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For the Year 2012

Almaty, 2013

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EXECUTIVE SUMMARY

1. According to the IMF, in 2012 the global GDP increased by 3.2%. The growth in the US economy is estimated at 2.3%, in the Japanese economy – by 2.0%, and GDP of the Euro zone countries decreased, according to estimates, by 0.4%. In the IMF's opinion, dramatic risks of the crisis in the Euro zone and in the US decreased as a result of policy measures taken. In these circumstances, the forecasts indicate that the global growth will be gradually increasing during 2013 and will account for 3.5% on average. The forecast for 2014 is a further increase in growth to 4.1% provided that the economic recovery in the Euro zone will be sustainable.

2. In 2012, there was a slowdown in the economic growth caused by the growth retardation in the mining and manufacturing industries as well as decline in the agricultural sector. The reason for deterioration in performance was the 1.4% decrease in the volume of crude oil extraction in the mining industry, decrease by 12.0% in ferrous metallurgy of the manufacturing industry and the 27.7% decline in the plant production in agriculture.

During 2012 the gross domestic product in Kazakhstan increased to KZT 30.1 trln. in current prices, having increased by 5% in real terms versus 2010 (in 2011 the growth accounted for 7.5%).

3. In 2012, the annual inflation was at 6.0%, which is fully in accordance with the National Bank's target band of 6-8%.

The slowdown trend in the inflationary processes was noted in the first half of 2012. Since the fall of 2012, a minor acceleration of inflation has been observed because of increased tariffs for paid services including utilities, transport services, as well as due to the impact by the seasonality factors.

The inflationary dynamics in 2012 was caused by a number of factors, among which the following factors appeared to be the most significant: instable situation in the global commodity markets, high level of world prices for raw materials and foodstuffs, inefficient pricing mechanism within Kazakhstan, and a low competition in certain markets of goods and services. Meantime, in 2012 the inflationary processes in Kazakhstan were building up amidst the minimal impact on the part of monetary factors.

For 2013, the National Bank determined keeping the annual inflation within 6-8% as the main goal of its monetary policy.

4. In 2012, the domestic foreign exchange market was developing with a minimal involvement of the National Bank in maintaining the exchange rate of the Tenge.

In 2012, the average-weighted exchange rate of the Tenge was KZT 149.08 per 1 US Dollar. At the year-end the stock exchange rate was KZT 150.74 per 1 US Dollar. Over the year the Tenge has depreciated in nominal terms versus the US Dollar by 1.58%.

The total volume of gross gold and foreign currency reserves amounted to USD 28.3 bln. at end-2012, having increased by 3.4% as compared to 2011.

5. In 2012, the growth in deposits of residents with depository institutions slowed down to 7.2% versus 14.3% in 2011. The slowdown in the growth rates of the deposit base was caused by the decrease in deposits of legal entities. During 2012, deposits of non-bank legal entities decreased by 0.7%, and deposits of individual increased by 23.8%.

6. After a minor decrease in the lending volumes in 2010 (by 0.7%), bank credits to the economy had been growing for two consecutive years. In 2012, the volume of bank credits to the economy increased by 13.0% and amounted to KZT 9 958.0 bln. (USD 66.3 bln.).

The reduced lending activity was only observed in the foreign currency segment of the credit market, which, in its turn, ensured the growth in the percentage of the Tenge credits in the total volume of credits from 64.5% to 70.7%.

As a result, during 2012 foreign currency credits decreased by 6.8% to KZT 2 916.7 bln., and credits in the domestic currency increased by 23.9% to KZT 7 041.3 bln.

7. During 2012, the reserve money expanded by 1.9%, money supply increased by 7.9%, and cash in circulation increased by 11.9%. In 2012, the issuing balance from was positive and amounted to KZT (+)188.6 bln., which is by KZT 53.4 bln. less than in 2011 (KZT 242.0 bln.). 32.4 mln. transactions amounting to KZT 170.7 trln. were processed in the payment systems of Kazakhstan in 2012. As of January 1, 2013, the total number of payment cards in circulation amounted to 12.1 mln., which exceeded the level of 2011 by 26.9%.

