

REPORT
of the National Bank of the Republic of Kazakhstan
for 2018

Almaty, 2019

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Attachments

Consolidated financial statements of the National Bank of the Republic of Kazakhstan for 2018

Summary of the Annual Performance

1. At the end of 2018, the annual inflation had been at 5.3% (December to December of the previous year). In conjunction with the monetary policy implementation in line with the inflation targeting regime, throughout the year the National Bank was maintaining the achievement of the inflation target of 5-7% as set for 2018.

2. In 2018, the GDP growth, according to the Committee on Statistics of the Ministry of National Economy, accounted for 4.1%. The growth was observed in all key sectors of the economy, with the largest contribution to the GDP growth being made by trade (1.1% out of 4.1%), the industry (1%), transport (0.5%), and construction (0.4%).

3. The current account deficit in 2018 went down significantly and amounted to USD 51.7 mln. (in 2017 the deficit was USD 5.1 bln.). The improvement of the current account stemmed from the growth in the balance of trade surplus, a favorable environment of world oil prices and the increasing exports, and amounted to USD 26.4 bln. (in 2017 – USD 16.7 bln.). In 2018, the financial account (excluding operations with the National Bank's reserve assets) had a surplus of USD 2.6 bln.

4. The National Bank continued to adhere to a free floating exchange rate regime. The situation in the domestic foreign exchange market was driven by the dynamics of the Russian ruble, oil prices, by the global interest rates movements, and by international developments of the economic and geopolitical nature. In 2018, the exchange rate was fluctuating within the range of KZT 318.31–384.2 per 1 USD.

5. During 2018, the banking sector's assets increased by KZT 1.2 trln. (by 4.5%) and amounted to KZT 25.2 trln. At the end of 2018, the loan portfolio amounted to KZT 13.8 trln., having increased by 1.3% since the beginning of the year. Provisions created for the banking sector's loan portfolio in line with requirements of the international financial reporting standards made up KZT 1.8 trln. (12.9% of the total loan portfolio). Loans past due on their principal and/or interest over 90 days amounted to KZT 1 trln. (7.4% of the total bank loan portfolio). During 2018, bank liabilities increased by KZT 1.1 trln. (by 5.2%) and made up KZT 22.2 trln.

6. At the year-end, the volume of bank credits to the economy increased by 3.0% to KZT 13.1 trln. During 2018, loans in the domestic currency increased by 7.8% to KZT 10.1 trln., whereas loans in foreign currency decreased by 10.2% to KZT 3 trln. As a result, a relative share of loans in the tenge in total loans went up from 73.7% to 77.1%. Long-term lending in 2018 increased by 2.8% to KZT 11.1 trln., and short-term lending grew by 4.4% to KZT 2 trln.

7. Deposits of residents with depository organizations increased by 6.0%, amounting to KZT 18.6 trln. On the year-over-year basis, deposits in the domestic currency went up by 4.5% and amounted to KZT 9.6 trln., and foreign currency deposits in the US Dollar equivalent decreased by 6.9% and amounted to KZT 9.0 trln. As at end of December 2018, the deposit dollarization accounted for 48.4%.

8. Total assets of insurance organizations increased by 13.3% to KZT 1 048.5 bln. Liabilities of insurance organizations totaled KZT 580.2 bln., exceeding those as at end of 2017 by 13.0%. Insurance reserves amounted to KZT 519.5 bln. (89.5% of total liabilities), being by 12.8% larger as compared to 2017. The total volume of insurance premiums increased by 4.0% and made up KZT 384.8 bln.; along with that insurance premiums on direct insurance contracts amounted to KZT 350.5 bln., showing the 5.6% growth versus 2017.

9. At the end of 2018, total pension assets amounted to KZT 9.6 trln., having increased by KZT 1.8 trln. (by 22.7%). During 2018, the overall size of pension contributions went up by KZT 847.1 bln. (by 14.9%) and amounted to KZT 6.5 trln. In 2018, retirement benefit payments amounted to KZT 168.6 bln.

10. In the context of five social initiatives of the Head of State, in July 2018 the “7-20-25. New Housing Opportunities for Every Family” Residential Mortgage Program was launched. The effort had been made to eliminate legislative gaps which hamper the mortgage market development. Based on performance in 2018, 3 229 loans of KZT 38.8 bln. were provided under the Program.

11. In 2018, the National Bank continued to implement the Residential Mortgage Loan Refinancing Program. At the year-end, 23 950 loans totaling KZT 139.7 bln. had been refinanced.

In March 2018, foreign currency mortgage loans of individuals provided before 1 January 2016 started to be refinanced in the tenge at the exchange rate effective on 18 August 2015 (KZT 188.35 per 1 USD). At the end of 2018, banks approved the refinancing of 5 908 loans worth KZT 48.5 bln.

12. In 2018, 43 million transactions totaling KZT 834.6 trln. had been processed in the interbank system of money transfers and the interbank clearing system. As compared to 2017, the quantity of payments in the payment systems increased by 17.5%, and the volume of payments decreased by 1.9%.

The overall quantity of issued payment cards at end-2018 was 23.4 million, thus exceeding the corresponding indicator for 2017 by 20%. In 2018, the number of transactions processed with the payment cards issued in Kazakhstan went up by 73%, and the amount of transactions increased by 45%.

13. At the end of 2018, gross gold and foreign exchange reserves of the National Bank made up USD 30.9 bln., which is by 0.2% less than in 2017.

14. At the end of 2018, the total market value of the National Fund’s portfolio was USD 61.6 bln., with a reduction of 0.3% on the year-over-year basis.

Section 1. The National Bank's Progress in 2018

1.1. The National Bank's Goal and Objectives

The National Bank – central bank of the Republic of Kazakhstan – represents the upper (first) tier of the country's banking system.

The National Bank's goal is to ensure the price stability. In broad terms, its mission is to improve the people's welfare in Kazakhstan through ensuring a low inflation rate and the financial system stability. In practice, it means that the key vectors in the National Bank's activities are to implement an effective monetary policy and support soundness of the financial sector which provides good quality financial services to the population.

Under the laws, the National Bank's objectives are as follows:

- formulating and implementing the country's monetary policy;
- ensuring the functioning of payment systems;
- carrying out currency exchange regulation and currency control;
- helping to safeguard the financial system's stability;
- regulation, control and supervision of the financial market and financial organizations as well as other entities within its scope;
- providing an appropriate level of protection of rights and legitimate interests of the financial service consumers;
- carrying out statistical activities in the field of monetary statistics and the external sector statistics.

Also, the National Bank is the sole issuer of banknotes and coins of the domestic currency of the Republic of Kazakhstan.

The National Bank is engaged in the fiduciary management of the National Fund of the Republic of Kazakhstan and of pension assets kept with the "Unified Accumulative Pension Fund" JSC (the Unified Accumulative Pension Fund).

1.2. Organization Structure and Staffing

The supreme body of the National Bank is the Board which consists of 9 persons: the National Bank's Governor, five officials of the National Bank, one representative of the President of the Republic of Kazakhstan and two representatives from the Government of the Republic of Kazakhstan. Board members from the President of the Republic of Kazakhstan, the Government and the National Bank are appointed and removed by the President of the Republic of Kazakhstan, the Government of the Republic of Kazakhstan and the National Bank's Governor, respectively.

The Board of Directors (Directorate) represents the authority which is in charge of an ongoing management of the National Bank; it is comprised of the National Bank's Governor, his/her deputies, and heads of business units of the

National Bank. The composition of the National Bank's Board of Directors is approved by the Governor.

In 2018, the internal structure of 6 business units in the head office and 16 regional branches was optimized, and the Turkestan branch was opened.

At the end of 2018, the National Bank's structure consisted of 26 business units in the head office (13 departments and 13 divisions), 18 branches and 3 subordinate organizations (Table 1.2.1; Appendix 1 to Section 1.2, Figure 1.2.1).

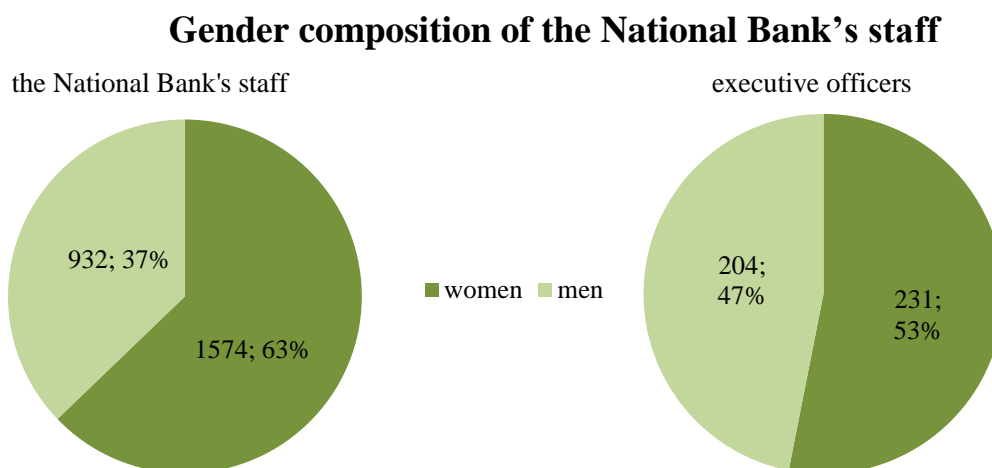
Table 1.2.1

Staff Size of the National Bank

1	Staff size at period-end			
	According to the organizational chart, number		Staffing table, number of individuals	
	2017	2018	2017	2018
1	2	3	4	5
Head office	1 204	1 206	1190	1 172
Branches	1 316	1 282.25	1366	1 334
Subtotal:	2 520	2 488.25	2 556	2 506
National Bank's organizations (RSOEs)	840	971	842	962
Grand total at the National Bank:	3 360	3 459.25	3 398	3 468

Women within the head office staff accounted for 782 individuals (66.7%), in the branches – 792 individuals (59.3%). The gender distribution among the managerial staff was as follows: the number of female executives in the head office was 121 (52.4%), in branches – 110 individuals (53.9%) (Figure 1.2.2).

Figure 1.2.2



During 2018, the rate of the staff turnover at the National Bank accounted for 6.1% (in 2017 – 5.4%).

In 2018, two on-line staff selection campaigns were conducted, where 814 resumes were reviewed. Based on their outcomes, 136 candidates have been enlisted in the employee pool, 59 of which have been hired.

During 2018, 2 076 employees of the National Bank have undergone training and career enhancement. As part of the contract with the Nazarbayev University, 6 employees have undergone training under the Executive MBA program. In 2018, 14 employees of the National Bank have passed the professional certification: CFA – 13 employees, and PMI – 1 employee.

Within the framework of the Cooperation Agreement in the area of central (national) bank staff training of the EAEU member-states, in 2018 two workshops and 3 on-the-job training courses were organized for 25 participants at the National Bank.

1.3. Risk Management

Risk management passes through an ongoing process of risk identification and assessment, reviewing of employed risk policies and procedures, taking risk reducing actions and through risk monitoring. These efforts are supported by effective methodologies, processes and systems of the National Bank.

The risk management system of the National Bank is intended not to eliminate risk but to manage it and provides reasonable but not absolute guarantees against possible losses.

Financial risk management which stem from the National Bank's asset management operations is realized by assessing the risk and setting appropriate limits and restrictions.

Establishment of limits and restrictions on a risk parameters such as Tracking Error and Value-at Risk, issuers and counterparties credit quality requirements toughening, setting of permitted financial instruments boundary and strategic allocation of portfolios and subportfolios became a base of market risk management.

In respect of National Bank's gold and foreign currency assets, the National Fund's and Unified Accumulative Pension Fund's pension assets credit risk management during 2018 the counterparties credit risk limits have been updated based on calculation of financials and ratings of international rating agencies .

The National Bank's expected credit losses calculation and provision making respectively to the International Financial Reporting Standard 9 "Financial Instruments" were accomplished on a quarterly basis. As part of the process, during the last year was settled the agreement with the S&P Global Market Intelligence LLC on delivering of methodology based on the use of data about credit ratings, rations of probability of counterparty default and default of financial assets of the National Bank from one source – S&P Global Market Intelligence LLC.

The National Bank changed the limitation framework assigned to banks in the Republic of Kazakhstan from the restrictive one to the indicative one and a respectively new methodology was designed to set forth the internal credit ratings

determination and indicative limits on banks. In addition to classic bank financial ratios and international rating agencies credit ratings assessment the new methodology is focused on the bank's asset quality assessment, liquidity and capital adequacy analysis. Arrgerating of these ratios range allows to assess a bank's financial soundness in aim to assign an internal credit rating and indicative limit on a bank which may be used as a base for further assessment of the bank and/or as a supplemental information.

The operational risk management at the National Bank is based on an adapted model of three lines of defense and COSO principles (the Committee of Sponsoring Organizations of the Treadway Commission). A respective mechanism which predefines an effective operational risk management has been set for each line of defense.

The enhanced role of the second line of defense is an essential element of the model, adjusted to the National Bank's activities. The second line of defense analyzes the existing processes of the National Bank and together with business units implements the elaborated recommendations regarding risk minimization.

The effort on corruption risk management was made in line with provisions of the Law of the Republic of Kazakhstan "On Counter-Acting Corruption". One of the instruments of risk minimization is the internal analysis of corruption risk in the National Bank's business processes.

With a view to handle appeals of individuals and corporate entities regarding actions of the National Bank's staff and counter-acting corruption, the e-mail anticorruption@nationalbank.kz was functioning as well as a hotline by calling +7 (272) 704 988 was on to accept voice messages about corruption offences committed by the National Bank's staff and the existing conflicts of interest in their actions. In 2018, the Plan for Counter-Acting Corruption for 2019–2021 that includes activities of anti-corruption nature was designed.

In order to prevent involvement of the National Bank's staff in money laundering and terrorist financing, the National Bank's Policy for combating money laundering and terrorist financing was drafted. The document was prepared based on recommendation of the intergovernmental organization of the Financial Action Taskforce (FATF), the Basel's Committee recommendations "Sound Management of Risk Related to Money Laundering and Financing of Terrorism", the Law of the Republic of Kazakhstan "On Combating Money Laundering and Terrorist Financing", experience of central banks of Sweden and England, and reflects the principles and requirements of the National Bank in respect of its clients, counterparts and employees. The Policy provides for the procedures of assessment, monitoring and reporting on this type of risk and covers all business units, branches and organizations of the National Bank.

In the effort to ensure an ongoing operation of the National Bank, in 2018 a number of regulations were adopted regarding organization and management of the National Bank's business recovery in case of emergencies and incidents. To minimize potential losses in case of emergencies and resumption of main activities of

the National Bank service works and tests of computing capabilities and work stations were made. In 2018, the Monitoring Center was established with the main objective of monitoring the key life-support systems of the National Bank, including energy supply, telecommunications and communication, computer hardware.

1.4. Communication Policy

In 2018, the National Bank continued to pursue the communication policy aimed to an ongoing creation of awareness among the public and financial institutions regarding the regulator's activities as well as to promote a dialogue through all means convenient and available for the target audiences.

In 2018, 52 events of interest were held with participation of the National Bank's senior management and heads of business units; such events included press conferences, briefings, round table discussions, public hearings, sessions of government authorities, and international meetings. The following activities were initiated: an online conference of the National Bank's Governor, 5 press conferences devoted to the situation in the financial market, 25 topic-based briefings about the base interest rate, regarding the situation in the financial market, about the results of participation in intra-state and international events, regarding the payment system market development, about the Invest Online system, the "7-20-25" housing program, and about the draft laws in progress.

With a view to strengthen the National Bank's cooperation with the expert community, 8 meetings were held to explain the decision about the level of the base interest rate and current strands of the monetary policy.

The public awareness effort regarding the National Bank's activities in various mass media (periodical, TV, Internet media) was made. In 2018, the Bank went on with its practice of conducting round table discussions with the mass media explaining the key focal points of the National Bank's activities. During the past year, three round table discussions were held on the topics of collection business, situation in the foreign exchange market and the National Bank's monetary policy, and protection of rights of the financial service consumers. 23 interviews of the National Bank's senior management and heads of business units were arranged for Kazakhstani and foreign television, print media and Internet-media. In addition, the National Bank's staff has been providing comments for television and print media on a regular basis.

In 2018, 48 press releases, 538 newsletters were disseminated in the mass media, and 423 responses to enquiries from the mass media were prepared.

As part of the special project "National Bank informs, explains, and comments", 30 special type pages of the National Bank were prepared and posted in the national papers "Egemen Kazakhstan" and "Kazakhstanskaya Pravda" in the Qazaq and Russian languages in 2018.

Great attention was paid to highlighting the National Bank's activities in the regions of Kazakhstan: press-conferences, briefings, round table discussions were

held; interviews of the National Bank's staff in the regional mass media were arranged and 77 speeches on radio were made; information materials were published in the regional mass media.

On 15-16 November 2018, the 8th Congress of Kazakhstani Financial Institutions was held in Almaty. To highlight the Congress, 79 news items were published in a number of Kazakhstani mass media. The live stream of the plenary session and all sessions of the Congress was launched on the kapital.kz portal and on Atameken Business Channel; interviews of the key speakers in the Congress went on the air: Armenia, Uzbekistan, representatives from central banks of the Czech Republic, Serbia, Tajikistan; representatives of the "Financial Institutions' Association of Kazakhstan" ULE and the "Kazakhstan Stock Exchange" JSC (Kazakhstan Stock Exchange), as well as leading international and Kazakhstani financial organizations.

In honor of the 25th anniversary of the domestic currency – the tenge – the National Bank hit the airwaves with the non-fiction film "The Tenge: 25 years together" which was broadcasted on the Kazakhstani TV channels. In addition, greeting videos were prepared on behalf of the National Bank's senior officials, which were posted on official web-pages of the National Bank in the social media.

In June 2018, the meeting of the Community Board of the Unified Accumulative Pension Fund was held with participation of the National Bank's representatives; a round table discussion dedicated to the 20th anniversary of the pension system was conducted in December 2018.

In 2018, much attention was paid to the development and filling with content of the National Bank's Internet portal and social media marketing of the National Bank's accounts in Facebook, Twitter and Instagram. Such services became very popular among the public. The overall coverage of publications increased by 108% since 2017 to 2 560 000 unique users. Video materials of events arranged by the National Bank, presentations, info graphics, videos and comic strips intended to increase financial literacy of the population were posted on the National Bank's Facebook page. In 2018, the National Bank started to disseminate information about its activities via the Telegram messenger and "VKontakte" social network.

In 2018, the Bank also continued working on the "NBK on-line" mobile application which was launched in 2016 to ensure real-time interaction of the National Bank with the population; responses to over 8 000 questions from the population have been prepared. At the end of 2018, 17 211 individuals were the users of the application.

In 2018, pursuant to requirements of the Law of the Republic of Kazakhstan "About Legal Enactments", more than 300 resolutions of the National Bank's Board were provided for official publication in the periodicals of the Republic of Kazakhstan.

1.5. International Cooperation

In 2018, the National Bank continued to build up a long-term mutually beneficial cooperation by maintaining an ongoing dialogue with its key partners – international financial organizations.

In 2018, the National Bank's senior management participated in the Spring and Annual Meetings of the Board of Governors of the World Bank Group and the IMF. The National Bank had organized a visit of the IMF Mission to the Republic of Kazakhstan for consultations in line with Article IV of the IMF Articles of Agreement and a joint presentation with the IMF on the topic: "Regional Economy Development Prospects: the Caucasus and Central Asia". In May 2018, within the framework of XI Astana Economic Forum a Regional IMF Meeting took place where cooperation and integration at the regional and global levels was discussed.

The National Bank continued to bring in the technical assistance from international financial organizations for the further development of the country's financial sector. In 2018, advisory services from the IMF regarding interventions in the foreign exchange market within the framework of inflation targeting regime and fine-tuning of projection models were received. Also, an application was filed to the IMF to bring in the technical assistance in such areas as modeling and forecasting of key macroeconomic indicators, combating capital flight, consolidated supervision, risk-focused supervision and regulation in fighting money laundering and terrorist financing. Jointly with the European Bank for Reconstruction and Development, the National Bank continues to implement technical assistance in such area as "Reforms of laws and regulations of the Republic of Kazakhstan that govern operations with financial derivatives".

In 2018, the working group was created to review the existing and to design new money market indicators; the working group consists of representatives from the National Bank, European Bank for Reconstruction and Development as well as from the financial market of Kazakhstan. The working group's goal is to study possibilities of using the interbank lending market index as a targeted rate of the monetary policy.

In 2018, experts from the National Bank visited the Swiss National Bank in order to study up the procurement process and also visited the Bank of Italy in order to study their experience of budgeting.

In September 2018, the delegation from the Swiss National Bank paid a visit to discuss potential technical assistance.

In the context of developing the integration cooperation, in 2018 the National Bank reviewed the drafts of the following documents: the Concept for establishing a common financial market in the EAEU, Agreement on the mutual access to placement and negotiation of securities on exchanges (trade organizers) in the EAEU member states, the Agreement on the access for brokers and dealers of one EAEU member state to exchanges (trade organizers) of other member states, the Road Map for creating a Common exchange space in the EAEU, the Agreement on the procedure for information sharing in respect of the credit histories related data , the

Agreement regarding the Advisory Board on the exchange rate policy of the EAEU member states. The National Bank took part in the work of various advisory authorities established with the EAEU and the CIS.

In the context of bilateral cooperation with central banks of the CIS countries in the regulation and supervision of financial markets, the National Bank signed cooperation and communication agreements with the Central Bank of the Russian Federation, the Central Bank of the Republic of Uzbekistan and the National Bank of Ukraine. In addition, drafting of bilateral agreements on information exchange for supervisory purposes with the National Securities and Stock Market Commission of Ukraine as well as with the Chamber of Supervision of Financial Markets of the Republic of Azerbaijan is underway.

In 2018, the National Bank continued to be actively involved in the work of the Advisory Board of central (national) banks on protection of rights of the financial service consumers and financial inclusion which is comprised of representatives from the central (national) banks of the Russian Federation, Republic of Belarus, Kyrgyz Republic, Tajikistan, Republic of Armenia and the Republic of Kazakhstan. In 2018, two meetings of the Advisory Board were held: in Yerevan (Republic of Armenia) in May, and in Almaty in November.

In the course of bilateral cooperation with the People's Republic of China, the work on the draft Partnership Agreement in banking and insurance supervision with the China Banking and Insurance Regulatory Commission was continued. With a view to fine-tune the practice of cross-border communication on issues of bank supervision and regulation, the study of prospects and opportunities in respect of increasing the share of domestic currencies in mutual settlements with the People's Republic of China was going on.

On 27 November 2018, the National Bank signed the International Organization of Securities Commissions's (IOSCO) Multilateral Memorandum of Understanding regarding consultations, cooperation and information sharing. Accession to the Memorandum became possible owing to optimization of the legislation in order to provide additional guarantees for protection of investor rights. Thus, the National Bank became the 120th full-fledged participant in the information exchange with other securities market regulators within the frame of the Memorandum. The National Bank is the first regulator from the Central Asia that signed the Memorandum.

In 2018, the National Bank took an active part in the work of the International Association of Insurance Supervisors (IAIS) dealing with the drafting, implementation and practical application of principles, standards and recommendations on supervision of insurance markets; particularly, the National Bank became a member of the Assessment Committee and the Assessment Working Group which assess implementation of standards.

In 2018, representatives from the National Bank took part in the Annual Meeting of the Bank for International Settlements in Basel (Switzerland), sessions of

the Basel Consultative Group with the Basel Committee on Banking Supervision in Copenhagen (Denmark) and in Abu-Dhabi (United Arab Emirates).

With a view to broaden cooperation with the South-East Asia countries and study the prospects of the use of digital technologies in the financial sphere, the National Bank commenced cooperation with the Monetary Authority of Singapore in the field of innovation financial technologies.

On 15-16 November 2018, the National Bank, jointly with the Financial Institutions' Association of Kazakhstan and the Kazakhstan Stock Exchange held the 8th Congress of Financial Institutions' Association of Kazakhstan. The Congress acquired an international status and took place with participation of chief executives from foreign central banks, international financial organizations and professional financial market participants. The Congress had an agenda that included such globally important issues as challenges which central banks are facing nowadays, the use of domestic currencies in the cross-border settlements as well as such current topics for the financial sector and the economy as risk-focused supervision, prospects of cash circulation, and protection of rights of the financial service consumers.

1.6. Statistical Activities

The National Bank's activities in the field of statistics represent a set of arrangements aimed to collect, process and disseminate information and statistical data for the purposes of analysis and timely assessment of the current state of the economy, development prospects of the real sector and the financial system.

The statistical activities at the National Bank have a multi-lateral and multi-sectoral aspect and are built on the basis of fundamental principles of statistical accounting, with consideration of international recommendations and best practices of foreign central banks. In its operation, the National Bank is closely communicating with international organizations, government authorities of the Republic of Kazakhstan and financial and non-financial organizations which are supervised by the Bank.

Top-priority objectives in fine-tuning the statistics activities are to build up a centralized data management system, to ensure common information processing standards and develop information technologies. Implementation of these objectives will allow ensuring transparency of the data collection and processing, improving their quality, reducing the burden on respondents and ensuring efficiency of the management decision-making.

Monetary and Financial Statistics

Monetary statistics include collection of data from banks and non-bank financial organizations, including from mortgage organizations, insurance (reinsurance) organizations, the Development Bank, Unified Accumulative Pension Fund. The data of monetary and financial statistics is published on the official Internet-resource, in official materials and publications of the National Bank (the "Statistical Bulletin of the National Bank"). The National Bank provides reports on

monetary statistics to the IMF on a regular basis in compliance with the special data dissemination standard.

The National Bank publishes methodological commentaries which provide insight into principles and approaches to the generation of data of monetary and financial statistics.

In dealing with the integration associations, the National Bank is in ongoing cooperation with the Eurasian Economic Commission of the EAEU as regards the methodological work and provision of information on monetary statistics.

The key focal points in statistical activities in the next few years will include a further fine-tuning of monetary and financial statistics in line with the updated IMF's Monetary and Financial Statistics Manual and Compilation Guide, IMF, 2016.

External Sector Statistics

The external sector statistics is used to assess a country's creditworthiness and the financial sector's condition. This area of activities includes collection and processing of baseline statistical data, preparation of consolidated statistical reports and analytical tables on the balance of payments, international investment position and external debt.

The aggregated data is disseminated as part of the National Bank's communication with the competent authority in the field of government statistics (also, in order to build up the national accounts system) and in accordance with a special data dissemination standard. The data on the external sector statistics is published in the official materials and publications ("Balance of Payments and External Debt of the Republic of Kazakhstan") as well as on the official Internet-resource of the National Bank.

In 2018, an effort was made to transit to a new structure of the balance of payments and to a new international investment position. Such modifications enabled to reflect new economic developments in the statistics as well as to take into account the opinion of information users regarding the required changes in the statistics of international investment position, external debt, and statistics of direct investments by the type of investment.

Interviews of Enterprises in the Real Sector of the Economy

With a view to assess macroeconomic trends, since 2000 the National Bank has been monitoring enterprises in the real sector of the economy. The monitoring process gives an opportunity to track and analyze the condition of industrial enterprises including their financial position and investment attractiveness. The monitoring outcomes are used by the National Bank in the process of analysis and assessment of how certain sectors and the economy of the Republic of Kazakhstan are developing.

The monitoring system of the real sector of the economy involves the survey of enterprises which participate in the voluntary response poll. In 2018, over 3 000 enterprises from all sectors of the economy participated in the polls.

In 2014–2018, the National Bank took an effort to optimize the process of enterprise survey thus allowing reducing the burden on respondents by updating

questionnaires as well as implementing the capability of an on-line box-checking of questionnaires via the National Bank's web-portal.

Role of Regulatory Reports in Implementation of Supervisory and Control Functions by the National Bank

Regulatory reports are the unified reporting forms with their deadlines and frequency being strictly prescribed by the National Bank's regulations.

The National Bank gathers regulatory reports from the financial market participants, bank conglomerates, insurance groups, microfinancial organizations, collection agencies, entities of currency relations (in the frame of currency control and control of activities related to setting up exchange operations with foreign currency) and participants in the payment system of the Republic of Kazakhstan (in the context of regulation of the procedure and methods of payments and transfers). Based on the information received, the National Bank prepares consolidated data about the state of the financial market, compliance with prudential ratios and limits, and builds a system of early risk indicators. This information is posted on the official Internet-resource of the National Bank. The results of analysis of the received information may serve as the basis for applying restricted remedial measures and sanctions in respect of subordinate organizations as well as unscheduled examinations by the National Bank.

To assess the demand and supply of credit resources in the corporate and retails lending markets and bank risk management systems, since 2008 the National Bank has been conducting surveys of banks followed by interviews of their top officials on the topics related to the lending activities.

Over the most recent years, significant modifications have been initiated in respect of the reporting forms, the used approaches to determining important indicators and calculation of mandatory prudential ratios, and requirements to the insight of disclosed ratios have been strengthened.

Since 2013, the National Bank has been making efforts to migrate to the data-centric approach (transition from collection of reports to collection of ratios) in the system of information gathering, in order to optimize the process of gathering, processing and analysis of regulatory reports as well as to reduce the burden on reporting entities of the National Bank.

Information Support for Carrying Out Statistical Activities of the National Bank

An appropriate regulatory framework and software and hardware support means serve as the platform for achievement of the National Bank's objectives in the field of statistical activities.

Means of hardware and software support are represented by internal automated systems and software and interaction channels with the use of portal solutions (the National Bank's gate, the National Bank's web-portal, and web-portals of the government authorities of the Republic of Kazakhstan).

At year-end of 2018, over 40 information systems which automate the operations of business units were functioning at the National Bank, including

automated information software programs intended for collection of reports, as well as the data repository.

In order to handle analytical business solutions, the National Bank uses such information technologies as SAP Business Intelligence analytical package (including the use of capabilities of LiveOffice and Dashboards applications), View analytics, the system of statistical computations with the use of R and Python programming languages.

Over the recent years, the National Bank has been giving a special attention to designing new information technologies which play an important role in the development of internal business processes, optimization of the National Bank's communication with international organizations, government authorities and reporting entities.

In the period from 2013 through 2018, the National Bank made effort to design and put into operation automated information systems "Common System of Indicator Collection" and "Financial Regulatory Statistical Indicators" for automation of collection, processing and analysis of the incoming reports from the financial market participants and other reporting entities. Development and further modernization of these systems and a gradual decommissioning of obsolete software products will allow ensuring a smooth transition to a more advanced level in the technologies of input data gathering, processing and analysis.

With a view to optimize the data exchange with the Public Revenues Committee of the Ministry of Finance of the Republic of Kazakhstan and banks, in 2018 efforts were made to develop the program of "Collection and analysis of results of export and import currency control in the Republic of Kazakhstan" with the use of portal technologies via the e-Government gate and the software and hardware complex "the National Bank gate". Also, an effort had been made to develop the "Collection and processing of data on the balance of payments" software in respect of the fine-tuning of the system functionalities, optimization of the process of collection and processing of reporting data in the context of currency exchange regulation and for the purposes of building the balance of payments statistics at the National Bank. In the frames of the project on development of the "Financial soundness indicators" program, works have been performed to optimize the process of information loading and processing under the bank survey questionnaire on lending received via the National Bank's web-portal.

Thus, the National Bank is using a broad spectrum of instruments to carry out statistical and analytical activities and will continue to boost its competencies in the sphere of innovation technologies and new approaches in implementation of the statistical business process.

1.7. Research Work at the National Bank

Analytical and research work at the National Bank allows building a strong foundation for a scientifically proven monetary policy and macroprudential policy and promote the development of a human capital at the National Bank.

In 2018, the National Bank continued to conduct economic research, design forecasts of key macroeconomic indicators. The outcomes of such research were published on a regular basis in the working papers, articles and various publications and in the mass media, in the speeches of the National Bank's Governor and other senior officials.

In 2018, the National Bank conducted 4 forecast rounds where key macroeconomic indicators including inflation were constructed for a medium-term horizon. Based on the in-depth analysis performed as part of each forecast round and inter-forecast rounds, including a comprehensive and detailed insight into the situation in the domestic and external markets, the decisions regarding the base rate level were made. This work was accompanied by preparation and publication of analytical and research materials highlighting certain aspects of the monetary policy, fiscal policy, macroeconomic development, financial stability, and payment systems development.

Based on the outcomes of each forecast round, the National Bank was publishing press releases "On Inflation Forecast" as well as the "Inflation Report" official publication. In these documents, the information about the development of macroeconomic situation in Kazakhstan, external environment, development of the banking and money market, inflation forecasts for a medium-term horizon was presented.

In 2018, the National Bank was fine-tuning the modeling techniques which are used to construct both short-term and long-term forecasts. The work on refinement of modeling tools at the National Bank also included the receipt of Technical Assistance from the IMF whose main goal was to train the staff on the aspects of medium-term forecasting, verifying the relevance of equation parameters in Kazakhstan's quarterly projection model, and calibration of certain model parameters.

In 2018, three working papers and five analytical notes devoted to the monetary policy issues, analysis of macroeconomic indicators, real sector development, and Kazakhstan's terms of trade were prepared and published on the National Bank's Internet-resource.

The outcomes of research work were also published in the National Bank's official publication the "Economic Outlook". In 2018, three issues of this publication were posted on the National Bank's Internet-resource. The main topics of the articles included monetary policy issues, development of the real sector of the economy, macroeconomic development, the financial sector development, payment systems.

In 2018, the National Bank for the first time published an analytical publication, "Kazakhstan's External Sector Review", which represents a comprehensive analysis of trends in the external sector of Kazakhstan with a

highlight of key factors for such trends. The study also included a comparative analysis of the impact made by the terms of trade on Kazakhstan's current account with the countries with a similar structure of economy and main trading partners.

