal cash income for 2010 reached KZT463 000, which is higher than in 2009 by 13.9% in nominal terms and by 6.3% - in real terms.

1.2. Monitoring the Real Sector Enterprises

During 2010 the number of enterprises – participants in the monitoring process representing the major sectors of the economy increased from 1 917 to 2 139, including large- and medium-size enterprises – from 1 180 to 1 269. 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 sample. Proceeds from sales of the output (works, services) of the enterprises – participants in the monitoring process in Q4 2010 amounted to KZT 3 884.7 bln., accounting for about 41% of the total proceeds from the sale of output in the economy.

The results of quarterly interviews of enterprises allow making the following conclusions about the developing economic situation and the main trends in the real sector of the economy in 2010.

At the beginning of 2010 the downward trend in the demand which was observed during 2009 was continuing. From Q2 2010 the demand began to grow although its growth rates slowed down by the year-end because of the decreased demand in such sectors as “construction” and “real estate operations, rent and services to enterprises”. The highest increase of the indicator was

observed in Q2 and Q3 2010 and was noted by 28.1% and 27.3% respondents, respectively (Appendix 1 to Section I Subsection 1.2, Figure 1.2.1).

Prices for raw materials and supplies were growing visibly during the year. The highest growth occurred in Q3 and Q4 when 50% of enterprises in the sample noted the increase in prices and only 1% – the decrease (Appendix 2 to Section I Subsection 1.2, Figure 1.2.2). The increase in the growth rates occurred in all sectors other than “agriculture, hunting and forestry” and “construction”.

The dynamics of prices for final products of enterprises during 2010 was determined by the change in the demand for raw materials and supplies: in the second half of the year the growth of the indicator demonstrated much higher rates than in the first half of the year. The highest price growth occurred in Q4 2010 (Appendix 1 to Section I Subsection 1.2, Figure 1.2.3). The price growth was observed in such sectors as “mining industry”, “production and distribution of electric energy, gas and water”, “manufacturing industry” and “transport and communication”.

The tendency of current asset financing by enterprises mainly from their own funds retained, this fact being noted by over 80% of enterprises.

The average annual return on sales (before tax) in the economy increased and was 45.2% (in 2009 – 41.1%). Accordingly, the share of low-margin and unprofitable enterprises decreased to 26.4% (in 2009 – 28.9%).

The mining industry, compared with others, remains more attractive for investments: the average annual return on sales amounted to 63.5%. The return on sales in the manufacturing industry was at 32.4%, in the trade – 15.7%, transport and communication – 29%, and in the production and distribution of electric energy, gas and water – 27.3%.

By the year-end there was a decrease in interest rates on credits received both in the Tenge and in foreign currency (from 14.9% and 13.6% in Q1 2010 to 14.1% and 12.1% in Q4 2010, respectively), the percentage of enterprises that obtained credits increased (from 16.7% in Q1 2010 to 20.4% in Q4 2010) (Appendix 2 to Section I Subsection 1.2 Figure 1.2.4, Appendix 3 to Section I Subsection 1.2 Figure 1.2.5). The highest decrease in interest rates was observed in such sectors as “manufacturing industry” and “transport and communication”.

During the year there was growth in the investment activity: the source for investments was mainly represented by own funds of the enterprises (the number of such enterprises increased from 49.1% in Q1 2010 to 56.2% in Q4 2010).

A negative impact of the change in the exchange rate of the Tenge versus the US Dollar, Euro and Russian Ruble on the economic activity of enterprises has decreased significantly: from 16.1%, 11.2% and 12.2% in Q1 2010 to 11.7%, 10.4% and 9.8% in Q4 2010, respectively.

1.3. Public Finance²

In 2010 some amendments were made to the Tax Code of the Republic of Kazakhstan related to the rates of corporate income tax and mineral extraction tax. The decision was made not to decrease the corporate income tax rate of 20% to 17.5% from 2013 and to 15% from 2014.

With a view to establish conditions for increasing the investment attractiveness of gold as a financial instrument, the law provides for amendments with regard to the VAT exemption for transactions in investment gold.

The procedure for taxation of amounts received by farms from the state budget to cover expenses was defined more precisely, in order to exempt such amounts from taxation.

For the purposes of assessing the transport tax the procedure for transport vehicles classification was defined more precisely.

In connection with the deployment of 3G cell communications and 4G mobile communications, the tariff for the use of radio-frequency spectrum was changed to 2200 minimum

² According to the Ministry of Finance

calculation indices. Also, the most significant event in the area of taxation was the establishment of the Customs Union between Russia, Kazakhstan and Belarus.

At end-2010, revenues of the state budget increased by 22.6% as compared to 2009 and amounted to KZT4 299.1 bln. or 20.0% of GDP (in 2009 – 20.6% of GDP).

Tax revenues which account for 68.2% in the structure of the state budget revenues amounted to KZT2 934.1 bln. or 13.6% of GDP (in 2009 – 13.1% of GDP). The changes in the system of taxation resulted in the increase of tax revenues by 31.7% as compared to 2009. Tax for international trade and foreign operations increased by 2.5 times. Revenues from the value-added tax increased by 31.3%, from corporate income tax - by 30.1%, from property tax – by 17.5% and from personal income tax – by 16.2%.

There was an insignificant growth in the social tax – by 9.0% and in excise taxes – by 7.0%.

Non-tax revenues in 2010 decreased by 23.3% and amounted to KZT104.4 bln. or 0.5% of GDP. Such decrease was mainly caused by the decrease in revenues from penalties, fines, sanctions, charges and other non-tax revenues.

Revenues from the sale of fixed capital increased by 69.0% as compared to 2009.

The transfers from the National Fund in 2010 were ensured through the guaranteed transfer and amounted to KZT1 200.0 bln. The receipt of transfers increased by 8.6% as compared to 2009.

In 2010 state budget expenditures were incurred in the amount of KZT4 457.2 bln. or 20.7% of GDP (in 2009 – 22.0% of GDP). As compared to 2009, expenditures increased by 19.0%, which was caused by the increase in expenditures for financing welfare and social security, education and healthcare.

The highest increase in expenditures occurred in such areas as debt servicing, which accounted for 2.1% in the total volume of expenditures, fuel and energy complex and subsoil management (the share in the volume of expenditures – 1.8%), general public services (5.0%) and culture, sports, tourism and information space (5.1%).

In 2010 budget credits increased by 3.5 times, repayments of earlier credits increased by 21.8 times. A dramatic increase in repayments of earlier credits occurred due to the repayment of the credit in the amount of KZT80.0 bln. provided to JSC “National Management Holding Company KazAgro” for the term of one year. Thus, the volume of net budget lending decreased by 19.2% to 0.1% of GDP.

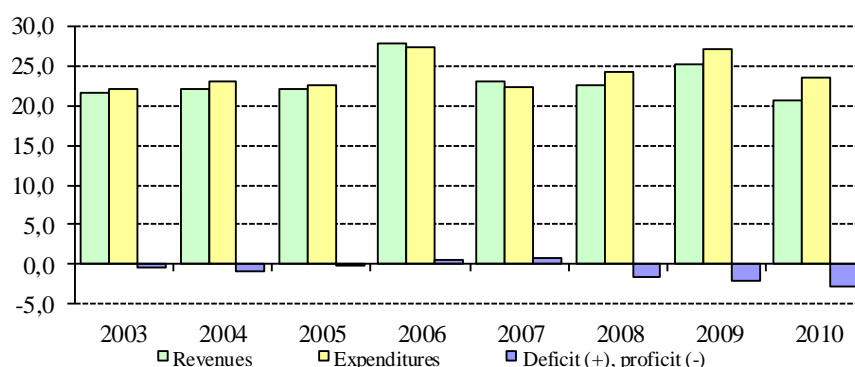
The state budget expenditures for the purchase of financial assets increased by 55.0%, and revenues from their sale increased by 18.0%. The resulting balance on these operations increased by 55.1% to 1.6% of GDP.

In 2010 the state budget was executed with the deficit of KZT527.3 bln. (2.5% of GDP), in 2009 the deficit amounted to KZT492.7 bln. (Figure 1.3.1).

Figure 1.3.1

State Budget Execution

as % of GDP



In 2010 the national budget revenues amounted to KZT3 626.2 bln. or were by 30.5% higher than in 2009. Tax revenues to the national budget increased by 43.6%, revenues from the sale of fixed capital – by 5.2 times, inflow of transfers – by 19.7%. Non-tax revenues decreased by 37.5%.

The growth in the state budget expenditures which amounted to KZT3 861.0 bln. accounted for 23.8% as compared to 2009, with a significant increase in such items as “public healthcare” (by 2.1 times), “fuel and energy complex” (by 41.7%), “debt servicing” (by 36.7%) as well as “general public services” (by 31.5%).

In 2010 the volume of net budget lending of the national budget increased by 43.7% to KZT36.0 bln. due to the three-fold increase in the volume of budget credits, despite the five-fold increase in the volume of budget credit repayments. The balance of operations with financial assets increased by 93.9%.

So, the actual national budget deficit in 2010 amounted to KZT554.8 bln. with the planned deficit of KZT721.0 bln..

In 2010, local budgets were executed with a profit of KZT6.6 bln., which is by 66.3% less than the profit in 2009 (KZT19.6 bln.). Such profit resulted from the increase in revenues by 13.6% with the growth in expenditures by 15.3%, in net budget lending – by 6.4 times and the decrease in the balance of operations with financial assets by 18.4%.

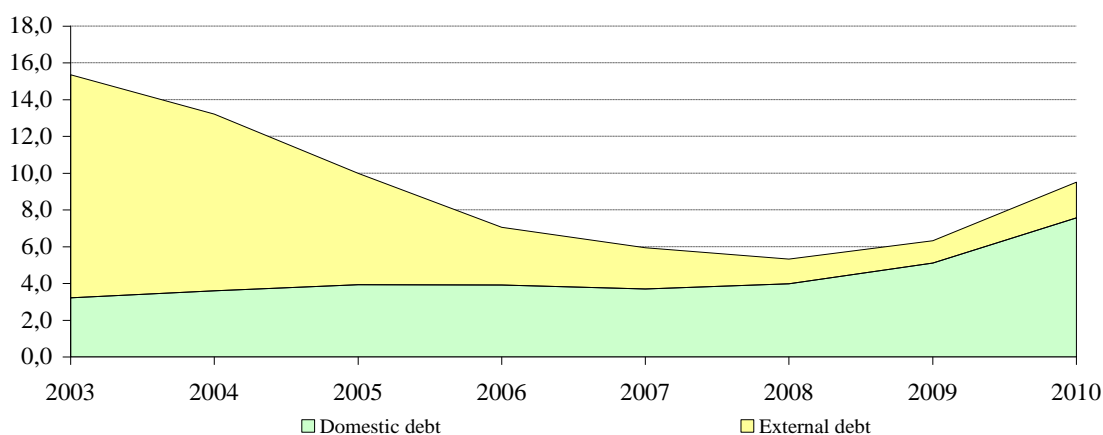
The government domestic debt for 2010 amounted to KZT1 669.1 bln. (7.8% of GDP), having increased by 29.5%, as compared to 2009 (Figure 1.3.2).

The growth of the domestic debt resulted from the issue of long-term savings treasury bonds and long-term treasury bonds.

Figure 1.3.2

Government Debt

as % of GDP



The external debt of the Government in 2010 (2.6% of GDP) increased by 69.1% as compared to 2009 and amounted to US\$3.8 bln. The external debt guaranteed by the state decreased by 36.1%.

1.4. Balance of Payments and External Debt

The profit of current account balance in 2010 amounted to US\$4.3 bln. versus the deficit of US\$4.4 bln. in 2009 (Appendix 1 to Section I Subsection 1.4).

A significant improvement in the current account balance versus 2009 was ensured by the increase in the cost of commodity exports associated with the favorable world pricing environment for energy sources. In 2010 the average world price of oil (brent) was US\$79.64 per barrel, which is by 28.7% higher than its average level in 2009 (US\$61.86 per barrel). As a result, export of goods increased by 38.5% versus 2009 and amounted to US\$60.8 bln. At the same time, the official export

of goods amounted to US\$59.5 bln., of which US\$ 37.0 bln. (62.1%) falls on the exports of oil and gas condensate (US\$26.2 bln. in 2009). The export value of ferrous metals increased by 43.4%, non-ferrous metals – by 44.4%. The increase in the export of oil and gas condensate, ferrous and non-ferrous metals was mainly caused by the price growth.

The commodity imports with their increase by 10.3% amounted to US\$32.0 bln., of which the official imports amount to US\$30.4 bln. (US\$28.4 bln. in 2009). The growth of imports was noted in all commodity groups of the main product nomenclature, except for the group of investment goods. There was an increase in the interim consumption goods by 22.3%, and in the group of consumer goods – by 16.4%. At the same time the total import of foodstuff consumer goods increased by 30.1% and of non-food items – by 7.6%. Investment goods account for 37.4% of the value of commodity imports, at the same time the import of this group of goods amounted to US\$11.4 bln., having decreased by 9.6%.

On average, trade balance for 2010 was positive and made up US\$ 28.9 bln., demonstrating almost a double increase as compared to 2009.

The deficit of the balance of services in 2010 amounted to US\$7.1 bln. The growth in the negative imbalance of international services versus 2009 by 21.4% (US\$5.8 bln. in 2009) is still associated with implementation of projects in the Kashagan oil field.

Owing to the growth in the proceeds from the exports of goods, revenues of direct foreign investors in the respective sectors of the economy increased significantly. While interest payments to creditors not bound by the direct investment relations decreased (from US\$3.3 bln. to US\$2.6 bln.), payments to direct investors increased by 39.3%, amounting to US\$14.9 bln., which caused the increase in the negative balance of investment income to US\$15.7 bln. versus US\$11.5 bln. in 2009.

In 2010 the increase in the capital account to US\$7.9 bln. was mainly due to the waiver of a part of foreign debt as a result of restructuring of liabilities of Kazakh banks (Alliance Bank, Temirbank, BTA Bank) during the first three quarters of 2010.

In 2010 net outflow in the financial account was US\$8.9 bln. At the same time, net inflow of direct foreign investments in Kazakhstan amounted to US\$10.0 bln.

In direct investments abroad net outflow of US\$7.8 bln. was mainly secured by operations in the second half of 2010. The net outflow of US\$2.0 bln. in the 3rd quarter of 2010 was due to the increase in the shareholders equity of foreign subsidiaries by Kazakh enterprises dealing with the oil trading and non-ferrous metallurgy. A significant outflow of US\$5.4 bln. in the 4th quarter was caused by the decrease in the debt of Kazmunaigas to its subsidiary (SPV) resulting from the change of the issuer of Eurobonds issued by the SPV in the total amount of US\$6 bln. The issuer of Eurobonds was changed for the purpose of obtaining a tax saving³ under the existing legislation of the Republic of Kazakhstan.

This resulted in a positive balance on direct investments of US\$2.2 bln. only versus US\$ 10.7 bln. in 2009.

As a result of the change of the issuer of Eurobonds of SPV of Kazakh banks and enterprises, the issue of securities in the process of bank restructuring and new issues of Eurobonds of Kazatomrom (Q2 2010), Development Bank of Kazakhstan and Kazmunaigas (Q4 2010), net inflow of portfolio investments in Kazakhstan (liabilities) amounted to US\$ 15.9 bln. (US\$1.1 bln. in 2009).

Given the increase in the National Fund's assets on securities of non-residents, the balance of portfolio investments in 2010 amounted to US\$8.7 bln.

As a whole, in 2010 net outflow from the banking sector operations amounted to US\$11.0 bln. (US\$8.1 bln. at year-end of 2009). Foreign assets of the banking system increased by US\$1.2 bln. and foreign liabilities decreased by US\$9.8 bln. as a result of operations.

³ The rate of withholding tax becomes a zero under the Tax Code which provides for an exemption from withholding tax on interest on debt securities which are in the official listing of the stock exchange operating within the territory of the RK, at the date when such interest is accrued. Such tax saving allows enterprises and banks increase net income.

International reserves of the National Bank as a result of operational changes increased by US\$4.7 bln. from US\$23.1 bln. at the beginning of the year and based on the rate and price adjustments at end-2010 amounted to US\$28.3 bln. As a result, the level of adequacy of international reserves provided financing of 7.8 months of goods and services imports in Kazakhstan (7.1 months at end-2009).

In 2010 gross external debt of the Republic of Kazakhstan (“GED”), excluding intercompany debt, increased by US\$3.0 bln. and amounted to US\$66.0 bln. as of December 31, 2010. At the same time, in the “Banks” sector⁴, the decrease amounted to US\$10.1 bln., external debt of the “General Government” sector increased by US\$1.6 bln., and in “Other sectors”⁵ the increase excluding intercompany debt made up US\$11.5 bln. (Appendix 2 to Section I Subsection 1.4).