8. In 2012, positive dynamics was observed in all segments of the financial market. Assets of the banking sector increased by 8.3% and as of January 1, 2013 amounted to KZT 13.9 trln. Assets of insurance organizations increased by 14.2% to KZT 442.6 bln. During 2012, pension accumulations increased by 20.1% and amounted to KZT 3.2 trln.

9. The total market value of the National Fund's portfolio was equal to USD 58 539.3 mln. at December 31, 2012. The return of the National Fund for 2012 was 3.33%. The return since its inception up to December 31, 2012 was 67.25%, which makes up 4.54% in annual terms.

10. During 2012, the National Bank's revenues amounted to KZT 51 575.4 mln., expenditures – KZT 21 275.2 mln., and net profit amounted to KZT 30 300.2 mln. and decreased by KZT 7 616.7 mln. (20.1 %) as compared to 2011.

11. In 2012, the country's Leader made a positive decision on the initiatives of the National Bank regarding secession of its employees from the civil service, in line with the international standards applied to the activities of central banks, with a view to deal with the tasks assigned to the National Bank in the post-crisis period in a proactive manner. Under the Law of the Republic of Kazakhstan of July 5, 2012 No. 30-V, the staff of the National Bank and of its establishments were referred to persons not constituting government and civil servants and holding the positions of staff and technical staff at the National Bank under the procedure established by the National Bank's regulation.

Due to the long-felt need in institutional reforms in the area of protection of financial services consumers, the Committee for Protection of Rights of Financial Services Consumers has been established with the National Bank to address comprehensive issues pertinent to protection of rights of financial services consumers and increasing the level of financial literacy among the people in all regions of the country; at the same time, the Committee for the Development of the Regional Financial Center of Almaty with the National Bank was relinquished, and a relevant department was established on the basis of the Center to further perform the functions for the development of the financial center as assigned by the State Leader (Presidential Edict dated December 29, 2012 No. 458).

I. ECONOMIC DEVELOPMENT

1.1. Real Sector of the Economy¹

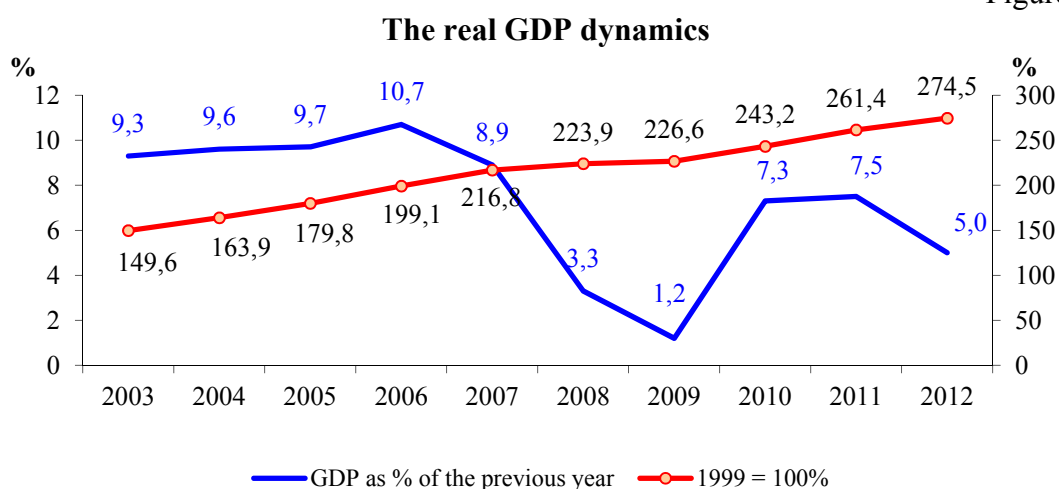
In 2012, there was a slowdown in the economic growth caused by the growth retardation in the mining and manufacturing industries as well as decline in the agricultural sector. The reason for deterioration in performance was the 1.4% decrease in the volume of crude oil extraction in the mining industry, decrease by 12.0% in ferrous metallurgy of the manufacturing industry and the 27.7% decline in the plant production in agriculture.