The National Bank also continued to post on its official Internet-resource a quarterly publication, "Financial Market Review" where the main trends in the financial market are analyzed with a view to provide a more complete picture of the key liquidity flows in the financial market to the market participants.

In the context of the enterprise survey conducted by the National Bank, a market review and an industry profile were prepared. The market review describes the state of the business climate in the real sector of the economy through building leading and coincident indicators (the change in the demand for final products, the need in and availability of credit resources, the impact of the exchange rate on operation of an enterprise). The industry profile represents an economic analysis performed with detalization by economic sectors.

The outcomes of such surveys provide an evidence of a gradual recovery of business activity in the economy which is accompanied by the growth of production in all key sectors of the economy, growth in the demand and income of the population, and the improving situation in the labor market. The outcomes of these surveys were regularly published in the "Market Review. The Outcomes of Enterprise Surveys in the Economy" and "Sectoral Market Review. The Outcomes of Enterprise Surveys Broken Down by Sectors" on the National Bank's Internet-resource.

The detailed information regarding the research and analytical work performed by the National Bank is posted on the National Bank's Internet-resource on a regular basis.

1.8. Providing Public Services

In 2018, top-priority activities in providing public services were to optimize public services, to make it more efficient and to design standards and rules of procedure on public services.

During 2018, the National Bank rendered 3 954 public services, of which 795 public services were rendered in an electronic form, including through the "e-Government" portal – 289, via the "E-Licensing" Government Database" information system – 506; and 3 159 public services were provided in hard copies.

In order to optimize business processes in the provision of public services, the decision was made to optimize the timeline of their delivery and the list of submitted documents, to convert them to a solely electronic form of service provision, to convert one public service to a composite provision as well as to provide one public service with the use of a one-time password. As a result of optimization, the number of public services provided by the National Bank decreased from 46 to 41, 27 of which are rendered electronically and in hard copy; 8 are rendered solely electronically and 6 – in hard copy only, out of which 2 services will be eliminated

from 1 July 2019. The list of documents which have to be submitted in order to obtain public services will be reduced by 38.4%; and in respect of 23 public services the timeline of their provision will be reduced to 60%.

Based on the outcomes of public monitoring process conducted by an independent research center, the extent of satisfaction with public services provided by the National Bank accounted for 87.9%, with the average score of 4.87 out of 5. The National Bank had occupied a leading position in the rating of government agencies participating in the public monitoring process.

Section 2. External and Internal Macroeconomic Environment

2.1. Development of the Global Economy

According to the IMF's assessments, during 2018 the global economy's growth slowed down and accounted for 3.7%. Deceleration stemmed from the reduced economic activity in some European Union countries, in China, India, Turkey and Japan, from the declined volume of international trade because of trade wars and the US protectionist policy as well as an overall slowdown in the manufacturing industry.

During 2018, the Russian economy grew by 2.3%¹ in real terms. High performance in 2018 was driven by the increased extraction of minerals, by the growth in the construction sector, financial and insurance activities. The outflow of residents from the federal loan bond market amidst a tight sanctions policy along with the fall in prices of hydrocarbons appeared to be the main reasons for depreciation of the Russian ruble in 2018. As a result, the exchange rate of the Russian ruble lost 21%² of its value against the US Dollar. The annual inflation rate at the end of 2018 was 4.3%³, after 2.5% in 2017. Such a dramatic acceleration of the price growth occurred against the expectation about the increase of the VAT rate and implications of depreciation of the ruble.

China's economy was decelerating throughout the year; by the 4th quarter the GDP growth had slowed down to 6.4%⁴ (in the fourth quarter of 2017 the real GDP growth accounted for 6.8%). The most significant reasons which caused deceleration of the economy included, in the first instance, the trade war with the USA, a feeble domestic consumer demand and low performance of fixed capital investments because of the tightened financial regulation of the market. Given these factors as well as due to the declining prices of energy carriers, the annual inflation also decelerated. As compared to 2017, the average annual exchange rate of the Yuan depreciated by 2.1%⁵ against the US Dollar.

The economy of countries in the European Union demonstrated deceleration (from 2.3% in the first quarter of 2018 to 1.8% in the third quarter of 2018⁶) as a result of slower economic growth rates in Germany, France and Italy. In these countries, deceleration of the economic growth is associated with a sluggish performance of the industrial sector, a high level of government debt, occurrence and aggravation of political risks. As compared to 2017, the average annual exchange rate of the Euro depreciated by 4.5%⁷ against the US Dollar. At the same time, the annual inflation which was following the pattern of world oil prices during the year was accelerating at first while by the end of 2018 it decelerated to 1.8%.

¹ According to the data from Rosstat of the Russian Federation.

² According to the data from Central Bank of the Russian Federation.

³ According to the data from the Federal Service of the Government Statistics of the Russian Federation (Rosstat).

⁴ According to the data from National Bureau of Statistics of China.

⁵ According to the data from Reuters.

⁶ According to the data from Eurostat.

⁷ According to the data from Reuters.

Given expansion of the economic activity in the country as well as amidst good performance in the labor market along with the achievement of inflation target, the US Federal Reserve System increased its policy interest rate four times during 2018. Thus, as at December 2018, the interest rate range was 2.25–2.50%.

In terms of global commodity markets, 2018 can generally be characterized as a moderately negative year. During the year, amidst the growing concerns about the shortage of oil and the US sanctions policy as well as in connection with the agreement of OPEC+ countries to cut the oil extraction, oil prices were demonstrating an uprise. However, at the end of the year given an anticipated slowdown of the global economy oil prices declined abruptly. As a result, in December 2018 the price of oil (Brent) was USD 57.4; as compared to December 2017, the decline made up 10.9%⁸.

The metals market stayed under a significant pressure of factors associated with the deteriorating trade relations between the US and China, US sanctions against Russian companies engaged in metal production, with volatility of foreign exchange markets affected by depreciation of the US Dollar in the environment of a tight monetary policy of the US Federal Reserve System as well as a slowing demand on the part of China. As a result, by the end of 2018 the decline in prices of metals was observed with the largest drop in the price of lead (the 21.3% fall versus December 2017), zinc (by 18.3%) and copper (by 11.4%). Prices of aluminum decreased by 8.1% only⁹ in connection with a high global demand.

In 2018, the abovementioned external economic factors were having both a positive and a negative influence on Kazakhstan's economy. Positive factors include world oil prices which were growing throughout the year, moderate growth rates of economies of the main trading partners – the European Union, China and Russia as well as deceleration of inflationary processes in the above countries that reduced the risk of inflation pressure on consumer prices in Kazakhstan. Negative factors have been the decline in oil prices at the end of the year, increased foreign exchange rate fluctuations globally and, as a consequence, depreciation of domestic currencies in developing countries against the US Dollar as well as a persisting tension in the global trade relations.

2.2. Real Sector of the Economy

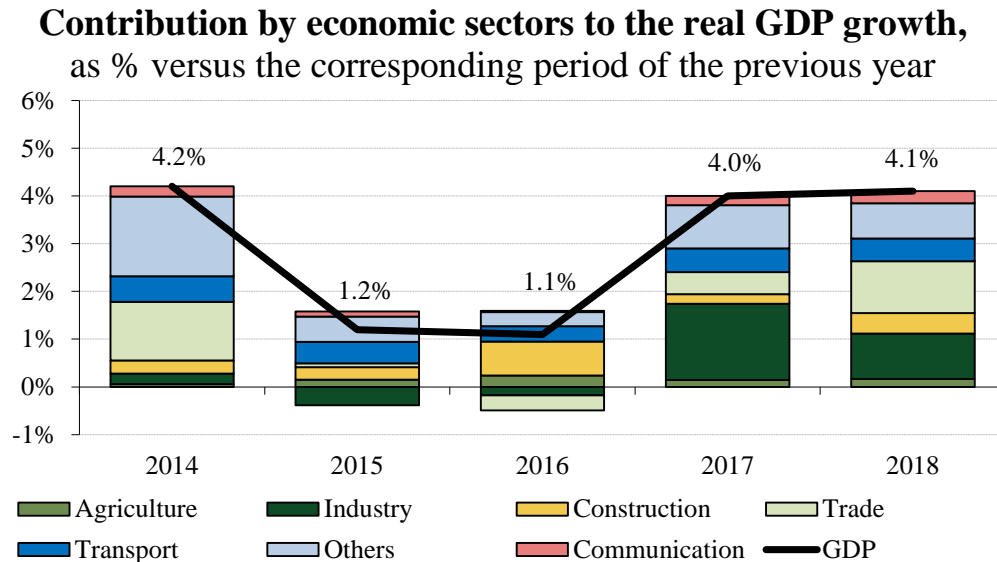
In 2018, Kazakhstan's economy was developing amidst a favorable pricing environment in the global commodity and primary markets that caused acceleration of growth in exports against the increased volume of oil and gas condensate extraction in the country's main oil and gas fields. There were positive trends in the consumer demand given the growing real cash income of the population, deceleration of inflation processes in the economy and a positive pattern in the consumer lending.

⁸ According to the U.S. Energy Information Administration.

⁹ According to Reuters.

So, according to the updated information, during 2018 Kazakhstan's GDP went up to KZT 58.8 trln. in current prices, having increased by 4.1% in real terms as compared to 2017 (Figure 2.2.1).

Figure 2.2.1



In 2018, the growth was observed among all key sectors of the economy. A sizable contribution to the positive dynamics of GDP growth was made by the industry and trade. The industrial output in 2018 grew by 4.1%. The expanded extraction of crude oil in the country's large oil fields as well as steady growth rates in the extraction volumes of natural gas, coal and lignite, ferrous ore and ores of non-ferrous metals had driven the 4.6% growth in the mining industry. The 4.0% upturn in the manufacturing industry was secured by the increased production both of interim goods and of consumer goods. The main growth was secured by machine-building (14.1%) and oil refinery (8.1).

The uprise in the trade volume accounted for 7.6% owing to the growth in retail sales (by 6.5%) and wholesale turnover (by 8.2%). The growing real cash income of the population coupled with the upturn in the consumer lending was having positive influence on the domestic demand and retail trade throughout 2018. The growth in wholesale trade was driven by the increase sales of non-food products, including crude oil and metals.

Implementation of government housing programs and infrastructure projects became an important factor for the growth in the volume of construction works (the growth of 4.1%). Positive contribution to the growth was made by construction works related to transport and logistics infrastructure of the country (construction of highways, roads, railways, bridges and tunnels) and completion of modernization and reconstruction of Shymkent oil refinery.

Owing to the positive dynamics in the trade sector and a stable external demand, the volume of transport and warehousing services in 2018 increased to

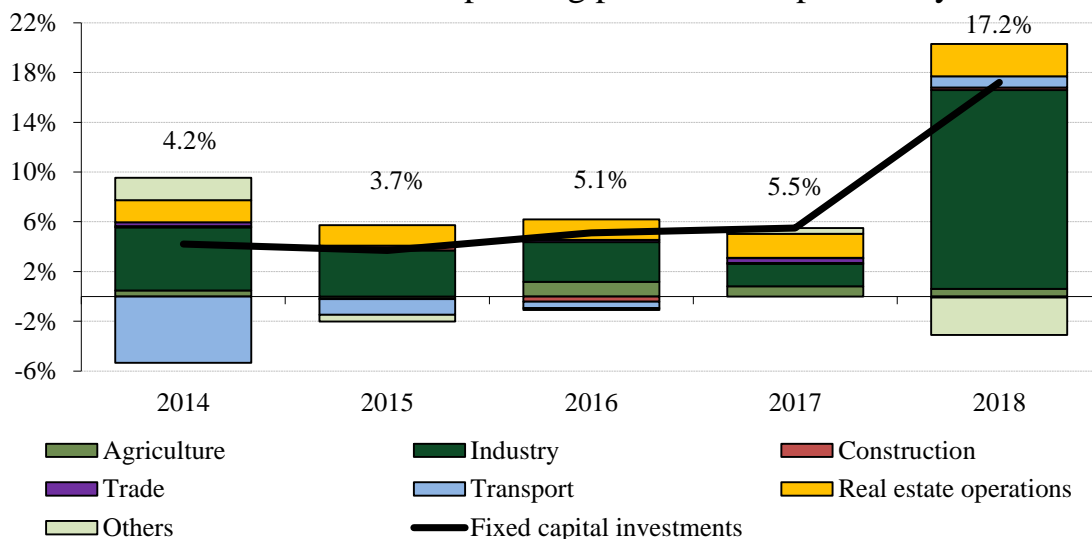
4.6%. Services of railway, motor transport and pipeline transport had a positive effect on the growth in the sector.

The growth of Internet services and telecommunication services served as a main source of growth in the sector of information and communication (2.6%). During 2018, the increase in the agricultural gross output accounted for 3.4%. A positive contribution to the buildup of the sector was made by the animal production (3.9%) and plant production (3.1%).

During 2018, the volume of fixed capital investments increased by 17.2% (in 2017 – by 5.5%) (Figure 2.2.2). The growth was mainly secured by the increased investments into the industry (by 27.1%), real estate operations (20.1%), transport and warehousing (6.1%) and agriculture (14.2%). Within the fixed capital investments, the largest shares are comprised by the mining industry (40.4%), real estate operations (12.8%), and transport and warehousing (12.7%).

Figure 2.2.2

Contribution by economic sectors to the growth of fixed capital investments, as % versus the corresponding period of the previous year

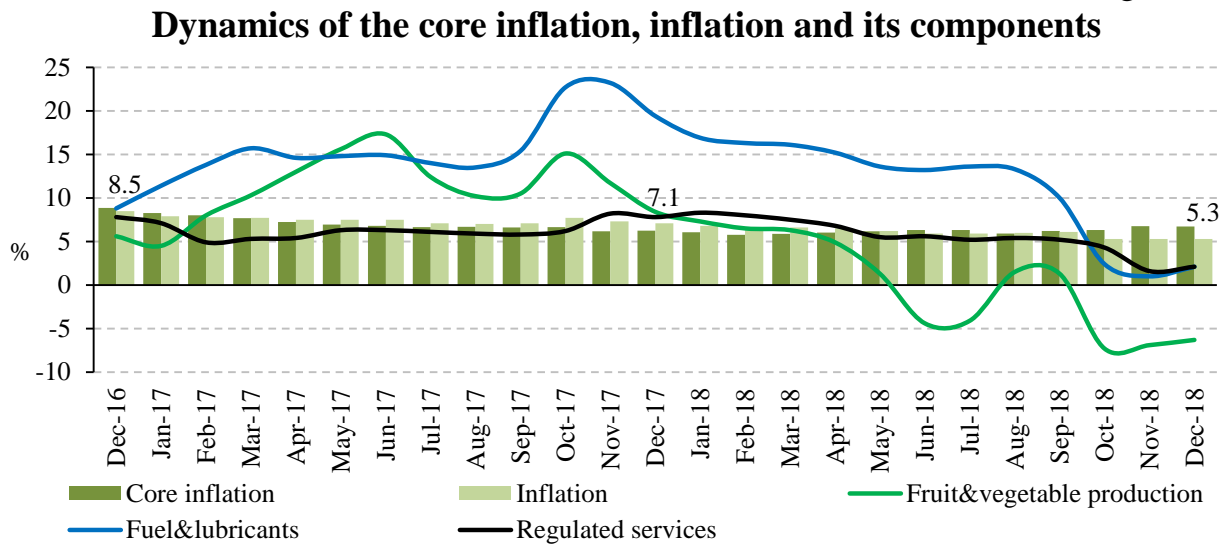


Own funds of enterprises which accounted for 73.1% in the total investment volume still represent the main source of funding for fixed capital investments.

2.3. Inflation

Inflation in Kazakhstan continued to decelerate and accounted for 5.3% at the end of 2018 (2017 – 7.1%). During the year, the core inflation was staying above the headline inflation, having increased from 6.2% to 6.7% at the end of 2018 (Figure 2.3.1).

Figure 2.3.1



Deceleration of inflation was driven by the effect produced by the supply factor which helped to bring down the prices of fruit and vegetable production and energy resources. As a result of the domestic production ramp-up, prices of gasoline went down. A downward inflation pattern was also furthered by a significant reduction in the growth rates of tariffs of natural monopolies given the enhanced government measures taken at the end of 2018. The contribution made by the growth in tariffs of regulated services to the inflation decreased by more than twofold, and the growth rates hit their minimum for the recent years.

At the same time, inflationary processes were supported by the continuing expansion of consumer demand amidst the recovering real income of the population as well as by positive growth rates of the consumer lending. In addition, by the end of the year inflation pressure on the part of agriculture strengthened as a result of an increase in prices of cereals in the global and domestic markets as well as of the domestic production in the manufacturing sector. In terms of the inflation import, in the first half of the year the impact on the price growth remained limited; however, in the fourth quarter there was an increase in price of imported consumer goods due to heightened volatility of the exchange rate of the tenge.

Within the inflation structure, deceleration was observed among all key components: foodstuffs – from 6.5% to 5.1%, non-food products – from 8.9% to 6.4%, and paid services – from 5.9% to 4.5%.

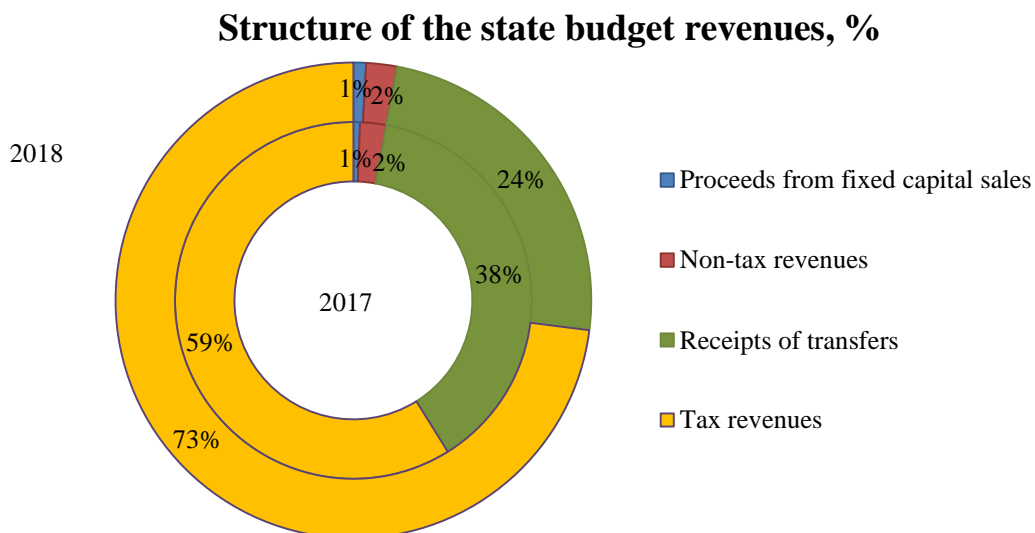
In the real sector, the price of products went up in agriculture by 7.8% (2017 – 2.6%), and in the manufacturing industry – by 10.3% (7.1%). In the wholesale trade of consumer goods the growth retained its pace – 4.2% (4.1%). The price of imported goods appreciated by 7.9% (6.8%) in the tenge, including consumer goods – by 9.9% (7.3%).

2.4. Public Fiscal Policy

Kazakhstan's fiscal policy in 2018 was aimed at balancing the budget deficit and reducing the budget's reliance on oil revenues. The result was a decreased revenue side of the budget because of downsizing of transfers from the National Fund as well as a systematic increase of efficiency of expenditures. Thus, as compared to 2017, the state budget revenues went down by 6.6%.

Receipts of transfers from the National Fund to the budget decreased by 41.1% from KZT 4.4 trln. in 2017 to KZT 2.6 trln. in 2018. Such drop resulted from the absence of the earmarked transfer (in 2017 it was KZT 2 trln.). As a result, as compared to 2017, the share of transfers from the National Fund in the structure of state budget revenues went down from 38.2% to 24.1%. At the same time, the share of tax revenues increased substantially – from 58.9% to 73.0% (Figure 2.4.1).

Figure 2.4.1

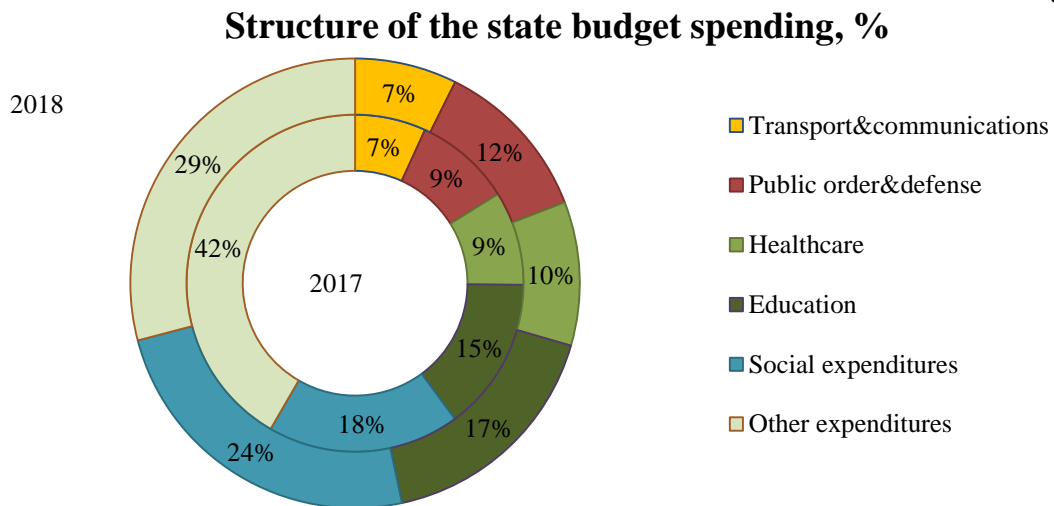


Tax revenues to the country's budget increased by 15.8%. Within the structure of taxes, the largest growth had been demonstrated by receipts from the value-added tax – 22.2% (against the growth in production of goods by 4.1% and services by 4.1% in key sectors of the economy as well as the improvement of tax administration), and excises – 21.8% (as a consequence of a phased increase of the excise rate on tobacco and alcohol products), as well as from the tax on international trade and foreign operations – 18.9% (as a result of a hike in a floating rate of customs export duty on oil given the growing world prices of raw materials as well as a record-high volume of production in 2018). As a result of amendments to the tax legislation and improvement of the tax administration, receipts from the corporate income tax increased by 9.7%, and from the individual income tax – by 11.8%.

In 2018, amidst the decreasing revenues the state budget spending went down by 9.1%. Expenditures related to subventions to regional budgets decreased significantly – by 57.4%, just as other expenditures – by 10.2 times (as a consequence

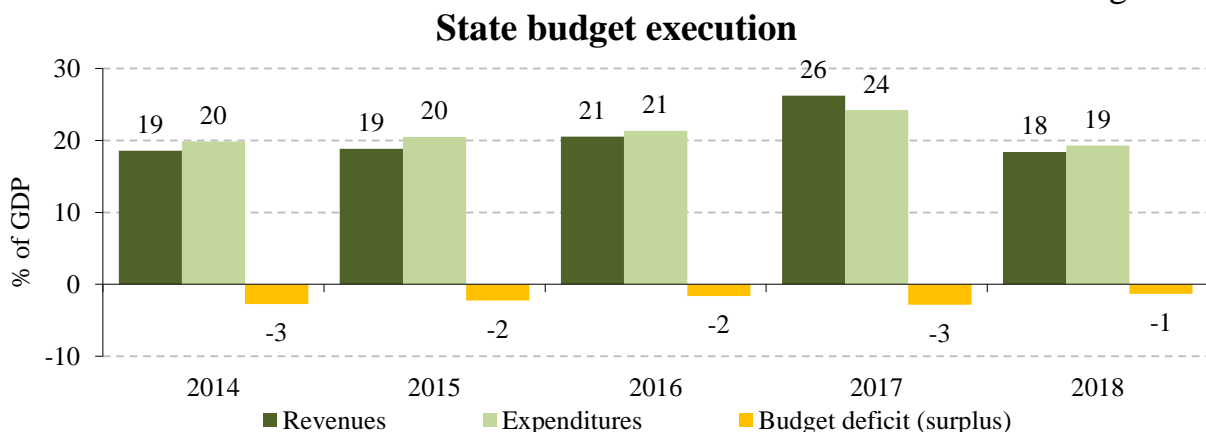
of the high base of 2017)¹⁰. Along with that, the items which have traditionally been the main beneficiaries in the government spending retained their moderate growth. Expenditures for social aid and security increased by 19.5% (as a result, their share in the overall expenditure structure increased from 18.4% to 24.2%), education – by 5.7% (the growth from 14.8% to 17.2%), healthcare – by 4% (the growth from 9.0% to 10.3%) (Figure 2.4.2).

Figure 2.4.2



At the end of 2018, the state budget deficit amounted to KZT 833.1 bln., or 1.3% of GDP; this is the lowest figure over the last 10 years (Figure 2.4.3). The non-oil deficit had been at 9.1% of GDP.

Figure 2.4.3



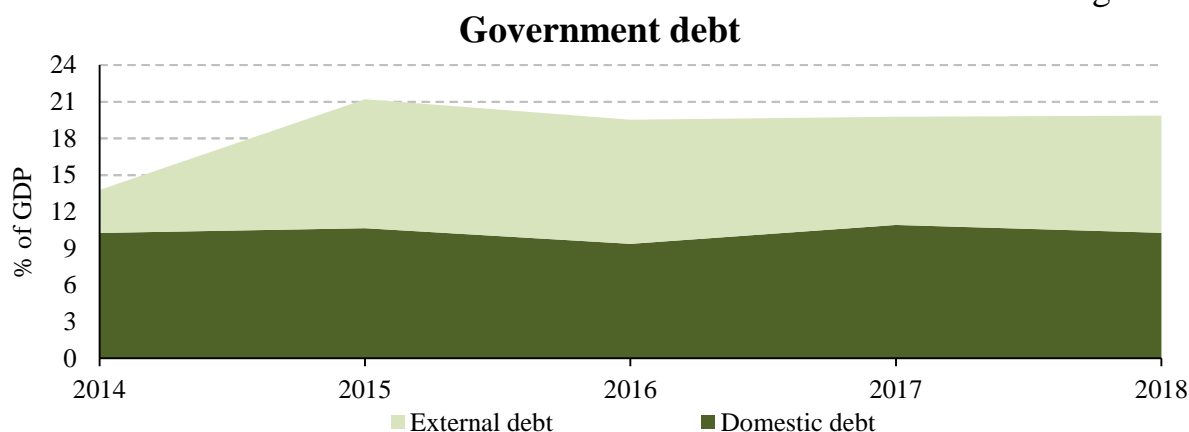
Receipts to the National Fund (excluding investment returns) for the first time since 2014 exceeded withdrawals of transfers to the national budget – by KZT 549.2 bln. Receipts in the form of direct taxes from enterprises in the oil sector went up by 55.7% mainly due to the 75.6% growth in revenues from the corporate income tax

¹⁰ In 2017, other expenses were financed primarily with the earmarked transfer.

and the share of the Republic of Kazakhstan in the product sharing under the concluded contracts – by 2.5 times. Also, the uprise in the investment returns from the National Fund management was observed – by 29.2%.

At the end of 2018, the government external debt amounted to KZT 5.6 trln. (USD 14.7 bln.), or 9.6% of GDP, having increased by 23.5% as compared to the figure at end-2017 (Figure 2.4.4). This resulted from a large Eurobond placement of EUR 1.1 bln. in the fourth quarter. Within the overall structure of the government’s external debt Eurobonds accounted for more than 50%; foreign loans of the International Bank for Reconstruction and Development and the Asian Development Bank remain the second and the third largest – 26.1% and 14.7%, respectively. The government domestic debt increased by 7.3% because of the growth in long-term treasury obligations and amounted to KZT 6.0 trln., or 10.3% of GDP at the year-end.

Figure 2.4.4



2.5. Balance of Payments and External Debt

The state of the balance of payments in 2018 was determined by a favorable environment of world prices of oil and by depreciation of the tenge against the US Dollar under the impact of negative external factors; this allowed keeping the domestic economy’s competitiveness and restrain imports.

In 2018, the price of oil (Brent) was staying at USD 71.1 per barrel on average: this is by 30.7% larger than in 2017 (USD 54.4 per barrel). The volume of oil exports, following the pattern of oil prices, was growing throughout the year. However, returns of foreign direct investors were growing along with the growth in exports, including those returns which are reinvested into joint-venture companies.

At the end of 2018, the current account had showed up a small deficit of USD 51.7 mln., or 0.03% of GDP (in 2017 the deficit was USD 5.1 bln.). At the same time, in the fourth quarter of 2018 the current account balance had been positive and amounted to USD 1.5 bln. (Appendix 1 to Section 2.5, Table 2.5.1).

A better state of the current account was determined by a significant growth in the balance of trade surplus as compared to 2017, which amounted to USD 26.4 bln.

(in 2017 – USD 16.7 bln.). Along with that, in the fourth quarter of 2018 the balance of trade surplus exceeded USD 7 bln. for the first time since 2014.

During 2018, exports of goods increased by 26.1%, or by USD 12.3 bln. and amounted to USD 59.6 bln. The export value of oil and gas condensate (62.0% of total exports) increased by 42.2% primarily owing to the growing contractual prices. Exports of ferrous metals decreased insignificantly – by 0.8%, and exports of non-ferrous metals declined by 11.9%, while exports of grain increased by 1.6 times.

The growth in exports of goods was three times higher than the growth in imports – during 2018 imports of goods went up by 8.8% and amounted to USD 33.3 bln. At the end of 2018, the growth in imports occurred in all groups of the key product mix. The largest increase was among the import of investment goods (37.0% of official imports) – by 17.3%. Imports of interim industrial consumption goods went up by 6.5%. Among consumer goods, the value of official imports increased by 5.2%, where the import of foodstuffs has grown by 3.4%, and import of non-food products – by 6.5%.

Proceeds from commodity exports were conducive to the growth in returns of foreign direct investors by 23.7% in 2018 to USD 20.5 bln. A half of these returns were directed to finance subsidiaries in Kazakhstan. Payment of interest to creditors who are not in direct investment relationship increased by 4.0% and amounted to USD 2.7 bln. In general, a negative balance on primary income amounted to USD 22.1 bln. (in 2017 – USD 18.1 bln.).

The deficit in the balance of international services made up USD 4.6 bln., having increased by 28.5% versus the figure for 2017. The deficit increased because of the 17.7% growth in imports of services against the 11.8% increase in exports of services.

In 2018, the financial account (excluding operations with reserve assets of the National Bank) showed up a surplus of USD 2.6 bln. (in 2017 – a negative balance of USD 5.5 bln.). The reduction in liabilities exceeded reduction in assets thus ensuring a net capital outflow on financial operations or “net lending to the rest of the world”.

A net capital inflow (a negative balance) on foreign direct investments amounted to USD 4.9 bln. (in 2017 – USD 3.8 bln.) as a result of reduction in assets and growth in liabilities of residents. The reduction in assets of residents of USD 4.7 bln. was to a large extent related to repayment by foreign affiliated companies of their debt obligations to Kazakhstani enterprises as well as to large payments of dividends by non-residents in favor of Kazakhstani residents (the so-called super-dividends) that are treated as negative investment according the balance of payments classification.

A net incurrence of liabilities on foreign direct investments of USD 208.1 mln. in 2018 was secured by reinvestment of revenues in the amount of USD 6.9 bln. Sizable payouts of super-dividends to non-residents resulted in negative investment and offset the growth in liabilities of residents on foreign direct investments. In 2018, Kazakhstani enterprise also made repayments of intercompany debt to affiliated entities.

A gross inflow of foreign direct investments into Kazakhstan went up by 15.8% versus that of 2017 and amounted to USD 24.3 bln. About a half (49.8%) of the gross inflow of foreign direct investments was comprised of investments into extraction of crude oil and natural gas which increased by 25.7% to USD 12.1 bln. Foreign direct investments into the metallurgical industry (11.3%) decreased by 38.3% and amounted to USD 2.7 bln., into wholesale and retail trade, motor maintenance (13.5%) – increased by 3.9% to USD 3.3 bln.

On portfolio investments, a net outflow of USD 2.6 bln. (in 2017 – a net inflow of USD 5.4 bln.) was recorded because of a drop in liabilities of residents along with a less significant reduction in their assets. The decrease of USD 1.0 bln. in financial assets on portfolio investments was related to the sales of foreign securities by residents. Reduction in liabilities on portfolio investments of USD 3.6 bln. occurred as a result of repurchase of its shares and depositary receipts by the “Exploration Production “KazMunaiGas” JSC and repayment of earlier issued Eurobonds by Kazakhstani enterprises and banks. The decrease in liabilities of residents in portfolio investments was also affected by purchases of Eurobonds issued by the Ministry of Finance of the Republic of Kazakhstan by residents in the secondary market. New issues of Eurobonds by the Ministry of Finance worth EUR 1.1 bln. and placement of its shares and depositary receipts worth USD 451 mln. by the “National Company “Kazatomprom” JSC have partially offset reduction in liabilities of residents on portfolio investments.

As for medium- and long-term debt instruments recorded in the “Other investments” item, in 2018 a net capital outflow of USD 2.5 bln. (in 2017 – a net inflow of USD 0.5 bln.) was secured by repayment of liabilities to non-residents on loans and advances by Kazakhstani banks, general government and enterprises of the non-bank sector.

A net outflow on short-term debt instruments of USD 2.2 bln. (in 2017 – USD 4.0 bln.) was driven by the growth in short-term assets of the National Fund at foreign accounts and, according to the National Bank, by the increase in foreign cash held by the population.