Including intercompany debt, liabilities of “Other sectors” increased by US\$14.5 bln. amounting to US\$119.2 bln. at the year-end, which contributed to the growth in gross external debt in 2010 by US\$6 bln. The growth in liabilities of “Other sectors” was primarily caused by the issue of Eurobonds, including via SPVs, by such companies as Kazmunaigas, Kazakhstan Temir Zholy, Zhaikmunai LLP, and Kazatomprom in the total amount of US\$4.4 bln. as well as due to a net inflow of funding for projects implemented in Kazakhstan via branches of foreign companies – by US\$8 bln.

A relatively moderate growth rate of the external debt, as compared to previous years (in 2008 11.4%, in 2009 4.9% and 5.3% in 2010), the growth of GDP volumes in 2010, the growth in exports of goods and services (EGS) resulted in improved indicators of mid- and long-term creditworthiness of the country (Appendix 3 to Section I Subsection 1.4). At December 31, 2010 the ratio of GED (including intercompany debt) to GDP decreased to 81.7% from 98.6% at end-2009, and the ratio to EGS, respectively, decreased to 183.2% from 235.1%.

The indicator characterizing the burden of debt servicing – the ratio of debt service payments in 2010 to EGS for the same period accounted for 33.5% (63.2% in 2009). To some extent, such improvement in the debt service burden is related to the waiver of a major portion of long-term external debt of banks in the course of restructuring of their liabilities.

The ratio of international reserves to short-term debt to maturity, with the principal and interest amount which may be repaid during the next 12 months, is 117%, according to the National Bank’s estimate at 31.12.10, (112% at end-2009). Under the Guidotti Rule (Greenspan-Guidotti), this ratio shows the coverage of annual payments of external debt without new borrowings and should be at least 1 (or 100%) for countries with sufficient yet not sustainable access to the global financial markets.

In general, all foreign assets of residents represent potential currency resources for external debt repayment and servicing, and not only reserve assets and export proceeds. In this connection the status of net external debt which is equal to gross external debt less gross foreign assets in the form of debt instruments, should be also assessed.

As a whole, at December 31, 2010 gross foreign assets of the country in the form of debt instruments increased by US\$7.7 bln. amounting to US\$93.1 bln., and net external debt of the country at the reporting date decreased to US\$ 26.2 bln. from US\$27.8 bln. at end-2009. Alongside with that, net external debt of Banks amounted to US\$0.4 bln., and net external debt of Other Sectors – to US\$72.8 bln.

The government sector cemented its place as a net creditor – in the sector of the “General Government” and the National Bank total foreign debt assets exceeded total foreign debt liabilities by US\$47.1 bln. at end-2010 (US\$38.4 bln. at end-2009).

⁴ Including the second-tier banks and the Kazakhstan Development Bank

⁵ Including non-bank financial corporations, non-financial corporations as well as households and non-profit organizations providing services to the households

1.5. Ensuring Financial Stability

The year of 2010 resulted in the mitigation of the majority of risk factors which negatively influence financial stability, mainly due to the measures and policy implemented by the government. The measures taken by the government to ensure financial stability in 2010 were aimed at both decreasing the most severe risk factors for the financial system and at establishing the basis for sustainable development of the country's financial system in the post-crisis period.

A major positive trend is the accomplished restructuring of foreign liabilities of certain Kazakh banks and, therefore, the decrease in foreign liabilities of the banking sector. Nonetheless, low credit portfolio quality of banks is still the most important risk factor for the financial system.

External Debt and Restructuring of Foreign Liabilities of Banks. During the crisis a high level of foreign liabilities of the banking sector represented a major threat for the stability of the financial system. In the circumstances when there was virtually no possibility of refinancing in the external markets, the remaining inflow of deposits of the population and legal entities, coupled with the decrease in the credits to the economy, contributed to the repayment of foreign debt by the majority of banks. Moreover, the process of restructuring of foreign liabilities of BTA Bank, Alliance Bank and Temirbank which started in 2009 and was completed at the end of the 3rd quarter of 2010 played a key role in decreasing the debt burden on the banking sector. Problems of these banks to a large extent increased uncertainty of expectations about the future of the Kazakh financial system among the market participants; and the successful completion of the restructuring process substantially contributed to decreasing the level of systemic risk in the Kazakh banking system and maintaining its soundness at an acceptable level.

The Kazakh experience of the foreign debt restructuring allowed avoiding costs and risks that could have been incurred by the government and the financial system as a whole in case of a bank failure or in case of covering bank liabilities by the public resources. The most probable scenario in case of bank failures would include the undermining of confidence in the entire banking system and in the competence of relevant financial authorities, depositor runs, speculative attacks on the domestic currency and capital outflows from the country. In its turn, the scenario under which bank debts are serviced by the government, would result in the moral hazard, increased burden on the public finances and significant damage to the reputation of the financial system and the government in the eyes of investors.

As a result of restructuring, external debt of Alliance bank was cut from US\$4.5 bln. to US\$1.1 bln. and the term of debt servicing was extended from 1-7 years to 7-20 years. Foreign debt of Temirbank decreased from US\$770 to US\$61 mln. while the term of its servicing was extended from 1-4 to 10-12 years. BTA Bank decreased its foreign debt from US\$12 bln. to US\$4.4 bln.⁶, the repayment schedule was renegotiated from 1-5 years to 8-20 years. On the whole, the process of foreign debt restructuring of three Kazakh banks help decreasing the external debt of the banking sector of Kazakhstan from US\$30 bln. as of end-2009 to US\$20 bln. at end-2010.

Funding of the Banking Sector. Despite the fact that financial conditions in the global financial markets started to normalize in 2010, the risk level remained high to a large extent due to the threat of the sovereign debt defaults in the European countries. In this environment, the remaining limited access to external funding and the absence of acceptable conditions for foreign borrowings in 2010 strengthened the tendency of replacing external funding by the domestic funding. The growth in the domestic funding sources was in the first instance secured by the increase in the customer deposits and was actually achieved due to the bank funding by the government. As a whole, in 2010 the total volume of government funding accounted for 8-9% of total assets of the banking system and the lending activity of banks was mainly maintained through the implementation of government programs for the support of top-priority sectors of the economy within the resources allocated for these purposes.

⁶ According to the National Welfare Fund "Samruk-Kazyna"

As a whole, the governmental support of the economy and financial sector in the time of the crisis helped keeping the confidence in the banking system of Kazakhstan. So, based on the performance in 2010 a positive steady increase in the deposit base of individuals is noted. Moreover, the tendency of the deposit outflows from the three Kazakh banks which were undergoing their foreign debt restructuring was replaced by the net positive increase in the deposits with these banks in 2010.

Low Lending Activity of Banks. In 2010, in the environment of high credit risk banks remained very cautious in their lending policy. In its turn, this caused some stagnation in the loan portfolios of banks resulting in the decrease in the loan portfolio by 5.9% in 2010.

According to the results of quarterly surveys of the credit market status with the breakdown by banks conducted by the National Bank, at end-2010 there was some restoration of the demand for credit resources on the part of non-financial organizations. To a large extent, such growth was caused by the necessity to maintain an adequate level of liquidity in the corporate sector and, thus, by the need in the working capital financing and restructuring of the existing debts.

In the segment of retail lending banks started to gradually resume their consumer lending programs and, accordingly, to build up their credit portfolios of consumer loans to a minor extent. The growth in the volumes of consumer lending is explained by the deferred demand of the population for certain types of goods that became possible owing to the stabilization of the economic situation in the country. However, the major risks in the mortgage market still exist, with some revival of the demand on the part of the population and insignificant growth of competition in the sector.

As a whole, based on the performance in 2010, banks haven't virtually changed their credit policy towards its liberalization. However, growing competition in the lending market for good-quality borrowers with a good credit history and strong financial flows force the banks to change their credit policies in a flexible fashion and somewhat decrease their interest rates on credits to good-quality borrowers in order to attract them and keep them.

Deterioration of the credit quality. Realization of credit risks, mainly in 2009 – the beginning of 2010 has significantly affected the quality of the loan portfolio. From the beginning of 2010 the level of problem loans in the loan portfolios of banks continued to grow; recovery of the economic growth and revival of business activity could not help improving the quality of the banking sector's loan portfolio. However, from the second half of 2010 a gradual decrease in the rates of deterioration of the loan portfolio quality was observed; this is a sign of an improving trend in the situation with the loan portfolio quality of banks.

With a view to improve the loan portfolio quality, banks started to make intensive efforts to restructure problem loans and foreclose collateral on problem loans. According to the information provided by banks, in relation to 25% of their loan portfolio lending terms were renegotiated by banks in order to improve the customer creditworthiness. The main types of restructuring used by banks were providing grace periods for repayment of past due debt and prolongation of the overall loan tenor and renegotiation of maturity dates.

Moreover, normalization of the situation in the corporate sector where the decreasing probabilities of bankruptcies and improvement in the financial performance of enterprises in the majority of sectors are observed also predetermines the improvement of the loan portfolio quality, a downward reassessment of risks from the borrowers and further recovery of lending.

At the same time, unwillingness of banks to charge off bad loans hindered the improvement in the loan portfolio quality. The increase in the volumes of charged off loans in the first half of 2010 occurred, in the first instance, because of intensification in the loan charge offs and putting the losses on the books of the banks undergoing the process of their foreign debt restructuring. However, at the system level in general, banks maintained the policy of keeping problem loans on their balance sheets which is explained by the absence of mechanisms of management of the collateral that is assigned to banks after defaults of problem borrowers and the existence of unregulated problems with taxation of revenues from recovery of provisions.

Generally, certain improvement in the quality of retail portfolio of banks is observed as a result of short maturities of such loans and a more intensive replacement of earlier loans by the new ones. At the same time, at end-2010 the volume of new loans is insignificant but their quality is much better as compared to earlier loans; this fact is primarily related to a more scrutinized approach to the assessment of risks from potential borrowers.

In order to maintain and reinforce financial stability, the scope of regulation is expanded across the board in the global financial system with a focus on early identification of imbalances in the economy and minimization of systemic risks in the future. The Concept for the Financial Sector Development in the Republic of Kazakhstan in the Post-Crisis Period approved by the Presidential Edict of February 1, 2010 #923 defines that a mid-term government policy will be focused on implementing the macro-prudential regulation and, accordingly, on strengthening the role of the National Bank as a central authority responsible for implementation of the policy.

Under the Concept, the macro-prudential regulation shall mean:

- 1) defining the key sectoral principles and approaches to prudential regulation of systemic risks and the application of appropriate ratios;
- 2) developing the measures of anti-crisis management and mechanisms for minimization of damages in the case of realization of systemic risks.

The experience gained in Kazakhstan during the crisis showed the importance of communication among institutional frameworks in designing the policy of the financial system regulation and served as an impetus for the development of the system of macro-prudential regulation. The established system of macro-prudential regulation in Kazakhstan is a two-tier system, in which:

- strategic approaches to macro- and micro-prudential regulation are developed within the framework of the Council for Financial Stability and Financial Market Development of the Republic of Kazakhstan (“the Council”);
- decisions made by the Council are realized by the working groups of the Council established to address various aspects in the development of different segments of the financial system.

The Council was established by the Presidential Edict of June 12, 2010 #994 “On the Council for Financial Stability and Financial Market Development of the Republic of Kazakhstan” and represents a consulting and advisory body accountable to the President. The key objectives of the Council are to facilitate and make proposals for implementation of the macro-prudential regulation focused on the financial system stability of the Republic of Kazakhstan and minimization of systemic risks. In 2010 seven meetings of the Council were held, whose agenda included various aspects in the functioning of the banking, insurance and pension sectors and various segments of the financial market.

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

2.1. Monetary Policy

In 2010 the inflationary background in the economy remained. The reason for persisting inflationary background in the economy in 2010 was the manifestation of external factors. The increased world prices in the commodity markets including prices for oil and metals furthered the growth in prices of the Kazakh enterprises – producers of industrial output. Moreover, adverse weather conditions (drought, fires) in some countries resulted in the lower production of certain foodstuffs including grain cultures. Such situation was conducive to the buildup of inflationary expectations within Kazakhstan.

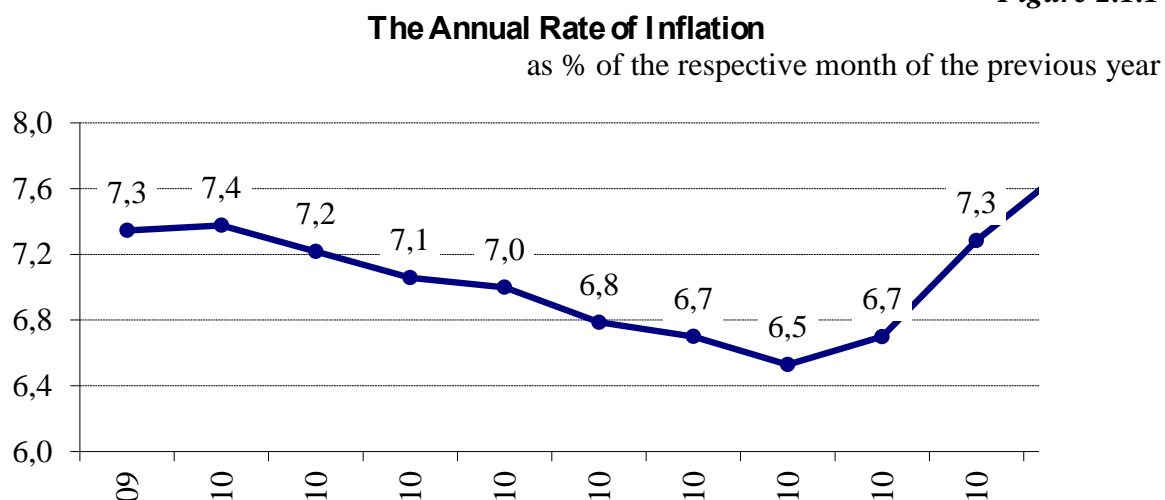
The factors causing the acceleration of inflation in 2010 were also associated with the imbalanced demand and supply in the economy. One of the main reasons for the expanded

aggregate demand in the economy was the growth of cash income of the population supported not only by revived business activity but also by the increased wages, social benefits and retirement benefits from the state budget by 25% in April 2010.

At the same time, inflationary processes in Kazakhstan in 2010 were building up against a minimum impact on the part of monetary factors. So, the growth in money supply in 2010 accounted for 14.1%, and reserve money expanded by 5.0% only.

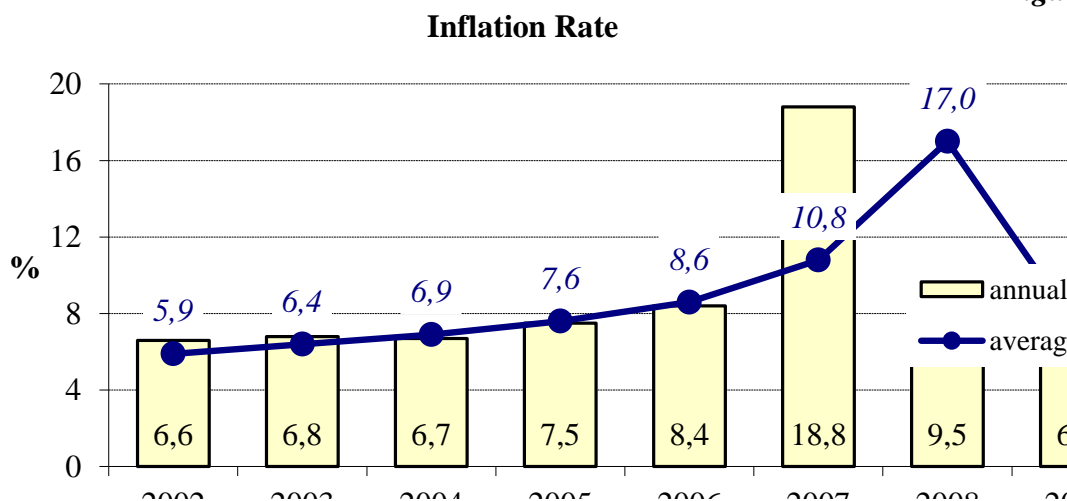
Meantime, at end-2010 the inflation was maintained within the National Bank's target band of 6-8% (Figure 2.1.1).

Figure 2.1.1



At end-2010 annual inflation was at 7.8% (Figure 2.1.2), which is by 1.6 pp higher than in 2009 (December 2009 versus December 2008 – 6.2%). The average annual inflation accounted for 7.1% versus 7.3% in 2009.

Figure 2.1.2



In 2010 annual inflation was accelerating against increased rates of growth in prices for foodstuff whereas rates of growth in prices for non-food items and paid services slowed down. The price of foodstuff increased by 10.1% (in 2009 – by 3.0%), of non-food items – by 5.5% (by 8.6%), and of paid services to the population – by 6.8% (by 8.4%).

The highest increase was demonstrated by prices for fruits and vegetables – by 19.1%, for oils and fats – by 18.8%, for sugar – by 12.3%, for meat products – by 12.1%, for medical services – by 9.8%, for utilities – by 7.0%.