The price of crude oil (Brent) was at USD 111.97 per barrel on average for 2012, whereas in 2011 it amounted to USD 110.9, thus generally representing a positive factor for the Kazakh economy, although oil prices were characterized by higher volatility in 2012 as compared to 2011.

In 2012, the growth in lending (by 13.0%), growth in unemployment and reduced unemployment rate (from 5.4% in January to 5.3% in December) and increased cash income of the population (by 6.8% in real terms) were conducive to expansion in the domestic demand.

As a result, according to updated information, during 2012 the gross domestic product of Kazakhstan increased to KZT 30 072.5 bln. in current prices, having increased by 5.0% versus 2011 in real terms (in 2011 – the growth by 7.5%) (Figure 1.1.1).

Figure 1.1.1



The growth was noted in all sectors of the economy other than in agriculture which demonstrated decline by 17.8%, with such decline being caused by unfavorable weather conditions in 2012 for the plant production industry.

In the GDP composition, the highest growth rates were observed in the following sectors: professional, scientific and technical activity – by 16.2%, wholesale and retail sale – by 14.6%, accommodation and catering services – by 13.3%, activity in the area of administrative and ancillary services – by 12.2%, information and communications – by 9.6%, and transport and warehousing – by 7.3%.

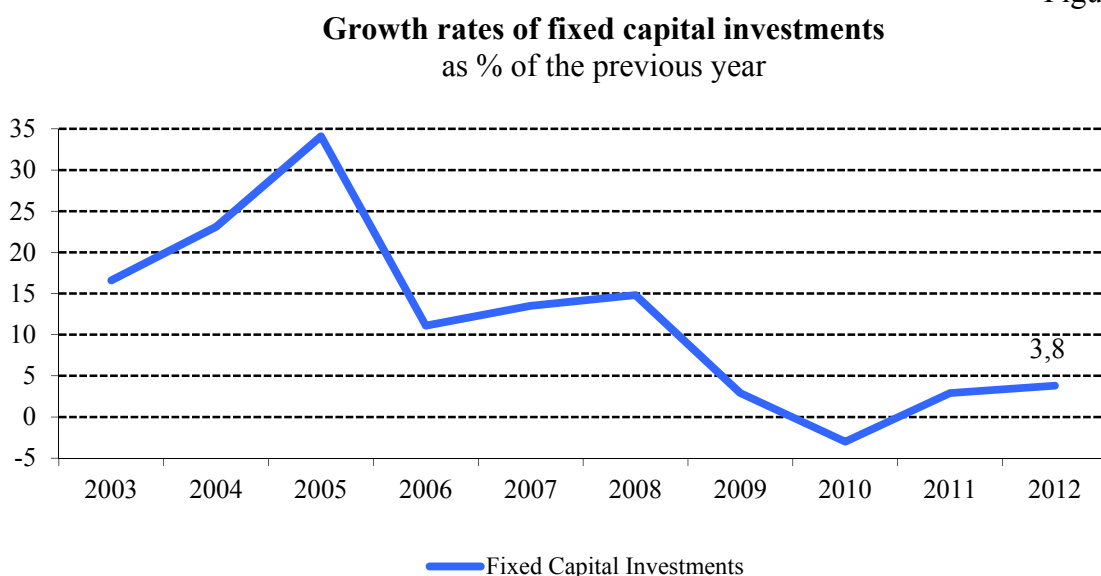
During 2012, in the GDP composition the production of goods decreased by 1.3%, whereas the production of services increased by 10.0%. Thus, in 2012 a major factor of the economic growth was the segment of services, whereas the real sector demonstrated the decrease.