Reserve assets (excluding assets of the National Fund) on the balance of payments operations reduced by USD 1.5 bln. since the beginning of the year and as at the end of 2018 amounted to USD 30.9 bln., thus covering the financing needs of 8.2 months of Kazakhstani imports of goods and services.

At the end of 2018, the external debt of the Republic of Kazakhstan amounted to USD 158.8 bln., where 7.8%, or USD 12.3 bln. – external debt of the governmental sector, 3.6%, or USD 5.8 bln. – external debt of “Banks”, 25.0%, or USD 39.7 bln. – liabilities of “Other sectors” not related to direct investments, and 63.6%, or USD 101.1 bln. is represented by the intercompany lending of the sector (Appendix 2 to Section 2.5, Table 2.5.2).

During 2018, the country’s external debt reduced by USD 8.4 bln. (in 2017 – the rise of USD 3.9 bln.) due to the decreased external liabilities of all sectors of the economy.

During 2018, the government external debt went down by USD 512.7 mln. due to repayment of external loans and reduction in the market value of sovereign Eurobonds. The National Bank's external liabilities decreased by USD 155.9 mln. because of a decrease in demand from non-residents for short-term notes and a negative exchange difference on them. The external debt of "Banks" (banks and the "Development Bank of Kazakhstan" JSC) shrunk by USD 749.7 mln. owing to the scheduled and early repayment of Eurobonds and external loans.

Reduction of external debt, the growth of GDP and exports of goods and services helped to improve relative parameters of external debt: the external debt to GDP at the end of 2018 was 93.1% (at the end of 2017 – 102.7%) and the external debt to exports of goods and services – 237.3% (at the end of 2017 – 310.8%) (Appendix 3 to Section 2.5, Table 2.5.3).

Kazakhstan's net external debt in 2018 increased by USD 1.4 bln. to USD 47.2 bln. and accounted for 27.7% of GDP.

The governmental sector and the sector of "Banks" act as a net lender to the rest of the world (USD 55.7 bln. and USD 91.4 mln. respectively), and "Other sectors" – as a net debtor (USD 103.0 bln.).

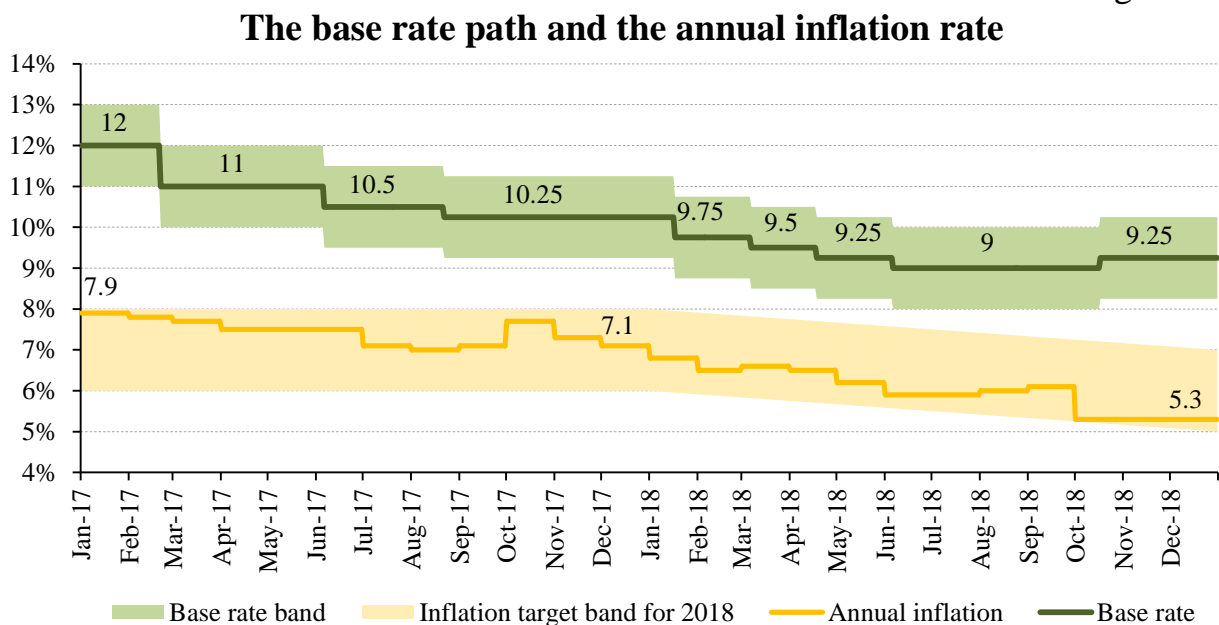
Section 3. Monetary Policy

3.1. Ensuring the Price Stability

In 2018, the monetary policy was residing on the principles of inflation targeting and a floating exchange rate and was focused on achieving a medium-term inflation goal. The inflation target band for the end of 2018 was set to be within 5–7%.

The trends which helped to improve the situation in Kazakhstan’s economy in 2017, also continued at the beginning of 2018. In this connection, in the first half of the year decisions about the base rate were determined primarily by expectations of a positive development of the economic situation. The persisting favorable terms of trade for Kazakhstan in foreign markets and the situation in the countries – main trading partners were conducive to the monetary policy easing. In general, the forecasts and targets in the inflation dynamics were in line with each other. The base rate was lowered on a stage-by-stage basis from 10.25% to 9% (Figure 3.1.1). In this period the National Bank was mostly focusing on strengthening the effectiveness of the transmission mechanism channels in the monetary policy in order to achieve its inflation goals.

Figure 3.1.1



A gradual deceleration of inflation pressure was nurtured by maintaining monetary conditions at the level close to the neutral one as well as by a limited import of inflation driven by a low inflation background in the countries of main trading partners during this period. An expansion of the aggregate demand as a result of the recovering growth of real income of the population and positive growth rates in

the consumer lending became a constraining factor for a more rapid deceleration of inflation.

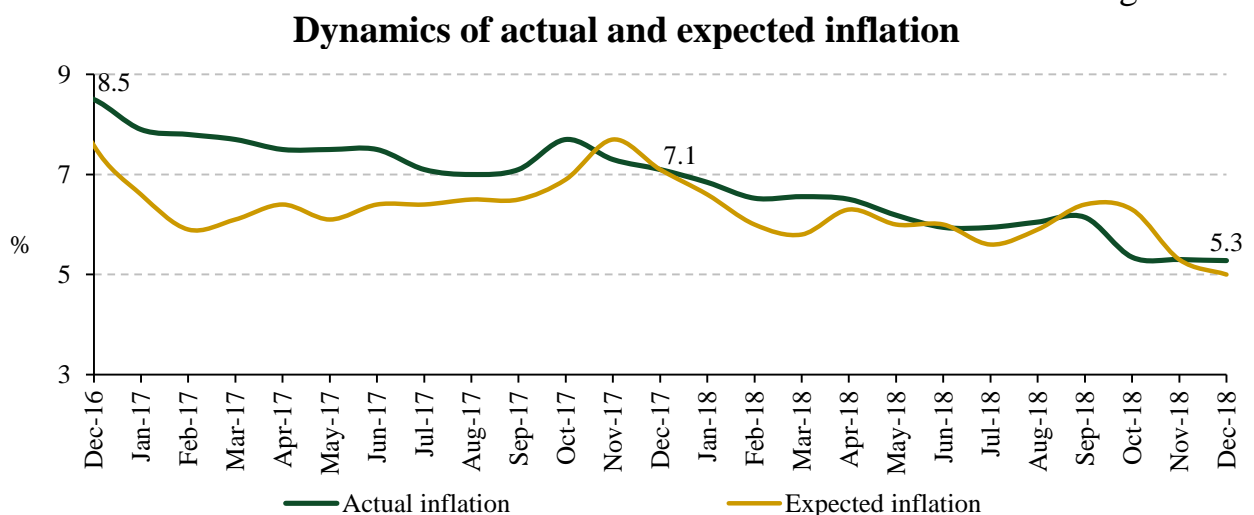
At the beginning of the second half of the year, the National Bank suspended easing the monetary policy conditions. On 9 July and 3 September, the base rate was retained at 9%. Such decisions were determined by the shift in the balance of risks towards intensification of inflation factors. The tightening of international monetary conditions, capital outflow from developing markets and expectations about acceleration of inflation in the countries of main trading partners followed on the part of the external sector. On the part of the internal sector, the demand supported by the growing consumer lending and stimulative fiscal impulses continued to expand.

During this period, the risks that the inflation deceleration rates would slow down came to the fore; this called the National Bank to take corrective measures. On 15 October the base rate was raised to 9.25%. A new level of the base rate enabled to increase the demand for assets in the tenge and to stabilize the situation in the foreign exchange and money markets. In general, monetary conditions remained neutral.

Inflation expectations of the population still remain unstable and are prone to a significant influence of certain factors such as movements of the exchange rate of the tenge against other currencies as well as shocks in some markets of goods and services.

Nonetheless, at the year-end inflation expectations demonstrated a downward trend. The quantitative assessment of expected inflation in 12 months has decreased over the year from 7.1% to 5.0% (Figure 3.1.2). The tone of communication policy which was focused on favorable trends in the external sector was also conducive to this trend.

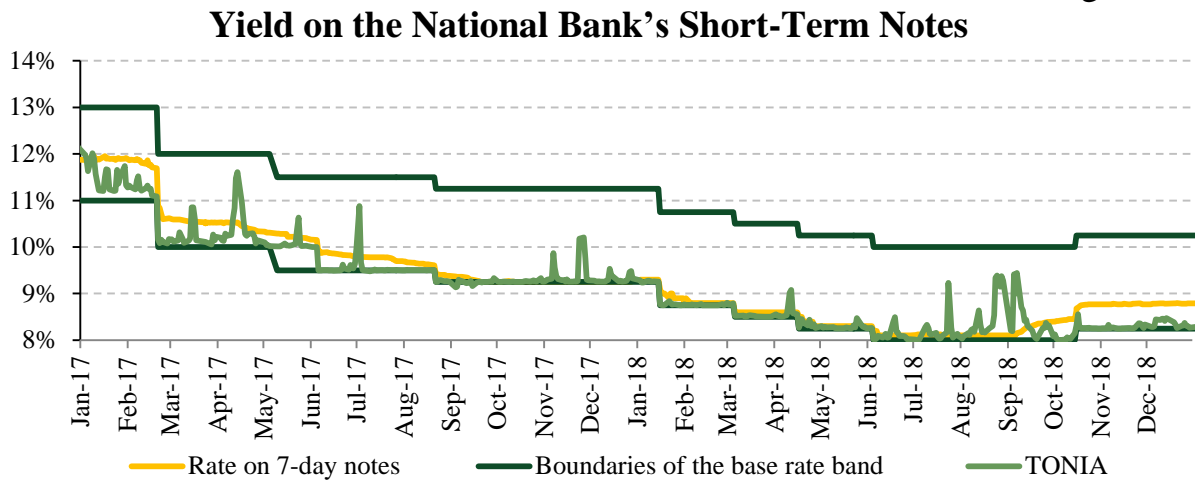
Figure 3.1.2



In 2018, a structural surplus of the tenge liquidity persisted in the banking system. Operating measures of the monetary policy helped to keep the targeted TONIA rate within the base rate interest rate band, however, mainly at the lower boundary of the interest rate band (Figure 3.1.3). Individual hikes of interest rates up

to the middle of the band were associated with the increased demand for the tenge liquidity given depreciation of the tenge against the US Dollar.

Figure 3.1.3



The bulk of excess liquidity in the tenge was withdrawn by the National Bank with a help of short-term notes with maturities of 7 and 28 days. Issues of short-term notes with maturities of 3, 6 and 12 months were funneled to build the yield curve in the financial market.

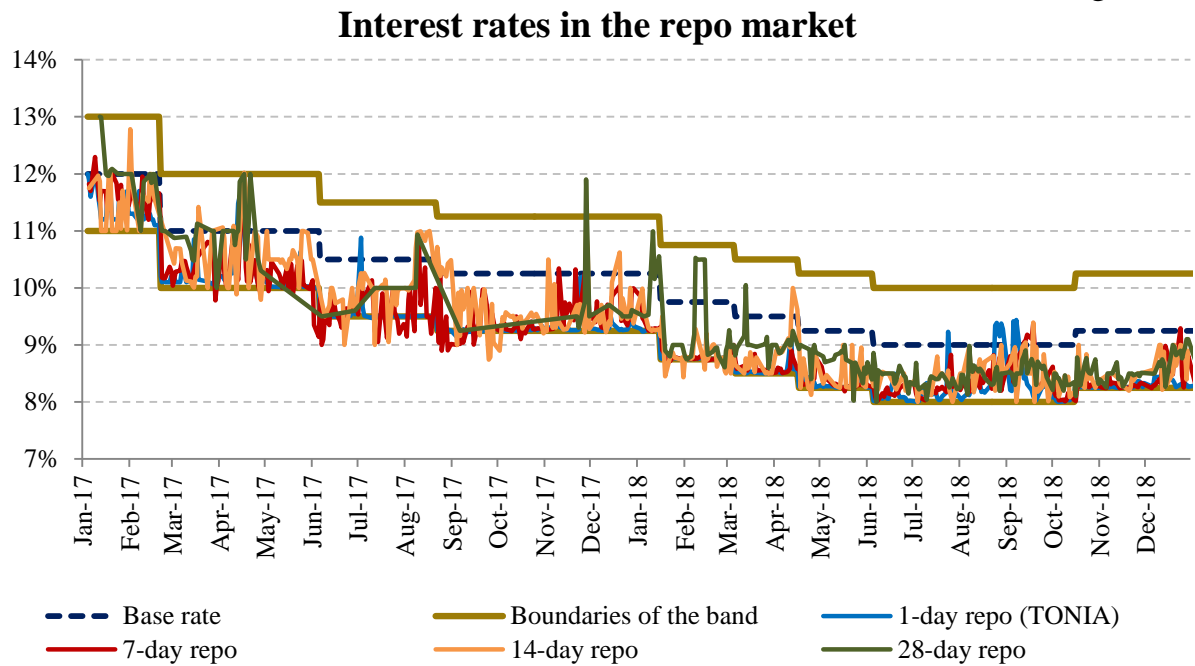
The interest rate policy pursued by the National Bank allowed leveling down the pressure of external factors on the domestic foreign exchange market. The base rate level enabled to ensure an effective exchange rate setting of the tenge and to mitigate its impact (the pass-through effect) on the domestic prices. In 2018, the interrelationship between movements of the exchange rate of the tenge which didn't have a shock nature and the domestic prices was weakening. Inflation was decelerating amidst depreciation of the tenge whose stock exchange rate had decreased by 15.6% (over the whole 2017 – by 0.3%) over 2018.

3.2. Money Market and Foreign Exchange Market

Money Market

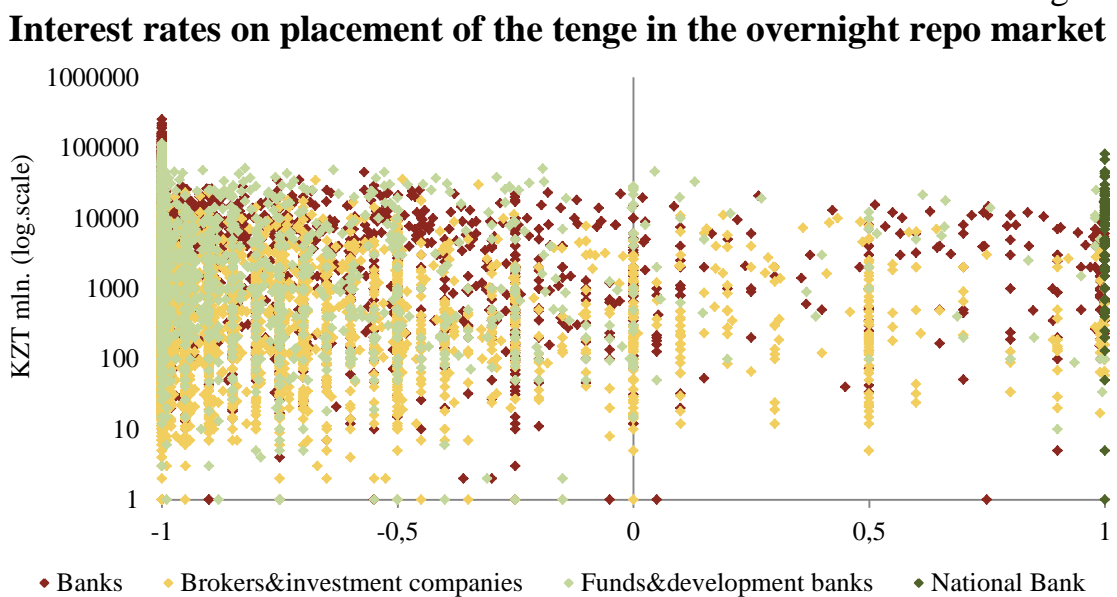
In the first half of the year, money market rates were following the dynamics of the base rate. The cyclical volatility was caused by a short-term depreciation of the exchange rate of the tenge and the tax payment periods (Figure 3.2.1). In July, given that risks on the part of the external sector increased, the money market rates demonstrated an increased volatility. Demand for liquidity on the part of banks in this period was exceeding its supply. The subsequent increase of the base rate by the National Bank in October allowed stabilizing interest rates in the overnight segment. Later, this measure helped to keep the pricing of the tenge liquidity predictable.

Figure 3.2.1



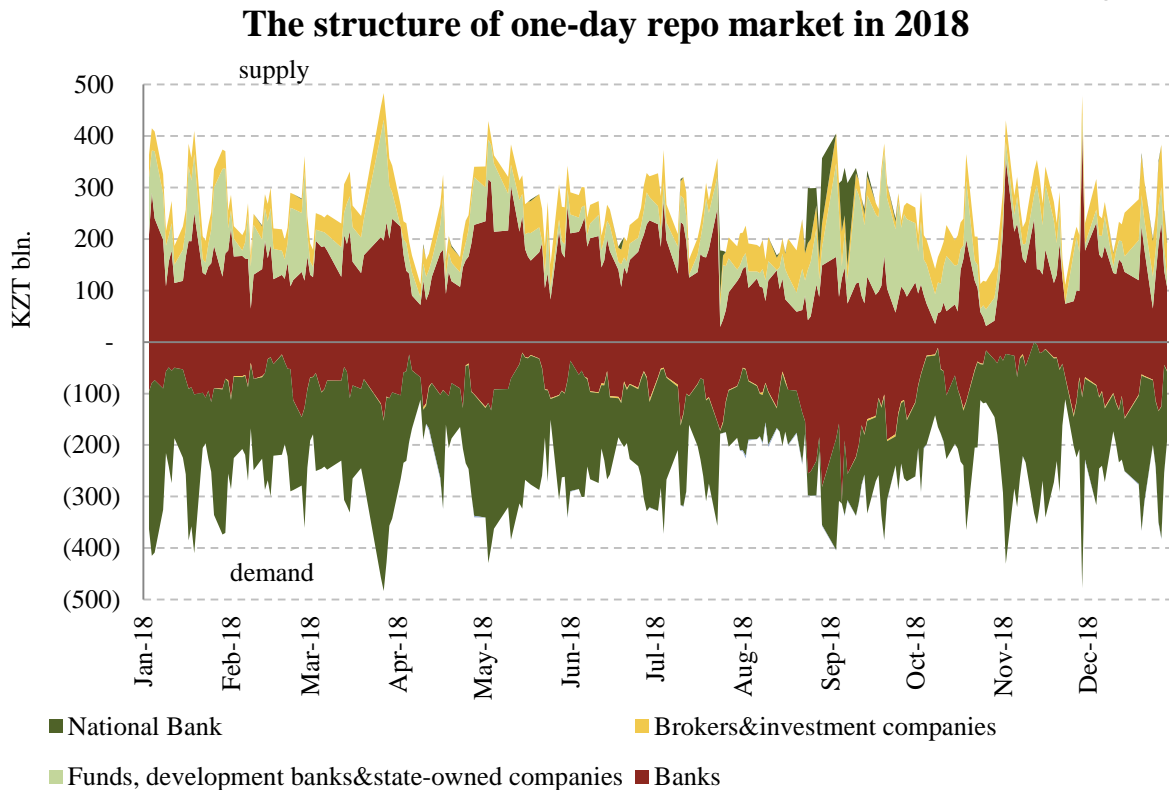
Interest rates on the targeted one-day repo market were setting within the base rate interest rate band. The bulk of transactions on liquidity placements were conducted at the lower range of the interest rate band (Figure 3.2.2). In doing so, bank transactions were characterized mainly by one-time large placements whereas brokerage and investment companies placed their resources in the tenge more efficiently. The National Bank’s operations at the rate equivalent to the base rate level plus 1 percentage point were determined by provision of quick liquidity via the reverse repo of the standing facility.

Figure 3.2.2



Owing to the standing facility of the National Bank in the money market, there was an opportunity to preserve the operating benchmark, TONIA, within the base rate band. In doing so, the main demand for liquidity, apart from the National Bank's operations, was building based on the operations of banks (Figure 3.2.3).

Figure 3.2.3



Foreign Exchange Market

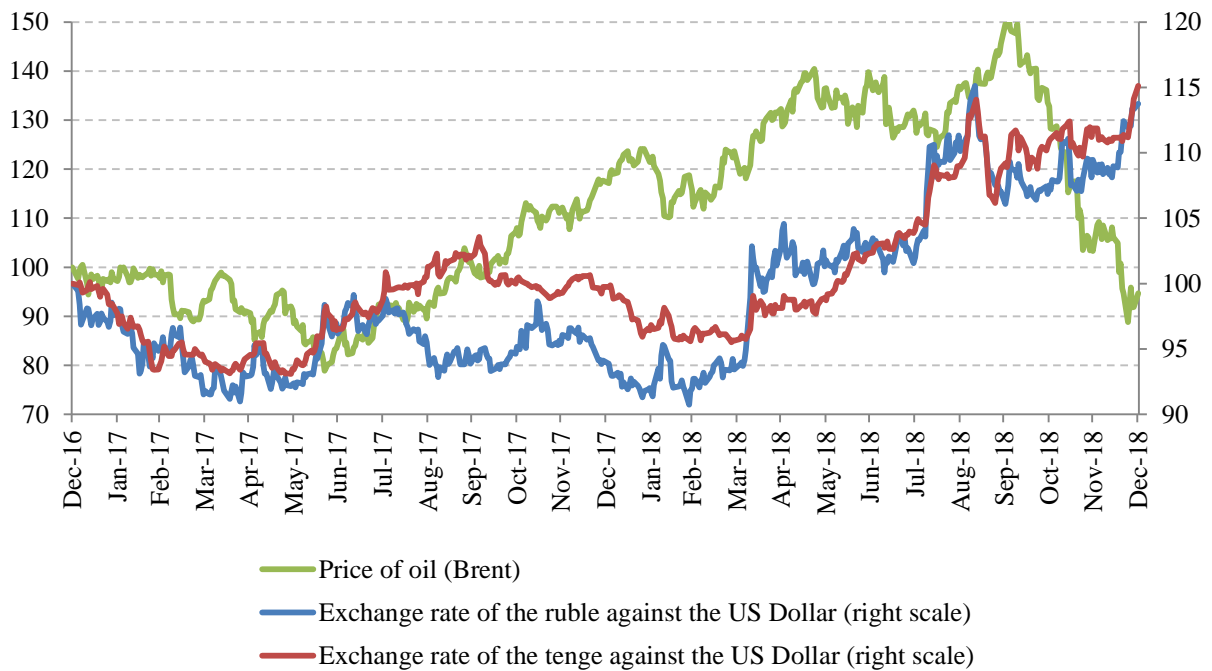
In 2018, the situation in the domestic foreign exchange market was determined by the behavior of the Russian ruble, oil prices as well as the change in the world interest rates. Apart from that, the international developments of the economic, political and geopolitical nature were exerting influence. Domestic factors include the period of tax payments of exporting companies, level of the base rate, and the state of the balance of payments. Depending on the situation, the tenge was quite susceptible to these factors.

During 2018, the exchange rate of the tenge was demonstrating a high volatility, the exchange rate was fluctuating in the range of KZT 318.31–384.2 per 1 USD. During 2018, the tenge had depreciated against the US Dollar by 15.6% (Figure 3.2.4).

Figure 3.2.4

**The movement of the Russian ruble and the tenge against the US Dollar,
oil prices**

(30 December 2016 = 100)



During the first quarter of 2018 due to a favorable external environment, the domestic currency was appreciating. Later, imbalances in the foreign exchange market intensified significantly and caused depreciation of the exchange rate of the tenge.

Monetary policy tightening of the US Federal Reserve System, USA Protectionist and Sanctions policy against number of countries (Russia, China, Turkey) affected the cost of foreign borrowings and changed directions of capital flows in favor of developed markets. These factors put pressure on the domestic currencies of the majority of developing countries including the currency of Kazakhstan's main trading partner – Russia. During 2018, the Russian ruble depreciated by 20.6%.

Although sanctions were not affecting Kazakhstan directly, depreciation of the Russian ruble in response to a negative external environment led to the change in the dynamics of the tenge in the third and in the fourth quarter of 2018.

From the beginning of the year and till mid-October 2018, the price of oil was generally demonstrating the upward dynamics and from the beginning of October 2018 it started to go down from the maximum of USD 86.3 per barrel to the minimum of USD 50.5 per barrel at the end of 2018. The decline in world oil prices had a downward pressure on the exchange rate of the tenge in the fourth quarter of 2018.

In 2018, the volume of stock exchange transactions in the KZT-USD currency pair increased by 4.7% as compared to 2017 and amounted to USD 38.7 bln.

In 2018, the National Bank continued to follow the floating exchange rate regime which enables to absorb the arising external shocks in an effective manner. This regime also allows to achieve an equilibrium exchange rate, prevent considerable imbalances on the current account and avoid reduction of the international reserves.

Nonetheless, in September 2018 the National Bank conducted foreign currency interventions which resulted in a net sale of USD 520.6 mln. The decision on foreign currency interventions was made in the environment of absence of foreign exchange supply, based on the necessity to prevent the intensification of devaluation expectations and stabilization of the domestic foreign exchange market.

In the OTC foreign exchange market, the volume of transactions in the KZT-USD currency pair amounted to USD 138.0 bln., increased by 18.3% as compared to 2017. However, 70.6% of OTC trading was represented by transactions of one bank which were mainly conducted with the foreign head office in order to hedge its owners' equity from foreign exchange risk. In total, the transaction volume in the OTC foreign exchange market, excluding equity hedge transactions, amounted to USD 40.5 bln. (Figure 3.2.5).

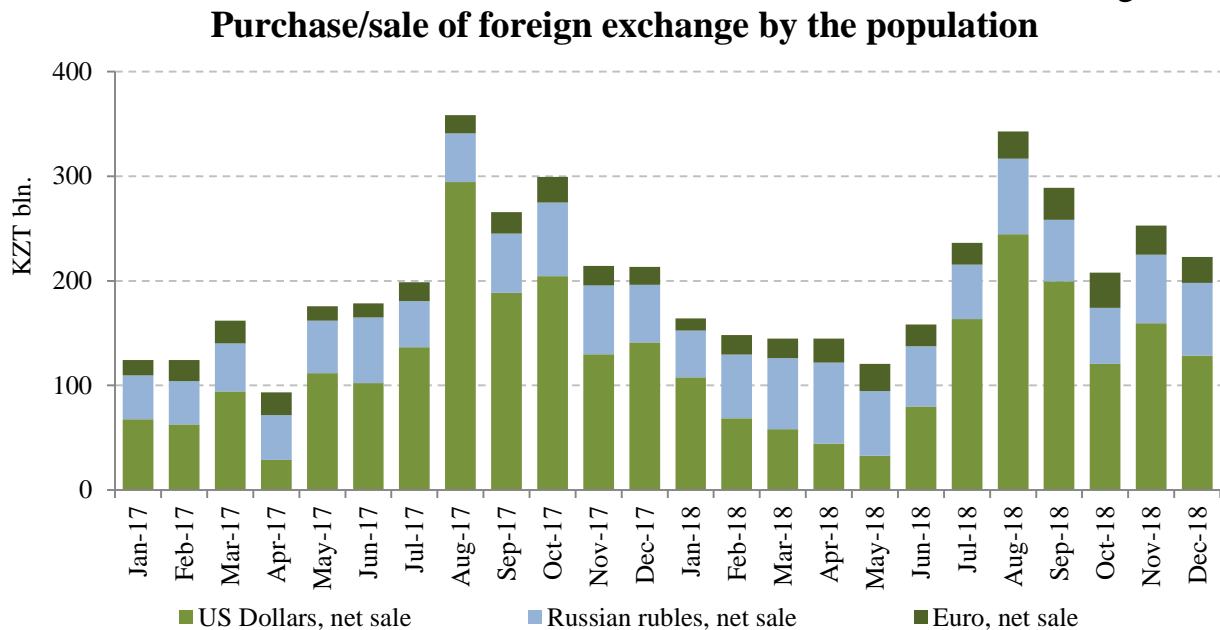
Figure 3.2.5



In 2018, the overall volume of net FX sales by exchange offices slightly increased – from KZT 2 420.7 bln. in 2017 to KZT 2 443.8 bln., or by 1.0%. The bulk of expenses were funneled to the purchase of US Dollars – 57.7%, Russian rubles – 30.3%, and purchase of the Euro accounted for 11.6%. At the same time, as compared to 2017 expenses related to the purchase of the US Dollars by the population decreased by 9.8% (from KZT 1 563.0 bln. to KZT 1 409.1 bln.), and

expenses related to the purchase of Russian rubles increased by 18.9% (from KZT 623.3 bln. to KZT 740.8 bln.) (Figure 3.2.6).

Figure 3.2.6



During 2018, the National Bank implemented a number of initiatives aimed to further develop the money and the foreign exchange market as well as the government securities market and, hence, to make the monetary policy more effective.

The National Bank, jointly with the Ministry of Finance, continued to build the yield curve. Consecutive placements of short-term notes for the horizon up to one year helped to generate expectations in the short-term segment of the yield curve. The Ministry of Finance conducted auctions to place government securities for longer maturities which enabled to generate expectations at a long-term jog of the yield curve.

In April 2018, in order to increase efficiency of the monetary policy transmission mechanism and to develop the market of financial derivatives, the decision was made to proceed with one-day FX swap transactions on the Kazakhstan Stock Exchange both for liquidity provision and its withdrawal.

A wider interest rate band was set on FX swap transactions as compared to the interest rate band on the standing facility operations; it is intended to discourage the regular use of foreign currency as collateral in attracting liquidity in the tenge. A daily volume of the National Bank's liquidity withdrawals through swaps was limited to USD 500 mln.

In July, the National Bank had successfully implemented the project on inclusion the government securities of the Republic of Kazakhstan into the list of securities settled in the Clearstream; this implies a significant simplification of the access of international investors to the stock market of Kazakhstan. A successful

implementation of the project marked a new stage in the development of financial market in Kazakhstan and will promote a higher demand for Kazakhstan's government bonds on the part of foreign investors, improve their liquidity and attractiveness in the foreign market. Such initiative will allow expanding the long-term funding sources, reduce the cost of borrowings for the government and will have a positive effect on the yield curve and a further development of Kazakhstan's securities market.

In September 2018, jointly with the Kazakhstan Stock Exchange, the National Bank initiated the migration of the foreign exchange market to the T+1 settlement system. As a result, the official exchange rate of the tenge against the US Dollar started to be set on the basis of the average stock exchange rate based on the results of the main session and additional session with the due dates of T+1.

In October 2018, with a view to add value to liquidity management, the National Bank started to place its short-term notes under the T+2 system. This system is in line with the international practice and is standard in conducting operations with securities in the global financial markets.

Implementation of deferred settlement systems in the foreign exchange market and in the securities market will help to refine the liquidity forecast systems in the sector, will create prerequisites for increasing the inflow of foreign capital including within the frames of the launched international channel with Clearstream.

Section 4. Development, Regulation and Supervision of the Financial System

4.1. Systemic Risks Monitoring and Macprudential Policy

The National Bank's priority objective in safeguarding the financial stability in 2018 was to continue with rehabilitation of the banking sector and to pass the laws designed to strengthen the National Bank's mandate in the sphere of regulation and supervision of financial organizations. The multi-faceted work performed by the National Bank has taken effect: bad quality assets decreased; insolvent banks were removed from the system and the systemically important banks were merged. These measures created the basis for a sound and sustainable financial system and also reduced systemic risks in the financial sector.

Credit risk in the bank loan portfolio considerably decreased but all the same it remained high and more significant for the financial system of Kazakhstan. Despite a better loan portfolio quality of the banking sector in 2018, including owing to the Bank Rehabilitation Program, insufficient provisioning for problem loans and a shortage of shareholders' equity at banks retained its pressure on financial soundness indicators of banks. Recognition, write-offs and hand-over of problem loans to specialized entities and to the Problem Loan Fund as well as removal of three insolvent banks from the system reduced the percentage of problem loans in the banking sector. The focus had gradually been shifted from the bank rehabilitation effort to building the institutional and regulatory environment ensuring a high quality of lending decisions.

According to reports submitted by banks, the percentage of loans past due over 90 days decreased from 10% at the end of 2017 to 8% at the end of 2018. However, according to the National Bank's assessment, the level of potentially underprovisioned loans is still high. Without additional capitalization and recognition by shareholders of losses on such loans many banks are not capable of assuming credit risk on new loans.

Another factor that puts pressure on credit risk is a high debt burden and unsteady financial conditions of enterprises in the real sector in the environment of non-existence of effective rehabilitation and bankruptcy mechanisms and procedures. The analysis of enterprises in the real sector showed that a sheer volume of debt on bank loans fell on loss-making enterprises and enterprises with negative capital. Operating efficiency of insolvent companies is much lower than in solvent companies.