A gradual growth of world prices had an impact on the increase in prices for products of the Kazakh producers in 2010. The cost of industrial output appreciated by 12.9% in 2010 as a whole (in 2009 – the growth by 31.0%).

At the same time the cost of output appreciated by 13.4%, including interim consumption products – by 13.8%, consumer goods – by 9.7%, and production means – by 0.6%. The cost of production services increased by 5.1%.

Monetary Policy Instruments. In 2010 the main goal of the National Bank was to ensure the price stability in the country and to keep annual inflation within 6-8%.

Measures taken by the National Bank as well as a favorable pricing environment for major items of Kazakhstan's exports helped maintaining a stable situation in the domestic foreign exchange market. In these conditions, from February 5, 2010 the National Bank expanded the Tenge exchange rate band as follows: KZT150/US\$ (+)10% or KZT15, (-)15% or KZT22.5. This band was established to be in effect until March 20, 2011.

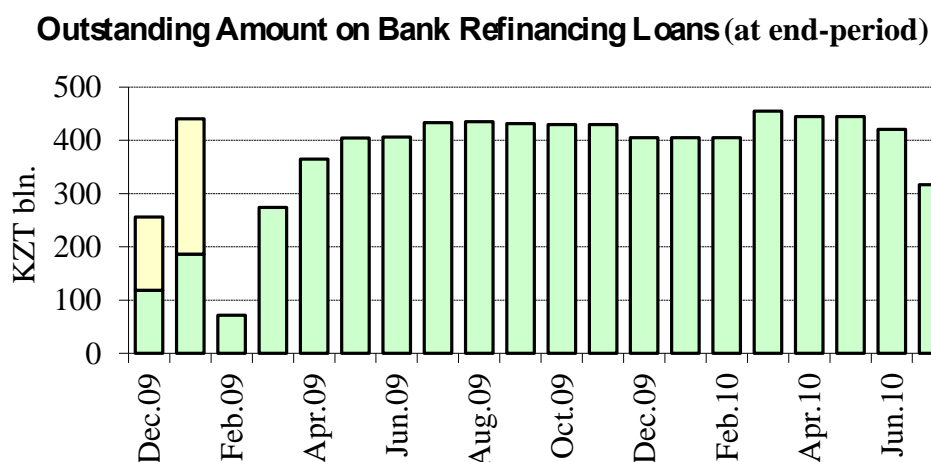
During 2010 the exchange rate of the Tenge versus the US Dollar remained within the given band with minimal participation of the National Bank in the domestic foreign exchange market. Alongside with that there was a tendency for appreciation of the domestic currency.

In 2010 the National Bank was primarily a buyer of foreign exchange in the domestic foreign exchange market. During 2010 net purchase of the National Bank in the domestic foreign exchange market amounted to US\$2.7 bln.

In 2010 the National Bank provided refinancing loans to banks through reverse REPO operations. The total volume of reverse REPO operations in 2010 amounted to KZT5.7 trln. The term of such operations didn't exceed one month.

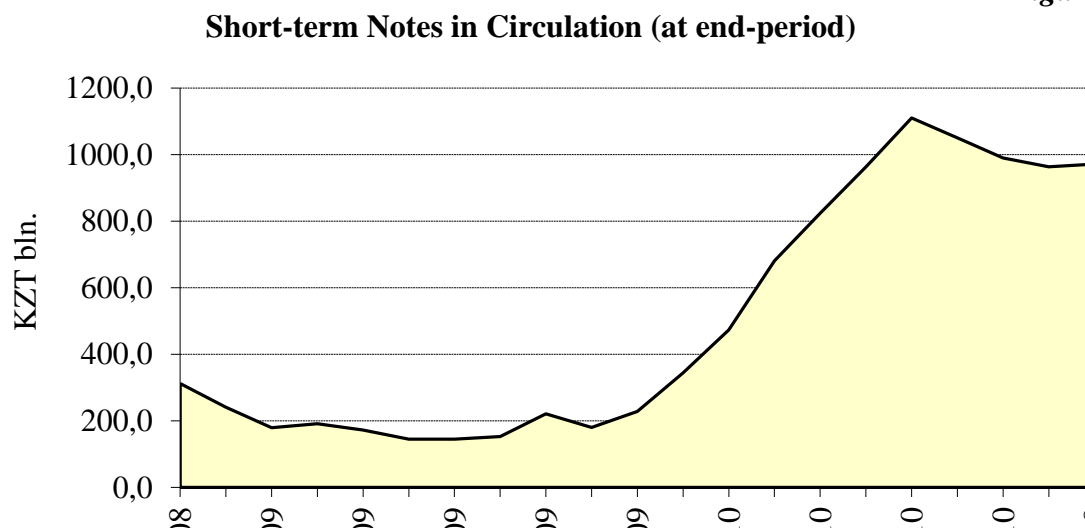
As of the end of 2010, the volume of the banks' outstanding debt to the National Bank under reverse REPO operations amounted to KZT464.9 bln. (Figure 2.1.3).

Figure 2.1.3

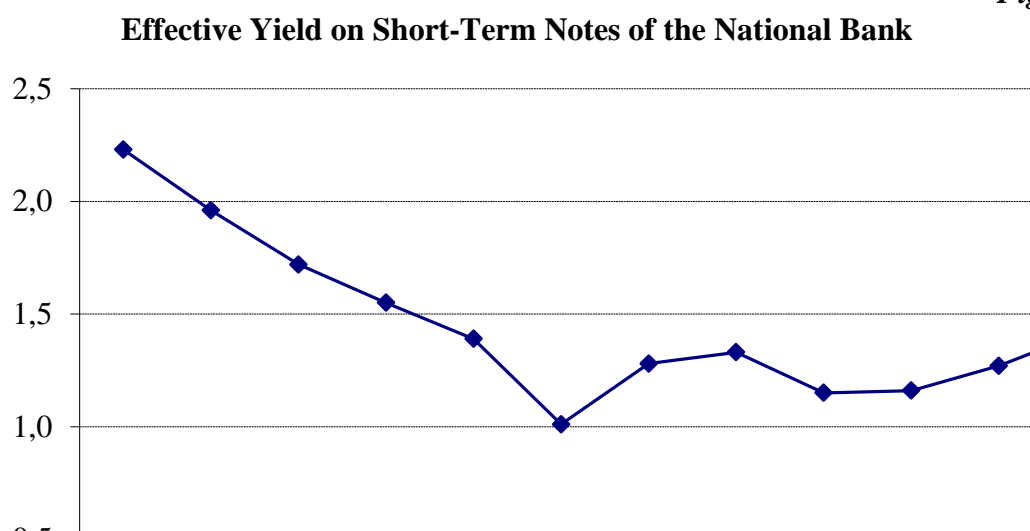


Short-term liquidity in the money market was regulated by the National Bank through the issue of short-term notes and through the deposit-taking from banks. Despite the decrease in interest rates to the minimum level, the demand for such instruments on the part of banks remained high throughout the year.

In January-December 2010 as compared to the respective period of 2009, the volume of issued short-term notes increased by 2.3 times and amounted to KZT3.3 trln. This accounted for 94.7% of the aggregate demand of the market players for these types of government securities. The volume of notes in circulation in December 2010 as compared to December 2009 increased almost twice to KZT899.5 bln. (Figure 2.1.4).

Figure 2.1.4

The average-weighted yield on notes decreased from 2.23% in December 2009 to 1.19% in December 2010 (Figure 2.1.5). In 2010 the National Bank issued short-term notes with maturities of 3 and 6 months.

Figure 2.1.5

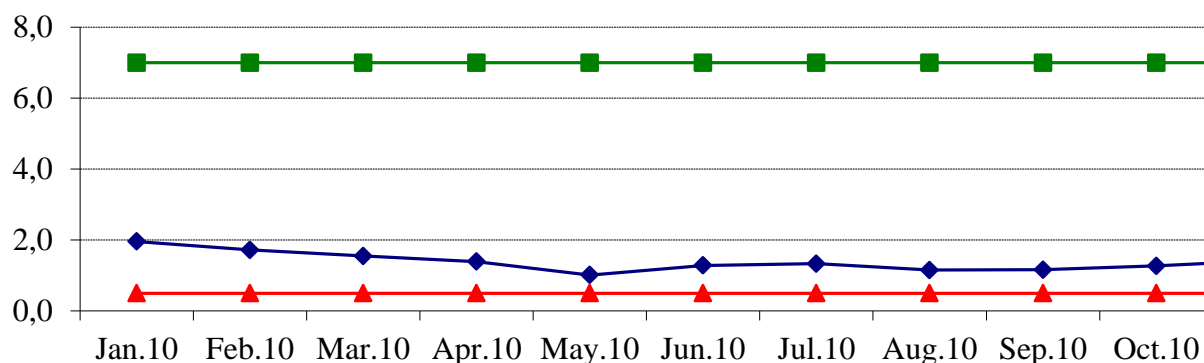
In 2010, deposits in the amount of KZT17.1 trln. were taken from the second-tier banks; this amount exceeds the amount of 2009 by 5.0%. Balances of bank deposits with the National Bank decreased by 12.2% and amounted to KZT429.1 bln. at end-December 2010 as compared to December 2009.

The result of the National Bank's operations in the domestic market was the withdrawal of the bank liquidity of KZT377.1 bln. in 2010.

In 2010 the interest rate band of the National Bank remained unchanged. Throughout the year the official refinancing rate which represents the upper boundary of the band remained at 7.0%. The rate on deposits from banks representing the lower boundary of the short-term rate band in the money market was 0.5% on 7-day deposits and 1.0% – on 1 month deposits (Figure 2.1.6).

Figure 2.1.6

Rates on the National Bank's Operations



Minimum Reserve Requirements. The mechanism of minimum reserve requirements as well as their ratios didn't change in 2010. The ratios of minimum reserve requirements for banks were 1.5% on domestic liabilities and 2.5% - on other liabilities, for banks in the process of their debt restructuring – 0% on all liabilities of such banks.

Monetary Aggregates. The dynamics of the money supply indicators in 2010 demonstrated growth: cash in circulation increased by 25.7%, money supply increased by 14.1% and the expansion of the reserve money was 5.0%.

In 2010 net international reserves of the National Bank increased by 23.0% to US\$27.7 bln.

In their structure, despite operations on the Government's external debt servicing and the decrease in the balances of bank correspondent accounts with the National Bank denominated in foreign currency, net foreign currency reserves increased by 23.2% as a result of foreign exchange purchase in the domestic foreign exchange market and foreign exchange proceeds to the Government's accounts with the National Bank. Gold-denominated assets increased by 22.1%.

In 2010 total international reserves of the country including foreign currency assets of the National Fund (US\$31.0 bln.) increased by 24.8% amounting to US\$59.3 bln.

In 2010 the **reserve money** expanded by 5.0% to KZT2572.9 bln. (in 2009 – the expansion by 60.7%). The main reason for the expansion of reserve money was the growth in net foreign assets of the National Bank.

Narrow reserve money which represents the reserve money excluding term deposits of banks with the National Bank expanded by 9.3% to KZT2143.7 bln.

In 2010 net domestic assets of the National Bank decreased, mainly because of a significant increase in the liabilities of the National Bank to banks on short-term notes.

In 2010 the largest contraction of reserve money (by 13.5%) was observed in November, and the maximum expansion of reserve money occurred in June (by 8.7%).

In 2010 money supply increased by 14.1% and amounted to KZT8546.4 bln.; the main reason for its growth was the increase in net foreign assets of the banking system.

In the structure of net foreign assets of the banking system in December 2010 net foreign assets increased – both of the National Bank and of banks. The growth in net foreign assets of banks was caused mainly by the decrease in the bank liabilities to non-residents.

The level of monetization of the economy decreased from 44.0% at end-2009 to 39.7% at end-2010 as a result of the outstripping growth rate of nominal GDP (by 26.5%) as compared to the rates of the money supply growth (by 14.1%).

Money multiplier increased from 3.06 in December 2009 to 3.32 in December 2010 as a result of the outstripping rate of money supply growth versus the rates of the reserve money expansion. This was also ensured by the decrease of the cash reserve ratio and increase of the cash preference ratio because of higher rates of growth of cash in circulation versus the growth in deposits.

In the structure of money supply in 2010, cash in circulation (M0) increased by 25.7% to KZT1148.5 bln., and deposits of residents – by 12.5% to KZT7397.9 bln. Thus, in the structure of the main components of money supply the outstripping rates of growth of cash in circulation versus the growth rates of residents' deposits in the banking system were recorded. As a result, the share of residents' deposits in the structure of money supply decreased from 87.8% in December 2009 to 86.6% at end-December 2010.

The increase in the rates of growth of cash in circulation (M0) to 25.7% in 2010 from 6.5% in 2009 shows that the impact of factors promoting the growth of cash in circulation (the increase in wages, retirement benefits and allowances) dominated over the impact of factors promoting their decrease (the increased volumes of sales by the exchange offices, growth in deposit balances, proceeds from the sale of goods, works and services, etc.).

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

Trends in the Gold and Foreign Currency Assets.

The total amount of gross gold and foreign currency assets of the National Bank at end-2010 amounted to US\$28 290.8 mln., which exceeds the respective indicator at end-2009 by US\$5 199.4 mln. The change in the amount of gross gold and foreign currency assets was affected by the increase in assets denominated in freely convertible currency by US\$4 647.81 mln.; assets denominated in precious metals increased by US\$551.58 mln.

The change in the foreign currency portion of assets in 2010 was caused by the foreign currency proceeds to the Ministry of Finance in the amount of US\$9 826.97 mln. from oil and gas companies in the form of tax payments. Alongside with that, part of such proceeds in the amount of US\$7 106.5 mln. has been converted into the National Fund's stabilization portfolio.

In the course of reconversion of a portion of foreign currency assets of the National Fund, the National Bank made an overall purchase of foreign currency assets of about US\$1 350.7 mln.

In 2010 the National Bank executed payments of the Ministry of Finance on the external debt in the total amount of US\$134.6 mln.

In 2010 the foreign exchange market of Kazakhstan was influenced by the excess of supply in freely convertible currency over its demand. Net purchases of the National Bank at the Kazakhstan Stock Exchange (KASE) and in the off-exchange market amounted to US\$2 715.7 mln.

Thus, based on transactions performed by the National Bank net gold and foreign currency assets increased as compared to 2009 by US\$5 191.3 mln. and amounted to US\$27 722.6 mln.

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

There is a day-to-day control over compliance with requirements established by the Investment Strategy for Gold and Foreign Currency Assets Management approved by the Resolution of the National Bank's Management Board dated October 27, 2006 #105.

The return on gold and foreign currency assets of the National Bank is calculated on a daily basis.

In 2010 there were two transfers of assets from the portfolio of gold and foreign currency assets liquidity to the investment portfolio of gold and foreign currency assets in the amounts equivalent to about US\$5 bln. each.

Also, in the reporting period the National Bank's Management Board passed a Resolution dated May 21, 2010 #44 "On Amendments to the Resolution of the Management Board of the National Bank of the Republic of Kazakhstan of October 27, 2006 #105 "On Approval of the Investment Strategy for Gold and Foreign Currency Assets Management of the National Bank of the Republic of Kazakhstan"; based on the Resolution the benchmark portfolio for the Euro sub-portfolio of the investment portfolio of gold and foreign currency assets were changed as well as other amendments to the Investment Strategy for Gold and Foreign Currency Assets Management of the National Bank were made that tightened the requirements to the credit quality of securities

comprising the portfolios of gold and foreign currency assets and to their issuers. In addition, under the Resolution, the following instruments were excluded from the list of instruments eligible for investment: ABS, MBS, credit default swap contracts written on Kazakh banks, repo and reverse repo operations secured by non-government securities. The sphere of investment, requirements to duration and to exceptions by classes of instruments for the portfolio of gold and foreign currency assets liquidity was specifically defined. Portfolios of gold and foreign currency assets have been brought in conformity with the Investment Strategy.

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 was US\$9 329.1 mln. at the beginning of 2010, and at end-2010 the market value of the investment portfolio amounted to US\$19 733.6 mln. During 2010 an investment return (realized and unrealized) of US\$426.9 mln., calculated in the US Dollars, was accumulated in the investment portfolio of gold and foreign currency assets.

Return on the investment portfolio of gold and foreign currency assets for 2010 denominated in the currency basket was 1.39%. Given the return on the benchmark portfolio of 1.85%, excess returns comprised (-)45 basis points.

Return on the investment portfolio of gold and foreign currency assets for 2010 denominated in the US Dollars was 1.10%. Given the return on the benchmark portfolio of 1.55%, excess returns comprised (-)45 basis points.

At end-2010 the distribution of assets in the investment portfolio by instruments had the following structure: cash and cash equivalents – 2.62%, government securities – 94.44%, agency securities – 2.94%, securities of IFOs – 0.00%, corporate securities – 0.00%. The distribution of assets in the investment portfolio on the yield curve had the following structure: less than 1 year – 17.02%, 1-2 years – 47.46%, 2-3 years – 27.06%, 3-4 years – 0.00%, 4-5 years – 0.40%, over 5 years – 8.06%.