After their decrease in 2010 by 3.0%, over the two subsequent years the volumes of fixed capital investments had been demonstrating positive upward dynamics. In 2011, the investment volume increased by 2.9%, and in 2012 the growth reached 3.8% (Figure 1.1.2). The growth was secured by increased fixed capital investments in the following sectors: agriculture – the growth by

¹ According to the Agency of Statistics

19.6%, manufacturing industry – by 18.1%, electricity supply – by 14.7%, water supply – by 2.8%, trade – by 6.3%, transport – by 9.5%, scientific activity – by 37.8%, and education – by 13.5%.

Figure 1.1.2



The highest percentage of fixed capital investments falls on the industry (52.0%), transport and warehousing (19.0%) as well as on real estate operations (8.4%).

1.2. Monitoring the Real Sector Enterprises

During 2012, the number of enterprises - participants of the monitoring process representing the key sectors of the country's economy increased from 2397 to 2491, where the number of medium- and large-size enterprises increased from 1461 to 1507. In the 3rd quarter of 2012, the percentage of revenues from the sale of products (works, services) of the enterprises participating in the monitoring process accounted for 48% in the total revenue from the sale of products in the country's economy.

The results of quarterly surveys among enterprises allow making the following conclusions.

The demand for final products at the beginning of 2012 was lower than at end-2011; however, in the 2nd quarter of 2012 the demand had grown notably in the manufacturing and mining industries, construction and the “hotels and restaurants” sector. In the 4th quarter the growth in the demand started to slow down (Appendix 1 to Section I Sub-section 1.2, Figure 1.2.1).

Prices for raw materials and supplies demonstrated the trend of a slow growth. The highest growth in prices for raw materials and supplies was observed in the 3rd quarter when 49% of enterprises in the sample noted the increase in prices and only 2% – their decrease (Appendix 2 to Section I Sub-section 1.2, Figure 1.2.2).

During 2012, the growth in prices for final products was slower, as compared to the previous year, in all quarters except for the 4th quarter. The highest growth in prices occurred in the 3rd quarter of 2012 (Appendix 1 to Section I Sub-section 1.2, Figure 1.2.3). The agricultural sector and the mining industry retained the highest growth in prices for their final products.

Average-weighted profitability of sales accounted for 43% (in 2011 – 48%). Respectively, the share of low-profitable and loss-making enterprises decreased to 23.2% (in 2011 – 25.1%).

Average-weighted profitability of sales in the mining industry accounted for 64.7%, in the manufacturing industry – for 24.1%, and in transport and communications – for 25.6%.

By the end of the year, interest rates on credits, both in the Tenge and in foreign currency, were decreasing (from 12.8% and 10.7% in the 1st quarter of 2012 to 12.1% and 9.8% in the 4th

quarter of 2012, respectively). Besides, the number of enterprises that applied for a bank credit but didn't obtain it decreased (from 3.6% in the 1st quarter of 2012 to 2.9% in the 4th quarter of 2012), which is an evidence of improved availability of credits (Appendix 2 to Section I Sub-section 1.2, Figure 1.2.4, 1.2.5).

During the year, there was some growth in the investment activity of the real sector of the economy, mainly at the expense of equity capital of enterprises (the number of such enterprises increased from 55.7% in the 1st quarter of 2012 to 61% in the 4th quarter of 2012).

1.3. Public Finance²

At the end of 2012, revenues to the state budget increased by 8.2% as compared to 2011 and amounted to KZT 5 813.0 bln. or 19.3% of GDP according to preliminary data (in 2011 – 19.7% of GDP).

Tax revenues accounting for 70.5% in the structure of the state budget revenues, amounted to KZT 4 095.4 bln., or 13.6% of GDP (in 2011 – 14.6% of GDP). The changes in the system of taxation resulted in the increase in tax revenues by 2.8% as compared to 2011. Excise revenues increased by 21.9%, charges for entrepreneurship and professional activity increased by 16.1%, for personal income tax – by 16.5%, for social tax – by 14.9% and for value-added tax – by 5.7%.