In 2018, according to the credit risk survey among banks, in anticipation of transition to the risk-focused supervision banks started to improve the quality of their credit decisions including a more objective assessment of collateral and creditworthiness of borrowers. According to the survey, banks have revised their internal regulations, collateral policies, credit decision-making processes, extended the lists of related parties and the interpretation of relatedness. Such tendencies were creating positive prerequisites for resumption of bank lending to the real sector of the

economy, which was significantly reduced in the recent years because of a high credit risk. Keeping this trend sustainable is necessary for a better economic outturn from the lending activity. To make this trend sustainable, banks with a high percentage of underprovisioned doubtful loans have to increase their capital.

As part of the survey, the majority of banks noted that in 2018 the lending policy related to corporate sector lending had not considerably changed. At the same time, some banks have slightly eased their conditions in respect of fees and interest rates because of a fiercer competition for good-quality borrowers in the market. The growth in lending is mostly observed in the sector of small and medium business owing to the focus of most government programs supporting this sector. In turn, the growing demand for credit resources by the large business was observed in the first half of 2018 only and it was mainly the demand for short-term loans for replenishment of working capital. Reduction in the demand on the part of the large business, in banks' opinion, was related to saturation of existing clients with loans and the absence of good quality products for financing.

In 2018, the demand for unsecured consumer loans increased. In order to assess the borrower creditworthiness, some banks supplemented their scoring models with the data of telecommunication companies and other companies. A competition for a good-quality borrower was conducive to the fact that the interest rate was lowered and the loan amount was increased.

In mid-2018, the National Bank launched the “7-20-25” housing program and also eliminated legislative gaps which hampered the mortgage market development. This led to the easing of terms and conditions of mortgage lending, including in respect of a down payment, interest rate and a loan tenor that resulted in an increased demand for mortgage loans.

During 2018, liquidity risks in the banking sector remained modest. Highly liquid assets¹¹ of the banking sector by the end of 2018 amounted to KZT 8.8 trln., having increased by 10% over the year; their percentage in total assets of the banking sector accounted for 35%. The National Bank's monetary policy mechanism of providing and withdrawing liquidity at predictable rates via the open market operations as well as adherence to the inflation targeting and floating exchange rate ensure a stable situation with the systemic liquidity of the banking sector. In 2018, the liquidity surplus persisted, the bulk of which (58% of highly liquid assets) was absorbed by the National Bank.

Despite a stable situation with systemic liquidity, there is still a high reliance on the quasi-government sector¹² and the concentration of large creditors in the funding structure of the banking sector. At the same time, in 2018 there was a positive trend of gradual reduction in reliance of banks on funding from the quasi-government sector. According to the National Bank's assessment, by the end of 2018 the share of quasi-government sector in the structure of liabilities was less than 30%,

¹¹ Excluding encumbered highly liquid assets.

¹² Include resources of government and quasi-government enterprises, community funds as well as pension assets accumulated at the Unified Accumulative Pension Fund.

having decreased from 35% at the end of 2017. In addition, the share of 25 largest creditors in total bank liabilities in 2018 reduced from 48% to 42%.

An important area of focus in ensuring financial stability is to supply the banking sector with a long-term funding. Shortage of long-term funding and reliance of banks on depositors with a high risk of early withdrawal not only increase risks in the bank funding but also limit the capacity of banks to provide long-term loans to the real sector of the economy. In 2018, the National Bank went on with implementing measures aimed to develop the time deposit market; in particular, effectively term deposits were introduced including savings deposits with limitations for early withdrawal, which will enable to increase the term structure of funding. In order to stimulate depositors of savings deposits, a higher deposit insurance amount was provided for in the laws (KZT 15 mln.). A migration to differentiated marginal interest rates instead of a common level of marginal rates for all types of retail deposits was accomplished. From 1 October 2018, marginal interest rates on retail deposits are differentiated depending on the deposit maturity, existence of terms and conditions discouraging early withdrawals and the right to replenish. The migration to a new framework, on the one hand, offers more beneficial interest rates on effectively term deposits and savings deposits for depositors, and, on the other hand, provides banks with a more reliable funding base, creates a more robust competition in the deposit market and mitigates interest rate risks of the banking sector associated with deposit replenishments. From 1 January 2019, the accrual of interest on current accounts and card accounts of corporate entities and individuals has been cancelled and deposits with a floating interest rate where interest income on a bank deposit depends on the size of base indicator (the National Bank's base rate, inflation rate, TONIA and TWINA indicators) were introduced.

A strategic pathway is implementation of a set of joint measures of the Government, National Bank and representatives from the financial market and the real sector of the economy that are aimed to turn around the real sector and to establish an efficient framework for dealing with insolvency which provides a reliable protection for creditor rights and allows assessing and offset risks associated with a borrower's default in an adequate fashion. A complete recovery and development of the financial sector is not possible without rehabilitation of the real sector. Inefficient existing rehabilitation and bankruptcy procedures in respect of borrowers from the real sector including their duration and the absence of due protection of creditor rights and interests creates barriers for cleaning up the banking sector from non-performing loans.

In the context of policy of effective development of the financial sector and improvement of the regulation system of financial organizations, in 2018 4 sessions of the Council for Financial Stability and the Financial Market Development of the Republic of Kazakhstan were held. The topics discussed at the sessions included current issues in the financial sector development, namely, problems of the deposit market and regulatory decisions, issues related to cyber security of the financial sector of the Republic of Kazakhstan, law of practice regarding the return of fees

charged for loan servicing and keeping of a bank account in the lending process, matters pertinent to improvement of the banking sector regulation.

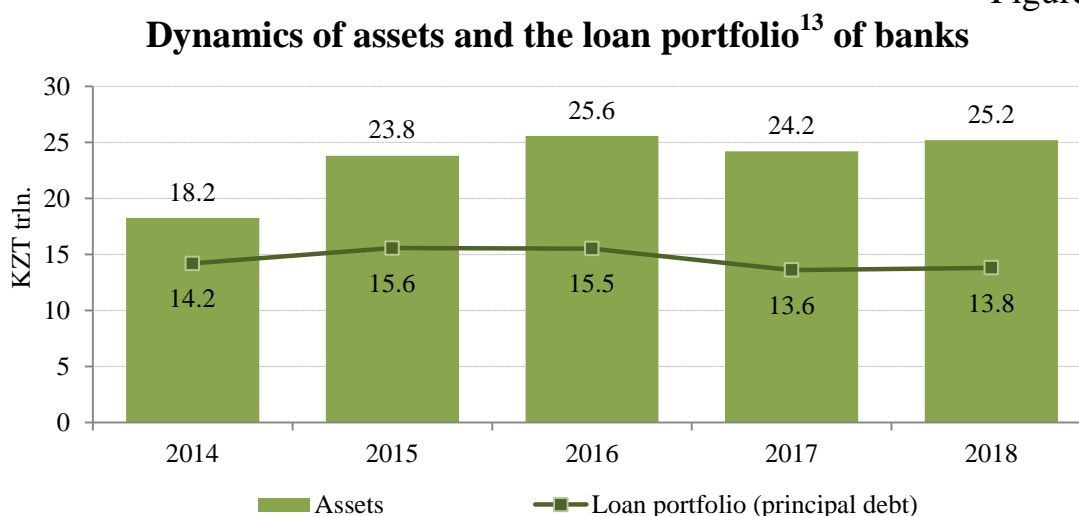
4.2. Financial Sector Development

4.2.1. Banking Sector

By the end of 2018, 28 banks and 7 organizations engaged in certain types of banking operations, including 3 mortgage organizations were functioning in the Republic of Kazakhstan (at the beginning of 2018 – 32 banks and 6 organizations engaged in certain types of banking operations, including 2 mortgage organizations).

During 2018, the banking sector's assets increased by KZT 1.2 trln., or by 4.5% and amounted to KZT 25.2 trln. (Figure 4.2.1.1). At the end of 2018, the banking sector's loan portfolio amounted to KZT 13.8 trln., having increased by 1.3% since the beginning of the year. At the end of 2018, provisions created in accordance with the requirements of international financial reporting standards on the banking sector's loan portfolio amounted to KZT 1.8 trln., or 12.9% of the total loan portfolio.

Figure 4.2.1.1

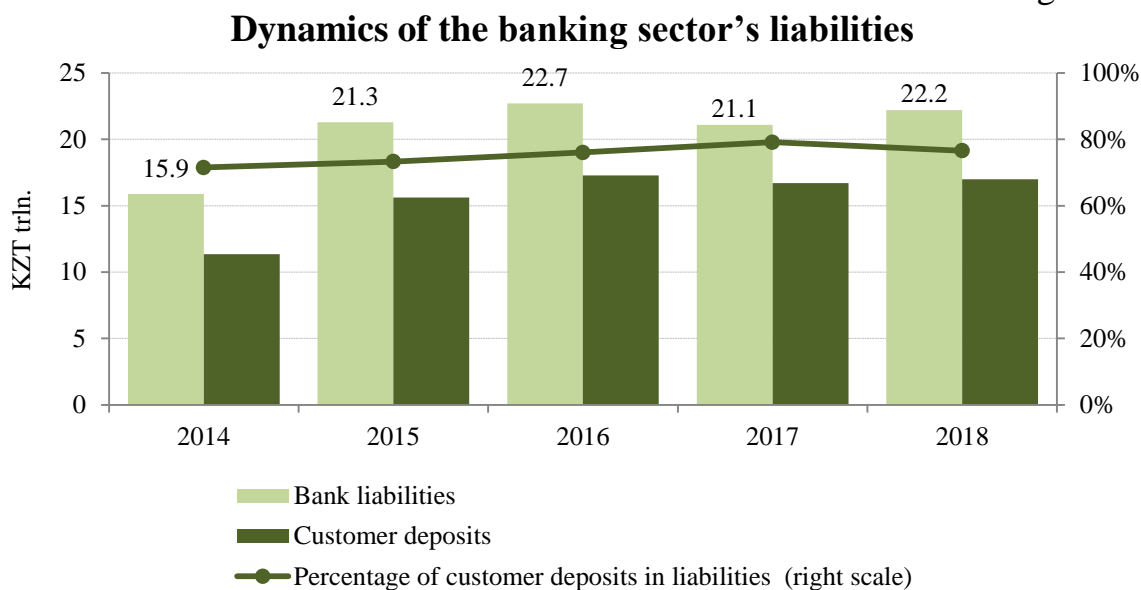


Loans which are over 90 days past due on their principal debt and/or accrued interest amounted to KZT 1 trln., or 7.4% of the total loan portfolio of banks.

During 2018, bank liabilities increased by KZT 1.1 trln., or by 5.2% and amounted to KZT 22.2 trln. (Figure 4.2.1.2).

¹³ The calculation of a loan portfolio includes accounts of principal debt on loans provided to banks, organizations engaged in certain types of banking operations, clients (corporate entities and individuals), on reverse repos with securities including non-residents.

Figure 4.2.1.2



In 2018, the National Bank continued to monitor banks' fulfillment of action plans under the Program for Increasing Financial Soundness of the Banking Sector of the Republic of Kazakhstan launched in 2017.

Based on performance in 2018, banks participating in the Program created additional provisions totaling KZT 325.3 bln. (57.6% of total regulatory provisions which have to be increased within five years).

From the time when banks joined the Program, problem loans worth KZT 192.7 bln. were written off the bank balance sheets being funded with created provisions, of which KZT 134.4 bln. – loans included into the Action Plan.

Banks also make arrangements to improve the asset quality and recover debts of problem borrowers. Borrower debts of KZT 697.7 bln. were restructured/refinanced, additional collaterals of KZT 245 bln. were taken, loan repayments worth KZT 87.7 bln. were made, and loans worth KZT 7.7 bln. were sold.

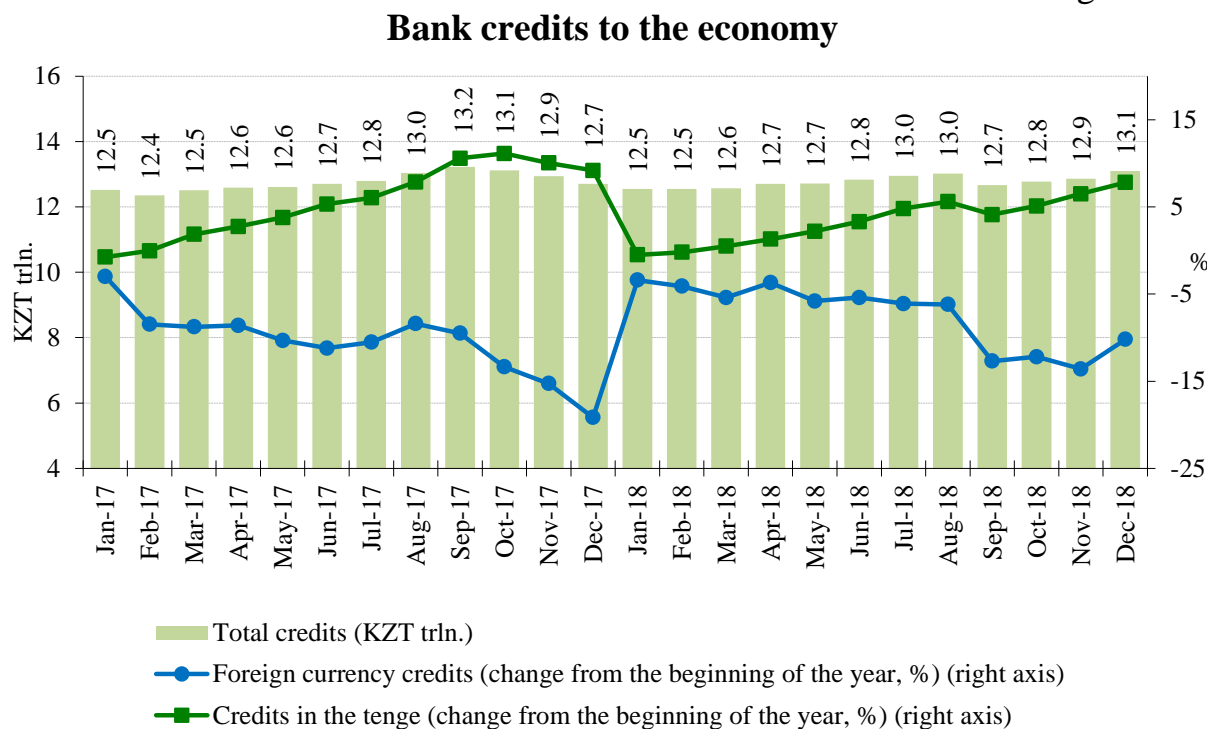
New loans (excluding restructuring) that were provided by banks during 2018 amounted to KZT 1.2 trln., where loans provided to finance new projects and new borrowers – corporate entities – amounted to KZT 658.5 bln.; new loans to retail customers amounted to KZT 576.9 bln. The National Bank was performing an off-site monitoring of new large loans provided by banks for their compliance with requirements of action plans.

At the end of 2018, the volume of bank credits to the economy¹⁴ increased by 3% and amounted to KZT 13.1 trln. Excluding a loan portfolio of banks undergoing restructuring and deprived of their license, the annual growth of credits to the economy is estimated at 7.4%, or KZT 883.5 bln.

¹⁴ Loans provided to entities in the real sector of the domestic economy (residents) do not include repos with securities, accrued income on loans, premiums, discounts, finance lease, interbank accounts, discounted and dishonored bills, and debtors under documentary settlements.

During 2018, loans in the domestic currency increased by 7.8% to KZT 10.1 trln., whereas foreign currency loans decreased by 10.2% to KZT 3 trln. (Figure 4.2.1.3). All in all, the percentage of loans in the tenge in the total volume of loans increased from 73.7% to 77.1%.

Figure 4.2.1.3



The volume of credits to corporate entities decreased by 4.6% amounting to KZT 7.8 trln. at the end of 2018, and credits to individuals went up by 16.8% to KZT 5.3 trln. The relative share of credits to individuals increased from 35.7% to 40.5%.

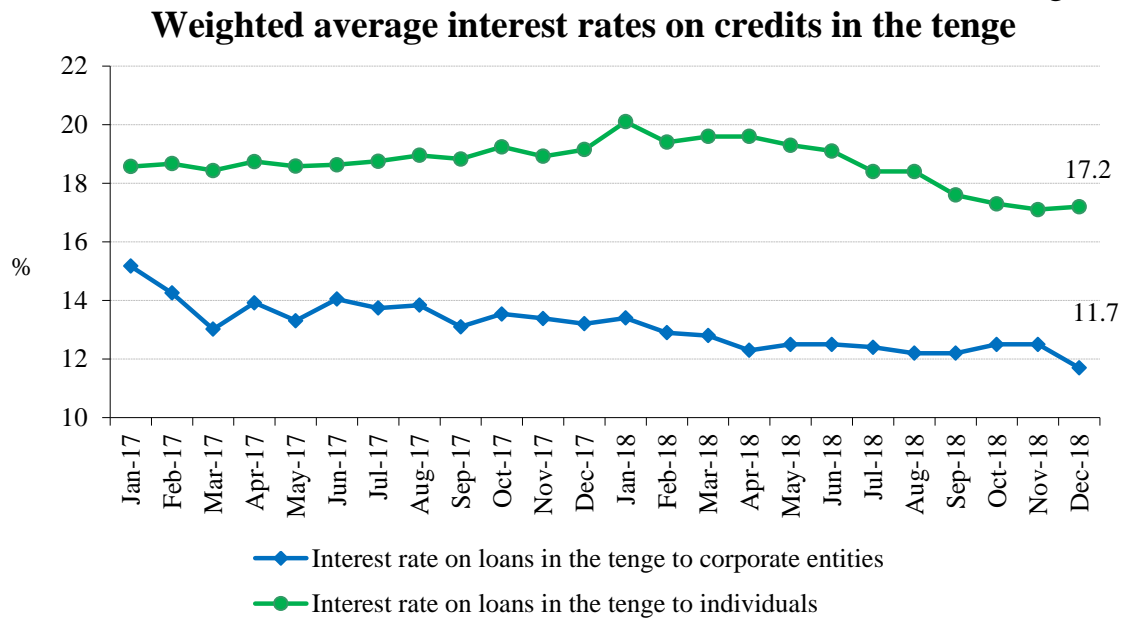
In 2018, the long-term lending grew by 2.8% to KZT 11.1 trln., and short-term lending – by 4.4% to KZT 2 trln. The percentage of long-term credits in the loan portfolio of banks accounted for 84.8% (in December 2017 – 85%).

Credits to small businesses in 2018 went down by 15.2% to KZT 2.4 trln., which accounts for 18.1% of the total volume of credits to the economy.

In the industry-based breakdown, the largest amount of bank credits to the economy is in the industry – 15.5%, trade – 13.8%, construction – 5.8%, and agriculture – 3.7%.

In 2018, the weighted average interest rate on credits in the domestic currency provided to non-bank corporate entities decreased to 12.4% from 13.6% in 2017, and to individuals – to 18.5% from 18.8% in 2017 (Figure 4.2.1.4).

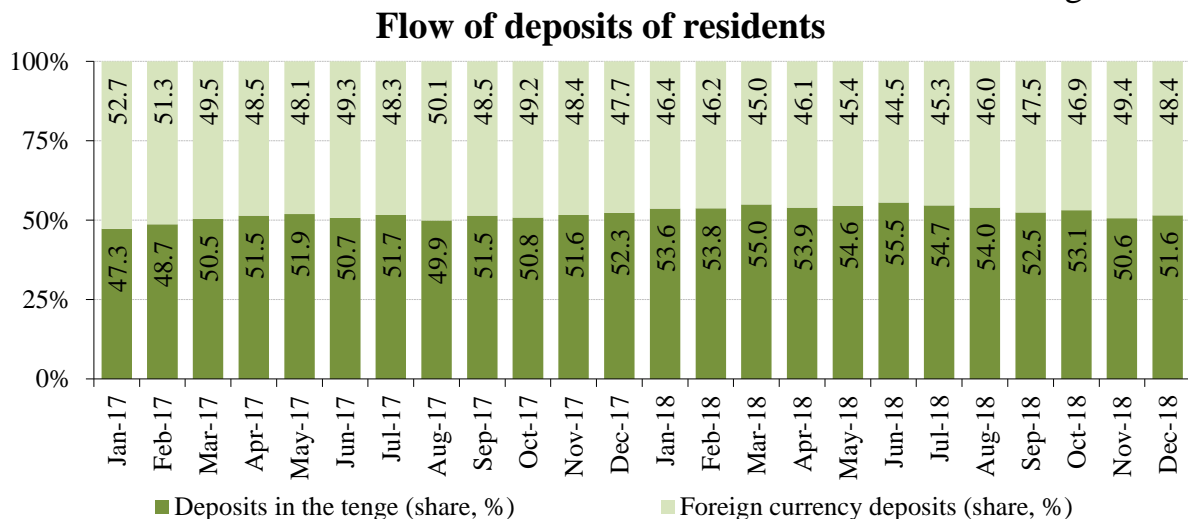
Figure 4.2.1.4



During 2018, deposits of residents with depository institutions increased by 6.0% (in 2017 the decline of 3.0%), amounting to KZT 18.6 trln.

Over the year, deposits in the domestic currency increased by 4.5% and amounted to KZT 9.6 trln.; deposits in foreign currency in the US Dollar equivalent decreased by 6.9% and amounted to KZT 9.0 trln. At end-December 2018, the deposit dollarization made up 48.4% (Figure 4.2.1.5).

Figure 4.2.1.5

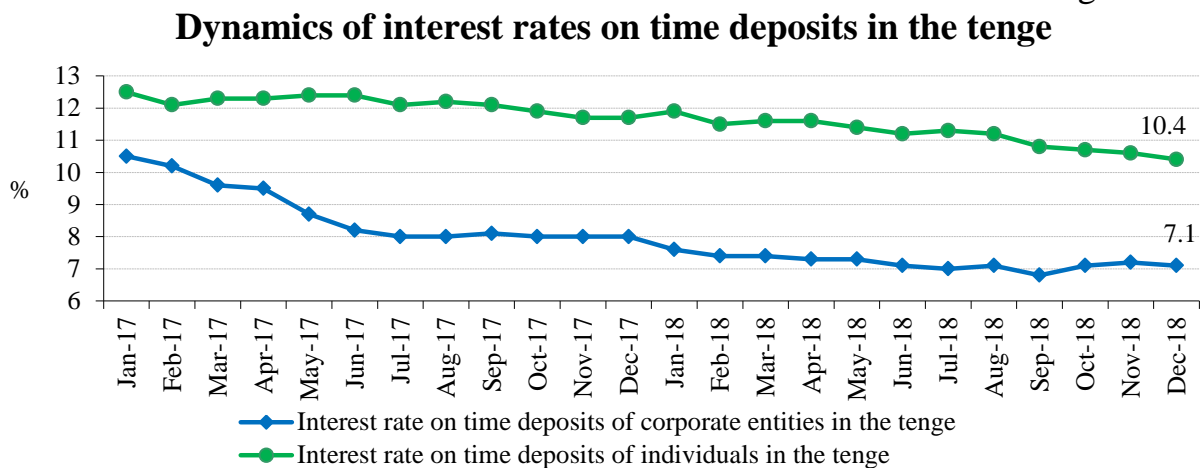


During 2018, corporate deposits increased by 5.4% to KZT 9.9 trln., in their structure deposits in the domestic currency went down by 4.9% to KZT 5.0 trln., and deposits in foreign currency in the US Dollar equivalent increased by 2.6% to KZT 4.9 trln. As a result, the deposit dollarization of corporate entities made up 49.3% (in December 2017 – 43.8%).

Retail deposits increased by 6.6% to KZT 8.7 trln., in their structure deposits in the tenge went up by 17.1% to KZT 4.6 trln., and deposits in foreign currency in the US Dollar equivalent decreased by 16.2% to KZT 4.1 trln. Dollarization of retail deposits made up 47.4% (in December 2017 – 52.2%).

In December 2018, the weighted average interest rate on time deposits of non-bank corporate entities in the domestic currency accounted for 7.1% (in December 2017 – 8.0%), and on time deposits of individuals in the domestic currency – 10.4% (11.7%) (Figure 4.2.1.6).

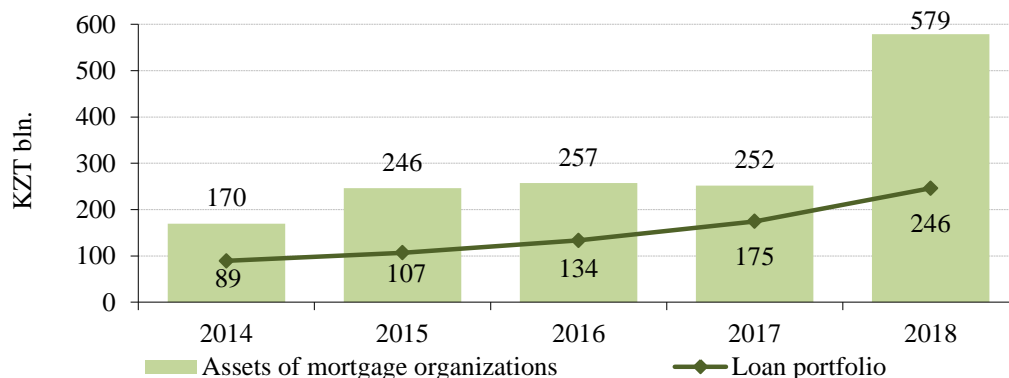
Figure 4.2.1.6



At the end of 2018, the total amount of assets of mortgage organizations was KZT 578.8 bln., which exceeds the corresponding amount in 2017 by KZT 326.9 bln., or by 2.3 times. The total loan portfolio of mortgage organizations amounted to KZT 246.2 bln., which is by KZT 71.7 bln., or by 41.1% larger than the corresponding indicator at the end of 2017 (Figure 4.2.1.7).

Figure 4.2.1.7

Dynamics of assets and the loan portfolio of mortgage organizations



Loans provided by the “Mortgage Organization “Kazakhstan Mortgage Company” JSC account for the largest share in the total loan portfolio of mortgage organizations – 85.2%.

The relative share of loans which are past due over 90 days in the total loan portfolio of mortgage organizations accounted for 2.1%, or KZT 5.2 bln. at the end of 2018.

At the end of 2018, the amount of provisions created by mortgage organizations was KZT 6.1 bln., a relative share of created provisions in the loan portfolio accounted for 2.5%.

At the end of 2018, total assets of non-bank organizations¹⁵ amounted to KZT 917.6 bln., having increased by 22.8% over the year.

The loan portfolio¹⁶ of subsidiaries of the national management holding company in the area of agro-industrial complex at the end of 2018 amounted to KZT 626.5 bln., having increased by 25.6% (Figure 4.2.1.8). The relative share of past due loans in the total loan portfolio of subsidiaries of the national management holding company in the area of agro-industrial complex at the end of 2018 accounted for 9.2%, or KZT 67.0 bln.

Figure 4.2.1.8

Dynamics of assets and the loan portfolio of non-bank organizations



At the end of 2018, there were 157 microfinancial organizations which have undergone the record registration at the National Bank; their number had increased by 24% over the year. The majority of microfinancial organizations were operating in Almaty (34%), South-Kazakhstan Region (11%) and in Astana (13%).

4.2.2. Insurance Sector

At the end of 2018, the insurance sector of the Republic of Kazakhstan was represented by 29 insurance organizations, 15 insurance brokers and 56 actuaries.

During 2018, the overall asset volume of insurance organizations grew by 13.3% and amounted to KZT 1 048.5 bln. at the end of the year. During 2018, their total equity increased by 13.7% and amounted to KZT 468.3 bln. Liabilities of insurance organizations amounted to KZT 580.2 bln., which is by 13.0% larger than

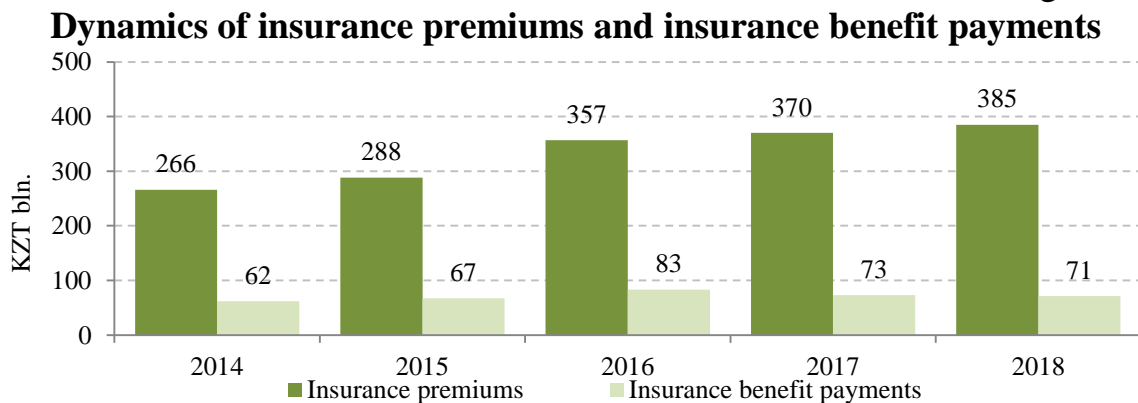
¹⁵ Subsidiaries of the national management holding company in the area of agro-industrial complex and the National Postal Operator of the Republic of Kazakhstan.

¹⁶ Including provided financial lease, excluding reserves.

at the end of 2017. The amount of insurance reserves was KZT 519.5 bln., or 89.5% of total liabilities, which is by 12.8% larger as compared to 2017.

The total volume of insurance premiums increased by 4.0% and amounted to KZT 384.8 bln.; the amount of insurance premiums under the direct insurance contracts made up KZT 350.5 bln., which is by 5.6% larger than their volume in 2017 (Figure 4.2.2.1). In the structure of insurance premiums, the major portion falls on voluntary property insurance – KZT 151.4 bln., or 39.3% of the total volume of insurance premiums; insurance premiums worth KZT 131.3 bln., or 34.1% were collected from voluntary personal insurance, and KZT 102.2 bln., or 26.5% – from compulsory insurance. During 2018, the overall volume of insurance benefits paid under insurance contracts amounted to KZT 70.8 bln., having decreased by 3.2% as compared to 2017. In the structure of insurance benefit payments broken down by insurance lines, voluntary personal insurance accounts for 42.4%, compulsory insurance – 38.0%, and voluntary property insurance – 19.6%.

Figure 4.2.2.1



The volume of insurance premiums ceded to reinsurance made up KZT 89.8 bln., or 23.3% of total insurance premiums. In doing so, 83.7% of insurance premiums ceded to reinsurance were ceded to reinsurance to non-residents of the Republic of Kazakhstan.

4.2.3. Securities Market

By the end of 2018, the securities market of the Republic of Kazakhstan was represented by 41 brokers and/or dealers (20 banks and 21 non-bank organization), 9 custodian banks, 21 investment portfolio managers, and 2 transfer agents. In the securities market, 2 infrastructure organizations also carry out their activities – the Kazakhstan Stock Exchange which is licensed to engage in organizing the trading with securities and other financial instruments and clearing activities on transactions with financial instruments in the securities market, and the “Central Securities Depository” JSC (the Central Depository) which engages in the special types of professional activities in the securities market without a license.

At the end of 2018, aggregate financial ratios of the professional securities market participants – non-bank organizations (brokers and/or dealers and investment portfolio managers) as compared to 2017 grew by 7.9% in terms of assets, and by 78.8% - in terms of owners' equity. The growth in assets is related to the increased value of the securities portfolio. Expansion in the owners' equity was caused by the buildup in retained profit in 2018 as well as a significant increase in the registered capital of one of the professional securities market participants. Total liabilities declined by 9.9%. Assets under management of the investment portfolio managers during 2018 went down by 50.1%.

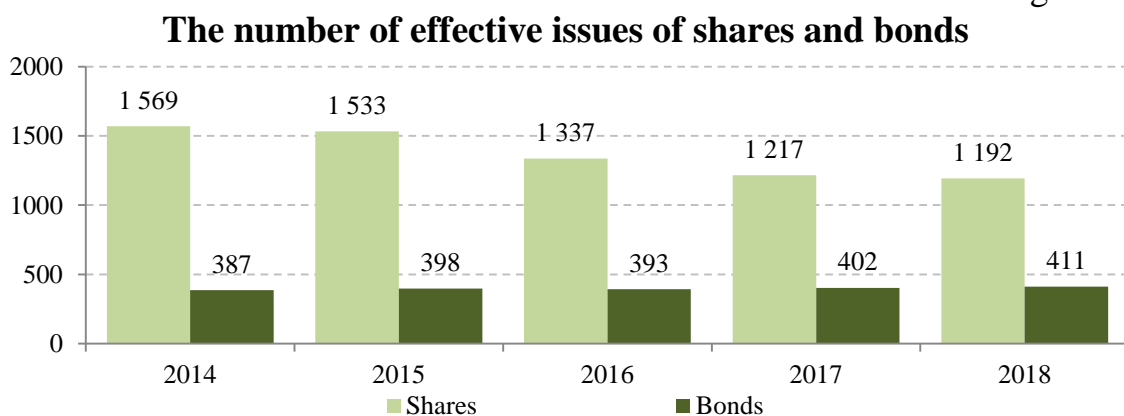
Capitalization of the stock market of the Kazakhstan Stock Exchange made up KZT 15.5 trln. by the end of 2018, having decreased by 9.5% over the year. Capitalization of the bonds market amounted to KZT 10.8 trln., having increased by 21.4% during 2018.

During 2018, the transaction volume in the organized securities market increased by 15.9% in total. The volume of transactions with shares went up by 104.8%, with securities of investment funds – by 66.7%, with corporate bonds – by 27.7%, with securities of international financial organizations – by 102.1%, and the volume of transactions with government securities went down by 18.8%.