Absolute Yield Portfolio. The market value of the absolute yield portfolio of gold and foreign currency assets was US\$ 390.8 mln. at the beginning of the year and US\$393.3 mln. – at the end of 2010.

The return on the absolute yield portfolio of gold and foreign currency assets for 2010 was 0.64%. With the benchmark returns of 0.35%, excess returns made up 29 basis points. Investment return (realized and unrealized) amounted to US\$2 510 300.

Liquidity Portfolio of Gold and Foreign Currency Assets. The market value of the liquidity portfolio of gold and foreign currency assets was US\$9 772.1 mln. at the beginning of the year and US\$4 535.5 mln. – at the end of 2010.

The liquidity portfolio of gold and foreign currency assets is designated for the monetary policy implementation, 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\$2 500.7 mln. at the beginning of 2010 and US\$3 052.2 mln. – at the end of 2010. The growth in the price for gold from US\$1 104.00 to US\$1 410.25 per a troy ounce has mainly affected the change in the portfolio volume.

2.3. Foreign Currency Regulation and Control

Foreign Currency Regulation Regimes. The establishment of a reliable information database on foreign currency transactions and capital flows and analytical monitoring of foreign currency transactions on its basis remains a top-priority objective of foreign currency regulation. The existing regimes of foreign currency regulation (registration and notification) do not restrict foreign currency transactions and are intended for the statistical monitoring of operations with the capital movement.

Within the framework of registration of foreign currency transactions, regional branches of the National Bank issued 1446 registration certificates, including on the following types of transactions:

- credits to non-residents by residents – 307;
- credits to residents by non-residents – 854;
- direct investments in Kazakhstan by non-residents – 204;
- direct investments abroad by residents – 67;
- other capital movements – 14.

Within the framework of notification about foreign currency transactions, regional branches and the head-office of the National Bank issued 469 certificates of notification, including:

- credits by non-residents to banks – 126;
- direct and portfolio investments in Kazakhstan by non-residents – 58;
- direct and portfolio investments abroad by residents – 20;
- transactions with financial derivatives – 8;
- other capital movements – 13;
- account opening abroad by residents – 244.

Regulation of the Exchange Office Operations.

As of January 1, 2011 there were 2995 exchange offices operating in the Republic of Kazakhstan, including 1978 exchange offices of banks, 978 exchange offices of authorized organizations (non-bank legal entities) and 39 exchange offices of the KazPost. In 2010 as compared to 2009, the number of exchange offices remained virtually the same whereas the number of closed exchange offices decreased almost twice, which is a sign of stabilization of the situation in this segment of foreign exchange market.

Export and Import Foreign Currency Regulation. With a view to ensure compliance by residents with the requirement for repatriation of foreign currency and the domestic currency on export and import operations, the National Bank exercises export and import foreign currency control (EIFCC). For the purposes of EIFCC authorized banks prepare deal rickets on export and import contracts where the contract amount exceeds the equivalent of 50 000 US Dollars; further reconciliation of the cash flow and goods flow is performed within the automated EIFCC framework. The information about the goods flow under the contracts for which deal tickets have been prepared is provided by the customs authorities in the form of data from the customs freight declarations where the deal ticket number is shown as one of the requisites.

In 2010 the activity of the National Bank in the area of export and import control was aimed at the further implementation of an updated version of the EIFCC. In particular, proposals were made to abolish a deal ticket as a document required for customs clearance and to introduce the procedure for the record registration of a contract. This would help reducing the number of documents required from exporters or importers when making payments or executing the customs clearance of goods on exports or imports. The preparation of the draftlaw was scheduled for 2011.

Besides, in connection with the establishment of the Customs Union problems started to arise in relation to the harmonization of the repatriation requirement in the member-countries and on exercising control over compliance with the requirement in respect of foreign trade transactions between residents of the Customs Union member-countries. Under the Commission of the Customs Union an Expert Group in the area of “Foreign currency regulation and control” was established, which also includes representatives from the National Bank. At present the Expert Group is in the process of preparing their proposals to harmonize the requirements of accounting and foreign currency control and to ensure the information sharing and communication of authorized bodies of the member-countries in relation to the foreign trade operations within the Customs Union.

Administrative Proceedings in Relation to Violations of the Foreign Currency Legislation.

In 2010 the National Bank continued its effort to detect and preclude administrative violations of the foreign currency legislation, including by examining the activities of authorized banks and authorized organizations for their compliance with the foreign currency legislation.

To ensure timely, complete and reliable accounting of foreign currency transactions in order to buildup the external sector statistics, the laws provide for administrative responsibility for the breach of the deadlines of applying for the receipt of registration certificates and notification certificates, for presentation of unreliable information as well as for untimely reporting on foreign currency transactions.

Inspection of Foreign Currency Control. Given the fact that the foreign currency legislation reduced various restrictions and simplified the procedure of foreign currency transactions, the nature of examinations conducted by the National Bank in the area of foreign currency transactions was refocused on analytical objectives as well as on the timeliness and reliability of information furnished by the agents of foreign currency control to the National Bank. New methods of examinations proceed from the principle of selective control and are based on a more thorough review and analysis of the information obtained via the systems of statistical monitoring, foreign currency monitoring, collection of reports on the sources of demand and supply for foreign exchange, the results of expert and import foreign currency control as well as other materials and information provided under the foreign currency legislation.

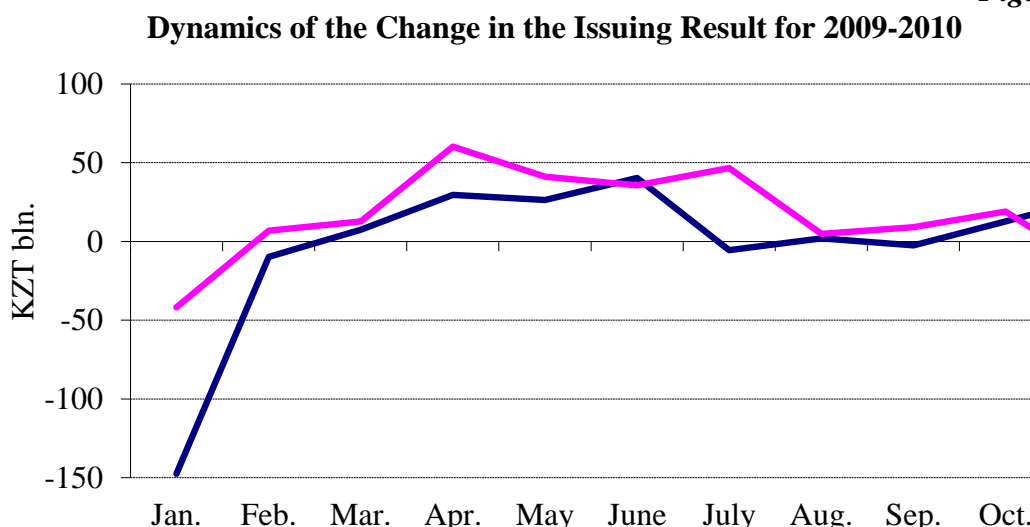
These circumstances as well as the 30% decrease of scheduled inspections provided for by the Government Program for Enforced Industrial and Innovation Development of the Republic of Kazakhstan with a view to improve the business-environment and performed by the government authorities vested with control and supervisory functions, contributed to a further decrease in a number of inspections conducted by the National Bank.

III. ISSUING OPERATIONS AND CASH CIRCULATION

2010 was characterized by the increased needs in cash by the economic entities, as compared to 2009.

During 2010 KZT1 813.1 bln. was issued in circulation from the National Bank's reserve funds, which is by KZT336.9 bln. (22.8%) higher than the issue of cash into circulation during 2009 (KZT1 476.2 bln.). The volume of cash withdrawn from circulation in 2010 increased as compared to the volume in 2009 (KZT1 415.2 bln.) by KZT139.5 bln. (9.9%) and amounted to KZT1 554.7 bln. Thus, there was a positive issuing balance of (+)KZT258.5 bln., which is higher than in 2009 (KZT61.0 bln.) by 4.2 times.

Figure 3.1.1.



Thus, in 2010 the issuing balance was higher than the respective indicator for 2009 as a result of a significant decrease in the withdrawal amount in January and the issue of cash into circulation during the period from February to May and from July to October.

IV. FINANCIAL MARKET

4.1. Foreign Exchange Market

In 2010 the domestic foreign exchange market was developing with a minimum participation of the National Bank in maintaining the exchange rate of the Tenge. The existence of the exchange rate band didn't play a significant role. The fluctuation range of the Tenge exchange rate in the market was significantly narrower and its values didn't approach the thresholds of the exchange rate band which was expanded in February 2010.

As a whole, in 2010 the situation in the domestic foreign exchange market was developing in the environment of excessive supply of foreign exchange over its demand. The situation in the middle of the year was an exception to this trend. The main reason for the excess supply of foreign exchange was the increase in proceeds from the export of goods because of the growing world prices for major items of the Kazakhstan's exports and the growing inflow of foreign capital.

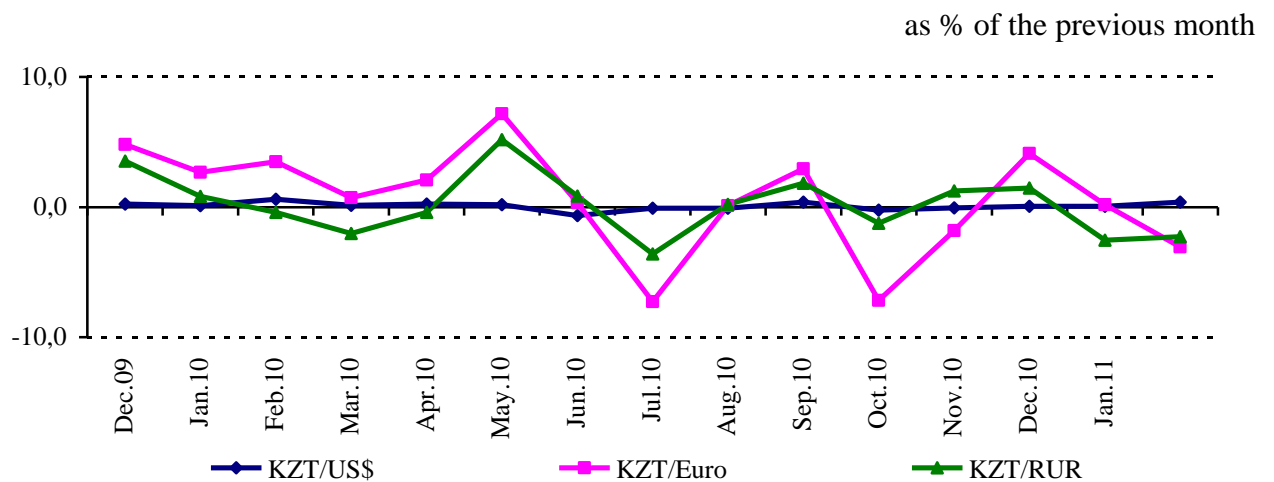
Owing to the recovering growth in the world prices for major items of the Kazakhstan's exports a trend for the domestic currency appreciation has been observed since the beginning of the year. In May and June the trend changed its direction. From July on to the year-end the Tenge demonstrated stability.

The average weighted exchange rate of the Tenge in 2010 was KZT147.35/US\$. The stock exchange rate at the year-end was KZT147.50/US\$. Over the year the Tenge had depreciated versus the US Dollar in nominal terms by 0.65%.

In 2010 the official exchange rate of the Tenge versus the Euro appreciated by 8.27%, versus the Russian ruble – by 1.63% (Figure 4.1.1).

Figure 4.1.1

Dynamics of the Exchange Rate of the Tenge versus the US Dollar, Euro and Russian Ruble



* - «+» appreciation of the Tenge versus foreign currency, «-» - depreciation of the Tenge versus foreign currency.

In 2010 there was an increase in the volumes of foreign currency transactions, both at the stock exchange and in the interbank market. So, the volume of stock exchange trading in the US Dollar position amounted to US\$60.63 bln., having increased by 29.0% as compared to 2009. In the off-exchange forex market the volume of transactions conducted by resident banks increased by 5.8% as compared to 2009 and amounted to US\$52.3 bln.

The shares of transactions with the Russian ruble and the Euro were insignificant in the turnover of the stock exchange and off-exchange segments of the foreign exchange market. In the stock exchange market the volume of transactions with the Russian ruble increased by 4.7 times to RUR5.7 bln., and the volume of transactions with the Euro decreased by 2.7 times to €193 mln. In

the off-exchange forex market the volumes of conversions of the Russian ruble increased by 21.0% to RUR4.6 bln., and the volumes of conversions of the Euro decreased by 11.4% to €557.7 mln.

Just as in the past years, the preference in the foreign cash market was made to the US Dollar. In 2010 the volumes of net sales by exchange offices amounted to US\$10.3 bln., having increased by 22.1%. The volumes of net sales of the Russian ruble by exchange offices increased by 20.6% to RUR10.1 bln. The volumes of the Euro decreased by 57.3% to €0.4 bln.

During 2010 a number of factors were observed which had tangible impact on the exchange rate of the Tenge, the main was significant fluctuation of the Euro exchange rate. Also, the exchange rate of the Tenge was affected by the fluctuations of the consumer prices at the beginning of the year that were relatively high for the Euro zone, relatively high oil prices and the effect of measures for stabilization of some economies in the Euro zone in the second-third quarters of 2010. Nonetheless, measures taken by the National Bank allowed avoiding dramatic fluctuations in the domestic currency exchange rate.

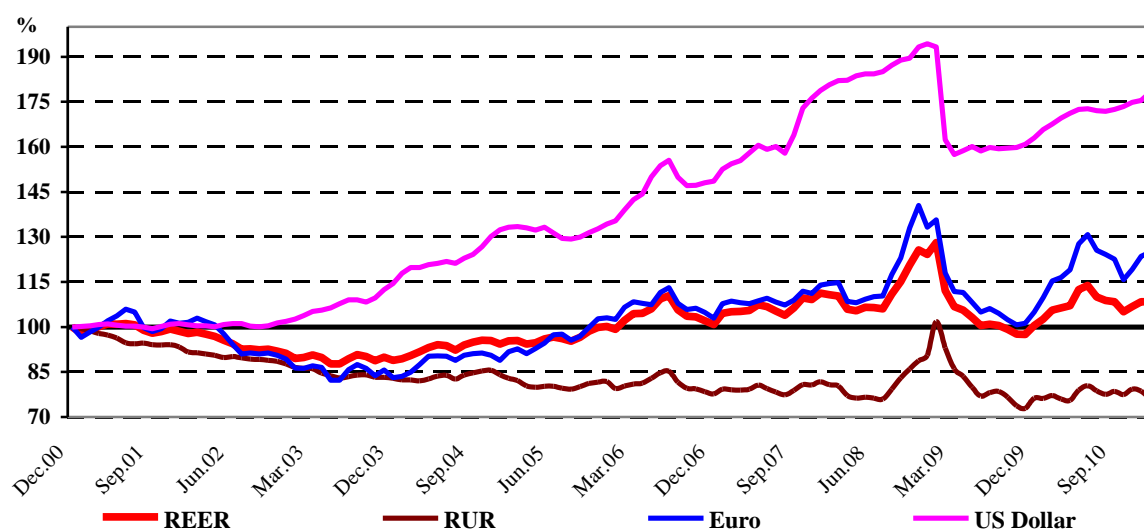
However, despite a relatively stable nominal exchange rate, external factors had a material effect on the dynamics of the Tenge exchange rate in real terms. So, the index of the real effective exchange rate (REER) versus currencies of the trading partners calculated at end-June 2010 was by 13.3% higher than the baseline level of December 2009. Owing to the nominal appreciation of the Euro, the REER index increased by 7.8% at the year-end versus December 2009, whereas it increased by 8.3% versus the baseline level of December 2000.

At end-2010 the REER index calculated against the CIS-currency basket was by 2.4% higher than that at end-December 2009, whereas the Tenge had appreciated more versus currencies of other countries, by 9.9% in real terms.

Figure 4.1.2

Indices of Real Exchange Rates of the Tenge

December 2000 = 100%



4.2. Interbank Money Market

In 2010 the total amount of interbank deposits placed increased by 0.2% as compared to 2009 and made up an equivalent of KZT41.5 trln.

The volume of placed interbank deposits in the Tenge grew by 6.0%, amounting to KZT17.7 trln. (42.7% of the total volume of deposits placed in 2010). The average weighted interest rate on placed interbank Tenge deposits in December 2010 was 0.57% (in December 2009 – 0.64%).

The volume of deposits attracted from banks by the National Bank in 2010 increased by 5.0% and amounted to KZT17.1 trln.

In 2010 the volume of placed deposits in the US Dollar amounted to US\$126.4 bln., having increased by 11.8% (44.8% of the total volume of deposits placed in 2010). The average weighted

interest rate on placed deposits in the US Dollar was 0.28% in December 2010, whereas in December 2009 it was 0.31%.