At the end of 2018, the volume of transactions with financial instruments in the unorganized securities market amounted to KZT 13.2 trln. on government securities of the Republic of Kazakhstan (the annual growth of 28.2%), KZT 561 bln. on non-government securities of issuers – residents of the Republic of Kazakhstan (the growth by 3.1 times), KZT 382 bln. on foreign securities of issuers – non-residents of the Republic of Kazakhstan (the growth by 4.8 times).

At end-2018, there were 1 603 issuers of non-government securities, of which the number of joint-stock companies with effective issues of shares was 1 192 (Figure 4.2.3.1). The number of effective issues of shares was gradually declining due to the fact that joint-stock companies whose owners' equity had not been brought in conformity with requirements of the legislation of the Republic of Kazakhstan on joint-stock companies were liquidated under a voluntary or forced procedure.

Figure 4.2.3.1



During 2018, the National Bank registered 29 issues of shares and cancelled 54 issues of shares, of which 17 were cancelled under the National Bank's suits based on resolutions of territorial specialized economic courts about forced liquidation of joint-stock companies whose registered capital is not in line with requirements of the legislation of the Republic of Kazakhstan; 6 – on the basis of letters from the Ministry of Justice of the Republic of Kazakhstan on liquidation and reorganization of joint-stock companies, 31 – on the basis of resolutions of general shareholders meetings about reorganization or liquidation of those joint-stock companies.

At end-2018, there were 411 effective issues of bonds with the total par value of KZT 13.8 trln., 247 of which were included into the official listing of the Kazakhstan Stock Exchange, including 26 bond issues from the alternative platform.

In 2018, 53 issues of non-government bonds with a total volume of KZT 2.6 trln. and 10 bonds issues worth KZT 1.7 trln. had been registered.

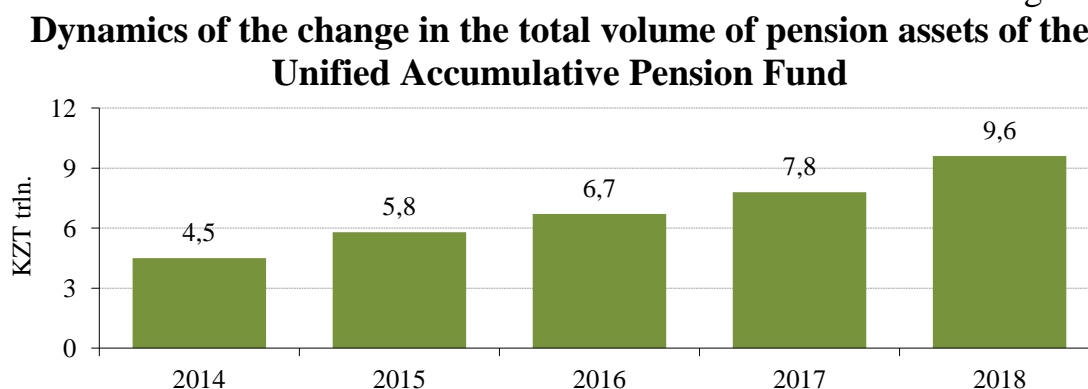
As at the end of 2018, 32 mutual funds whose assets are managed by investment managers (12 – close-end funds, 1 – open-end fund and 19 – interval funds) as well as 20 joint-stock investment funds, including 11 real estate trusts were functioning in the securities market. Total assets of investment funds amounted to KZT 194.9 bln., of which assets of mutual funds amounted to KZT 84.2 bln., assets of joint-stock investment funds – KZT 110.6 bln., including assets of real estate trusts – KZT 84.3 bln.

4.2.4. Pension System

At the end of 2018, the Unified Accumulative Pension Fund was an only organization engaged in the taking of mandatory pension contributions, mandatory professional contributions and voluntary pension contributions. The Government of the Republic of Kazakhstan is its sole shareholder, and the National Bank is a fiduciary manager of its shares and is engaged in management of pension assets.

At end-2018, the total volume of pension assets amounted to KZT 9.6 trln., having increased by KZT 1.8 trln., or by 22.7% over the year (Figure 4.2.4.1).

Figure 4.2.4.1



The number of personal pension accounts of contributors (beneficiaries) of the Unified Accumulative Pension Fund at end-2018¹⁷ on mandatory pension contributions was 9.6 million with a total amount of pension accumulations of KZT 9.2 trln., on mandatory professional pension contributions – 0.5 million accounts amounting to KZT 197.4 bln., and on voluntary pension contributions – 36.5 thousand accounts amounting to KZT 1.9 bln.

The total amount of pension contributions totaled KZT 6.5 trln., having increased 2018 by KZT 847.1 bln., or by 14.9% since the beginning of 2018.

During 2018, retirement benefit payments amounted to KZT 168.6 bln.

4.2.5. Infrastructure Organizations

Kazakhstan Interbank Settlements Center

The “Kazakhstan Interbank Settlements Center with the National Bank of the Republic of Kazakhstan” Republican State-Owned Enterprise founded on the right of economic management (Kazakhstan Interbank Settlements Center) was established in 1995 with an aim to ensure stability and reliable functioning of national payment systems.

The Kazakhstan Interbank Settlements Center is a national payment systems operator which provides their technical functioning and is one of the key parties in ensuring their operation.

The key activities of the Kazakhstan Interbank Settlements Center include effecting interbank payments, money transfers and interbank clearing; supporting operability of hardware and software systems that ensure uninterrupted functioning of payment systems; providing security of payment systems; sale of cryptographic tools to the users, their use and storage; arrangement and support of retail payment systems operation.

By the end of 2018, all banks, the Treasury Committee of the Ministry of Finance of the Republic of Kazakhstan, the “Government for People” State Corporation”, Kazakhstan Stock Exchange, Central Depository and other important financial organizations were participating in the national payment systems.

In executing a project to implement a remote electronic identification, in 2018 a system prototype was designed, the user connections were launched to prepare for a pilot project. Also, the system of instant payments was designed and implemented on the basis of the OpenAPI specification, and web-services for information exchange in the instant payment system.

In 2018, the effort on increasing efficiency of the information security management system was continued; the certification audit for compliance with the ISO 27001:2013 requirements was passed.

Total revenues of the Kazakhstan Interbank Settlements Center in 2018 amounted to KZT 3.8 bln., which exceed those in 2017 by 16.9%. The operating

¹⁷ The number of individual pension accounts of contributors (beneficiaries) is presented excluding individual pension accounts which do not have a balance of pension accumulations as at end-2018.

revenues made up KZT 2.3 bln., having increased by 12.8% as compared to 2017. As a result of optimization in the management of enterprise financial resources, net profit (after tax) based on performance in 2018 increased by 50% as compared to 2017. Based on performance in 2018, the value of assets of the enterprise went up by KZT 500.9 mln.

Kazakhstan Deposit Insurance Fund

The “Kazakhstan Deposit Insurance Fund” JSC (Kazakhstan Deposit Insurance Fund) was established in 1999 with view to support the financial system stability and to protect rights and legitimate interests of bank depositors in the Republic of Kazakhstan.

The Kazakhstan Deposit Insurance Fund is in charge of mandatory deposit insurance and performs the following functions: makes the guaranteed payouts; keeps the register of banks participating in the mandatory deposit insurance system; creates a special reserve intended for making the guaranteed payout; selects an agent bank on a competitive basis; takes part in the temporary administration appointed for conservatorship of a member bank; participates in the temporary administration appointed in the period of revocation of a member bank’s banking license; takes part in the liquidation commission of a forcibly liquidated member bank up to the moment when the liquidation commission repays the debt on the amount of paid (payable) guaranteed payout; is a member on a creditor committee of a forcibly liquidated member bank up to the moment when the liquidation commission repays the debt on the amount of paid (payable) guaranteed payout; determines the amount and the procedure for payment of assessments by member banks, exercises control over the completeness and timeliness of assessment payments.

Deposits, current accounts and balances of payment cards of bank clients – natural persons and individual entrepreneurs represent the object of the guarantee. This is with exception of interest-free demand deposits and investment deposits placed with Islamic banks.

In 2018, the court decisions regarding the license revocation of “Kazinvestbank” JSC, “Delta Bank” JSC and “Qazaq Banki” JSC came into effect. Also, as at the end of 2018, banking licenses of “Bank Astana” JSC and “Eximbank Kazakhstan” were revoked. In respect of these banks, the Kazakhstan Deposit Insurance Fund accrued loan losses on the payment of guaranteed payout for the full amount of expected liabilities.

Payouts to depositors of “Delta Bank” JSC via an agent bank will last till May 2019, and to depositors of “Qazaq Banki” JSC – till 24 June 2019. The guaranteed payouts to depositors of “Kazinvestbank” JSC have already been finalized. The remaining depositors who had not applied to the agent bank may contact the Kazakhstan Deposit Insurance Fund in order to get their guaranteed payouts. During 2018, guaranteed payouts were also made to depositors of “Nauryz Bank” JSC in the amount of KZT 0.4 mln. and “Valut-Transit Bank” JSC on the additional payouts in the amount of KZT 26.1 mln. (Table 4.2.5.1).

Table 4.2.5.1

**Payment of the Guaranteed Payout from the
Kazakhstan Deposit Insurance Fund**

Name of a Forcibly Liquidated Bank	Date of License Revocation	Effective Date of a Court's Decision on License Revocation	Amount of Liabilities on the Guaranteed Payout, KZT	Guaranteed Payout made as at 01.01.2019, KZT mln.	Percentage of the Total Amount Payable ¹⁸
“Nauryz Bank Kazakhstan” JSC	02.06.05	02.12.05	772.05	679.93	88%
“Valut-Transit Bank” JSC	26.12.06	01.03.07	18 340.93	17 914.81	98%
“Kazinvestbank” JSC	27.12.16	24.01.18	2.07	1.89	90%
“Delta Bank” JSC	03.11.17	25.04.18	158.06	69.98	44%
“Qazaq Banki” JSC	28.08.18	12.12.18	20 495.51	12 582.02	61%
“Bank Astana” JSC	18.09.18	09.01.19	37 596.65	-	-
“Eximbank Kazakhstan” JSC	28.08.18	16.01.19	258.35	-	-
Total			77 623.62	31 248.62	

In 2018, the Kazakhstan Deposit Insurance Fund was a part of the creditor committee of a forcibly liquidated “Valut-Transit Bank” JSC that was established in order to secure interest of creditors and the decision-making with their involvement, and also was a member of temporary administrations of “Delta Bank” JSC, “Qazaq Banki” JSC, “Eximbank Kazakhstan” JSC and “Bank Astana” JSC. The Kazakhstan Deposit Insurance Fund participated in liquidation commissions of forcibly liquidated banks such as “Valut-Transit Bank” JSC, “Kazinvestbank” JSC, “Delta Bank” JSC, “Qazaq Banki” JSC, and “Eximbank Kazakhstan” JSC. Liabilities of liquidation commissions to the Kazakhstan Deposit Insurance Fund amounted to KZT 29.1 bln. at the end of 2018.

In 2018, the process of a forced liquidation of “Nauryz Bank Kazakhstan” JSC that was initiated in November 2005 was finalized. The liquidation commission of the bank paid out 100% of claims of the Kazakhstan Deposit Insurance Fund under the third order of priority (Table 4.2.5.2).

¹⁸ The remaining unpaid amount owed to 363 983 depositors of “Nauryz Bank Qazaqstan” JSC, “Valut-Transit Bank” JSC and “Kazinvestbank” JSC of KZT 518.4 mln. largely consists of the so-called “dormant accounts” with small amounts, where depositors had not applied to the Qazaqstan Deposit Insurance Fund for the guaranteed payout in respect of such accounts.

Table 4.2.5.2

**Liabilities of Banks under Liquidation
to the Kazakhstan Deposit Insurance Fund**

Name of a Forcibly Liquidated Bank	Amount of Liabilities Discharged by the Liquidation Commission on Effected Guaranteed Payouts as at 01.01.2019		Balance of Liabilities Undischarged by the Liquidation Commission on Effected Guaranteed Payouts as at 01.01.2019		Amount of Liabilities Discharged by the Liquidation Commission on Unpaid Calendar Assessments		Balance of Liabilities Discharged by the Liquidation Commission on Unpaid Calendar Assessments	
	(KZT mln.)	(%)	(KZT mln.)	(%)	(KZT mln.)	(%)	(KZT mln.)	(%)
	Third order of priority on creditor claims				Eighth order of priority on creditor claims			
“Nauryz Bank Kazakhstan” JSC	772	100	0	0	0	0	5.9	100
“Valut-Transit Bank” JSC	9 813	53.5	8 527	46.5	0	0	28.1	100
“Kazinvestbank” JSC	2	100	0	0	0.3	3.7	8.2	96.3
“Delta Bank” JSC	158	100	0	0	0	0	1.7	100
“Qazaq Banki” JSC	0	0	20 400	100	0	0	145.7	100

In 2018, an effort was made to amend the procedure of calculation and setting of differential rates of mandatory bank assessments which implies that in 2019 the system of assessments paid by member banks will be completely revised.

During 2018, the news about problem banks grabbed the attention of the public. The Kazakhstan Deposit Insurance Fund had taken all necessary measures for effective communication with depositors of these banks starting from the time when their licenses had been revoked: it was posting updated information on its official web-site; launched a free call center service, communicated in messengers; published newsletters jointly with the National Bank.

In order to ensure integrity of the payout reserve, the Kazakhstan Deposit Insurance Fund invests resources in highly liquid and minimum-risk financial instruments. The National Bank acts as a fiduciary manager of assets.

State Credit Bureau

The main activities of the “State Credit Bureau” JSC (State Credit Bureau) which was established in 2012 include building the data base of credit histories and providing credit reports, building and maintaining a common insurance data base.

Since 2018, the State Credit Bureau has been providing access to the government data base to banks and insurance organizations: “Individuals” and “Corporate entities” data bases of the Ministry of Justice of the Republic of Kazakhstan; “Motor vehicle” and “Driver” data bases of the Ministry of Internal Affairs of the Republic of Kazakhstan, the data base of individuals who belong to the welfare beneficiaries (the Second World War veterans and equal-status persons, disabled people of the 1st and 2nd groups, retired people) of the Ministry of Labor and Social Protection of the Population of the Republic of Kazakhstan.

Since 2017, the State Credit Bureau is engaged in building and maintaining the common insurance data base.

During 2018, an effort was made to build and maintain the insurance data base to design and operate the information analytical system for statistical accounting, to analyze and summarize the data on the insurance market, for automatic calculation of insurance premiums under compulsory insurance contracts as well as on integration with the government data base.

Unified Securities Registrar

The “Unified Securities Registrar” JSC (Unified Registrar) established in 2011 is the only entity within the territory of the Republic of Kazakhstan that engages in maintaining the system of registers of securities holders.

On 16 August 2018, the joint general shareholders meeting of the Central Depository and the Unified Registrar made the decision about a voluntary reorganization in the form of a merger of the Unified Registrar with the Central Depository.

From 1 January 2019, the functions of the Unified Registrar of maintaining the system of registers of securities holders were delegated to the Central Depository. The Central Depository becomes a legal successor of all rights and responsibilities of the Unified Registrar. All contracts with the Unified Registrar that were made earlier in the form of a contract of adhesion will remain in effect and shall not require any renewal.

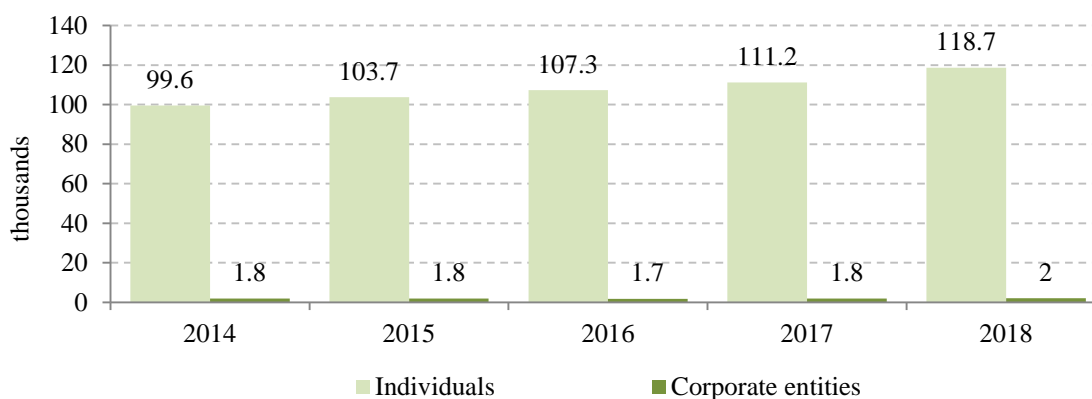
Central Depository

The Central Depository is an infrastructure organization in the securities market of Kazakhstan and is engaged in exclusive types of professional activities in the securities market – depository business and activities related to maintaining the system of registers of securities holders. The Central Depository was founded in 1997.

In the context of improving the securities market infrastructure, in 2018 the merger of the Unified Registrar with the Central Depository was finalized; this will enable to consolidate all information about securities holders in a common data base, to simplify the procedures, reduce the time of transaction registration and bring down customer costs due to the tariff optimization. In order to increase transparency of the OTC securities market and to spur the demand for financial instruments, an integrated information system of the OTC securities market will be established on the basis of the Central Depository that will allow the market participants to exchange the quotations of securities and enter into transactions.

The number of opened sub-accounts of customers – depositors of securities in the accounting system of the Central Depository was 120 693 at end-2018, having increased by 7 632 sub-accounts, or 6.8% over the year (Figure 4.2.5.1).

Figure 4.2.5.1

Number of sub-accounts in the accounting system of nominal holding**Kazakhstan Stock Exchange**

The organized securities market in Kazakhstan is represented by the Kazakhstan Stock Exchange which was established in 1993.

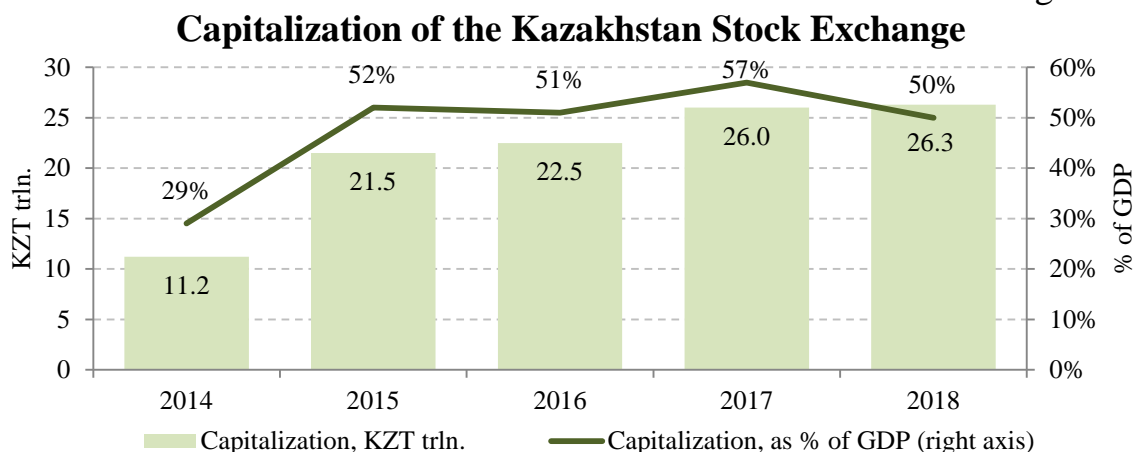
At the end of 2018, the structure of the Kazakhstan Stock Exchange's official listing was represented by 127 issues of shares of corporate issuers (20.3% of the total number of securities issuers included into the official listing), including 53 issues of shares at the alternative platform, 247 issues of bonds of corporate issuers (39.5%), including 26 issues of bonds at the alternative platform, 231 issues of government securities (36.9%), 14 issues of securities of international financial organizations (2.2%) and 7 issues of securities of investment funds (1.1%).

During 2018, the volume of transactions with non-government securities (including the repo sector) in the organized market went down by 34.1% and amounted to KZT 4.4 trln., including transactions worth KZT 1 trln. in the secondary securities market, KZT 1.9 trln. in the primary market, and KZT 1.5 trln. – in the repo sector.

The volume of stock exchange transactions with government securities (including the repo sector) in the organized market amounted to KZT 76 trln., having increased by 8.0% as compared to 2017 due to a larger volume of repo operations.

The non-government securities market included into the Kazakhstan Stock Exchange's official listing, during 2018 went up by 1.2% and amounted to KZT 26.3 trln. (Figure 4.2.5.2).

Figure 4.2.5.2



To increase the access to the market financing for business entities, in 2018 additional platforms, “KASE Startup” and “KASE Private Market”, were established on the basis of the Kazakhstan Stock Exchange, first of all for the small- and medium-sized business interested in getting investments in the stock market. The “KASE Private Market” platform is intended for providing an alternative financing source to small and medium-sized business entities in the organizational form of a limited liability partnership without the need in acquiring a status of a public company. The “KASE Startup” – is an internet platform whose prime objective is to build communications between start-uppers and investors. Transactions in the frames of financing of start-uppers by investors will be entered into both by using the trade infrastructure of the Kazakhstan Stock Exchange and directly between the parties.

In order to increase reliability and liquidity of the foreign exchange market by minimizing the counterparty default risk, from 1 October 2018 the Kazakhstan Stock Exchange started to perform functions of a central counterparty in the stock exchange market of foreign currencies and now it provides insurance for such transactions. The establishment of the central counterparty allows improving the credit risk management ensuring stability in the market and also increases its attractiveness for foreign participants.

With a view to increase the number of participants in the foreign exchange market and to create additional instruments of FX risk hedging, brokerage firms were provided with a direct access to trades in the on-exchange FX market and the possibility to obtain licenses for certain types of banking operations.

Trades in the secondary market with government securities on the stock exchange were switched to settlements under T+2 system; this became the next step in the development of the domestic stock market and in the integration with international capital markets.

Kazakhstan Sustainability Fund

The “Kazakhstan Sustainability Fund” JSC (Kazakhstan Sustainability Fund) was established in 2017 to safeguard financial stability of the banking sector by providing financial support to banks. Its main activities include participation in

implementation and financing of the banking sector support programs; financial support to banks including through provision of subordinated loans; purchase of bank shares via conversion of acquired subordinated bonds; searching investors and selling bank shares that were purchased through conversion of subordinated bonds to a new investor.

In 2018, the Kazakhstan Sustainability Fund took part in implementation of the following programs:

1) the Program for Increasing Financial Soundness of the Banking Sector. In order to implement the Program, bonds of banks and of the organization totaling KZT 809.4 bln. were purchased;

2) The Program for Residential Mortgage Loans/Mortgage Loans Refinancing. A limit allocated under the first tranche of the Program was KZT 150 bln., and under the second tranche – KZT 138 bln.;

3) The Program for Agricultural Sector Support. The amount allocated for the Program is KZT 450 bln.;

4) The Program for Providing Long-Term Liquidity in the Tenge for Financing of Priority Sectors of the Economy. Total amount under the Program is KZT 600 bln., of which KZT 300 bln. should be disbursed via the Kazakhstan Sustainability Fund.

“Baspana” Mortgage Organization

The “Baspana” Mortgage Organization” JSC (“Baspana” Mortgage Organization) was established in 2018 to implement the Residential Mortgage Lending Program, “7-20-25. New Housing Opportunities for Every Family” and to make residential mortgage loans more affordable for the people.

The “Baspana” Mortgage Organization attracts financial resources by issuing and placing agency bonds in the securities market and uses them in repurchasing receivables on residential mortgage loans provided in accordance with the terms and conditions of the Program.

The main requirements for participation of the population in the Program are: being a citizen of the Republic of Kazakhstan; existence of earnings from entrepreneurship or employment; absence of unrepaid loan debt on home loans; absence of owned residential property within the territory of the Republic of Kazakhstan.

In order to encourage residential construction within the frames of the “7-20-25” Program, the “Baspana” Mortgage Organization repurchases government securities from local executive authorities which commit resources to residential construction for future sale to the Program participants.

At the end of 2018, 6 562 loan applications were filed under the “7-20-25” Program totaling KZT 76.2 bln., 3 229 loans in the amount of KZT 38.8 bln. were disbursed, of which 2 973 loans of KZT 35.5 bln. were repurchased.

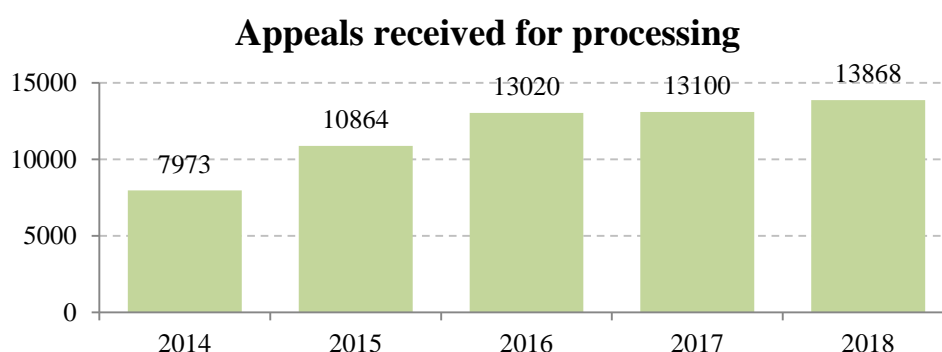
The “Baspana” Mortgage Organization had launched the “Baspana Hit”, a market mortgage product under which 735 applications totaling KZT 6.2 bln. were accepted in 2018, 144 loans in the amount of KZT 1.3 bln. were disbursed, of which 96 loans totaling KZT 0.8 bln. were repurchased.

4.3. Financial Consumer Protection

Due to the increasing need in the real and adequate consumer protection as the consumer demand intensifies and new FinTech financial products appear in the market, the National Bank's activities were focused on ensuring a proper level of consumer protection and legitimate interests of the financial and microloans consumers as well as debtors of collection agencies and on increasing financial literacy among the people.

In 2018, National Bank received 13 868 appeals concerning financial consumer protection as well as microfinancial organizations consumer protection and debtors of collection agencies for processing (Figure 4.3.1).

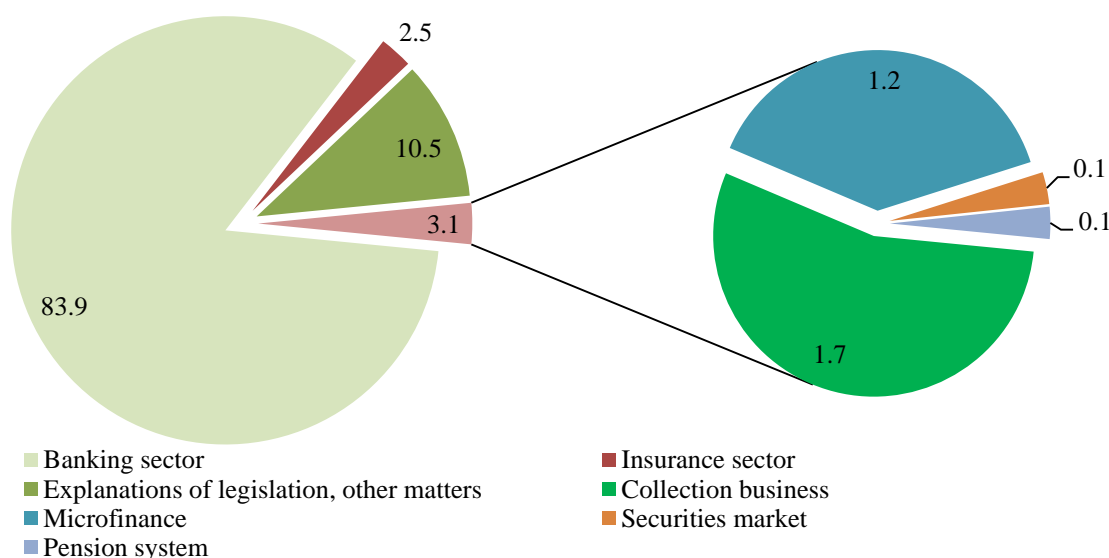
Figure 4.3.1



A significant portion of appeals was in respect of the banking sector (banks and organizations engaged in certain types of banking operations) – 83.9% of the total number of processed appeals (Figure 4.3.2).

Figure 4.3.2

Structure of appeals received by the financial market segments



Pressing topics in appeals regarding the banking sector were as follows: inability to perform obligations on a loan agreement; debt refinancing; change in the currency, interest rate of a loan; verifying whether the calculation of the amount of monthly payment, debt, fine, interest, fees, annual effective exchange rate was correct; checking validity of foreclosure without recourse (acceptance-free) for the monies held on accounts of borrowers by banks; wrongfulness of actions of bank employees; checking the terms and conditions of a loan agreement for compliance with the laws of the Republic of Kazakhstan; servicing of bank accounts; return of deposits; publicly-funded waiver (writing off) of debt; violation of the procedure for entering into, execution of a bank loan agreement; money transfer; explanations of regulations pertaining to the banking sector; examining a bank's operation; the collateral sale procedure; execution of court's decisions; refusal to release a collateral item; fee policy.

In the sector of insurance services, the most pressing topics presented in appeals were disputes arising in motor liability insurance and related to disagreement with the amount of caused damaged as assessed by an insurance organization; violation of time frames of insurance benefit payment as well as a failure to pay such benefit; refusals by insurance organizations to make an insurance benefit payment under voluntary insurance lines; demands to check the accuracy of calculations of insurance premiums and the insured amount.

Non-payment of dividends and the receipt of information about activities of joint-stock companies remain current with regard to activities of the securities market entities .

Appeals about actions of microfinancial organizations referred to explanations of requirements of regulations pertaining to activities of microfinancial organizations; verifying whether the calculation of the amount of monthly payment, debt, fine, interest, fees, annual effective exchange rate was correct; checking the terms and conditions of a loan agreement for compliance with the laws of the Republic of Kazakhstan.

Appeals that related to activities of the Unified Accumulative Pension Fund addressed such issues as explanation of requirements of the retirement legislation and refusal to pay out pension accumulations.

Appeals related to activities of collection agencies referred to such matters as unlawful actions of the staff of collection agencies and the application of provisions of regulations pertinent to collection activities.

In 2018, based on violations of the existing laws of the Republic of Kazakhstan that were revealed as a result of the review of appeals, 185 restricted remedial actions were taken in respect of financial and microfinancial organizations. Besides, as a result of reviewed appeals from the financial service consumers, 117 administrative cases were initiated, of which 30 were initiated in respect of microfinancial organizations, 108 – in respect of banks, and 9 – in respect of insurance organizations.

In 2018, the National Bank participated in more than 1800 court sessions that were related to civil cases on lawsuits filed by the financial service consumers against financial organizations and by financial organizations against the financial service consumers.

During 2018, 4 042 individuals were received on a personal basis regarding provision of financial services; 331 individuals that applied to the National Bank's Community Liaison Office received counseling and legal support; 240 meetings of borrowers with representatives of banks and mortgage organizations were arranged, whereby banks provided possible terms of restructuring to their borrowers.

As part of the notification procedure, the National Bank has been studying and analyzing the terms and conditions of financial products for their compliance with legislative provisions and for absence of the terms and conditions that prejudice the consumer rights. In 2018, the National Bank received 450 notifications on approval of financial services and microlending services, 155 of which were received from microfinancial organizations, 224 – from banks and 71 – from insurance organizations. Based on the review of notifications submitted by financial and microfinancial organizations, 3 restricted remedial actions were taken for submission of an incomplete document file.

With an aim to improve operations related to provision of mortgage loans, in 2018 new specifics in the mortgage lending procedure were established. First, a borrower is given an opportunity to restructure a residential mortgage loan at an early stage of delinquency. With that in mind, a bank has been formally obliged to suggest the options for resolution of a past due debt to a borrower depending on objective circumstances of such delinquency occurrence and the borrower's financial standing. Second, the set of instruments of pre-judicial resolution of a troubled debt on mortgage loans was expanded. Third, a full-pledged collateral framework was restored where a collateral holder is entitled to get an appropriate satisfaction of its claims from collateral both in the judicial and extra-judicial procedure.

With a view to prevent usury and to protect consumer rights in the non-regulated sector of lending, within the frames of civil legislation in 2018 a number of specific provisions were set forth in a loan agreement entered into with a borrower – natural person. The main limitations have been determined by the following requirements:

a loan agreement must contain an annual effective interest rate and it should not exceed 100%;

the amount of penalty imposed on a borrower for delinquency cannot exceed 0.5% of the overdue payment amount for each day of delinquency just as it cannot exceed 10% of the amount of loan disbursed during the year;

a loan debt ceiling of a borrower – natural person is set at 100%, that is if a loan of KZT 100 000 was provided, the borrower's debt cannot exceed KZT 200 000 over the entire period of the loan agreement;

if the terms and conditions of a loan agreement do not comply with any of these requirements, the loan agreement is held void.

The above requirements shall not apply to loan agreements where banks, organizations engaged in certain types of banking operations, microfinancial organizations and credit partnerships act in the capacity of money lenders since for them an annual effective interest rate is set at 56%.

In 2018, the National Bank went on with its full-scale and systemic public awareness effort aimed to increase the level of financial literacy among the population.

The national broadcasting channel “Astana” launched an educational program about the basics of financial literacy entitled the “TengeLand” for children of elementary school age and middle school, and “Profinance.WEB” for the general public including students and the youth. During 2018, 40 releases of these programs in the Kazakh and Russian languages were broadcasted.

In 2018, annexes to the nation-wide children newspapers “Ulan” and “Druzhnye Rebyata” continued to be issued where the basics of financial literacy are presented to children of elementary school. 12 issues, both in the Kazakh and Russian languages, were issued during the year. For children in the junior high- and senior high school, 6 issues, both in the Kazakh and Russian languages, of annexes to the nation-wide scientific and educational magazine “Oila” were prepared. In December 2018, winners in the financial literacy competition that took place in the “Ulan” and “Druzhnye Rebyata” newspapers and the “Oila” magazine received their awards.