The volume of placed deposits in the Euro decreased by 40.2% as compared to 2009 and amounted to €24.2 bln. (11.4% of the total volume of deposits placed in 2010). The average weighted interest rate on placed deposits in the Euro increased from 0.28% in December 2009 to 0.46% in December 2010.

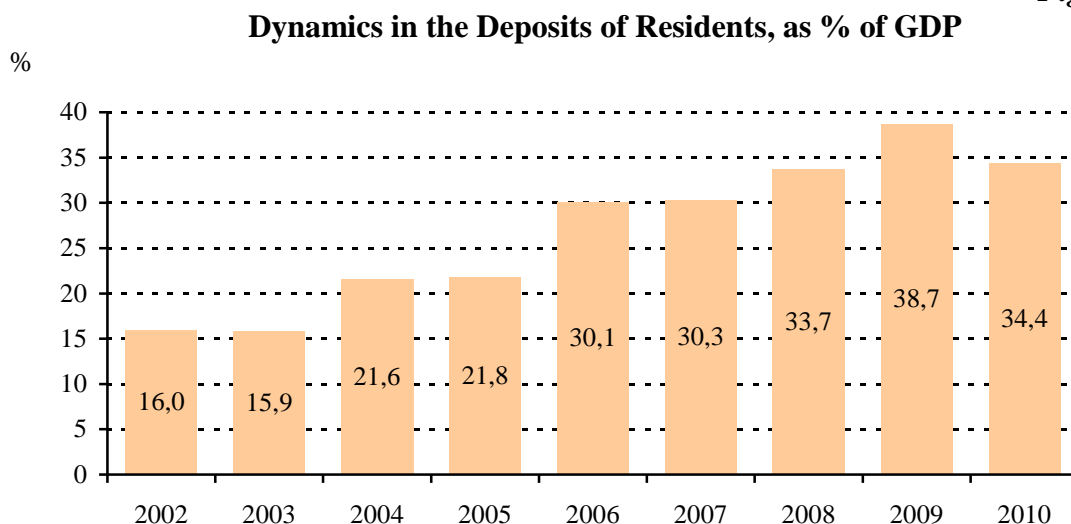
The placements in the Ruble deposits remain insignificant – 1% of the total volume of placed deposits.

As a whole, the share of interbank deposits in foreign currency remains high – 57.3% of the total volume of placed deposits, although a steady downward trend was observed during the last year.

4.3. Deposit Market

In 2010 deposits of residents with depository institutions increased by 12.5% to KZT7 397.9 bln. or US\$50.2 bln. in the foreign currency equivalent; at the same time, because of high growth rates of the gross domestic product the volume of deposits to GDP decreased (Figure 4.3.1).

Figure 4.3.1



In 2010 there was an active growth in deposits, both of the population and of legal entities. In 2010 deposits of non-bank legal entities increased by 11.2% to KZT5 203.0 bln., deposits of individuals – by 15.9% to KZT2 194.9 bln.

In 2010 the structure of deposits by types of currencies had undergone substantial changes that were related to a significant growth in deposits in the domestic currency and the decrease in foreign currency deposits. So, deposits in the domestic currency increased by 30.0% to KZT4 807.9 bln., whereas foreign currency deposits decreased by 9.9% to KZT2 590.0 bln. As a result, the percentage of the Tenge deposits in the total deposit volume increased from 56.3% to 65.0%.

In 2010 deposits of the population with the banks (including accounts of non-residents) increased by 16.2% to KZT2 249.8 bln. The structure of deposits of the population also demonstrated an active process of the decreasing level of dollarization of savings. Deposits of the population in the domestic currency increased over the year by 48.6% to KZT1 249.6 bln., foreign currency deposits decreased by 8.7% to KZT1 000.2 bln. As a result, the percentage of the Tenge deposits of the population increased from 43.4% to 55.5%.

By the end of 2010 the average weighted interest rate on time deposits of individuals denominated in the Tenge decreased from 10.0% to 8.8%, on foreign currency deposits – increased from 6.7% to 6.8%.

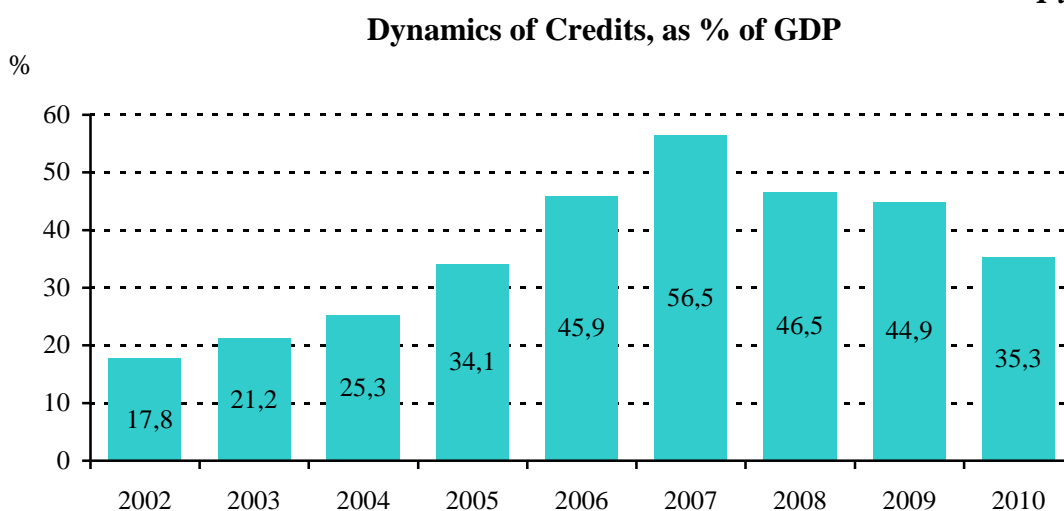
4.4. Credit Market

A significant slowdown in the lending activity that was observed in 2008 and 2009 (the growth by 2.8% and 2.5%, respectively) resulted in the decrease in lending in 2010. In 2010 the volume of credits to the economy decreased by 0.6% to KZT7 596.5 bln. (US\$51.3 bln.). The ratio of credits to the economy to GDP in 2010 decreased as compared to 2009 from 44.9% to 35.3%. (Figure 4.4.1).

At the same time, the decrease in the lending activity occurred only in the foreign exchange segment of the credit market. In 2010 credits in foreign currency decreased by 13.1% to KZT3 213.4 bln., credits in the domestic currency – increased by 11.1% to KZT4 383.1 bln. As a result, the percentage of the Tenge deposits increased from 51.6% to 57.7%.

In 2010 the volume of long-term lending decreased by 1.3% to KZT6 349.7 bln., and short-term lending increased by 2.7% to KZT1 246.8 bln.. Thus, the percentage of long-term credits decreased from 84.1% to 83.6%.

Figure 4.4.1



Credits to legal entities in 2010 increased by 1.2% amounting to KZT5480.3 bln., credits to individuals decreased by 4.9% to KZT2116.2 bln.. The percentage of credits to individuals decreased from 29.1% to 27.9%.

Credits to small businesses in 2010 decreased by 18.7% to KZT1389.3 bln., which accounts for 18.3% of the total volume of credits to the economy (in December 2009 – 22.3%).

In a sectoral breakdown, the highest amount of credits of banks to the economy falls on the trade – 24.0% (in December 2009 – 23.6%), construction – 18.1% (18.8%), industry – 9.4% (9.5%), agriculture – 3.8% (3.7%).

The average weighted interest rate on the Tenge credits to individuals in December 2010 as compared to December 2009 decreased from 21.6% to 20.3% and on credits to legal entities – decreased from 14.3% to 12.9%.

4.5. Government Securities Market

There were 52 auctions on government securities of the Ministry of Finance in 2010. The volume of the issue decreased as compared to c 2009 by 6.8% and amounted to KZT659.9 bln., including short-term securities – KZT152 bln., medium-term securities – KZT163 bln., and long-term securities – KZT344.6 bln..

As of January 1, 2011 the volume of outstanding government securities of the Ministry of Finance denominated in the domestic currency amounted to KZT1 669.5 bln. at a discounted price,

having increased by 29.6% during 2010, including: short-term – KZT152 bln., medium-term – KZT477.7 bln., and long-term – KZT1 039.8 bln..

The volume of placed short-term notes in 2010 as compared to 2009 increased by 2.3 times and amounted to KZT3 298.8 bln. (in 2009 - KZT1 446.5 bln.). The average weighted yield of short-term notes of the National Bank issued during 2010 was at 1.38% pa (in 2009 – 3.24%), with the average-weighted maturity of 116.42 days (in 2009 – 63.63 days). As of January 1, 2011 there were short-term notes in circulation of KZT899.5 bln. (at a discounted price).

V. PAYMENT SYSTEMS

In 2010 the activity of the National Bank in the area of payments and money transfers was focused on the modernization of the payment systems technical infrastructure, their harmonization with the international standards as well as on the improvement of regulations and mechanisms of supervision (oversight) of the payment systems.

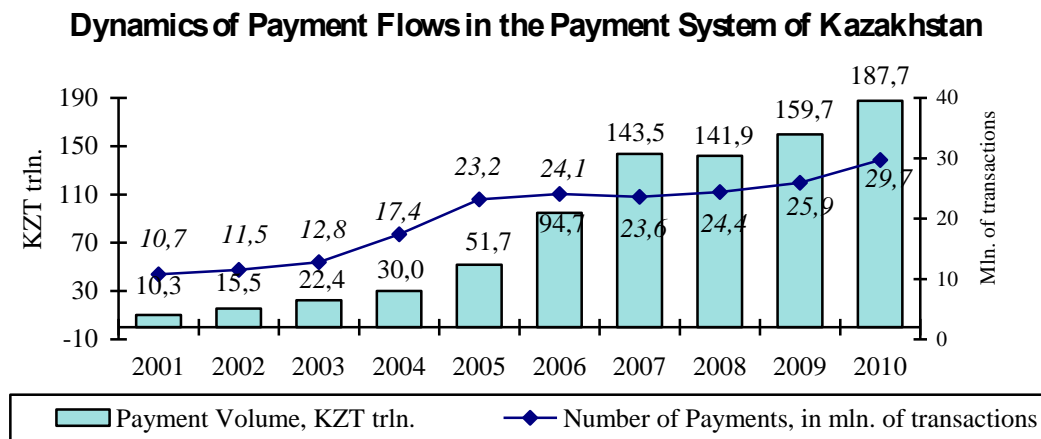
Under the Program for Modernization of the Payment System of the Republican State Enterprise “Kazakhstan Interbank Settlements Center” approved by the Resolution of the National Bank’s Board of Directors dated January 24, 2007 #16, in 2010 efforts were made to modernize the technical infrastructure of the national payment systems and their migration to the new hardware and software platform. As a result of such efforts, on June 7, 2010 the migration to new payment system versions characterized by a high security level and a significant increase in the network capacity was implemented.

With a view to create favorable environment for the development of integration processes, the international standards of bank account numbers and Bank Identifier Codes of ISO 13616: IBAN and ISO 9362: BIC were implemented in the payment systems of Kazakhstan on June 7, 2010. The wide use of standards of the bank account details by the financial community is aimed at improving the identification system of banks and their clients in the payment systems of Kazakhstan, speeding up the processing of domestic and international payments, and ensuring compliance with the STP (Straight through processing) principle.

With a view to ensure a high level of security and safety in the operation of payment systems of Kazakhstan, the National Bank continues building a new Backup Center in Astana. The goal of this project is to ensure a smooth-running operation of payment systems in the event of any kind of emergencies in the location of the main center (city of Almaty).

On the whole, 29.7 million of transactions amounting to KZT187.7 trln. (or US\$1 273.9 bln.) were transferred through the national payment systems of Kazakhstan (Fig. 5.1.) in 2010. As compared to 2009, the number of payments in the payment systems increased by 14.6% (by 3.8 million of transactions), the amount of payments increased by 17.5% (by KZT28.0 trln.).

Figure 5.1.



Large-volume and urgent payments on the financial sector operations are mainly effected through the Interbank System of Money Transfers (ISMT), a systemically important payment

system of the country. And the Interbank Clearing System (ICS) is used for payments which are not of high priority and not urgent small-amount retail payments.

In 2010, 11.5 million of transactions in the amount of KZT184.5 trln. (or US\$1 251.8 bln.) were passed through the ISMT; as compared to 2009, the number of payments increased by 14.7% (by 1 467.7 thousand of transactions), the amount of payments increased by 17.5% (by KZT27.4 trln.). 18.3 million of payment documents amounting to KZT3 253.5 bln. (or US\$22.1 bln.) were transferred through the ICS in 2010, which is by 14.5% (by 2.3 million of payment documents) higher than in 2009, and by 18.6% (by KZT511.2 bln.) higher in terms of the payment amounts.

At the same time, during 2010 banks and KazPost when using payment instruments⁷ (Table 5.1.1) performed 188.0 million of transactions amounting to KZT122.0 trln. (or US\$828.2 bln.).

Table 5.1.1

Information about the Use of Payment Instruments

(in thousands of transactions and KZT bln.)

Payment Instrument		2009		2010		Change (%)
		Absolute value	in % of the total volume	Absolute value	in % of the total volume	
Payment Instructions ⁸	Quantity	39 052.9	23.8%	46 656.1	24.8%	19.5%
	Amount	82 791.4	92.0%	114 604.7	93.9%	38.4%
Payment Orders-Instructions	Quantity	209.9	0.1%	207.9	0.1%	-1.0%
	Amount	372.6	0.4%	820.4	0.7%	120.2% (by 2.2 times)
Collection Orders	Quantity	357.9	0.2%	861.9	0.5%	140.8% (by 2.4 times)
	Amount	287.2	0.3%	523.2	0.4%	82.2%
Payment Cards	Quantity	118 076.5	72.1%	136 322.2	72.5%	15.5%
	Amount	2 649.6	2.9%	3 347.3	2.7%	26.3%
Other Instruments ⁹	Quantity	6 077.7	3.7%	3 925.0	2.1%	-35.4%
	Amount	3 875.5	4.3%	2 738.0	2.2%	-29.4%
Gross total	Quantity	163 775.0	100.0%	187 973.1	100.0%	14.8%
	Amount	89 976.3	100.0%	122 033.6	100.0%	35.6%

The Kazakh market of payment cards is one of the most dynamic and advanced segments in the financial sector of Kazakhstan. At January 1, 2011 the total number of payment cards issued and circulated by the Kazakh banks and the KazPost offices was 8.4 mln., which exceeds the number in the respective period of 2010 by 10.2% or by 777.1 thousand cards. The number of card holders totaled 7.8 mln. individuals, having increased by 9.5% as compared to the respective period of 2010.

The payment card service network in Kazakhstan is represented as follows as of January 1, 2011: 7 605 ATMs (the growth as compared to the status as of 01.01.2010 – by 9.3% or 644 cards), 25 914 Pos-terminals (the growth by 13.1% or 3 001 cards) and 711 imprinters (the decrease by 14.4% or by 120 cards).

During 2010 the volumes of transactions performed with the use of payments cards of the Kazakh issuers made up 136.3 million of transactions amounting to KZT3 347.3 bln. (US\$22.7 bln.). As

⁷ Payment documents on passed intra-bank and interbank customer payments and on own transactions of banks and KazPost, excluding GSVP (State Center on Pension and Benefit Payments), Treasury Committee of the Ministry of Finance, National Bank, Custodian Bank of the State Accumulation Pension Fund, Central Depository of Securities, Kazakhstan Stock Exchange, Interstate Bank, Eurasian Development Bank, Kazakhstan Mortgage Company.

⁸ Payment instructions of clients of banks and the KazPost as well as payment instructions of banks and the KazPost on their own operations are taken into account.

⁹ Other payment instruments include check payments for goods and services, executed letters of credits and direct bank account debiting.

compared to 2009, the number of transactions increased by 15.5% (by 18.2 mln. transactions), and their amount – by 26.3% (by KZT697.6 bln.).

VI. REGULATORY ACTIVITY

With a view to improve the financial and banking legislation in the area of payment systems and foreign currency legislation, during 2010 the National Bank developed:

1) the draft Law of the Republic of Kazakhstan “On Ratification of the Treaty and the Procedure for Movements of Cash and/or Cash Instruments Across the Customs Border of the Customs Union” signed by the President on January 17, 2011;

2) the draft Law of the Republic of Kazakhstan “On Amendments to Certain Legislative Acts of the Republic of Kazakhstan Related to the Financial Monitoring of Import and Export of Cash to/from the Republic of Kazakhstan”. Based on the instruction from the Head of the Prime Minister’s Office of the Republic of Kazakhstan #20-29/II-1265, 002-881(p.1.38), II-632 (p.1.2) dated 06.12.2010, the 235th session of the Law Drafting Interagency Commission under the Government of the Republic of Kazakhstan held on December 13, 2010, reviewed and approved amendments provided for by the draft Law of the Republic of Kazakhstan “On Amendments to Certain Legislative Acts of the Republic of Kazakhstan Related to the Financial Monitoring of Import and Export of Cash to/from the Republic of Kazakhstan”:

- to the draft Law of the Republic of Kazakhstan “On Amendments to Certain Legislative Acts of the Republic of Kazakhstan on Counter-Acting the Legalization (Laundering) of Illicit Proceeds and Terrorist Financing”, which is currently reviewed by the Parliament (the draft law was prepared by the Ministry of Finance);

- to the draft Law of the Republic of Kazakhstan “On Amendments to the Law of the Republic of Kazakhstan “On Foreign Currency Regulation and Foreign Currency Control” which is scheduled to be drafted in 2011. The draftlaw is included in the Plan of Law Drafting Activity of the Government of the Republic of Kazakhstan for 2011 (March, April, June). Author - National Bank;

During 2010 active efforts were carried out on the draft Law of the Republic of Kazakhstan “On Amendments to Certain Legislative Acts of the Republic of Kazakhstan Regarding the Electronic Money” which was prepared by the National Bank and is currently reviewed by the Parliament’s Majilis.

During that period with a view to implement the existing and newly passed laws of the Republic of Kazakhstan the National Bank prepared a draft of the Presidential Edict “On the Approval of Standards of Public Services Provided by the National Bank of the Republic of Kazakhstan» (passed on February 24, 2010).

Also, during 2010 efforts were carried out in respect of the draft Law of the Republic of Kazakhstan “On Ratification of the Agreement on the Fundamental Principles of Foreign Exchange Policy in the Member States of the Eurasian Economic Community in Respect of Regulation and Control of Operations Associated with the Capital Movement”, which was prepared by the National Bank of the Republic of Kazakhstan.

VII. NATIONAL BANK’S INTERNATIONAL COOPERATION AND PUBLIC AWARENESS EFFORTS

7.1. International Cooperation

During May 28-29, 2010 in Almaty the National Bank held the 23rd meeting of the Central Bank Governors’ Club of the Central Asia, Black Sea Region and Balkan countries with participation of the central bank governors of the region.

The meeting of the Central Bank Governors' Club was successful and allowed the Club members to interactively share their experience in monetary policy implementation and measures undertaken in the environment of global financial instability.

On December 9-10, 2010 the 6th Meeting of the Sino-Kazakhstani Subcommittee on financial cooperation chaired by Mr. Ma Delun, Governor of the People's Bank of China, and Mr. Bisengali Tajiyakov, Deputy Governor of the National Bank, was held in the Sanya City (China). At the Subcommittee Meeting the Kazakh and Chinese parties discussed a number of aspects of mutual cooperation, reached mutual understanding and unanimous opinion on many of them as well as identified the areas of future prospective development of relations between the financial communities of Kazakhstan and China.

During 2010 the National Bank worked on concurrent review of the Proposals on Fundamental Principles of Functioning of the SCO Special Account. On November 15-16, 2010 a regular meeting of the Expert Working Group for Establishing and Principles of Functioning of the SCO Special Account was held in Beijing.

Cooperation with the CIS-countries. On November 1-2, 2010 in St. Petersburg the 12th Meeting of the Sub-commission on interbank and investment cooperation between the Republic of Kazakhstan and the Russian Federation took place, which was attended by the representatives of central (national) banks and banks from the Republic of Kazakhstan and the Russian Federation, FSA, DAMU Enterprise Development Fund, Central Securities Depository, Centras Securities Company, RSE "Kazakhstan Interbank Settlements Center of the National Bank", as well as the Eurasian Development Bank, Interstate Bank, Association of Russian Banks, Association of Regional Banks of Russia, Moscow Interbank Currency Exchange, Non-Profit Partnership "National Insurance Guild".

In the course of the Meeting the participants of the Sub-commission discussed a number of issues of mutual cooperation, reached mutual understanding and unanimous opinion in respect of most of the issues as well as identified the areas for further prospective development of relations between financial communities of Kazakhstan and Russia.

As part of the Sub-commission the issues were discussed regarding the banking systems of the Russian Federation and the Republic of Kazakhstan in the context of the global financial and economic crisis of 2008-2010, dynamics of international reserves and foreign currency liquidity of the Central Bank of Russia and the National Bank, cooperation in improving the coverage and reliability of bilateral balance of payments data of Kazakhstan and Russia, improvement of interstate payments and the possibility of establishing a common payment and settlement system of the CIS-countries.

Based on the outcomes of the Meeting, the Work Plan was designed to implement the Minutes of the 12th Sub-commission Meeting with a view to a timely and efficient implementation of arrangements reached in the course of the Meeting; also, the composition of the working group is now identified including the representatives from the National Bank, FSA, ARARFCA and the financial market players to determine prospective areas of cooperation and for addressing the problems arising in the process of cooperation with the Russian Federation.

The EurAsEC Integration Committee and the Customs Union Commission. During 2010 the National Bank carried out the activities within the framework of the EurAsEC and the Customs Union.

The National Bank participated in the development, approval and implementation of a number of agreements, treaties and other regulations related to the Customs Union.

Under the Action Plan for establishing a Common Economic Space between the Republic of Belarus, Republic of Kazakhstan and the Russian Federation, the National Bank participated in the development and approval of the following Agreements: Agreement on the harmonized principles of the foreign exchange policy, Agreement on the harmonized macro-economic policy, Agreement on establishing conditions for a free flow of capital in the financial markets, and the Agreement on the trade of services and investments. These agreements were signed by the Heads of the states on

December 9, 2010 as part of the Interstate Board meetings (supreme body of the Customs Union) of the EurAsEC.

During 2010 the National Bank participated in the efforts carried out by the Board of Governors of central (national) banks of the EurAsEC member-states. Representatives of the National Bank took part in the panel of experts (May 12 – 13, 2010 in Dushanbe) and the 22nd Session of the Council of the heads of central (national) banks of the EurAsEC member-states (July 8 – 9, 2010 in Dushanbe).

During October 14-15, 2010 in Almaty the National Bank arranged and held the expert panel for preparation of materials to the 23rd Session of the Council of the heads of central (national) banks of the EurAsEC member-states.

On November 29, 2010 in Almaty the National Bank arranged and held the 23rd Session of the Council of the heads of central (national) banks of the EurAsEC member-states.

During the Session there was an information sharing about the performance of expert groups which investigate possibilities of using the national currencies of the CIS member-countries as accounting currencies for servicing sales turnover between these countries, about the progress in implementation of the Action Plan of central (national) banks of the EurAsEC member-states for implementation of the 2nd stage of the Concept for cooperation of the EurAsEC member-states in the area of foreign exchange for 2008-2010 and Proposals in respect of the Action Plan for the subsequent period.

Based on the discussion of the progress in preparing the draft Agreement on harmonization of principles and mechanisms of monetary and foreign exchange policy implementation by the member-states of the Eurasian Economic Community, the parties made the decision to approve the proposed draft Agreement and also to recommend the Secretariat of the EurAsEC Integration Committee to bring the proposed draft Agreement before the authorities of the Community as appropriate.

Cooperation with International Financial Organizations. In 2010 the National Bank was ensuring the service of Account A opened by the International Bank for Reconstruction and Development at the National Bank.

During the period of May 25 through June 8, 2010 and of December 1 through December 8, 2010 representatives of the International Monetary Fund paid two visits to the Republic of Kazakhstan to discuss the current macroeconomic situation and economic policy of Kazakhstan. During the visits meetings with the top management of the National Bank and representatives of its departments with the mission staff were arranged. During the mission the aspects of monetary and foreign exchange policies, policy in respect of the banking sector as well as key objectives in the area of structural reforms were also addressed.

In 2010 the National Bank made effort to ensure the transition of the Republic of Kazakhstan from the IMF Belgian Subgroup to the IMF Swiss Subgroup. As part of the transition, on September 3, 2010 the Memorandum of Mutual Understanding and Cooperation in Bretton Woods Institutions was signed between the Government of the Republic of Kazakhstan and the Government of the Swiss Confederation; the National also participated in the election of the IMMF's Executive Directors.

7.2. Public Awareness Efforts by the National Bank

To inform the general public about activities of the National Bank, in 2010 the National Bank continued a large-scale work on information and creation of awareness in different mass media (printed editions, on TV and radio, and in the Internet-resources). The National Bank prepared materials for the population on the matters related to the objectives of the National Bank and the ways to achieve its goals and implement its priorities defined in the strategic plans, President's messages to the nation of Kazakhstan, government programs.

With a view to inform foreign, national and financial authorities about the statistical data of monetary policy, regulations of the National Bank and its analytical materials, in 2010 the National Bank continued issuing its official periodicals: Newsletter of the National Bank of Kazakhstan, Statistical Bulletin, Balance of Payments and External Debt of the Republic of Kazakhstan, Economic Review, Inflation Report, Annual Report of the National Bank in the Kazakh, in the Kazakh/Russian and English languages, Financial Stability Report in the Kazakh, Russian and English languages, digests of the National Bank's regulations.

VIII. IMPROVING ACCOUNTING AND FINANCIAL REPORTING

In 2010 the National Bank continued to further improve regulations and recommended practices in the area of accounting and financial reporting for financial organizations and special financial companies in line with the International Financial Reporting Standards (IFRS).

Specifically, it established the procedure of accounting of the client assets in investment management by organizations that manage investment portfolio or are engaged in the investment management of pension assets.

The procedure for applying market exchange rates by financial organizations and the real sector organizations approved by the joint Order of the Minister of Finance and the Resolution of the National Bank's Management Board was established.

Amendments were made to the Accounting Standard 33 "Accounting and Disclosure of Broker Operations", with regard to recognition of cash received from clients in the balance sheet of an organization engaged in the broker activities, according to IFRS.

Amendments in relation to the improvement of the operations reporting procedure were made to the Standard Chart of Accounts of certain financial market entities and the second-tier banks.

With a view to refine the procedure of maintaining the General ledger and automation of accounting by banks and mortgage companies, requirements to the preparation of the General ledger on detailed accounts were cancelled as well as a number of resolutions of the National Bank's Management Board, since they lost their relevance.

In addition, during 2010 efforts were made to adjust the differences between the methods of calculation of allowances (provisions) for impairment of financial assets provided for by IFRS and the requirements set up by the FSA for banks. Specifically, the National Bank proposed that the resulting difference should be recorded on a special capital account so that the banks create allowances (provisions) based on expenses in the automated accounting systems explicitly in the amounts required by IFRS. Such approach was elaborated with account for opinions of the IMF, IFRIC and the "Big Four" audit firms.

In 2010 the National Bank continued exercising control over compliance by financial entities with the requirements to the systems that automate the maintenance of the subsidiary book-keeping and the General Ledger. With a view to improve and systemize the selection process of organizations subject to examinations and application of enforcement measures an appropriate risk management system was designed.

In order to enhance the level of knowledge of IFRS, the National Bank delivered lectures and conducted training courses for the FSA's staff, for professional accountants in the financial organizations and the staff of the National Bank's branches on the aspects of accounting under IFRS, as well as was teaching at the Graduate school under the MBA Program at the Kazakh Economic University after T.Ryskulov in such disciplines as "Financial Accounting", "Accounting and Reporting in the Insurance Organizations" and "Taxation".

IX. NATIONAL FUND MANAGEMENT

The total market value of the National Fund's portfolio amounted to US\$33 755.82 mln. at December 31, 2010, including foreign currency portfolio — US\$31 025.07 mln. (91.91%) and the portfolio of bonds of the National Welfare Fund “Samruk-“Kazyna” and the National Management Holding “KazAgro” — US\$2 730.75 (8.09%). The market value of the stabilization and saving portfolios in the composition of the National Fund's foreign currency portfolio – US\$8 775.13 (28.28%) and US\$22 249.94 (71.72%) mln., respectively.

The market value of securities and other financial instruments comprising the National Fund's foreign currency portfolio is based on the data of the custodian bank - BNY Mellon.

According to the custodian bank BNY Mellon, in 2010 an investment return (realized and unrealized) was generated calculated in the baseline currency – US Dollars – which amounted to US\$916.1 mln.

The return of the National Fund. The return of the National Fund in 2010 was 3.02%. The return of the National Fund since its inception to December 31, 2010 amounted to 59.67%, which makes 5.00% in annual terms. The return was calculated in the base currency of the National Fund – US Dollars (Appendix 1 to Section IX Subsection 9.1, Figure 9.1.1).

The return of the stabilization portfolio. In 2010 assets in the stabilization portfolio under the independent management were invested in the money market instruments, the US Treasury securities as well as in government securities of the Western European countries. In 2010 the return of the stabilization portfolio accounted for 0.86% (Appendix 1 to Section IX Subsection 9.1, Figure 9.1.2).

The return of the saving portfolio. The return of the saving portfolio in 2010 was 4.01% (Appendix 1 to Section IX Subsection 9.1 Figure 9.1.3).

The Global fixed income 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, 2010 assets in the savings portfolio for this type of mandate managed by the National Bank itself amounted to 79.17% while the remaining 20.83% of assets in this sub-portfolio were in the external management.

The performance valuation of the bond sub-portfolio or assets of the savings portfolio under the Global fixed income mandate amounted to 2.98% in 2010. As of December 31, 2010 this type of mandate was managed by 7 external managers and by the National Bank. (Appendix 2 to Section IX Subsection 9.1 Figure 9.1.4).

The Global equity mandate. Assets in the savings portfolio for this type of mandate are managed both by the National Bank itself and by external managers. As of December 31, 2010 assets in the savings portfolio under this type of mandate managed by the National Bank itself amounted to 3.93%, whereas the remaining 96.07% of assets in this sub-portfolio were in the external management. The performance valuation under this type of mandate was 6.80%. As of December 31, 2010 this type of mandate was managed by 5 external managers and by the National Bank. (Appendix 2 to Section IX Subsection 9.1 Figure 9.1.4).

The Global tactical asset allocation mandate. Assets in the savings portfolio for the Global tactical asset allocation mandate are currently managed by 2 external managers. Performance valuation under this type of mandate was 6.15% (Appendix 2 to Section IX Subsection 9.1 Figure 9.1.4)

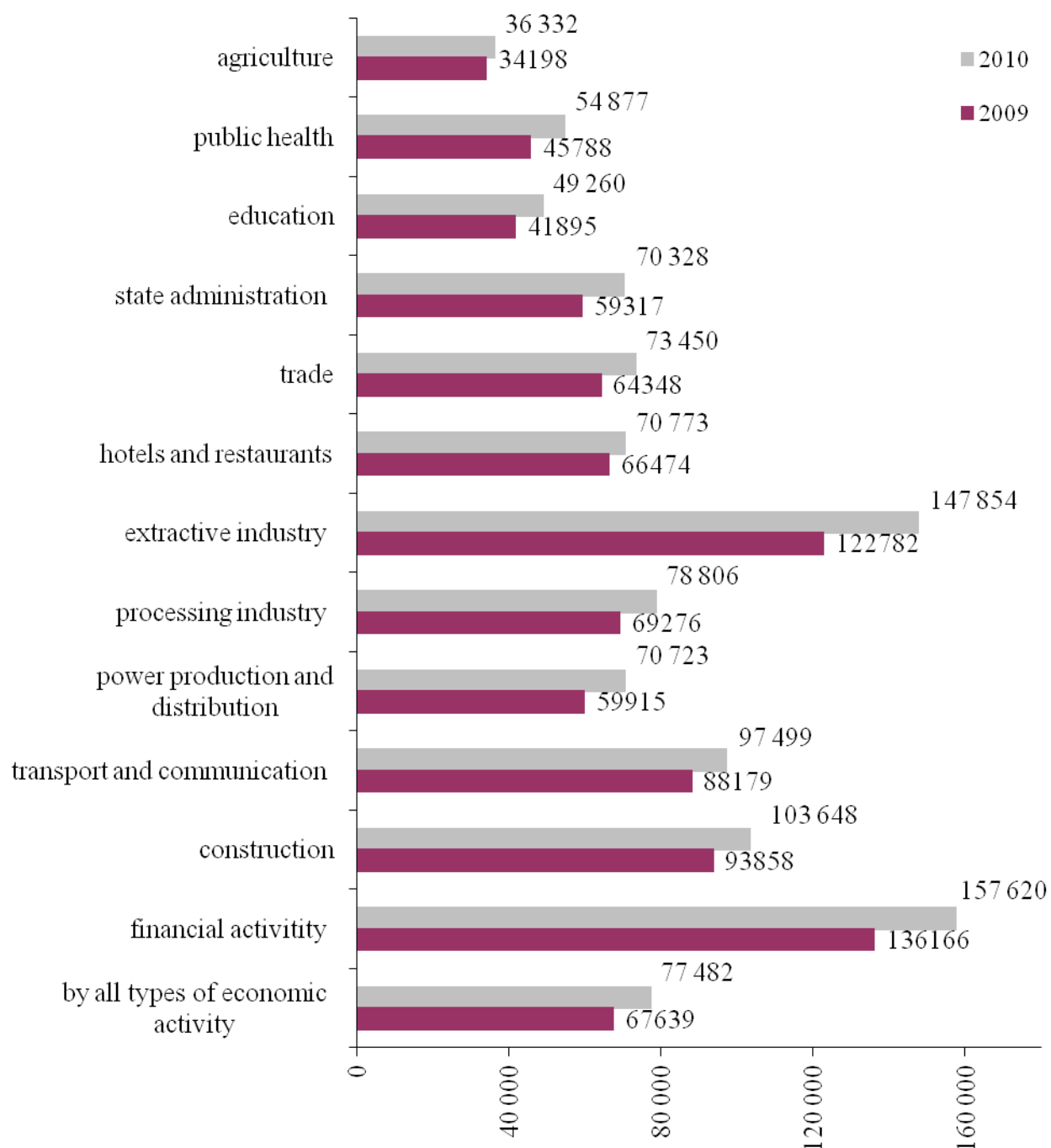
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Appendix 1 to Section I Subsection 1.1