In Almaty, an annual “Night in the Library” and the “National Currency and Financier Day” activities were held in the Central Children Library named after S.Begalin for children of elementary school and junior high school.

In 2018, the National Bank made an effort to fill its Internet resource devoted to the financial education of the population (fingramota.kz) with the up-to-date information. The National Bank’s staff delivered lectures on financial literacy in the regions of Kazakhstan, a public opinion research was conducted to test the level of financial literacy.

Program for Refinancing of Residential Mortgage Loans/Mortgage Loans

As one of the measures to resolve problems of mortgage borrowers, since April 2015 the National Bank has been implementing the Program for Residential Mortgage Loans/Mortgage Loans Refinancing. The Program is intended for facilitation in preserving a sole residential property of borrowers who received loans at banks and mortgage organizations within the period from 2004 to 2009.

The National Bank allocated KZT 130 bln. for implementation of the Refinancing Program.

Refinancing of mortgage loans was effected by 11 banks and 3 mortgage organizations. At the end of 2018, 25 807 loans totaling KZT 159.7 bln. were approved for refinancing by banks, 23 950 loans totaling KZT 139.7 bln. were refinanced. Based on the revolving facility of cash disbursements the number of loans refinanced till 2026 is expected to be about 40 000.

In 2018, the National Bank, jointly with the “Problem Loan Fund”, conducted examinations of “Bank Astana” JSC and “Astana Ipoteka” JSC in respect of their abidance by the terms of the Refinancing Program.

In March 2018, the National Bank’s subsidiary, the “Kazakhstan Sustainability Fund” JSC, was appointed as an operator of the Refinancing Program.

On 27 March 2018, amendments to the Refinancing Program were made, which allow for refinancing of retail mortgage loans in foreign currency provided before 1 January 2016. Such loans are subject to refinancing in the tenge at the National Bank’s exchange rate as at 18 August 2015 (KZT 188.35 per 1 US Dollar). The exchange rate difference (about KZT 156 bln.) is refunded with the National Bank’s resources. Banks are forgiven for the borrower debts on interest, fees, cancellation penalty in the amount over KZT 136 bln. The deadline for refinancing of foreign currency loans is by 15 July 2019.

Mortgage loans in foreign currency were refinanced by 16 banks and 1 mortgage organization. At the end of 2018, banks approved the refinancing of 5 908 loans totaling KZT 48.5 bln., 4 540 loans totaling KZT 35.1 bln. had been refinanced.

In 2018, the National Bank made recommendations to banks and mortgage organizations regarding the use of tax abatements and the refinancing of mortgage loans in the context of the Refinancing Program.

From the time when the Refinancing Program was launched, the commission which handles borrower complaints about denials to refinance mortgage loans and which consists of representatives of the National Bank, akimats (mayor’s offices), law enforcement authorities, social protection authorities and heads of public associations, reviewed 3 992 communications from borrowers, where decisions about the loan refinancing according to the terms of the Refinancing Program were made in respect of 1 819 communications (46%). Since March 2018, the decisions of commissions about the loan refinancing have been mandatory for banks.

With a view to reduce social strain among mortgage borrowers, the National Bank on a number of occasions sent letters to banks about suspension of the procedure of law suits on recovery of debt, eviction and sales of pledged residential property of borrowers participating in the Refinancing Program to third parties.

4.4. Regulation and Supervision

4.4.1. Currency Exchange Regulation and Currency Control

Top-priority objectives in the currency regulation still include building up the information base on currency operations and capital flows as well as the analytical monitoring of currency operations for the decision-making regarding the economic policy.

With a view to collect statistical information, the existing currency legislation of the Republic of Kazakhstan set requirements to registration or notification of foreign currency operations associated with the capital movement (financial loans,

direct investments, commercial credits, and accounts with foreign banks). Registration and notification regimes account for large capital movement operations which provide for the inflow of capital (property, monies) to the Republic of Kazakhstan in the amount exceeding the equivalent of USD 500 000 or the transfer of capital (monies, property transfer) from the Republic of Kazakhstan in the amount exceeding the equivalent of USD 100 000. In the registration of large foreign currency operations associated with capital movement, in 2018 the National Bank issued 1 710 registration certificates. As regards notification of foreign currency operations associated with capital movement and opening of accounts at foreign banks, in 2018 the National Bank issued 417 certificates of notification.

Export proceeds are the main source of foreign exchange supply in the domestic foreign exchange market of Kazakhstan, therefore currency legislation establishes the requirement to repatriate proceeds from exports of goods (works, services) and repay the advance payment for imports of goods (works, services) unused by a non-resident to the bank accounts with Kazakhstani banks. The time frame during which the repatriation should be carried out is determined by the terms and conditions of a foreign trade contract. In respect of foreign trade transactions in the amount exceeding the equivalent of USD 50 000 the control over execution of the repatriation requirement is exercised through the record registration of a foreign trade contract with a bank which provides service to a resident involved in a foreign trade transaction.

With a view to determine the completeness of coverage of foreign trade operations by the currency control, the analysis was performed, the results of which showed that the existing threshold for control is optimal from the standpoint of operation coverage, interests of businesses and expenses of currency control agents related to administration of control.

Exports-imports currency control is realized on the basis of record registration of foreign trade contract procedures and electronic information exchange for the purposes of control over the execution of repatriation requirement, between authorized banks, the National Bank and the national revenue authority – the Public Revenues Committee of the Ministry of Finance of the Republic of Kazakhstan.

In 2018, the National Bank continued to work out measures required to make the currency control more effective and to combat the capital outflow from the country.

On 2 July 2018, the Law “On amendments to some legislative acts Republic of Kazakhstan regarding currency exchange regulation and currency control, risk-focused supervision of financial organizations, protection of rights of the financial service consumers and improvement of activities of the National Bank of the Republic of Kazakhstan” and the Law “On currency exchange regulation and currency control” in a new version were adopted.

Implementation of these legislative provisions will give an opportunity to expand the coverage of statistical monitoring of foreign currency operations, to reduce the use of foreign currency in settlements within the territory of Kazakhstan as

well as to increase efficiency of currency control, also for the combating the outflow of money out of the country. A list of foreign exchange transactions referred to operations that are aimed at getting money out of the country was prepared; the possibility of conveying the information containing the bank secrets to offices of the Ministry of Finance (the Public Revenues and Financial Monitoring Committee) is allowed for. Non-bank exchange offices have been given the right to buy and sell refined gold in bullions produced by the National Bank, and the professional securities market participants have been given the right to buy/sell foreign exchange in the domestic foreign exchange market at clients' instructions.

Under the existing legislation in the sphere of currency exchange regulation, a license of the National Bank is only required for activities related to organization of exchange operations with foreign cash (activities of exchange offices).

In 2018, as part of licensing of activities related to organization of exchange operations with foreign cash, 48 licenses to new authorized organizations (non-bank corporate entities) were issued, and 117 licenses were surrendered on a voluntary basis. At the end of 2018, 496 authorized organizations have valid licenses for organization of exchange operations with foreign cash; 2 704 exchange offices including 1 684 bank exchange offices were operating in the country; and 793 exchange offices of authorized organizations and 227 exchange offices of the "KazPost" JSC were functioning.

In 2018, a new requirement regarding the use of cash registers with a function of data recording and/or their transmission via the fiscal data operator came into effect in respect of non-bank exchange offices. This allowed receiving information about each operation in the real time mode thus ensuring transparency in the activities of non-bank exchange offices.

In 2018, as part of the currency control, the National Bank revealed cases of administrative offence in the field of currency legislation and legislation on combating the money laundering and terrorist financing, 1 049 cases of administrative offence were initiated. Penalties were imposed in respect of 1 020 cases, of which 552 penalties were in the form of warnings. In respect of 468 cases, the amount of penalties imposed by the National Bank and courts was KZT 306 mln. 82 restricted corrective actions were taken and 1 sanction in the form of license suspension for a definite time period was imposed in respect of authorized banks and authorized organizations for violations of currency exchange legislation of the Republic of Kazakhstan.

In 2018, the National Bank conducted 236 inspections regarding compliance with currency legislation of the Republic of Kazakhstan, of which 211 entities subject to examination were identified on the basis of risk assessment. Inspections in respect of the currency control issues were conducted based on the risk-focused approach.

4.4.2. Regulation and Supervision of the Financial Sector

Banks. Regulation

In 2018, the National Bank continued with its law-making effort which provides for the enhancement of the National Bank's regulatory and supervisory mandate. From 1 January 2019, legislative amendments to the supervisory process introduce an internationally accepted risk-focused approach which is based on a motivated judgement as well as a migration to the problem bank resolution framework.

Such effort resulted in legislative changes which are aimed at a better efficiency and effectiveness of the National Bank's supervisory function through introduction of the risk-focused supervision and motivated judgement principles and capacity building in the identification, rehabilitation and resolution of insolvent banks. The adopted legislative amendments provide the National Bank with powers to use the entire set of instruments in an insolvent bank resolution that are used internationally in order to protect rights and interests of depositors and creditors and to minimize public expenditures.

The use of a supervisory judgement is necessary to address the accumulated structural problems of the financial sector – a low quality of the loan portfolio, related party lending by banks and asset stripping, low quality reporting and assessment as well as risk management systems. Implementation of a risk-focused approach in supervision will allow the National Bank to take preventive actions in order to reduce the level of risks depending on the extent of problems without waiting until a bank's financial position deteriorates. Supervisory measures will be aimed at increasing the capital and improving its structure, improving the asset quality, liquidity and profitability ratios as well as at fine-tuning the corporate governance system in a bank. In doing so, in the context of risk-focused supervision, the National Bank will not set strict requirements to banks on risk management in respect of which examinations will be conducted. Banks themselves will ensure that they will have a credit risk management system in place which will be in line with the existing market situation, development strategy, a bank's size, the extent of complexity of bank's operations and will promote effective identification, measurement, monitoring and control of risk in the bank.

A motivated judgement will be applied by the National Bank in four areas: approval of top management and shareholders; assessment of adequacy of created provisions (reserves); identification of related parties of a bank; assessment of risk management and internal control systems.

As regards the improvement of the insolvent bank resolution framework, the National Bank was provided with the authority to apply the entire set of resolution tools that are used internationally, including measures on forced restructuring of liabilities of such banks with a view to minimize public expenditures to be incurred in the course of its resolution.

Legislative amendments related to the fine-tuning of the lender of last resort framework are aimed at standardization of common terms and conditions of such loans for solvent banks in accordance with the international practice and the IMF recommendations as well as at extension of the list of eligible collateral.

In 2018, the National Bank started a preparatory work on a comprehensive and reliable assessment of bank asset quality by involving international (independent) consultants and using an international methodology that will enable to restore confidence of foreign and domestic investors in the banking sector and resume a full-scale process of lending to the economy and the population.

In 2018, the National Bank continued its effort of moving its current regulatory regime to core principles of the Basel III. Banks were provided an additional monitoring period for implementation of the LCR till 1 September 2018 with reduction in the ratio to 50%. A phase-by-phase increase of the ratio to 100% is planned by 2022. An opportunity was envisaged that the LCR could be reduced in the times of stress without recognizing violation of prudential ratios.

In parallel with LCR, banks provide information about net stable funding ratio (NSFR). A net stable funding ratio was introduced from 2018 on a monitoring basis and was set at a prudential level of 100% from 1 January 2019.

Also, changes were made to the calculation of prudential ratios regarding the change in the calculation of capital and some ratios for bank capitalization on liabilities to residents were excluded.

In 2018, in the context of the Tax Code banks were given a right to deduct the amount of expense related to creation of provisions (reserves) against doubtful and bad assets provided to a bank subsidiary for acquiring doubtful and bad assets of a parent bank and also to exclude earnings on activities included into annual total income of the subsidiary and transferred to the parent bank from annual total income of the bank subsidiary which acquires doubtful and bad assets of the parent bank.

Given the elimination of requirement about the National Bank's determination of the procedure about the cost of collateral and other security as well as in connection with the promulgation of a new IFRS Standard No.9 from 1 January 2018 that provides for a transition to the expected loss model, the requirement to create the dynamic reserve was abolished.

As for regulation of microfinancial organizations, in 2018 amendments to the law were made with regard to the National Bank's arrangements for filing lawsuits about reorganization/liquidation of microfinancial organizations.

In 2018, the Rules for classification of assets and contingent liabilities on provided microloans, for classifying assets on provided microloans as doubtful or bad assets as well as for creation of provisions (reserves) against such assets were approved.

Licensing

In 2018, as part of the licensing and authorization activity, 199 applications/petitions for public services were reviewed in respect of 7 public services, with positive decision being made on 138 services, including:

19 permissions to open/acquire a bank subsidiary/for a significant participation of a bank and/or a bank holding company in the owners' equity of organizations were granted;

9 licenses were issued (re-issued) (of which 1 license was issued to engage in additional types of banking operations, and 3 licenses were re-issued in connection with the change in the registered office address);

3 approvals to acquire the status of a large participant of a bank/a bank holding company were given;

2 permissions for voluntary reorganization of a bank/bank holding company were issued;

105 nominees for executive positions in banks and bank holding companies were approved.

1 license was terminated in connection with a voluntary surrender.

Apart from those, 10 permissions to acquire a subsidiary, 1 approval to acquire the status of a large participant, 1 approval to acquire the status of a bank holding company, and 2 permissions for significant equity participation were cancelled.

In 2018, the following notifications of financial organizations were processed:

200 notifications about opening/closure/relocation of additional premises, bank branches;

7 notifications about closure/opening of bank representative offices, including non-residents;

191 notifications about the change in the composition of managerial staff of banks, bank holding companies and non-bank organizations;

31 amendments to constituent documents of banks and non-bank organizations were made.

In 2018, the National Bank granted a permission for a voluntary reorganization of "Halyk Bank Kazakhstan" JSC in the form of a merger of "Kazkommertsbank" JSC with "Halyk Bank Kazakhstan" JSC.

Supervisory Activities

With a view to identify existing and potential risks and problems in activities of the supervised entities, the National Bank performed the analysis of financial condition of banks, non-bank organizations, bank conglomerates and activities of credit bureaus on a monthly and quarterly basis.

During 2018, based on the results of supervision of banks, bank conglomerates, organizations engaged in certain types of banking operations (except organizations whose only activities are arranging exchange operations with foreign cash), including mortgage organizations, subsidiaries of the national management holding company in the area of agro-industrial complex, National Postal Operator, credit bureaus, the National Bank applied the following remedial actions:

55 restricted remedial actions were taken: 37 written warnings, 17 written mandates, and 1 written agreement concluded;

31 sanctions in the form of imposed and collected penalty in respect of banks;

4 sanctions in the form of suspension of a banking license;

3 sanctions in the form of the banking license revocation;

3 enforcement measures in the form of a requirement to shareholders to increase a bank's capital.

The following factors had been identified in the course of an off-site supervision:

loans provided by banks to their indirectly related parties, which are characterized by non-transparency of their ultimate owners, equivocality of transactions, absence of information about the borrower creditworthiness and solvency as well as about a designated use of the loan, absence of hard collateral or existence of a common collateral among several borrowers, untypical financing structure;

a low level of provisioning for a loan debt of certain borrowers;

overestimated value of collateral used in the calculation of provisions;

a heavy reliance of funding sources of banks on resources of quasi-government entities;

a high level of accrued but not received interest;

risks of liquidity ratio violations;

inconsistency of the limitation system to assumed risks in two banks, which were eliminated by banks by making changes to the lending policy and/or banks' internal regulations.

Based on communications received from individuals and corporate entities and the government authorities, the National Bank conducted documentary examinations on the following issues:

overshooting of maximum recommended interest rates under the terms and conditions of deposit products based on information of the "Kazakhstan Deposit Insurance Fund" JSC;

compliance by banks with the legislation of the Republic of Kazakhstan on combating the money laundering and terrorist financing;

compliance by banks with the legislation of the Republic of Kazakhstan when providing financial services to corporate entities and individuals.

In 2018, 10 examinations of activities of banks and organizations engaged in certain types of banking operations were conducted, including 8 examinations based on the assessment of the degree of risk and 2 unscheduled examinations of banks conducted on the basis of revealed violations of requirements of the laws of the Republic of Kazakhstan.

Based on the results of conducted examinations, 9 restricted remedial actions were taken in respect of banks and organizations engaged in certain types of banking operations in the form of written mandates and a written warning and 172 protocols of administrative offense totaling KZT 94.7 mln. were prepared.

The Insurance Market Participants. Regulation

On 2 July 2018 the Law of the Republic of Kazakhstan No. 166-VI "On amendments to some legislative acts of the Republic of Kazakhstan regarding insurance and insurance business, and the securities market" was adopted

which is aimed to increase affordability, quality and reduce the cost of insurance services for the population and the business community, protection of rights of the insurance service consumers. The Law initiated the following changes:

- introducing the on-line insurance and entrenching legitimacy of an insurance policy in an electronic form thus enabling to enter into insurance contracts via Internet-resources of insurance companies;

- increasing insurance benefits for damage caused to the life and health of an affected party under the compulsory motor liability insurance contracts;

- guaranteeing insurance indemnity payments under the retirement annuity contracts and annuity contracts entered into for the benefit of the affected employees injured at the workplace or their dependants;

- dispute resolution on all contracts of compulsory and voluntary insurance by the insurance ombudsman, with reservation of the right to apply to court by the parties;

- introducing compulsory insurance of property interests of a tourist going abroad, instead of compulsory insurance of the liability of a tour operator and a travel agent;

- prohibiting to engage in insurance agency business under insurance contracts where the national management holding company, national holding companies, national management companies, national companies, and the National Bank act as insurants;

- keeping the register of reinsurance organizations – non-residents of the Republic of Kazakhstan that will be prohibited to cede insurance risks to reinsurance;

- limiting the cedence of insurance risks to reinsurance via insurance brokers – non-residents of the Republic of Kazakhstan, except cedence of insurance risks to insurance brokers – non-residents of the Republic of Kazakhstan which have an insurance broker subsidiary in the Republic of Kazakhstan;

- imposing a prohibition for risk reinsurance on insurance classes which are not included into the insurance license;

- legislative amendments of a supervisory nature which increase transparency of the insurance market participants.

With a view to strengthen control and supervision of the insurance market participants, the risk-focused supervision is introduced in the insurance market with the main objective to identify and prevent risks and deficiencies in the operation of the insurance market participants in order to ensure early intervention and taking of timely supervisory actions to ensure financial soundness of such entities and to avoid the increase in risks in their operations. The risk-focused approach takes into account the principle of proportionality which takes into consideration the size, significance, nature, extent and complexity of activities of insurance (reinsurance) organizations, their categorization based on the importance in the financial market, determining the frequency, depth and intensity of control and supervision.

Licensing

In 2018, as part of the licensing and authorization activities, the National Bank considered 63 applications/petitions, of which 27 applications for services received positive feedback, including:

2 corporate entities were given an approval for acquiring the status of a large participant of an insurance (reinsurance) organization;

1 corporate entity was given an authorization to establish a subsidiary of an insurance (reinsurance) organization;

1 corporate entity was given an authorization to establish an insurance (reinsurance) organization;

6 corporate entities were given an approval for voluntary reorganization of an insurance (reinsurance) organization;

1 actuarial license was issued;

1 insurance broker license was issued;

14 insurance (reinsurance) licenses were re-issued including 4 licenses – in connection with the change of location, 8 – in connection with exclusion of classes of insurance, 1 – in connection with the change of an organization's name, and 1 – in connection with voluntary reorganization in the form of a merger;

1 license for additional classes of insurance was issued.

As a result of consideration of 105 applications about approval of nominees for executive positions in insurance (reinsurance) organizations, insurance holding companies and the “Insurance Indemnity Guarantee Fund” JSC, 80 nominees were approved.

In 2018, 7 actuaries took and passed their qualification exam.

Supervisory Activities

In 2018, ten examinations were conducted on the basis of assessments of risks in the activities of the insurance market entities, including 8 examinations of operations of insurance organizations and 2 examinations of operations of insurance brokers. The key issues covered in the course of inspections were: the procedure for entering into and execution of compulsory and voluntary insurance contracts; accuracy of prudential ratio calculations; activities of insurance agents; reinsurance business; assessing effectiveness of the risk management system; investment activities; accuracy of insurance reserve calculations; credibility and reliability of accounting records.

As part of the off-site supervision, the following aspects were analyzed: the financial condition of insurance organizations and insurance brokers, movement of assets and liabilities of insurance organizations, quantitative and qualitative risk assessment in insurance organizations in order to determine the level of risk-focused supervisory consideration; the procedure of calculation of prudential ratios was checked for compliance with legislative requirements; existence of factors causing deterioration in the financial condition of insurance organizations as part of the early response measures; correct record-keeping in the financial and regulatory reports; adequacy of created provisions of insurance organizations, and actuarial opinions. In

addition, control was exercised over plans of actions submitted by insurance organizations and insurance brokers, including those taken to eliminate violations identified based on inspections.

In 2018, as part of the supervisory response in respect of the insurance market entities, 54 restricted remedial actions were taken in relation to:

insurance organizations – 22 written mandates, 15 written warnings, 3 written agreements were concluded;

actuaries – 4 written mandates, 5 written warnings;

insurance brokers – 3 written mandates, 2 written warnings.

During 2018, 492 protocols of administrative offense were prepared, with the total amount of administrative penalties imposed on the insurance market entities of KZT 144.2 mln.

For violation of the insurance legislation:

licenses of 6 non-life insurance companies (in respect of some of these companies – recurrently), of 1 life insurance company and 2 insurance brokers were suspended;

licenses of 2 insurance organizations engaged in voluntary insurance and voluntary cargo insurance were revoked;

licenses of 3 actuaries were suspended;

9 executives were suspended from their duties and approvals of the competent authority regarding their appointment (election) were revoked.

In addition, in 2018 licences of 2 insurance brokers were terminated in connection with the voluntary license surrenders.

In 2018, the National Bank's representatives were appointed to 22 insurance organizations; they were checking whether insurance reserves were created in an adequate fashion, prudential ratios and insurance receivables were calculated correctly and examined other types of operations.

The Securities Market Entities. Regulation

Legislative changes that were adopted in 2018 were aimed to activate the stock market in Kazakhstan, increase its competitiveness, to build an effective regulatory environment, expand the issuer and investor base and they provide for:

expanding the stock exchange's functionality;

providing a direct access for brokerage firms to trading in the on-exchange foreign exchange market and a possibility to obtain licences for certain banking operations by brokerage firms;

reducing the time frames of authorization procedures and optimizing reports submitted by the professional securities market participants to the National Bank;

optimizing the measures of administrative responsibility in the stock market;

making requirements to establishment, reorganization and functioning of investment funds more liberal;

delegating the powers related to establishment of the expert panel dealing with manipulations in the securities market and to ensuring its functioning from the stock exchange to the National Bank;

optimizing authorization procedures related to the issuance, placement and redemption of non-government securities;

fine-tuning the system of information disclosure in the securities market, including implementation of measures which exclude the duplication of information disclosed by issuers in various mass media and which designate the depository of financial statements as a common information source;

consolidating the functionality of the Unified Registrar and the Central Depository thus allowing to concentrate all information about securities holder registers of all issuers, data on transactions with securities or financial derivatives made in the organized and in the unorganised securities market;

designing an integrated information system of the OTC securities market.

In 2018, changes were made to the procedure for building the risk management system of the Central Depository in respect of expanding powers and functional duties on risk management and internal control of bodies and business units of the Central Depository and their responsibility given the broadening of the scope in connection with the addition of the Unified Registrar's functions.

Licensing

In 2018, as part of the licensing and authorization activities, the National Bank considered 15 applications/petitions in respect of public services, where a positive feedback was received in respect of 11 public services, including:

1 approval was given to a corporate entity to acquire the status of a large participant of an investment portfolio manager;

5 licenses for activities in the securities market were re-issued (1 license was re-issued in connection with the change in the name, 4 – in connection with the change in location);

1 license for activities in the securities market was issued;

4 licenses were issued for engaging in certain types of banking operations.

In 2018, a license for the broker/dealer business in the securities market was surrendered on a voluntary basis in connection with a voluntary reorganization.

Based on consideration of 77 petitions about approval of nominees for executive positions of the professional securities market participants and the Unified Accumulative Pension Fund 68 nominees were approved.

Supervisory Activities

In 2018, examinations of 3 brokers-dealers which combine their main activities with those of investment portfolio management were conducted on the basis of assessment of risks in activities of the securities market entities. The main topics of examination were: to check compliance with the requirements of legislation which governs the procedure for engaging in the professional activities in the securities market, legislation on accounting and financial reporting, laws on counteracting the money laundering and terrorist financing.

As a result of examinations conducted in 2018 in respect of the securities market entities, 5 restricted remedial actions were taken, 524 protocols of administrative offence formalized, and 514 administrative protocols were submitted

to courts for their consideration. The total amount of administrative penalties imposed upon the securities market entities in 2018 equaled KZT 29.4 mln.

The purposes of off-site supervision include ensuring efficient and timely control over activities of the securities market entities aimed to avoid prejudicing investor rights and legitimate interests and ensuring financial soundness of the professional securities market participants. The off-site supervision of the professional securities market participants includes the analysis of their financial and regulatory reports for compliance with prudential ratios, control over the procedure of making transactions in the securities market, provision of services to clients as part of the professional lines of business; compliance with requirements to availability of risk management and internal control systems as well as compliance with other ratios and limits as set forth by the legislation on the securities market.

Based on the off-site supervision in respect of the professional securities market participants, in 2018 forty one restricted remedial actions in the form of written warnings and written mandates were taken, 19 protocols of administrative offence were formalized with the imposition of penalties totaling KZT 8.1 mln.

Within the framework of early response measures, in 2018 thirteen plans of actions for increasing financial soundness of the professional securities market participants were reviewed, 12 of which were approved.

During 2018, 67 documentary examinations were conducted in respect of the professional securities market participants, based on which 21 restricted remedial actions were taken and 13 administrative protocols were prepared in respect of such entities.

The major breaches were violations of the procedure for transactions with securities, submission of incomplete and unreliable reports to the Central Depository, Kazakhstan Stock Exchange and the National Bank, violation of the procedure for prudential ratio calculation, and facts of manipulations in the securities market.

In 2018, as part of the monitoring of securities issuers, the control over disclosures by the issuers of securities of information about corporate events and other information affecting interests of securities holders was exercised. Also, the analysis of reports of bond holders was performed to check for the presence of information in the report which may entail violation of rights of bond holders. 203 reports of the bond holders' representatives had been analyzed in respect of 86 issuers.

During 2018, the National Bank considered 103 notifications of the intention by a person to buy in the secondary securities market, on its own or jointly with its affiliated persons, thirty or more per cent of voting shares of a joint-stock company or a different quantity of voting shares, based on which such person on its own or jointly with its affiliated persons will own thirty or more per cent of voting shares of the joint-stock company.

In 2018, based on the monitoring of securities issuers, the National Bank applied 318 restricted remedial actions, prepared 73 protocols of administrative offence and imposed administrative penalties totaling KZT 12.5 mln.

Major violations included non-compliance with the procedure and deadlines for provision of information to investors; violation of the procedure and terms of securities offering; failure by issuers to discharge obligations imposed on them through application of restricted remedial actions.

Based on filings from the Unified Accumulative Pension Fund, 7 examinations were conducted in respect of defaulted issuers to check whether the resources attracted as a result of the bond placement were used as designated; to verify the reliability of data included by an issuer into the prospectus, the completeness and reliability of information which the issuer must have provided to the government authorities and securities holders. The results of examinations were communicated to the authorities in charge of pre-trial investigation.

Accumulation Pension System. Regulation

With a view to strengthen functions and powers of the risk management and internal audit department of the Unified Accumulative Pension Fund and voluntary accumulative pension funds, in 2018 the Rules for building the risk management and internal control system were approved. According to international standards of auditing, the requirement was set in respect of the internal audit department to make an independent assessment of the internal control system and to elaborate recommendations for its improvement as well as to devise an annual internal audit plan based on the risk-focused approach in line with internal regulations. In order to strengthen the powers of the risk management department of the Unified Accumulative Pension Fund, the requirement was set to immediately inform the Board of Directors about detection of malpractices, illegal actions of the staff and other instances which entailed violation of legislation and/or violation of permissible exposure limit.

Supervisory Activities

The purposes of an off-site supervision are to ensure an effective control over entities in the accumulative pension system aimed to safeguard integrity of pension savings of contributors (beneficiaries), to prevent and preclude violations of provisions of the retirement legislation, to furnish contributors (beneficiaries) with reliable information about the status of their pension savings and to ensure protection of other rights and legitimate interests of contributors (beneficiaries).

In performing off-site supervision of the Unified Accumulative Pension Fund, in 2018 examination of compliance with the laws of the Republic of Kazakhstan was conducted as well as control over completeness and timeliness of information submission to the National Bank, control over compliance of internal regulations with requirements of the pension legislation was exercised, the composition of the executive body, management body and managerial staff was monitored for their compliance with the laws of the Republic of Kazakhstan.

A priority area in the field of control and supervision of the Unified Accumulative Pension Fund was the enhancement of the risk management and internal control system.

In 2018, based on the results of off-site supervision of the Unified Accumulative Pension Fund, no restricted remedial actions and sanctions were applied.

In 2018, the National Bank approved the appointment (election) of 4 executives of the Unified Accumulative Pension Fund for senior positions. There were no denials for approval.

4.4.3. Liquidation of the Financial Market Entities

As at the end of 2018, 5 banks and 1 insurance organization were undergoing the liquidation process.

In 2018, the National Bank approved the liquidation report and liquidation balance sheet of “Nauryz Bank Kazakhstan” JSC.

In 2018, 2 insurance organizations were undergoing liquidation, in 1 of them the liquidation process was completed (“Chartis Kazakhstan Insurance Company” JSC, voluntary liquidation). At the end of 2018, the liquidation process of “Premier Insurance” JSC was at the final stage; the liquidation estate required to make settlements with creditors was not available at the insurance company.

The information about settlements with creditors of financial organizations undergoing liquidation is presented in Table 4.4.3.1.

Table 4.4.3.1

No.	Financial Organizations under Liquidation	Percentage of Payouts to Creditors as at the end of 2018
Banking sector		
1.	“Valut-Transit Bank” JSC	53.5% claims of creditors under the third order of priority (claims of the “Kazakhstan Deposit Insurance Fund” JSC in respect of the amount of payout made (payable) on insured deposits).
2.	“Nauryz Bank Kazakhstan” JSC	100% claims of creditors under the third order of priority (claims of individuals on deposits and money transfers, claims of the “Kazakhstan Deposit Insurance Fund” JSC in respect of the amount of payout made (payable) on insured deposits as well as claims on deposits made with the pension assets at the accumulative pension fund); 100% claims of creditors under the fourth order of priority (claims of non-for-profit organizations engaged solely in the charity activities, organizations of World War II veterans and persons with equal status; Voluntary Society of Invalids of the Republic of Kazakhstan, Kazakhstan Association of the Blind,

		<p>Kazakhstan Association of the Deaf and production organizations which are owned by these associations and were established at their expense; other organizations of disabled persons in respect of their monies held with bank accounts and placed as deposits);</p> <p>100% claims of creditors under the fifth order of priority (claims of insurance organizations in respect of their monies held with bank accounts which were opened at the bank undergoing liquidation);</p> <p>1.7% claims of creditors under the seventh order of priority (claims of creditors in respect of liabilities secured by the property of the bank undergoing liquidation).</p>
3.	“Kazinvestbank” JSC	<p>100% claims of creditors under the second order of priority (claims in respect of labor remuneration and compensations to persons who worked based on the employment contracts, in respect of arrears on social deductions to the State Social Insurance Fund, on payment of child support payouts and mandatory pension contributions withheld from salary as well as the fees on the copyright agreements);</p> <p>100% claims of creditors under the third order of priority (claims of the “Kazakhstan Deposit Insurance Fund” JSC in respect of the amount of payout made (payable) on insured deposits);</p> <p>100% claims of creditors under the fourth order of priority (claims of non-for-profit organizations engaged solely in the charity activities, organizations of World War II veterans and persons with equal status; Voluntary Society of Invalids of the Republic of Kazakhstan, Kazakhstan Association of the Blind, Kazakhstan Association of the Deaf and production organizations which are owned by these associations and were established at their expense; other organizations of disabled persons in respect of their monies held with bank accounts and placed as deposits);</p> <p>100% claims of creditors under the fifth order of priority (claims of insurance organizations in respect of their monies held with bank accounts which were opened at the bank undergoing liquidation);</p> <p>100% claims of creditors under the seventh order of</p>

		priority (debt on taxes, levies and other mandatory payments to the budget as well as on repayment of loans provided from the national budget); 1.5% claims of creditors under the eighth order of priority (claims of other creditors in accordance with the laws of the Republic of Kazakhstan).
4.	“Delta Bank” JSC	100% claims of creditors under the first order of priority (claims of individuals to whom the bank is liable for the damage caused to their lives or health, by capitalization of respective regular payments); 100% claims of creditors under the second order of priority (claims in respect of labor remuneration and compensations to persons who worked based on the employment contracts, in respect of arrears on social deductions to the State Social Insurance Fund, on payment of child support payouts and mandatory pension contributions withheld from salary as well as the fees on the copyright agreements); 100% claims of creditors under the third order of priority (claims of the “Kazakhstan Deposit Insurance Fund” JSC in respect of the amount of payout made (payable) on insured deposits).
5.	“Qazaq Banki” JSC	Since 21 December 2018, the liquidation commission has been engaged in taking creditor claims (applications).
Insurance Sector		
1.	“Premier Insurance” JSC	25% claims of creditors included into the category of extraordinary payouts (in respect of insured events which occurred before the court’s decision about liquidation of an insurance (reinsurance) organization takes legal effect).