Figure 1.1.1

Average monthly wages on major economic activities in 2009-2010, KZT



Appendix 1 to Section I Subsection 1.2

Figure 1.2.1

Market Demand for the Final Products of Enterprises

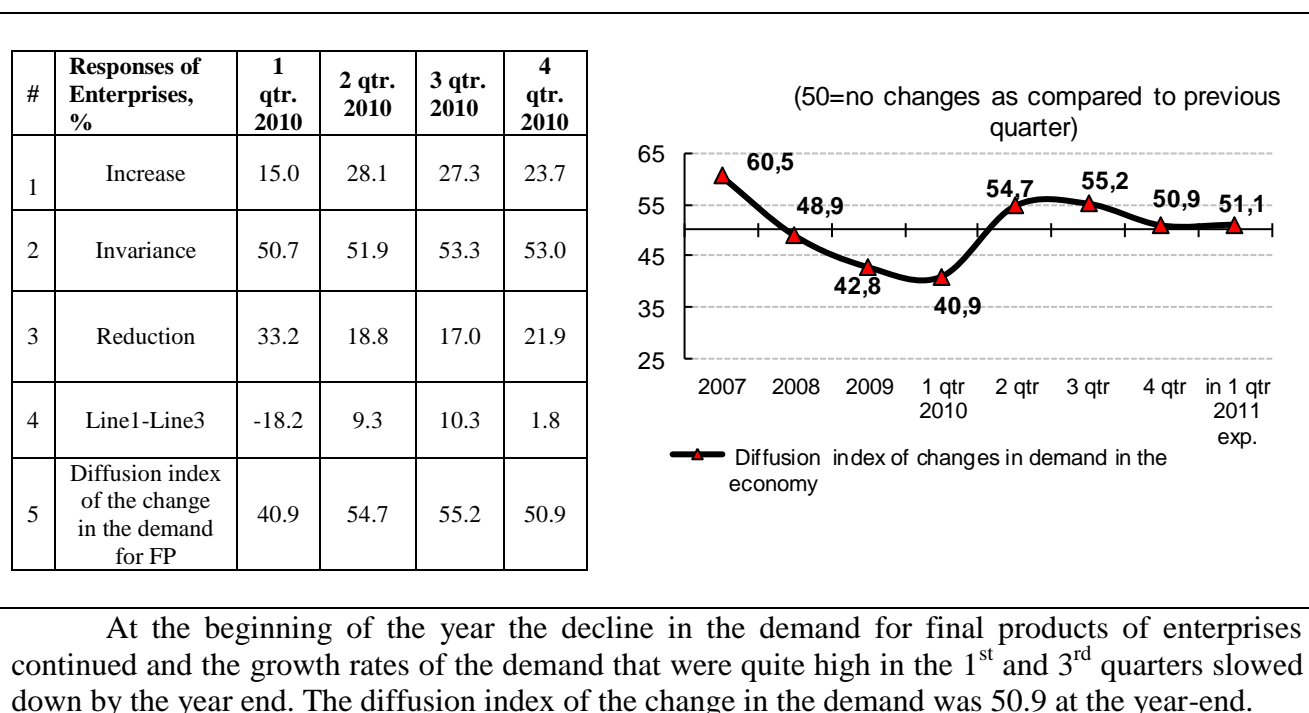
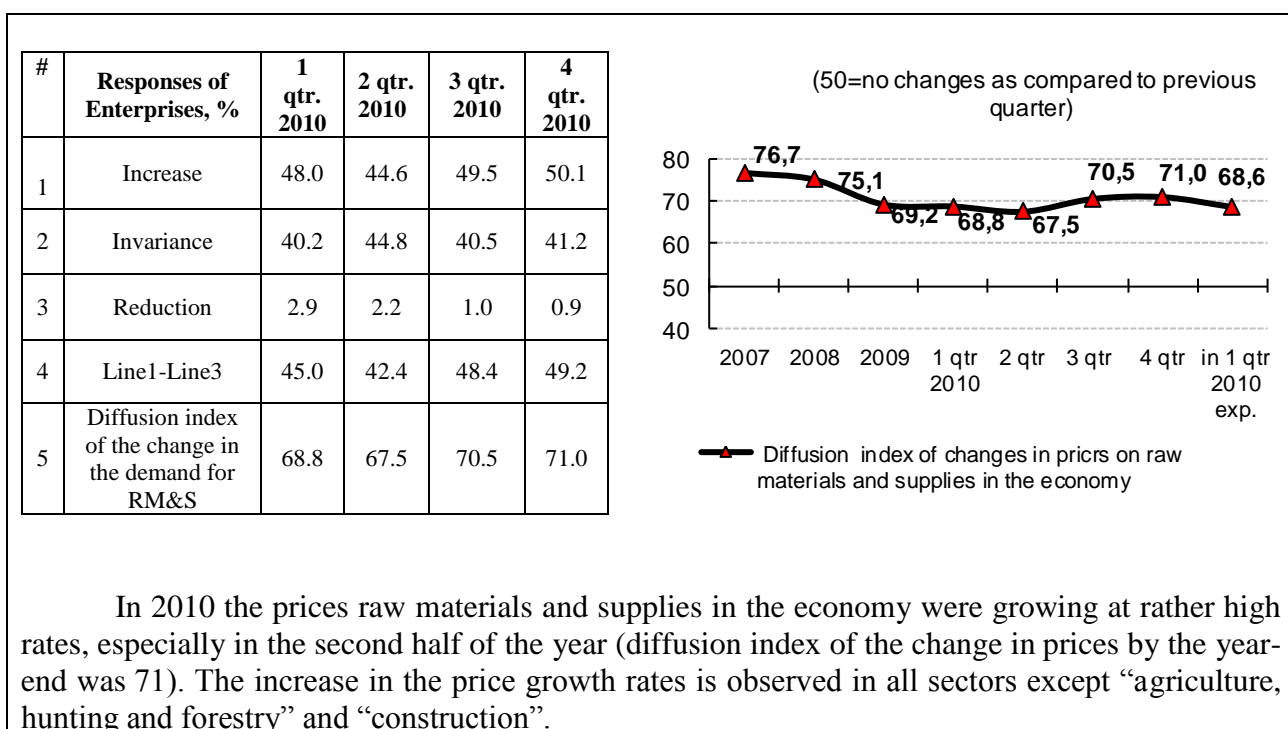


Figure 1.2.2

Change in the Prices for Raw Materials and Supplies



Appendix 2 to Section I Subsection 1.2

Figure 1.2.3

Change in Prices for the Final Products of Enterprises

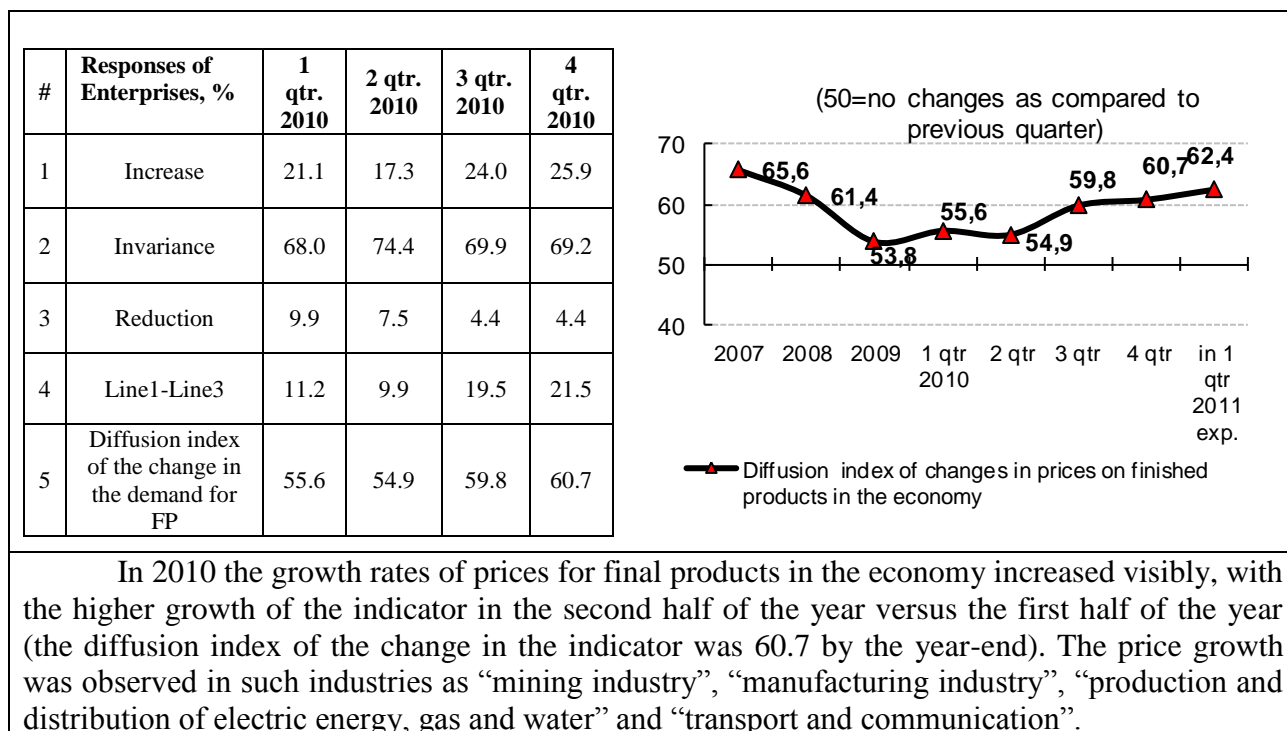
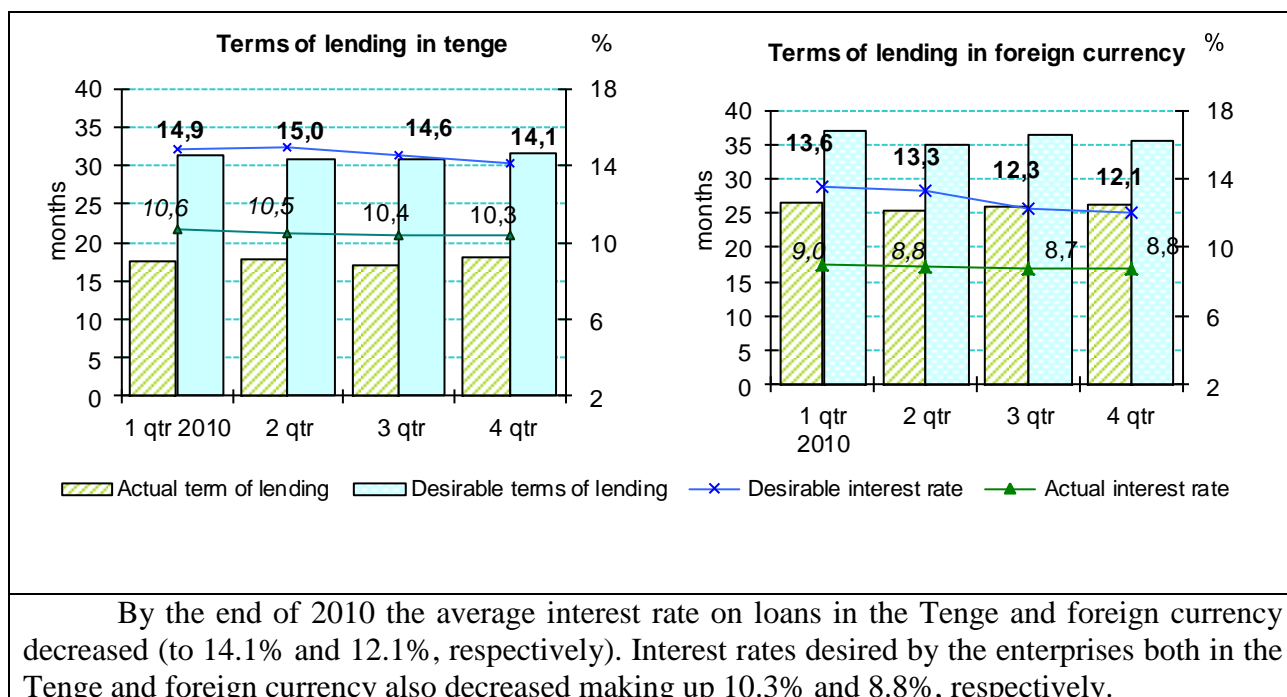
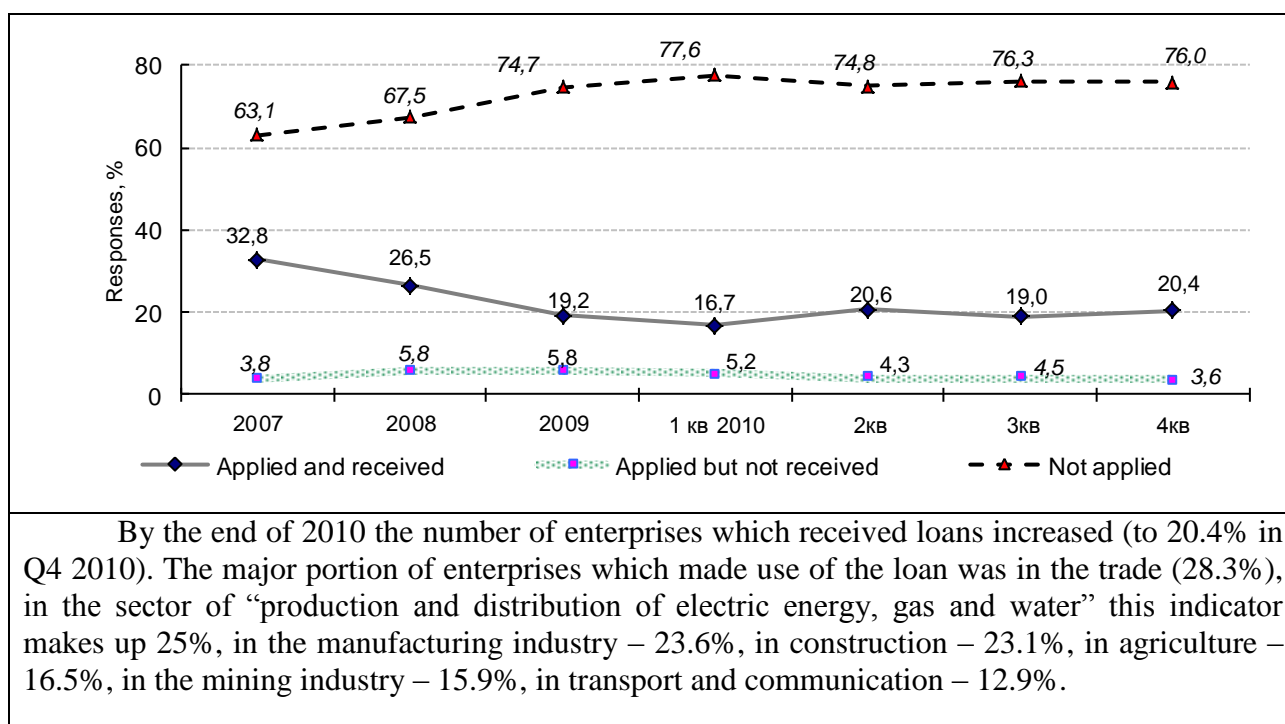


Figure 1.2.4

Terms of Lending



Bank Loans



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

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

Appendix 1 to Section I Subsection 1.4

Balance of Payments of the Republic of Kazakhstan: Analytic Presentation

US\$ mln.