4.5. Information Security

With a view to build up a uniform national system of information security in the financial sector, in 2018 the Requirements to ensuring information security in banks and organizations engaged in certain types of banking operations, in insurance organizations and credit bureaus were approved along with the procedure for control and reporting on their compliance. The document describes the general requirements to information circulation, the information and communications technologies applied, monitoring of the information security status and to the processing of incidents, organization of internal examinations as well as the procedure for annual reporting about the status of information security management systems.

In order to work out a comprehensive concept of further steps required to minimize the risks of cyber attacks in the financial sector, the Strategy for Cyber Security of the Financial Sector for 2018–2022 was designed. The main goal of the Strategy is to create conditions for a safe provision of financial services in the cyber space, which is required to ensure a steady functioning and development of the financial sector in the Republic of Kazakhstan. The Strategy describes a set of goals, objectives and measures which, when achieved and implemented, will allow building an effectively functioning system for supporting cyber security in the financial sector. The Strategy defines key participants in the system supporting cyber security and their role in implementation of assigned tasks. The Document determines five key areas in supporting cyber security of the financial sector:

- fine-tuning the regulatory framework in the field of regulation of cyber security systems of the financial sector entities;

- ensuring cyber security of individuals and corporate entities in using financial services through regulation of the financial technology sphere;

- ensuring a sustainable and safe operation of a critical information infrastructure of the financial sector, including the National Bank, by establishing efficient mechanisms of response to cyber threats;

- cooperation in combating cyber crimes on the national and global scale: entering into cooperation agreements and a follow up integration with national defense and law enforcement agencies as well as with central banks of other countries;

- designing and developing national technologies of cyber protection of the financial sector, since the use of national solutions is preferable for information protection in the financial sector.

As a result of implementation of the Strategy, the framework for prompt updates and response to cyber attacks in the country's financial sector will be designed, when both the financial sector entities and forces of the competent government authorities including law enforcement and specialized agencies will be employed depending on the extent of a threat.

Given the cross-border character of cyber threats, in 2018 the National Bank signed cooperation agreements in the field of cyber security with the Central Bank of the Russian Federation and the National Bank of the Republic of Belarus.

In the context of building the centralized system of information interoperability for protection of information and communication infrastructure of the financial sector as well as with a view to prevent cyber attacks, in 2018 the National Bank forwarded to banks 22 newsletters which contained the description of threats, their goal, method of implementation as well as actions to combat and eliminate such threats. In addition, 15 warnings about threats to information security directly detected in the financial market of Kazakhstan were sent to the banks.

In 2018, 81 examinations of the financial market entities and participants of the system of credit history generation were conducted to check compliance with

legislative requirements in place in the sphere of information technologies, information security and information risks.

During 2018, 45 public services were provided in respect of issuance of the certificate of compliance with the National Bank's Requirements to the use of information and communication technologies and the safeguarding of information security in arranging operation of credit bureaus, information providers and recipients of credit reports.

4.6. Payment Systems

4.6.1. Payment Systems

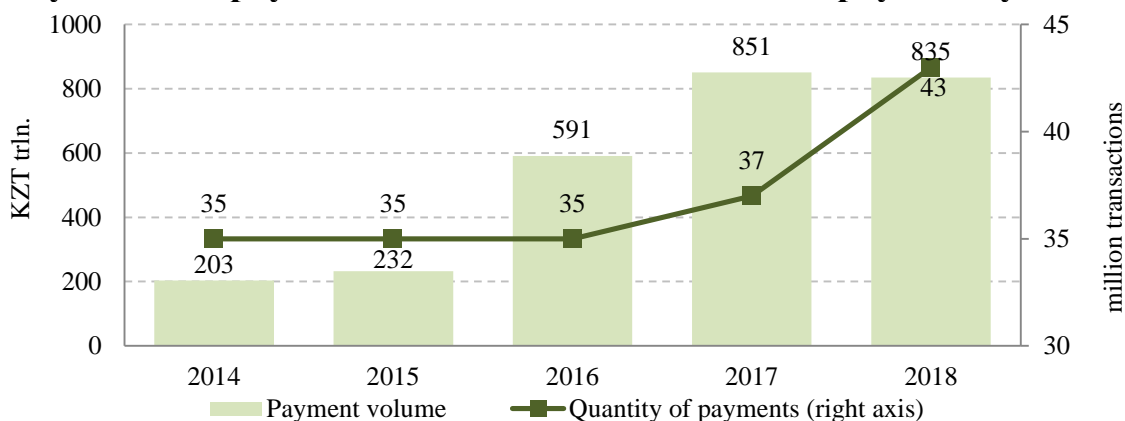
As at the end of 2018, twenty payment systems were registered in Kazakhstan, where a systemically important payment system - the Interbank System of Money Transfers, and an important payment system – the Interbank Clearing System – belong to the National Bank. The rest of the payment systems are private (payment card systems and international remittance systems). Such payment systems as Gold Crown, VISA and MasterCard belong to important payment systems.

The bulk of non-cash payments in the country is processed in the Interbank System of Money Transfers and in the Interbank Clearing System. These payment systems are oriented at making payments in the domestic currency within the territory of the Republic of Kazakhstan and process 97% of the total volume of non-cash payments in the country. The National Bank's payment systems correspond to the up-to-date reliability and security requirements which is proved by their high operability coefficient: in 2018, the operability coefficient of the Interbank System of Money Transfers was 99.99%, and of the Interbank Clearing System – 99.99%.

The volume of payments processed in 2018 through the National Bank's payment systems was 43 million transactions totaling KZT 834.6 trln. (Figure 4.6.1.1). As compared to 2017, the quantity of payments in the payment systems increased by 17.5%, or by 6.4 million transactions, and the amount of payments decreased by 1.9%, or by KZT 15.4 trln. Reduction in the payment volume was caused by the 18.8% drop in the interbank payments on operations with securities issued by residents of the Republic of Kazakhstan. On average, 174 600 transactions totaling KZT 3.4 trln. were processed through the National Bank's payment systems during a day in 2018.

At end-2018, 43 financial organizations were participating in the Interbank System of Money Transfers. In 2018, 16.8 million payments were processed through the system totaling KZT 828.1 trln. As compared to 2017, the volume of payments decreased by 1.9%, or by KZT 16.0 trln., and the number of electronic payment messages processed in the system increased by 11.1%, or by 1.7 million transactions.

Figure 4.6.1.1

Dynamics of payment flows in the National Bank's payment systems

An average amount of one payment in the Interbank System of Money Transfers in 2018 was KZT 49.4 mln., having decreased as compared to 2017 by 11.7%, or by KZT 6.5 mln. The largest share in terms of quantity of payments by intervals of amounts was among payments of up to KZT 3 mln. – 87%. The largest volume of payments by intervals of amounts was among payments above KZT 1 bln. – 89.7%.

The system processed payments on securities operations of Kazakhstani residents (44.1% of the total volume of payments), interbank operation with short-term deposits (28.2%) and on operations with foreign exchange and precious metals (10.3%). In 2018, the volume of payments for goods and services accounted for 8.1% of the total volume of payments processed in the system.

As at end-2018, 34 financial organizations were participating in the Interbank Clearing System. In 2018, 26.2 million electronic payment messages totaling KZT 6.4 trln. were processed through the system. As compared to 2017, the quantity of payment messages in the clearing system went up by 22.0%, or by 4.7 million documents, and the amount of payments increased by 0.2%, or by KZT 10.6 bln.

In 2018, an average amount of one payment in the Interbank Clearing System was KZT 246,100, having decreased as compared to 2017 by 17.9%, or by KZT 53,600. The major share in terms of the quantity of transactions in the Interbank Clearing System fell on payments in the amount of up to KZT 500,000 – 91.3%. The largest volume of payments by intervals of amounts was among payments above KZT 1 mln. – 81%.

The major volume of payments in the clearing system fell on payments of economic entities on settlements for goods and intangible assets (their share in the total volume of payments in the system accounted for 28.1%), for provided services (25.9%), payments to and payouts from the budget (17.2%).

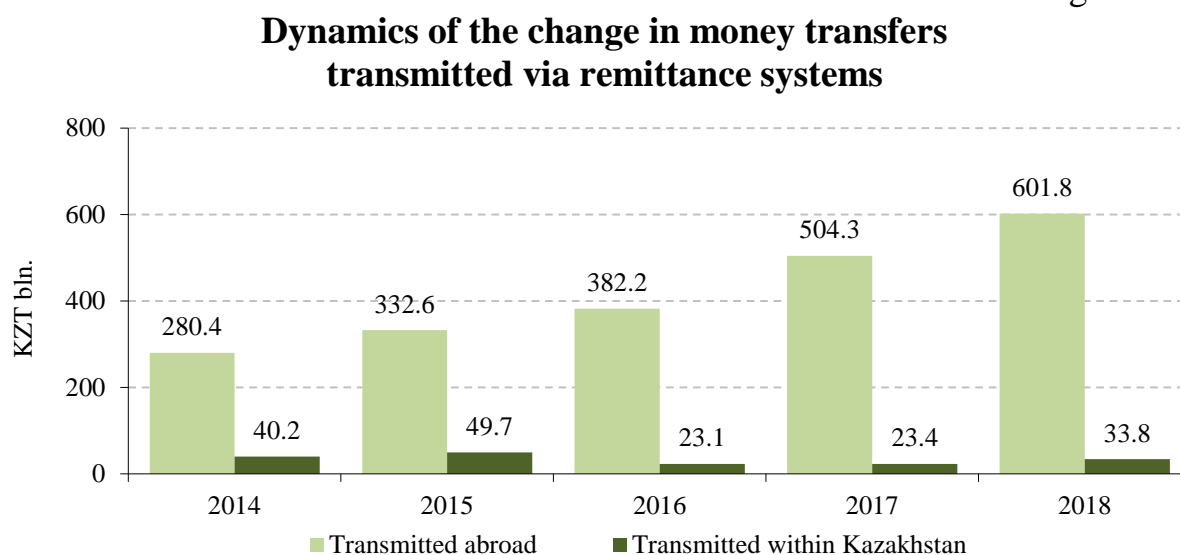
Services of express money transfers are available to the population of Kazakhstan through such international remittances as the Gold Crown, Leader, Faster, Western Union, Moneygram, Unistream, and Contact. During 2018, 2.9

million transactions totaling KZT 635.6 bln. were transmitted via these systems; as compared to 2017, the amount of transfers increased by 20.4%.

The population of the country mostly use the international remittances to make transfers across the border of the Republic of Kazakhstan. In 2018, the share of money transfers transmitted abroad accounted for 94.7% of the total amount of transactions made through the international remittance systems. Having said that, transfers from Kazakhstan via international remittances significantly exceed the receipts to the country from abroad: the volume of money transmitted abroad amounted to KZT 601.8 bln., whereas money transfers from abroad amounted to KZT 362.0 bln. The average amount of one transfer transmitted from the country was KZT 225,000, and of the transfer to the country – KZT 238,800.

Remittances across Kazakhstan with the use of international remittance systems amounted to KZT 33.8 bln. The average amount of one transfer was KZT 176,200. As compared to 2017, the increase in the volume of transfers across Kazakhstan accounted for 44.4% (Figure 4.6.1.2).

Figure 4.6.1.2



4.6.2. Payment Services Market

Payment services are provided by banks, organizations engaged in certain types of banking operations and non-bank payment organizations.

In 2018, the trends of the growing non-cash payments and money transfers, the improving quality and expansion of payment services, migration to the remote channels of customer service were persisting.

In the payment card market, non-cash payments also continued to grow, including payments via the Internet and mobile banking and the payment card service network was also expanding.

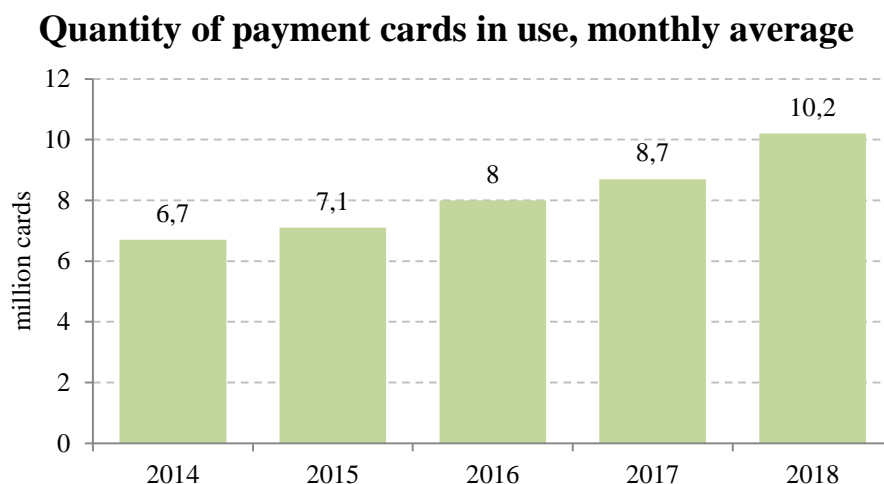
At end-2018, 22 banks and the “KazPost” JSC were issuing payment cards. The overall quantity of issued payment cards was 23.4 million exceeding the

corresponding number in 2017 by 20%, of which debit cards accounted for 17.8 million cards, credit cards – 4.8 million cards, debit cards with a credit limit – 0.5 million cards, and prepaid cards – 0.4 million cards.

The main portion of payment cards in circulation is comprised of cards of such international payment systems as VISA International, MasterCard Worldwide, China Union Pay and American Express International.

In 2018, active payment cards (the cards used to make transactions) retained their growth trend; the average quantity of such cards in 2018 was 10.2 million, exceeding the corresponding indicator of 2017 by 16.9% (Figure 4.6.2.1).

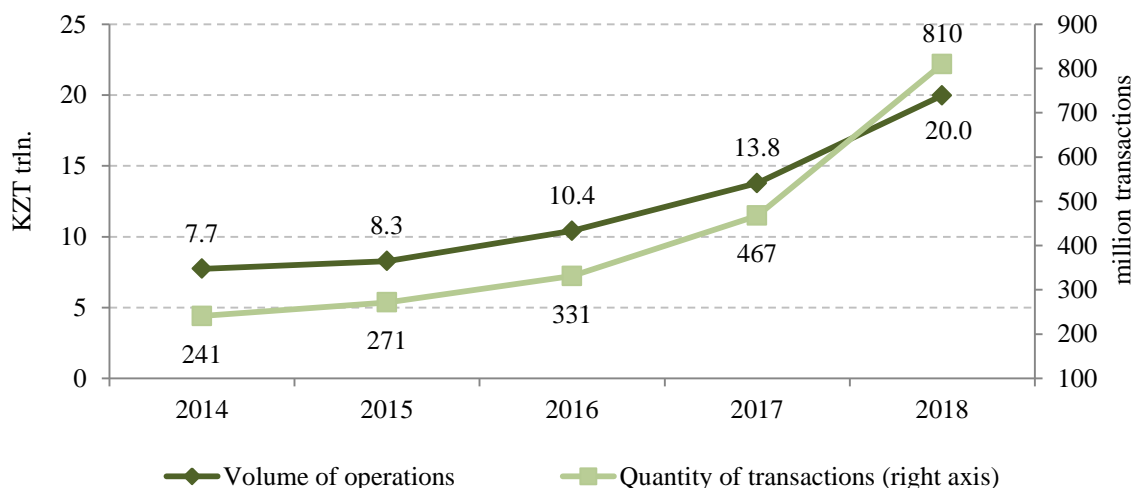
Figure 4.6.2.1



In 2018, 810.2 million transactions were conducted with Kazakhstani payment cards (the growth of 73% as compared to 2017) amounting to KZT 20.0 trln. (the growth of 45%) (Figure 4.6.2.2).

Figure 4.6.2.2

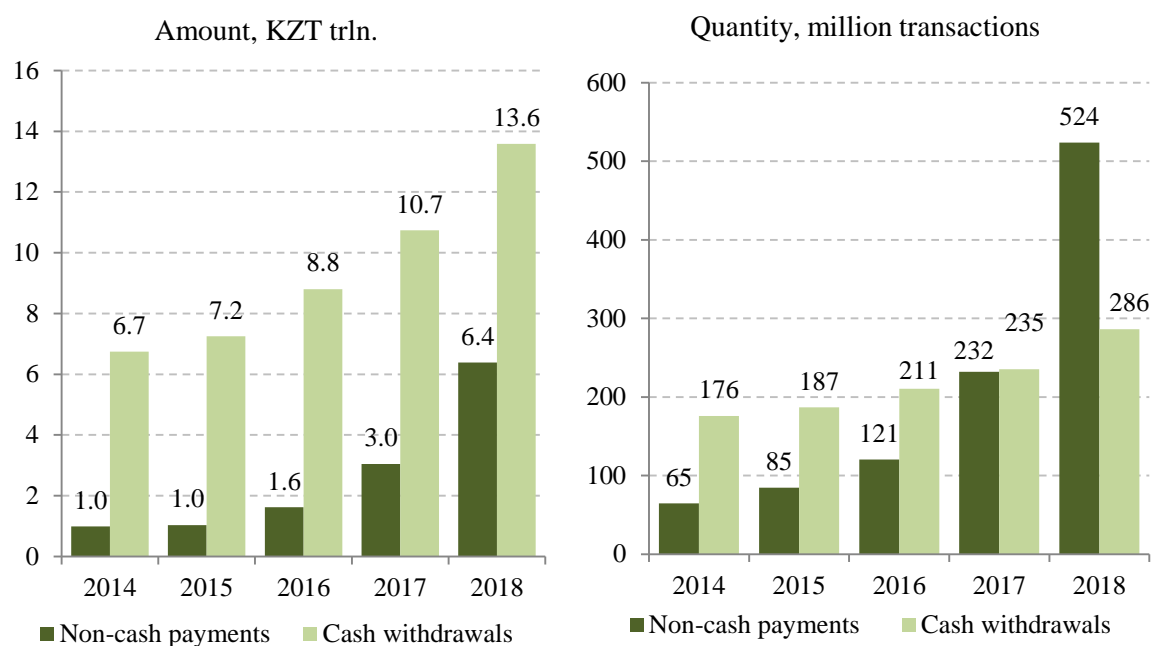
Quantity and the volume of operations with the use of payment cards of Kazakhstani issuers



There was a positive trend of the growing non-cash operations with the use of payment cards as compared to cash withdrawals. So, the quantity of transactions with the use of payment cards of Kazakhstani issuers was 523.8 million transactions amounting to KZT 6.4 trln. (more than a two-fold growth as compared to 2017). Cash withdrawals with the use of payment cards of Kazakhstani issuer amounted to 286.4 million transactions of KZT 13.6 trln. (the growth of 21.6% in term of quantity, of 26.5% - in terms of the amount) (Figure 4.6.2.3).

Figure 4.6.2.3

Dynamics of operations with the use of payment cards of Kazakhstani issuers

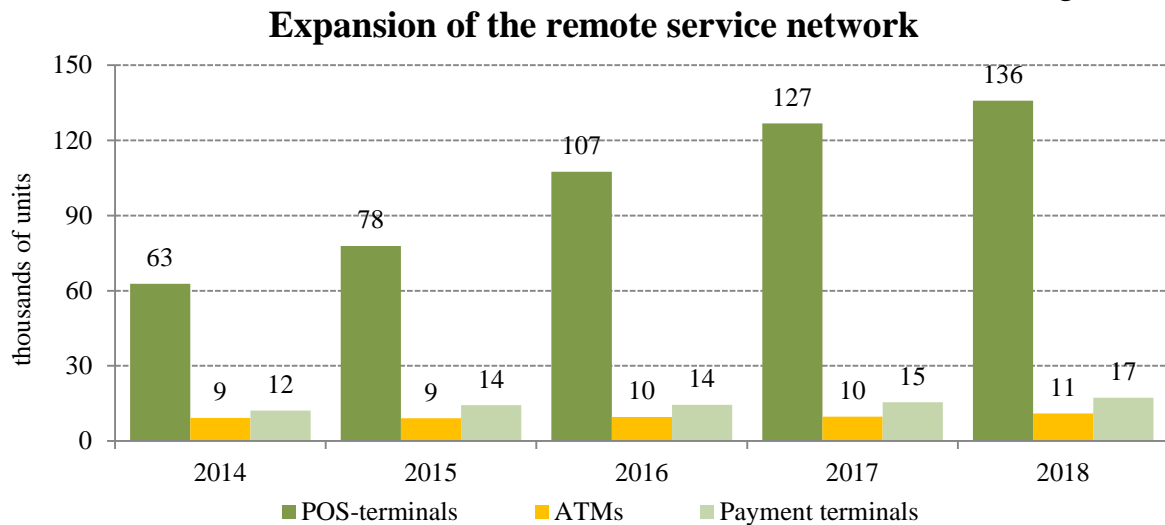


Internet and mobile banking systems were the most burgeoning line of remote payment services. In 2018, 36.3% of the total quantity and 49.2% of the total amount of non-cash payments and money transfers with the use of cards of were conducted through these systems with the use of cards of Kazakhstani issuers, which equaled 190.2 million transactions of KZT 3.1 trln.

At the end of 2018, 13.1 million individuals were using the Internet and mobile banking services. On average, on a monthly basis 3.5 million users are actively using the Internet and mobile banking.

In 2018, the remote service network in Kazakhstan continued to expand. The number of POS-terminals increased by 7% to 135 796, 94% of which are serviced at the entrepreneurs; the number of retail outlets which accept payment cards increased by 5% to 82 527. Entrepreneurs placed the payment card servicing equipment at 110 153 sales outlets, which is by 11% greater than in 2017. The numbers of ATMs and instant payment terminals was also growing (Figure 4.6.2.4).

Figure 4.6.2.4



A dynamic growth is also observed in the use of electronic money, whereby at end-2018 settlements in Kazakhstan were made through 18 Kazakhstani systems. The electronic money was issued by 10 banks and the “KazPost” JSC, which had issued electronic money worth KZT 521bln. over the year. In 2018, the total volume of operations with electronic money of Kazakhstani issuers made up 135 million transactions totaling KZT 588.6 bln., having increased by 65.8% in terms of quantity of operations and by 1.6 times in terms of their amount as compared to 2017. Electronic money transfers in favor of individual entrepreneurs and corporate entities made up 119 million transactions totaling KZT 495.3 bln., electronic money transfers in favor of individuals made up 16 million transactions totaling KZT 93.2 bln.

As part of control and supervisory functions, the National Bank keeps registers of the payment systems which function within the country’s territory as well as the registers of payment organizations and significant providers of payment services. At the end of 2018, 42 payment organizations were registered which are entitled to provide certain types of payment services to customers (payments via card readers, circulation of electronic money and processing of operations with their use, processing of operations with the use of payment cards via the Internet applications and mobile applications). During 2018, the volume of operations conducted by customers through the services of payment organizations equaled 467.5 million operations in the amount of KZT 1.3 trln.¹⁹.

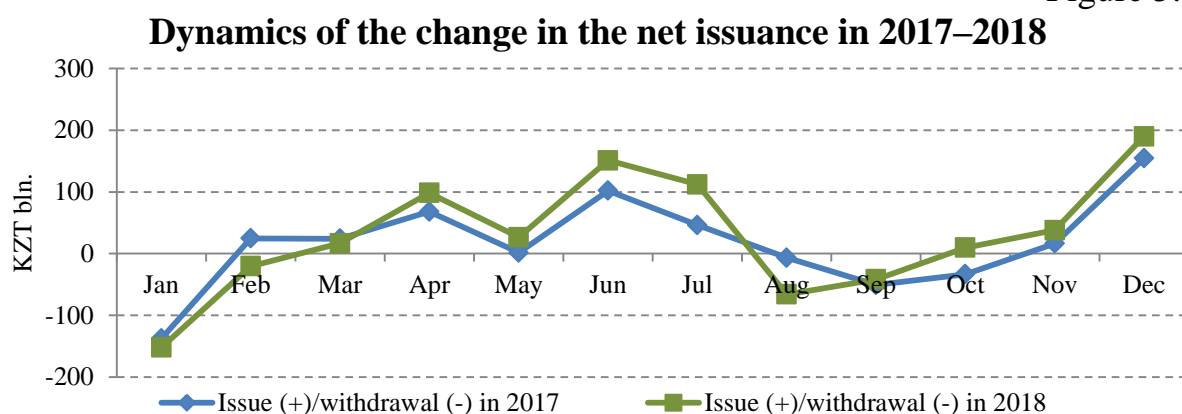
¹⁹ Excluding the payment service of selling (circulating) electronic money and payment cards.

Section 5. Cash Circulation and Handling Minted Bars of Refined Gold

5.1. Issuing Operations

During 2018, KZT 5.3 trln. of cash was issued into circulation from the National Bank's reserve funds, which is by KZT 1.0 trln., or by 23.7% greater than in 2017. The volume of cash withdrawn from circulation increased versus that of 2017 by KZT 862.7 bln., or by 21.2% and amounted to KZT 4.9 trln. In 2018, just as in 2017, the maximum issuance was in December, and minimum – in January. Thus, there was a positive net issuance of KZT 361.7 bln. (Figure 5.1.1).

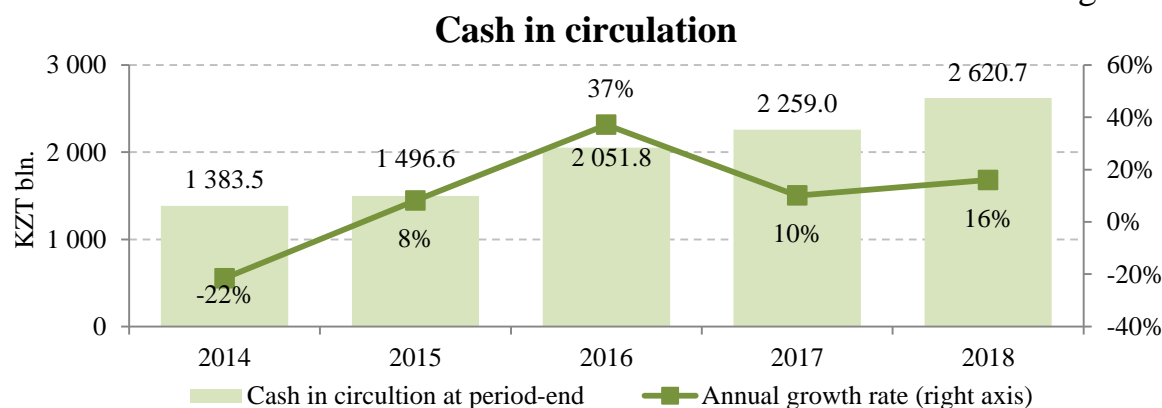
Figure 5.1.1



The largest positive net issuance was recorded in Almaty (KZT 150.2 bln.), Karaganda (KZT 136.3 bln.) and Kyzylorda (KZT 111.9 bln.) regions. The largest negative net issuance was recorded in Almaty (KZT 502.3 bln.) and Astana (KZT 129.3 bln.).

As a result, during 2018 the volume of cash in circulation increased by 16.0% and amounted to KZT 2.6 trln. (Figure 5.1.2). At the end of 2018, there were 25 banknotes and 157 circulating coins per capita.

Figure 5.1.2



5.2. Banknotes and Coins

In 2018, the National Bank issued into circulation the following collectible coins:

1) from copper nickel alloy with the face value of 100 tenge of the brilliant uncirculated quality:

“20th Anniversary of Astana” from the “Outstanding Events and People” series of coins;

“The 25th Anniversary of Tenge” from the “Outstanding Events and People” series of coins;

“Suyinshi” from the “Customs, national games of Kazakhstan” series of coins;

“Bulgyn” from the “Fauna and Flora of Kazakhstan” series of coins;

“Kokbori” from the “Hieratic Animals – Totems of the Nomads” series of coins;

2) from copper nickel alloy with the face value of 200 tenge of the proof-like quality:

“Bulgyn” from the “Fauna and Flora of Kazakhstan” series of coins;

“Kokbori” from the “Hieratic Animals – Totems of the Nomads” series of coins;

3) from silver and tantalum with the face value of 100 tenge of the proof quality:

“Aries” from the “Zodiacal symbols” series of coins;

“Leo” from the “Zodiacal symbols” series of coins;

“Sagittarius” from the “Zodiacal symbols” series of coins;

“Capricorn” from the “Zodiacal symbols” series of coins;

“Taurus” from the “Zodiacal symbols” series of coins;

“Virgo” from the “Zodiacal symbols” series of coins;

“Gemini” from the “Zodiacal symbols” series of coins;

“Libra” from the “Zodiacal symbols” series of coins;

“Aquarius” from the “Zodiacal symbols” series of coins;

“Cancer” from the “Zodiacal symbols” series of coins;

“Scorpio” from the “Zodiacal symbols” series of coins;

“Pisces” from the “Zodiacal symbols” series of coins;

4) from silver with the face value of 500 tenge of the proof quality:

“20th Anniversary of Astana” from the “Outstanding Events and People” series of coins;

“The 25th Anniversary of Tenge” from the “Outstanding Events and People” series of coins;

“Suyinshi” from the “Customs, national games of Kazakhstan” series of coins;

“Kokbori” from the “Hieratic Animals – Totems of the Nomads” series of coins;

“Year of the Wild Boar” from the “Oriental Calendar” series of coins;

“Sharshy” from the “Treasures of the Steppe” series of coins;

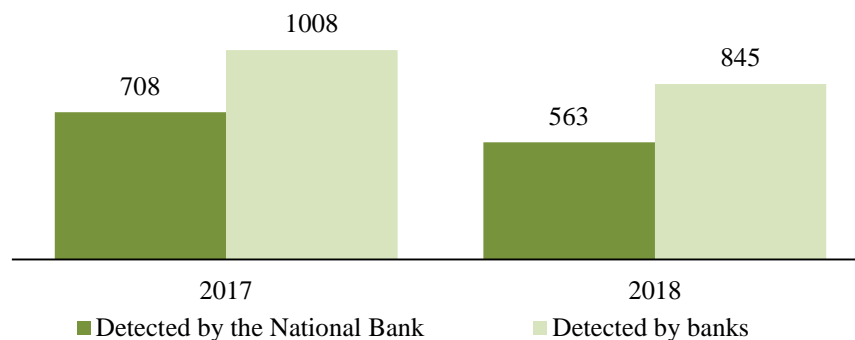
- “S.Aitbayev. Bakyt” from the “Arts of Kazakhstan” series of coins;
 5) from silver with the face value of 5 000 tenge of the proof quality:
 “20th Anniversary of Astana” from the “Outstanding Events and People” series of coins;
 “The 25th Anniversary of Tenge” from the “Outstanding Events and People” series of coins;
 “Kokbori” from the “Hieratic Animals – Totems of the Nomads” series of coins;
 6) “Year of the Wild Boar” coin from the “Oriental Calendar” series of coins from gold with the face value of 500 tenge of the proof quality.

On 14 November 2018, the exchange of banknotes with a face value of 200 and 500 tenge of 1999, of 1 000 and 2 000 tenge of 2000, of 5 000 tenge of 2001, of 10 000 tenge of 2003 was finalized.

During 2018, the National Bank and banks had detected 1 408 counterfeit currency notes totaling KZT 6.4 mln. (Figure 5.2.1).

Figure 5.2.1

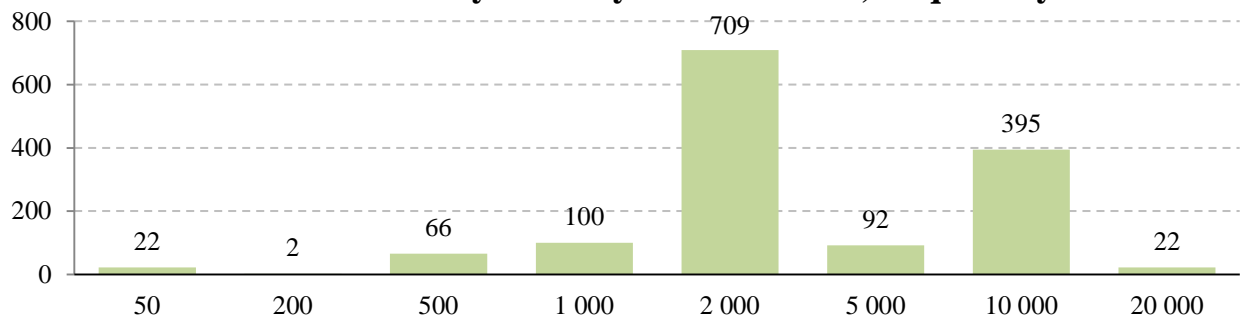
Counterfeit currency notes detected during 2017–2018



In 2018, the banknotes with a face value of 2000 tenge of 2012 was forged most times (709 banknotes, or 50% of all forged banknotes) (Figure 5.2.2).

Figure 5.2.2

Counterfeit currency notes by denomination, in quantity of notes



The largest quantity of counterfeit currency notes in 2018 was detected in Almaty – 967 notes or 69%.

Forged banknotes detected in 2018 were made by using computer equipment (digitization of an original image and printing on a color printer). No facts that currency notes had been printed on the press equipment were elicited in 2018, therefore, the detected forged currency notes were of a low quality.

As at end-2018, there were 3 forged banknotes per one million of authentic banknotes in circulation. According to the classification of some central banks in Europe, 10 forged banknotes per one million of authentic banknotes represent the first (low) level of counterfeiting and this does not require modernization and refinement of security elements.

In 2018, the range of Kazakhstan coin products was supplemented with coins from the copper nickel alloy. Buyers were offered coins made from the copper nickel alloy with the face value of 100 tenge of the brilliant uncirculated quality, as well as coins with the face value of 200 tenge of the proof-like quality.