	2008	2009	2010	2010			
				I	II	III	IV
A. Current Account	6325.5	-4359.2	4319.0	2776.6	1901.2	-426.7	67.9
Trade balance	33518.8	14969.4	28881.4	8014.9	8488.8	6112.6	6265.2
Exports f.o.b.	71970.8	43931.1	60837.9	13616.8	16335.6	14814.1	16071.5
Imports f.o.b.	-38452.0	-28961.7	-31956.5	-5601.9	-7846.8	-8701.4	-9806.3
Services	-6693.6	-5810.7	-7053.1	-1435.5	-1404.0	-1918.3	-2295.3
Exports	4425.6	4233.8	4244.6	903.1	1060.2	1160.3	1121.0
Imports	-11119.2	-10044.5	-11297.7	-2338.6	-2464.1	-3078.6	-3416.3
Compensation of Employees Balance	-1452.0	-1304.8	-1345.7	-338.1	-331.7	-333.5	-342.4
Investment Income Balance	-18063.1	-11530.3	-15729.0	-3481.7	-4682.4	-4063.2	-3501.7
Credit	3235.3	2495.3	1830.1	425.5	405.1	366.5	633.1
Interest on reserves and assets of the National Fund	1189.1	820.9	827.8	179.2	209.4	211.6	227.6
Income on direct investment abroad, net	-188.8	-469.9	-428.6	-139.2	-184.2	-168.5	63.3
Other investment income	2235.0	2144.3	1431.0	385.5	379.9	323.4	342.2
Debit	-21298.4	-14025.6	-17559.2	-3907.2	-5087.5	-4429.7	-4134.8
Income on direct investment in Kazakhstan, net	-16956.0	-10710.9	-14922.9	-3298.1	-4458.6	-3720.8	-3445.4
Income on debt (interest)	-4316.2	-3293.2	-2528.1	-609.0	-627.0	-603.7	-688.4
Dividends from portfolio investments	-26.2	-21.5	-108.1	-0.1	-1.9	-105.2	-1.0
Current Transfers Balance	-984.7	-682.8	-434.6	17.0	-169.5	-224.3	-57.8
B. Capital and Financial Account	1609.7	7876.2	-990.8	1158.1	-1167.8	-1030.6	49.4
Capital Account Balance	-12.6	-29.5	7888.2	2501.5	636.4	4680.2	70.0
Financial Account	1622.3	7905.6	-8878.9	-1343.4	-1804.1	-5710.8	-20.6
Direct investment balance	13117.9	10653.4	2155.1	3390.6	2121.6	403.5	-3760.6
Direct investment abroad	-1203.9	-3118.1	-7805.9	-19.0	-319.4	-2059.9	-5407.6
Assets	-4126.9	-4416.8	-3731.4	-46.4	-1735.7	-2132.0	182.7
Liabilities	2923.1	1298.8	-4074.5	27.4	1416.3	72.1	-5590.4
Direct investment in Kazakhstan	14321.8	13771.4	9961.0	3409.6	2440.9	2463.5	1647.0
Assets	425.9	272.7	27.9	26.0	68.2	-21.7	-44.6
Liabilities	13895.8	13498.7	9933.1	3383.6	2372.7	2485.2	1691.6
Portfolio investment Balance	-9377.5	2996.1	8712.0	3914.6	-2743.5	820.7	6720.3
Assets	-7277.6	1875.6	-7166.0	-849.2	-2685.4	-2523.8	-1107.6
Central Bank and General Government	-6408.8	3315.3	-7404.8	-1563.5	-1568.1	-2840.1	-1433.1
Banks	335.6	-163.1	-61.7	240.5	-482.7	67.5	113.0
Other sectors	-1204.4	-1276.6	300.5	473.8	-634.6	248.9	212.4
Liabilities	-2099.9	1120.5	15878.0	4763.8	-58.1	3344.4	7827.9
Central Bank and General Government	-136.3	334.8	-107.8	355.6	-262.8	-353.4	152.7
Banks	-1540.7	422.2	8235.3	4278.8	-146.5	3702.7	400.3
Other sectors	-422.9	363.5	7750.6	129.4	351.1	-4.9	7275.0
Financial Derivatives (net)	187.3	56.8	13.0	67.7	162.9	-241.7	24.0
Medium- and long-term loans and	1389.8	-3301.1	-8948.8	-7029.7	-1348.4	-2132.9	1562.2

credits							
Assets	-2080.3	721.2	3848.4	155.6	694.6	2219.2	778.9
Central Bank and General Government	-94.0	1.0	0.2	0.3	-0.7	0.3	0.3
Banks	-1131.8	1414.2	3495.9	335.3	785.0	535.4	1840.2
Other sectors	-854.5	-693.9	352.3	-180.0	-89.7	1683.5	-1061.6
Liabilities	3470.1	-4022.3	-12797.2	-7185.3	-2043.1	-4352.2	783.3
Central Bank and General Government	33.5	1148.3	1424.0	51.8	37.8	1068.6	265.7
Banks	-2736.6	-9965.5	-15574.6	-7286.5	-2630.9	-5859.8	202.5
Other sectors	6173.1	4794.8	1353.4	49.3	550.0	439.0	315.1
Other Short-Term Capital	-3695.1	-2499.6	-10810.3	-1686.7	3.4	-4560.4	-4566.6
Assets	-1553.2	-1781.6	-10200.2	-973.2	-1751.0	-821.0	-6655.1
Liabilities	-2141.9	-718.0	-4870.6	293.7	-1471.3	-623.7	-3069.4
C. Errors and Omissions	-5746.5	-1055.2	1406.5	343.3	-663.2	1480.0	246.5
D. Overall Balance	2188.8	2461.8	4734.7	4278.0	70.2	22.8	363.8
E. Financing	-2188.8	-2461.8	-4734.7	-4278.0	-70.2	-22.8	-363.8
Reserve Assets of the NBK	-2188.8	-2461.8	-4734.7	-4278.0	-70.2	-22.8	-363.8
IMF credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Appendix 2 to Section I Subsection 1.4

Standard Presentation of Gross External Debt

US\$ mln.

	31.12.2007	31.12.2008	31.12.2009	31.03.2010	30.06.2010	30.09.10	31.12.10
TOTAL	96 893.0	107 933.4	113 239.3	111 436.2	114 285.0	112 431.4	119 242.5
<i>Short-term</i>	11 953.1	9 976.6	10 295.2	9 787.2	11 761.3	7 474.9	9 036.7
<i>Long-term</i>	84 939.9	97 956.7	102 944.0	101 649.0	102 523.7	104 956.5	110 205.8
General Government	1 491.5	1 641.9	2 218.1	2 264.2	2 352.0	3 492.3	3 800.3
<i>Short-term</i>	60.3	23.8	0.0	0.0	13.6	41.2	49.1
Money Market Instruments	60.3	23.8	0.0	0.0	13.6	41.2	49.1
Loans	0.0	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	0.0
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Long-term</i>	1 431.2	1 618.1	2 218.1	2 264.2	2 338.4	3 451.1	3 751.2
Bonds and other debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	1 431.2	1 618.1	2 218.1	2 264.2	2 338.4	3 451.1	3 751.2
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Monetary Authorities	106.9	12.1	1 017.5	1 355.9	1 016.6	693.6	1 000.6
<i>Short-term</i>	105.0	10.2	479.7	832.2	508.7	159.1	470.4
Money Market Instruments	104.8	10.0	376.1	741.2	467.6	85.4	230.9
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash and deposits	0.0	0.3	103.6	91.0	41.1	73.7	239.5
Other liabilities	0.2	0.0	0.0	0.0	0.0	0.0	0.0
<i>Long-term</i>	1.9	1.9	537.8	523.6	507.9	534.4	530.2
Bonds and other debt securities	0.0	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	0.0
Cash and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	1.9	1.9	537.8	523.6	507.9	534.4	530.2
Banks	45 946.2	39 221.2	30 082.5	26 069.5	24 699.2	18 957.7	20 023.8
<i>Short-term</i>	6 102.8	3 093.4	3 938.4	3 488.4	5 136.9	1 108.6	1 678.2
Money Market Instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	3 747.5	2 010.9	353.1	399.6	422.8	151.6	227.7
Cash and deposits	1 863.9	702.7	837.6	1 130.0	743.3	796.8	1 330.1
Other liabilities	491.4	379.7	2 747.7	1 958.8	3 970.8	160.2	120.4
<i>Long-term</i>	39 843.4	36 127.8	26 144.0	22 581.1	19 562.3	17 849.1	18 345.6
Bonds and other debt securities	3 266.2	2 518.3	2 752.0	6 738.3	6 425.7	10 426.1	10 715.7
Loans	35 875.9	33 082.0	23 102.4	15 590.0	12 876.1	7 154.3	7 354.7
Cash and deposits	701.4	527.6	289.6	252.8	260.6	268.6	275.1
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	49 348.4	67 058.2	79 921.2	81 746.6	86 217.1	89 287.9	94 417.8
<i>Short-term</i>	5 685.0	6 849.3	5 877.1	5 466.6	6 102.1	6 166.0	6 838.9
Money Market Instruments	0.3	0.1	0.1	0.1	0.1	0.0	0.0
Loans	1 437.3	2 247.2	927.5	823.5	858.3	1 046.1	1 141.9
Cash and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	3 704.2	4 001.8	3 786.3	4 058.6	4 121.9	4 180.9	5 332.8
Other liabilities	543.1	600.2	1 163.1	584.4	1 121.8	938.9	364.2
<i>Long-term</i>	43 663.4	60 208.9	74 044.1	76 280.0	80 115.0	83 121.9	87 578.8
Bonds and other debt securities	671.4	604.6	801.8	796.0	1 185.0	1 226.0	9 055.1
Loans	40 156.4	56 441.4	70 217.3	72 493.8	76 019.9	78 968.6	75 498.4
Cash and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	2 835.6	3 162.8	3 025.0	2 990.2	2 910.1	2 927.3	3 025.2
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo items:							
Direct investments: Intercompany debt	30 080.6	40 198.8	50 213.2	51 929.5	55 334.8	57 580.9	53 246.8
Liabilities to affiliated entities	2 458.8	5 337.6	6 643.7	6 672.0	8 088.0	8 160.3	2 569.8
Liabilities to direct investors	27 621.9	34 861.1	43 569.5	45 257.4	47 246.8	49 420.6	50 677.0

Appendix 3 to Section I Subsection 1.4

Absolute and Relative Indicators of External Debt

Item	2008	2009	1qtr.2010	2qtr.2010	3qtr.2010	4 qtr.2010	2010
A. Absolute Indicators (US\$ mln.)							
1. Gross external debt (at end-period)	107 933.4	113 239.3	111 436.2	114 285.0	112 431.4	119 242.5	119 242.5
<i>Of which, intercompany debt</i>	<i>40 198.8</i>	<i>50 213.2</i>	<i>51 929.5</i>	<i>55 334.8</i>	<i>57 580.9</i>	<i>53 246.8</i>	<i>53 246.8</i>
2. Gross external debt excl. intercompany debt (at end-period)	67 734.6	63 026.1	59 506.7	58 950.2	54 850.5	65 995.7	65 995.7
3. Payments for debt extinction and servicing (including intercompany debt)*	31 830.5	30 426.9	5 172.4	4 979.0	4 909.2	6 770.6	21 831.1
4. Payments for debt extinction and servicing (excluding intercompany debt)*:	23 267.9	22 352.5	3 201.6	3 013.9	2 944.1	4 148.7	13 308.3
5. Export of goods and non-factor services for the period (EGNFSp) **	76 396.4	48 165.0	14 519.9	17 395.8	15 974.4	17 192.5	65 082.6
6. Export of goods and non-factor services for the year (EGNFSy) **	76 396.4	48 165.0	53 550.6	60 550.3	62 955.8	65 082.6	65 082.6
B. Relative Indicators							
1. Gross external debt per capita (US\$, excluding intercompany debt)	4 293.4	3 930.3	3 698.2	3 650.4	3 383.7	4 015.9	4 015.9
2. Gross external debt to GDP (as %, including intercompany debt)	80.9	98.6	91.0	87.5	81.5	81.7	81.7
3. Gross external debt to GDP (as %, excluding intercompany debt)	50.7	54.9	48.6	45.1	39.7	45.2	45.2
4. Gross external dept to EGNFSy (as %, incl. intercompany debt)	141.3	235.1	208.1	188.7	178.6	183.2	183.2
5. Gross external dept to EGNFSy (as %, excl. intercompany debt)	88.7	130.9	111.1	97.4	87.1	101.4	101.4
6. Payments for debt extinction and servicing to EGNFSp (as %, incl. intercompany debt)	41.7	63.2	35.6	28.6	30.7	39.4	33.5
7. Payments for debt extinction and servicing to EGNFSp (as %, excl. intercompany debt)	30.5	46.4	22.0	17.3	18.4	24.1	20.4
8. Interest payments to EGNFSp (%)	7.5	10.5	7.9	6.8	7.3	6.6	7.1
9. International reserves to short-term external debt, based on original maturity	186.9	224.3	277.3	226.2	372.3	313.1	313.1
For reference :							
Population (thousand individuals) ***	15 776.5	16 036.1	16 090.9	16 148.9	16 210.1	16 433.8	16 433.8
GDP (KZT billion), for the period***	16 052.9	17 007.6	4 372.9	4 760.7	5 505.7	6 874.2	21 513.5
GDP for 12 months (US\$ bln.)	133.5	114.8	122.4	130.6	138.0	146.0	146.0

* Since 2000 – short-term debt extinction and servicing

** Balance of Payments of the Republic of Kazakhstan, estimate by the National Bank of Kazakhstan

*** Agency of Statistics of the Republic of Kazakhstan

Appendix 1 to Section IX Subsection 9.1

Figure 9.1.1

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

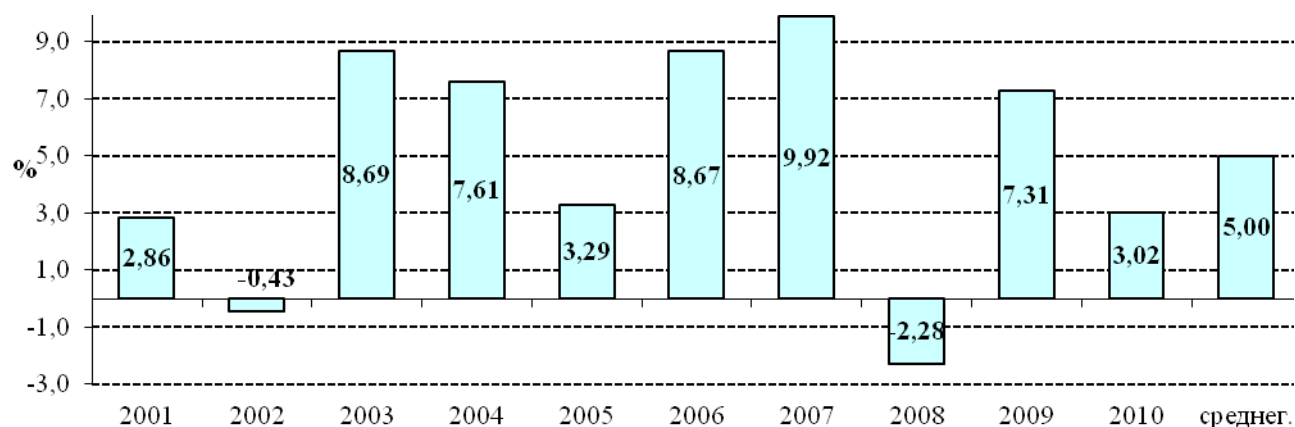


Figure 9.1.2

Returns of the Stabilization Portfolio

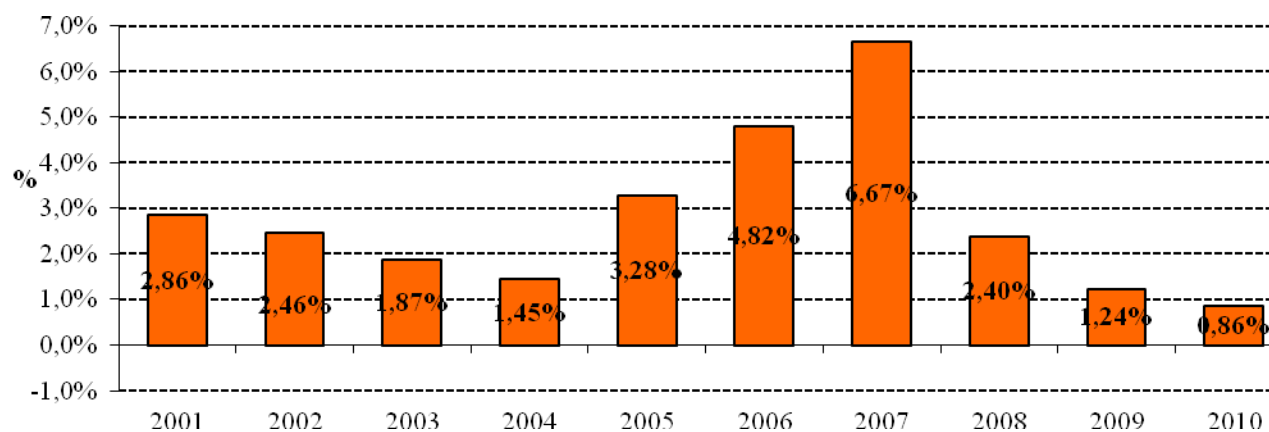


Figure 9.1.3

Returns of the Savings Portfolio