A novelty for the Kazakhstan market of collectible coins had also been a of different types of new wrappings: blisters, carton boxes with magnets, vinylic, silicone in plastic frame, wooden boxes.

In 2018, the pricing approach of collectible coins had been revised. As a result, the price declines, affordability of coins made from precious metals for the population increased, and the time spent for servicing of clients decreased significantly.

At the beginning of 2018, coin products in the National Bank's online store became available for the Russian Federation. All types of investment coins, collectible coins from precious metals and base metals are available and can be purchased.

5.3. Minted Bars from Refined Gold

In May 2017, the purchase and sale of minted bars from refined gold was launched for the population. From November 2018, bars can be purchased and sold not only at banks but also in the organizations authorized to conduct operations with foreign currency in cash.

The retail release of 5 gram bars in 2018 made this product even more affordable for the population. By the end of 2018, the range of minted bars from refined gold was presented in 5 types: 5, 10, 20, 50 and 100 grams.

During 2018, the population had purchased 3 962 bars of a total weight of 151 kilograms. All in all, 5 748 bars with a total weight of 215 kilograms had been sold from the launch of sales. Thus, over KZT 3 bln. had been already invested in this instrument.

Section 6. Asset Management

6.1. Management of the National Bank's Gold and Foreign Exchange Assets

Gold and foreign exchange reserves of the National Bank are intended for ensuring the internal and external stability of the domestic currency and are formed of assets which have high liquidity in the international markets. At the end of 2018, gross gold and foreign exchange reserves of the National Bank amounted to USD 30.9 bln., which is by USD 70 mln., or by 0.2% less than in 2017.

The main factor for the increase in gold and foreign exchange reserves in 2018 was a net purchase of gold in the domestic market within the framework of the government's priority right to buy refined gold from domestic producers. The volume of a net purchase of gold in 2018 made up 1.6 million troy ounces (50.8 tons). The decline in gold and foreign exchange reserves was brought about by reduction in foreign currency volumes held by banks.

The National Bank manages gold and foreign exchange assets in accordance with the Investment Strategy for Management of the National Bank's Gold and Foreign Exchange Assets. Gold and foreign exchange assets are comprised of six financial instrument portfolios (Figure 6.1.1, Table 6.1.1).

Figure 6.1.1

Structure of gold and foreign exchange assets of the National Bank

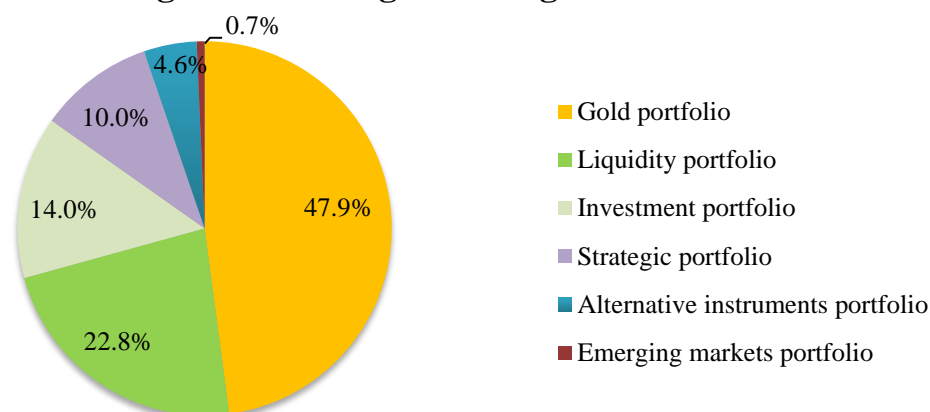


Table 6.1.1

Market value of portfolios at the end of 2018

Portfolio	Market value, USD bln.
Investment portfolio	4.2
Strategic portfolio	3.0
Gold portfolio	14.4
Emerging markets portfolio	0.204
Liquidity portfolio	6.9
Alternative instruments portfolio	1.4

Purposes of the investment portfolio are to ensure asset integrity and to increase their profitability in the near and medium term. Assets in the portfolio are invested in the bond markets of developed countries and have the following structure: in the US Dollars – 52%, Euro – 15%, British pounds – 10%, Australian Dollars – 8%, Japanese Yen, Canadian Dollars and in South Korean Won – by 5%.

In 2018, the return on the investment portfolio expressed in terms of the currency basket was 1.404%, and the return on the benchmark portfolio was 1.247%. As a result, the positive excess return made up 15.7 basis points.

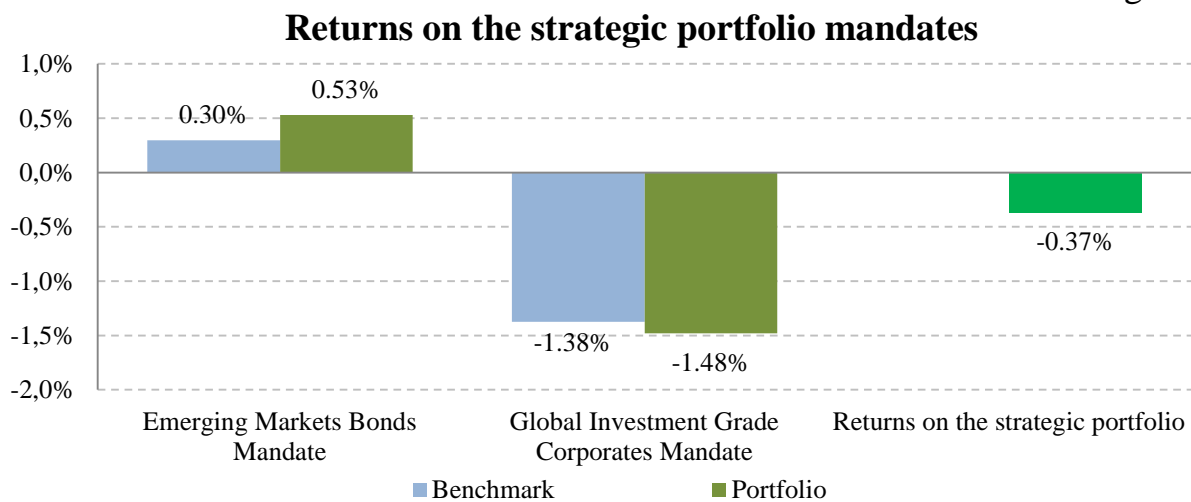
The return on the investment portfolio expressed in the US Dollars accounted for (-)1.218% while the return on the benchmark portfolio was (-)1.371%. A negative result in the US Dollars was determined by appreciation of the US Dollar. The excess return in the US Dollars made up 15.3 basis points.

The purposes of the strategic portfolio are to ensure return on assets in the near and medium term and to diversify gold and foreign exchange assets.

Assets in the strategic portfolio are managed by external managers and are invested into two investment areas: 50% – in the Emerging Markets Debt Mandate and 50% – in the Global Investment Grade Corporates Mandate.

Given the outflow of resources from developing markets and the corporate sector as a result of the interest rate increase by the US Federal Reserve System, the return on the strategic portfolio in 2018 made up (-)0.37% (Figure 6.1.2).

Figure 6.1.2



Funds in the emerging markets portfolio have been invested into assets denominated in the Chinese Yuan. In 2018, the return on such portfolio in the Chinese Yuan accounted for 5.22%.

The liquidity portfolio of gold and foreign exchange assets is held for conducting money market operations for the purpose of monetary policy implementation, for maintaining a high level of liquidity as well as for servicing the government's external debt. In 2018, the return on the liquidity portfolio accounted for 1.27%.

The alternative instruments portfolio which is managed by the “National Investment Corporation of the National Bank of Kazakhstan” JSC is held for diversification of gold and foreign exchange assets and for the increase in their return in the medium term. Assets of this portfolio may be invested into such areas as private equity, hedge funds, funds of funds, real estate, infrastructure and equities. In 2018, the return on the alternative instruments portfolio made up 2.89%.

The gold portfolio consists of the internal gold and external gold. External gold includes allocated gold and assets placed with non-allocated metal accounts at deposits with maturity up to one year. Assets in gold are managed with a view to ensure integrity and to have a cushion against a possibility that attractiveness of foreign currency assets in the international financial markets would go down. Because of a decline in the world prices of gold, in 2018 the return on the gold portfolio in the US Dollars was (-)1.13%. The return on the gold portfolio placed with deposits accounted for 0.07% in the troy ounce.

6.2. Management of the National (Oil) Fund’s Assets

The main objectives of investment operations conducted in the course of management of the National Fund’s assets include ensuring their integrity, maintaining a sufficient liquidity level and ensuring their long-term profitability along with the appropriate risk level. In ensuring a long-term profitability of the National Fund’s assets, short-term fluctuations in returns are allowed for.

Based on the National Fund’s main goal and functions, its structure is made up of the stabilization portfolio and savings portfolio. The main purpose of the stabilization portfolio is to maintain a sufficient liquidity level and the savings portfolio is intended for saving and preservation of funds from the sale of non-renewable sources of energy for future generations and to ensure long-term profitability along with the appropriate risk level.

The total market value of the National Fund’ portfolio at the end of 2018 was USD 61.6 bln., including foreign currency portfolio – USD 58.0 bln.

The National Fund’s assets include Kazakhstani financial instruments; decisions about their purchase were made earlier by the National Fund’s Executive Board. The fair value of the bond issued by the “Samruk-Kazyna” National Welfare Fund” JSC, “KazAgro” National Management Holding Company” JSC and “Baiterek” National Management Holding Company” JSC was KZT 696.9 bln.

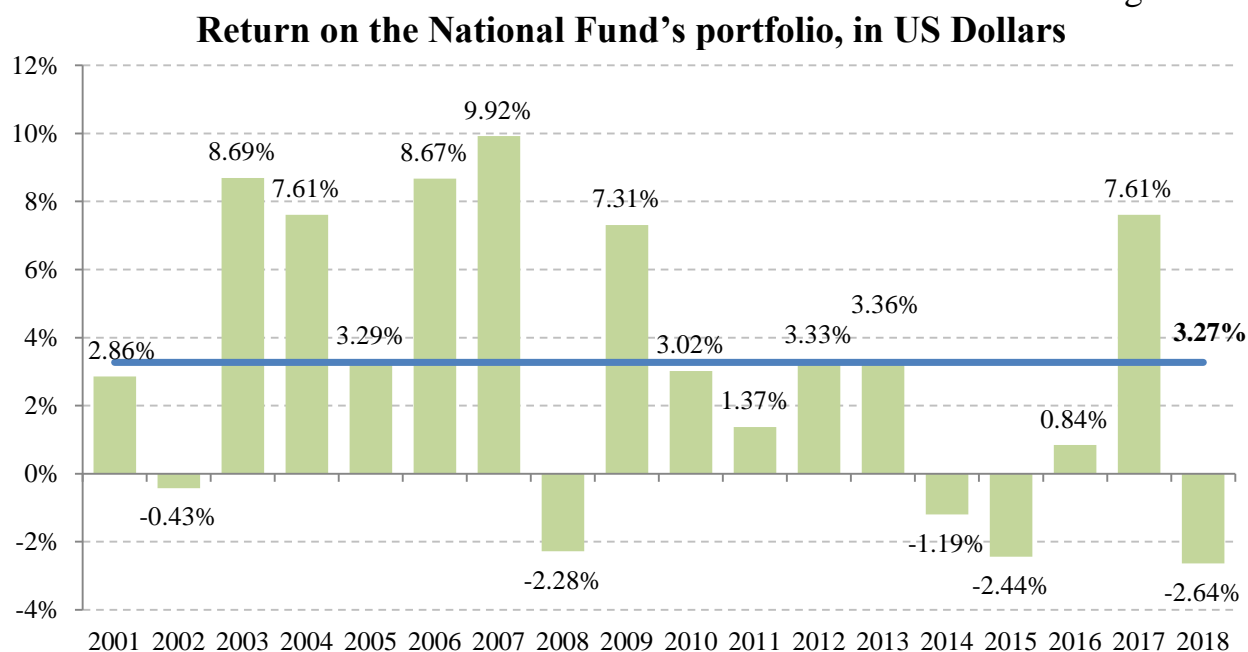
Due to significant receipts to the National Fund at end-2018 the balance of the tenge account made up KZT 707.3 bln.

Market values of the stabilization and savings portfolios within the foreign currency portfolio of the National Fund equaled USD 9.2 bln. (the share in assets of the foreign currency portfolio – 16%) and USD 48.8 bln. (the share in assets of the foreign currency portfolio – 84%), respectively.

The returns were calculated in the National Fund’s base currency – US Dollars.

Return of the National Fund since its inception till 31 December 2018 made up 76.07%; this accounts for 3.27% in annual terms (Figure 6.2.1). The return on the National Fund's portfolio in 2018 accounted for (-)2.64%. Negative returns are associated with a negative adjustment in the equities market as well as with appreciation of the US Dollar against most of the currencies into which the National Fund's assets are also invested.

Figure 6.2.1



The major portion of the National Fund's assets is managed directly by the National Bank's investment team; at the same time, services of external managers are also used which add value to internal competencies and thus diversify the portfolio and expand the available investment opportunities.

In 2018, assets in the stabilization portfolio under the National Bank's own management were invested in the money market instruments and fixed income securities, mainly securities of the US Treasury. In 2018, the return on the stabilization portfolio was 1.94%, and the return on the benchmark portfolio (Merrill Lynch 6-month US Treasury Bill Index) accounted for 1.92%. Thus, in 2018 excess returns of 0.02% were received as a result of asset management of the stabilization portfolio.

The return on the savings portfolio in 2017 was (-)3.13%. Assets in the National Fund's savings portfolio for the Global Bond Mandate are managed both by the National Bank itself and by external managers. In 2018, assets in the bond sub-portfolio of the savings portfolio managed by the National Bank itself accounted for 73% according to the preliminary data, and 27% of this portfolio was managed by external managers.

In 2018, the return from management of the bond sub-portfolio accounted for (-)0.96%. The return on the benchmark portfolio of this sub-portfolio accounted for

(-)1.01%. Thus, management of this type of mandate resulted in excess returns of 0.04%.

Assets in the savings portfolio for the Global Equities Mandate were managed by five external managers. In 2018, the return from the asset management for this type of mandate was (-)10.13%, and the return on the benchmark portfolio made up (-)8.21%.

At end-2018, assets in the savings portfolio for the Global Tactical Asset Allocation mandate were managed by one external manager. In 2018, the return from management of assets in the savings portfolio for this type of mandate was (-)3.32%, and the return on the benchmark portfolio made up (-)2.29%.

6.3. Management of Pension Assets of the Unified Accumulative Pension Fund

At the end of 2018, the total amount of pension assets of the Unified Accumulative Pension Fund under fiduciary management of the National Bank made up KZT 9.4 trln., or 98.1% of all pension accumulations, having increased by 20.6% over 2018 (Table 6.3.1).

Pension assets were invested based on the market conditions into the investment areas approved by the Council for the National Fund Management of the Republic of Kazakhstan.

Table 6.3.1

Structure of pension assets investment portfolio of the Unified Accumulative Pension Fund under fiduciary management of the National Bank

Item	Current value as at 1 January 2018, KZT bln.	Share as at 1 January 2018, %	Current value as at 1 January 2019, KZT bln.	Share as at 1 January 2019, %	Change over the period, %
Government securities of the Republic of Kazakhstan	3 587.6	46.1	4 058.0	43.3	13.1
Securities of issuers of the Republic of Kazakhstan	2 280.6	29.3	2 985.2	31.8	30.9
Securities of foreign issuers	1 242.8	16.0	1 659.0	17.7	33.5
Deposits with banks of the Republic of Kazakhstan	325.8	4.2	277.7	3.0	- 14.8
Deposits with foreign banks	277.4	3.6	343.2	3.7	23.7
Cash on investment accounts	32.0	0.4	126.7	1.4	297.1
External manager	-	-	82.8	0.9	-
Other assets	28.6	0.4	15.2	0.2	- 46.8
Total	7 774.8	100.0	9 378.0²⁰	100.0	20.6

²⁰ Including liabilities due on effected transactions in the amount of KZT 169.7 bln.

With a view to diversify the investment portfolio with intention to ensure its integrity and profitability, pension assets are invested into various financial instruments both of Kazakhstani and foreign issuers. The total volume of investments in the domestic market amounted to KZT 1.46 trln. (Table 6.3.2).

Table 6.3.2

Investments based on investment areas approved by the Council for the National Fund Management of the Republic of Kazakhstan for 2018

Investments	Amount, KZT bln.
Government securities of the Republic of Kazakhstan issued by the Ministry of Finance of the Republic of Kazakhstan	361.3
Foreign currency	397.3
Bonds of international financial organizations and entities from the quasi-government sector of the Republic of Kazakhstan	618.1
Bonds of banks of the Republic of Kazakhstan	88.2
Total	1 464.9

As a result of a purchase of an additional amount of the US Dollars and generation of an investment return, at the end of 2018 the share of pension assets in foreign currency was increased from 27.7% to 32.8% of the amount of pension assets.

Pension assets denominated in foreign currency are being invested in accordance with the earmarked strategic allocation set out by the Investment Declaration of the Unified Accumulative Pension Fund.

In 2018, the US Dollar-denominated bonds of developing economies of USD 403.5 bln. were purchased for the pension asset investment portfolio (net purchases); also a part of pension assets worth USD 220.0 mln. was transferred to external asset manager Aviva Investors under the “Global Emerging Markets Bonds” mandate.

As part of the initial public offering at the London Stock Exchange, global depositary receipts of the “National Nuclear Company “Kazatomprom” JSC of USD 150 mln. were purchased.

At the end of 2018, the accrued investment return on assets of the Unified Accumulative Pension Fund amounted to KZT 977.2 bln. “Net” investment return distributed to contributors’ accounts of the Unified Accumulative Pension Fund amounted to KZT 917.1 bln., having exceeded the volume of pension contributions by 8.1%, which amounted to KZT 848.3 bln. The major portion of investment return was in interest income on financial instruments (56.8%) as well as gains from foreign currency revaluation (40.3%).

The returns on pension assets distributed in 2018 to accounts of contributors (beneficiaries) of the Unified Accumulative Pension Fund made up 11.3% with the inflation rate of 5.3%. In real terms (excluding inflation), the return made up 6.0%.

Appendix 1 to Section 1.2

Figure 1.2.1

Organizational Chart of the National Bank

National Bank's Governor		
National Bank's Deputy Governors		
Business Units of the Head Office of the National Bank		
Department of Research and Statistics	Department of the Balance of Payments and Currency Exchange Regulation	Financial Stability Department
Monetary Operations Department	Financial Market Methodology Department	Bank Supervision Department
Department of Regulation of Non-Bank Financial Organizations	Legal Department	Accounting Department
Payment Systems Department	Internal Audit Department	Coordination Department (Astana)
International Cooperation Department	Division of Information Threats and Cyber Protection	Division of Protection of Rights of the Financial Service Consumers and External Communications
Information Technology Department	HR Department	Cash Handling Division
Risk Division	Planning and Budget Division	Division of Monetary Operations Accounting
Operations Division	Security Division	Administration Division
Division for Protection of State Secrets	Division of Workflow and Control	
Branches of the National Bank of the Republic of Kazakhstan		
17 regional branches	Center of Cash Operations and Safekeeping of Valuables (a branch)	
Organizations of the National Bank of the Republic of Kazakhstan		
“Kazakhstan Center of Interbank Settlements of the NBRK” RSOE	“Kazakhstan Mint of the NBRK” RSOE	“Banknote Factory of the NBRK” RSOE

Appendix 1 to Section 2.5

Table 2.5.1

Balance of Payments of the Republic of Kazakhstan: Analytical Presentation

(USD mln.)

	2017	2018	2018			
			1 st quarter	2 nd quarter	3 rd quarter	4 th quarter
Current account	-5101.9	-51.7	-893.0	-468,6	-219.9	1529.8
Trade balance	16727.8	26358.9	6192.3	6379.1	6528.2	7259.3
Exports f.o.b.	47301.0	59630.1	13584.0	14658.5	15363.1	16024.5
Imports f.o.b.	30573.2	33271.2	7391.7	8279.4	8834.9	8765.2
Services	-3577.8	-4595.7	-924.4	-1023.1	-1288.6	-1359.6
Exports	6504.9	7274.9	1583.1	1887.5	2005.5	1798.7
Imports	10082.6	11870.7	2507.5	2910.6	3294.1	3158.4
Balance on primary income	-18148.5	-22087.2	-6182.7	-5843.2	-5611.7	-4449.7
Compensation of employees balance	-1501.3	-1582.0	-355.4	-395.7	-429.0	-401.9
Investment returns	-16782.3	-20640.2	-5861.1	-5481.2	-5216.4	-4081.5
Income receivable	2309.4	2472.4	584.4	632.8	647.6	607.6
Income on direct investments	795.5	649.7	156.2	157.0	184.6	151.9
Income on portfolio investments	1031.4	1211.3	287.1	326.2	294.7	303.3
Income on other investments	482.5	611.4	141.2	149.6	168.2	152.4
<i>including interest on reserves and assets of the National Fund</i>	1161.2	1311.8	313.4	355.0	323.5	319.9
Income payable	19091.7	23112.7	6445.5	6114.1	5864.0	4689.1
Income on direct investments	16532.0	20451.5	5764.1	5389.8	5185.5	4112.1
Income on portfolio investments	1198.5	1186.0	302.4	376.0	279.5	228.1
Income on other investments	1361.2	1475.2	379.1	348.3	398.9	349.0
Other primary income (net)	135.0	135.0	33.8	33.8	33.8	33.8
Balance on secondary income	-103.4	272.3	21.9	18.6	152.1	79.8
Capital account balance	346.8	203.4	69.9	117.7	29.9	-14.1
Financial account (excluding reserve assets of the National Bank)	-5478.4	2558.6	1000.8	394.2	398.6	765.0
Direct investments	-3756.1	-4919.2	-3546.3	-729.0	-825.0	181.1
Net acquisition of financial assets	956.5	-4711.1	-2505.9	-860.4	-274.0	-1071.0
Net incurred liabilities	4712.6	208.1	1040.4	-131.4	551.0	-1252.0
Portfolio investments	-5398.3	2630.4	1642.6	374.4	1029.2	-415.9
Net acquisition of financial assets	-3246.9	-996.7	124.8	-738.4	-1303.0	919.9
Government and the National Bank	-5803.8	-854.3	-380.1	-20.4	-2205.0	1751.2
Banks	872.2	-91.9	-37.9	-125.4	-8.2	79.6
Other sectors	1684.7	-50.4	542.8	-592.6	910.3	-910.9
Net incurred liabilities	2151.4	-3627.0	-1517.8	-1112.8	-2332.2	1335.8
Government and the National Bank	-83.2	-73.5	273.4	-901.3	-464.6	1019.0
Banks	-836.6	-164.5	-100.6	-11.7	13.7	-66.0
Other sectors	3071.2	-3389.0	-1690.7	-199.9	-1881.3	382.8
Financial derivatives (net)	115.5	109.4	0.5	71.6	37.4	-0.2
Other investments	3560.6	4738.1	2903.9	677.2	157.0	999.9
Other equity participation instruments (net)	37.0	34.9	29.5	0.6	2.1	2.6
Medium- and long-term debt instruments	-466.0	2487.2	328.4	-15.9	905.9	1268.8
Net acquisition of financial assets	-419.4	-4.6	-54.3	-136.4	334.1	-148.0
Government and the National Bank	-33.6	-14.0	0.8	-1.9	-4.8	-8.1
Banks	-44.9	-44.2	-46.3	15.7	-5.0	-8.6

Other sectors	-340.8	53.6	-8.7	-150.2	343.8	-131.3
Net incurred liabilities	46.6	-2491.9	-382.7	-120.5	-571.9	-1416.8
Government and the National Bank	-177.1	-284.7	-99.7	-69.7	-78.0	-37.3
Banks	-235.2	-645.7	-420.3	33.9	-360.7	101.5
Other sectors	458.9	-1561.5	137.3	-84.7	-133.2	-1480.9
Short-term debt instruments	3989.6	2216.0	2546.0	692.6	-751.1	-271.5
Net acquisition of financial assets	4921.7	3483.2	2412.8	1222.9	-63.8	-88.8
Net incurred liabilities	932.1	1267.2	-133.2	530.3	687.3	182.7
Errors and omissions	-2088.9	880.7	930.2	655.7	698.4	-1403.6
Overall balance	1365.5	1526.2	893.6	89.5	-109.7	652.8
Financing	-1365.5	-1526.2	-893.6	-89.5	109.7	-652.8
Reserve assets of the National Bank	-1365.5	-1526.2	-893.6	-89.5	109.7	-652.8
IMF credits	0.0	0.0				
Exclusive financing	0.0	0.0				

Appendix 2 to Section 2.5

Table 2.5.2

External Debt: Standard Presentation

(USD mln.)

	As at 1 January 2017	As at 1 January 2018	As at 1 April 2018	As at 1 July 2018	As at 1 October 2018	As at 1 January 2019
External debt	163 308.5	167 217.9	166 677.8	164 456.6	161 280.9	158 787.3
Short-term	6 560.3	7 489.2	8 306.2	8 086.0	8 157.9	8 150.0
Long-term	156 748.2	159 728.8	158 371.6	156 370.6	153 123.1	150 637.3
General Government	12 092.1	12 067.5	11 137.9	10 690.4	10 651.5	11 554.8
Short-term	13.6	19.3	17.6	21.5	23.1	17.9
Cash and deposits	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities ¹	0.0	0.0	0.0	0.0	0.0	0.0
Credits and loans	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits and advances	13.6	19.3	17.6	21.5	23.1	17.9
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	12 078.5	12 048.2	11 120.3	10 668.9	10 628.4	11 536.9
Special Drawing Rights	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
Debt securities ¹	4 713.7	4 799.7	3 935.7	3 576.4	3 620.4	4 554.3
Credits and loans	7 363.6	7 248.5	7 184.6	7 092.5	7 008.0	6 982.6
Trade credits and advances	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities ²	1.1	0.0	0.0	0.0	0.0	0.0
Central Bank	756.3	926.3	1 899.2	1 188.6	774.6	770.4
Short-term	242.5	42.8	1 388.2	694.5	286.5	286.2
Cash and deposits	17.2	10.6	7.2	4.9	5.8	6.9
Debt securities ¹	220.8	408.1	1 376.9	685.5	276.3	275.3
Credits and loans	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits and advances	0.0	3.1	4.1	4.1	4.4	4.0
Other liabilities	4.6	0.0	0.0	0.0	0.0	0.0
Long-term	513.8	504.6	511.0	494.1	48.1	484.2
Special drawing rights	465.6	493.6	505.0	488.1	487.1	483.2
Cash and deposits	47.2	10.0	5.0	5.0	0.0	0.0
Debt securities ¹	0.0	0.0	0.0	0.0	0.0	0.0
Credits and loans	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits and advances	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities ²	1.0	1.0	1.0	1.0	1.0	1.0
Banks	7 153.3	6 501.9	5 933.8	6 067.3	5 750.1	5 752.1
Short-term	583.3	701.6	714.8	857.5	955.0	997.1
Cash and deposits	473.8	505.4	508.2	584.9	614.9	704.2
Debt securities ¹	0.0	0.0	0.0	0.0	0.0	0.0
Credits and loans	69.9	116.7	110.5	160.9	165.6	132.1
Trade credits and advances	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	39.6	79.5	96.0	111.8	174.6	160.8
Long-term	6 570.0	5 800.3	5 219.0	5 209.7	4 795.1	4 755.0
Cash and deposits	158.4	193.4	231.6	165.9	165.7	306.1
Debt securities ¹	3 316.2	2 780.8	2 627.6	2 607.0	2 577.0	2 442.0
Credits and loans	3 095.4	2 826.1	2 359.9	2 436.7	2 052.4	2 006.9
Trade credits and advances	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities ²	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors³	38 838.8	43 614.4	43 204.3	42 882.1	41 291.7	39 650.2
Short-term	5 720.8	6 346.6	6 185.7	6 512.4	6 893.3	6 848.8
Cash and deposits	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities ¹	0.0	0.0	0.0	0.0	0.0	0.0
Credits and loans	417.1	588.1	473.5	501.1	698.8	616.2
Trade credits and advances	5 202.5	5 649.2	5 643.4	5 866.0	6 059.1	6 123.8
Other liabilities	101.2	109.2	68.8	145.2	135.4	108.7

Long-term	33 118.0	37 267.8	37 018.6	36 369.8	34 398.4	32 801.4
Cash and deposits	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities ¹	9 891.6	12 926.3	12 211.5	11 791.9	10 252.1	10 097.8
Credits and loans	20 939.3	22 258.5	22 623.8	22 190.1	22 064.5	20 681.0
Trade credits and advances	1 814.7	1 623.5	1 634.3	1 827.3	1 906.4	1 831.8
Other liabilities ²	472.4	459.5	549.1	560.6	175.4	190.7
Other financial organizations	2 620.1	2 809.7	2 910.7	2 904.9	2 396.0	2 212.1
Short-term	76.6	70.0	72.2	117.2	110.5	64.6
Long-term	2 543.5	2 739.7	2 838.4	2 787.7	2 285.5	2 147.6
Non-financial organizations, households and non-commercial organizations providing services to households	36 218.7	40 804.6	40 293.6	39 977.2	38 895.6	37 438.1
Short-term	5 644.2	6 276.5	6 113.4	6 395.1	6 782.8	6 784.2
Long-term	30 574.5	34 528.1	34 180.2	33 582.1	32 112.8	30 653.8
Direct investments: Intercompany lending	104 468.0	104 107.9	104 502.6	103 628.2	102 813.1	101 059.8
Liabilities of Kazakhstani direct investment companies to foreign direct investors	77 806.6	80 163.4	80 413.8	80 152.3	80 240.5	79 778.8
Liabilities of Kazakhstani direct investors to foreign direct investment companies (reverse investment)	7 063.9	6 687.7	7 084.6	7 130.7	6 821.2	6 651.2
Liabilities of Kazakhstani enterprises to foreign sister enterprises	19 597.5	17 256.8	17 004.2	16 345.2	15 751.4	14 629.8

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

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

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

Appendix 3 to Section 2.5

Table 2.5.3

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

Item	2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	2018
Absolute Parameters (USD mln.)						
1. External debt (estimate at end-period)	167 217.9	166 677.8	164 456.6	161 280.9	158 787.3	158 787.3
including intercompany lending	104 107.9	104 502.6	103 628.2	102 813.1	101 059.8	101 059.8
2. External debt, excluding intercompany lending (estimate at end-period)	63 110.0	62 175.2	60 828.4	58 467.8	57 727.5	57 727.5
3. Payments for long-term external debt extinction and servicing (including intercompany lending)	37 145.3	9 903.5	14 196.5	11 626.2	14 254.7	49 980.9
4. Payments for long-term external debt extinction and servicing (excluding intercompany lending)	14 108.8	3 882.2	7 774.0	5 430.2	7 086.7	24 173.1
Relative Parameters						
1. External debt per capita (USD, excluding intercompany lending) ¹	3 475.8	3 413.8	3 329.1	3 189.0	3 100.1	3 100.1
2. External debt to GDP (% , including intercompany lending)	102.7	100.2	96.3	93.9	93.7	93.1
3. External debt to GDP (% , excluding intercompany lending)	38.7	37.4	35.6	34.1	34.1	33.9
4. External debt to exports of goods and services for the year (% , including intercompany lending)	310.8	292.3	274.4	251.1	237.3	237.3
5. External debt to exports of goods and services for the year (% , excluding intercompany lending)	117.3	109.0	101.5	91.0	86.3	86.3
6. Payments for long-term external debt extinction and servicing to exports of goods and services for the period (% , including intercompany lending)	69.0	65.3	85.8	66.9	80.0	74.7
7. Payments for long-term external debt extinction and servicing to exports of goods and services for the period (% , excluding intercompany lending)	26.2	25.6	47.0	31.3	39.8	36.1
8. Interest payments to exports of goods and services for the period (%)	12.1	12.1	11.4	11.1	9.2	10.9
9. National Bank's international reserves to short-term external debt (%)	413.9	369.0	372.2	367.5	379.5	379.5
Memo Items:						
Population (thous. individuals) ¹	18 157.1	18 212.7	18 271.6	18 334.3	18 621.4	18 621.4
GDP (bln.), for the period ²	53 101.3	11 786.2	13 071.0	14 910.0	19 018.6	58 785.7
GDP for 12 months (USD bln.) ³	162.9	166.4	170.7	171.7	169.4	170.5
Exports of goods and non-factor services for the period	53 805.9	15 167.1	16 546.1	17 368.7	17 823.2	66 905.0
Exports of goods and non-factor	53 805.9	57 016.6	59 937.0	64 231.6	66 905.0	66 905.0

services for 12 months						
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¹ data of the Committee on Statistics of the Ministry of National Economy.

² updated information of the Committee on Statistics of the Ministry of National Economy for 2018 published on 15 February 2019.

³ GDP in the US Dollars for the calendar year – data of the Committee on Statistics of the Ministry of National Economy. GDP in the US Dollars for 12 months for calculation of relative parameters for the quarter is derived as the amount of quarterly GDP numbers in the US Dollars calculated at respective average exchange rate for the quarter.

List of Used Abbreviations

JSC	– a joint-stock company
bank	– a second-tier bank
GDP	– gross domestic product
USD	– US Dollar
EAEU	– Eurasian Economic Union
Unified Accumulative Pension Fund	– the “Unified Accumulative Pension Fund” JSC
Kazakhstan Stock Exchange	– the “Kazakhstan Stock Exchange” JSC
IMF	– International Monetary Fund
mln.	– billion
bln.	– million
CIS	– the Commonwealth of Independent States
trln.	– trillion
thous.	– thousand