A minor decrease in tax revenues by 8.5% occurred in international trade and foreign operations, in tax revenues from the use of natural and other resource – by 5.8% and in tax revenues on corporate income tax – by 0.9%.

In 2012, non-tax revenues increased by 2.1 times and amounted to KZT 285.1 bln. or 0.9% of GDP. Such increase was mainly secured by the growth in revenues from public property, cash receipts from public procurements and penalties, fines, sanctions, and collections.

Revenues from the sales of fixed capital as compared to 2011 increased by 5.2% and amounted to KZT 52.5 bln. or 0.2% of GDP.

As for the receipt of transfers, the plan was implemented for 100%. During 2012, with the planned funding for the development programs of KZT 1 380.0 bln., the guaranteed transfer of KZT 1 380.0 bln. was made to the national budget from the National Fund of the Republic of Kazakhstan (the “National Fund”).

During 2012, the state budget spending amounted to KZT 6 269.0 bln. or 20.8% of GDP (in 2010 – 19.9% of GDP). As compared to 2011, expenditures increased by 15.6%.

The highest increase in the total expenditure volume occurred in expenditures for welfare and social security (the share in the expenditures volume – 19.8%), education (19.3%) and public healthcare (11.7%).

In 2012, provided public budget loans decreased by 4.1%, and proceeds in repayment of earlier loans, on the contrary, increased by 48.1%. As a result, the volume of net budget lending decreased by 58.6% to 0.1% of GDP.

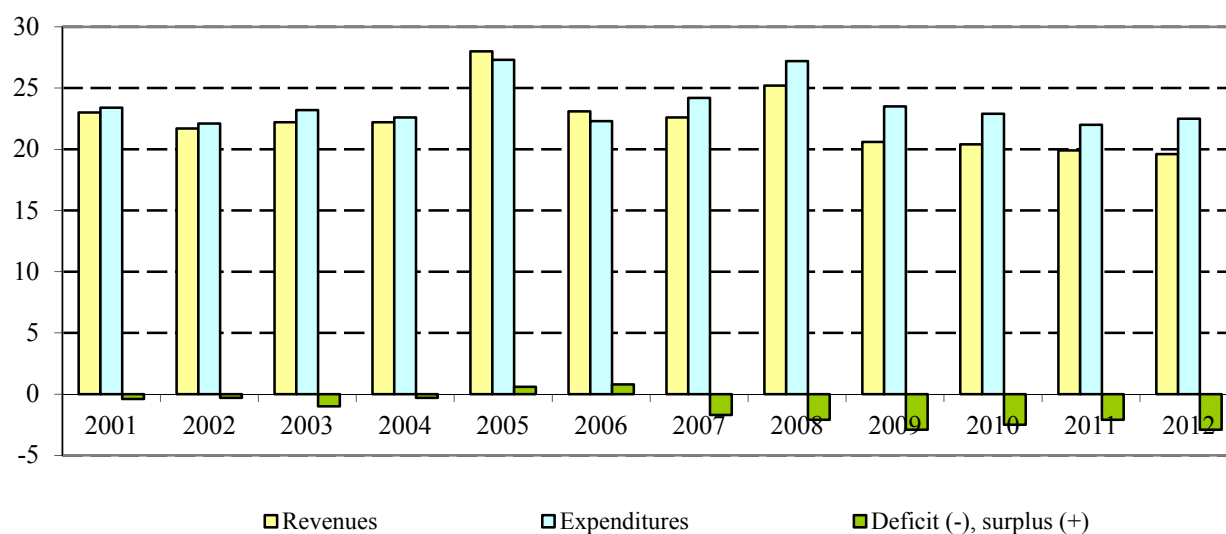
The state budget spending for the acquisition of financial assets decreased by 9.4%, and proceeds from their sale – by 36.7%. Thus, the balance of such operations decreased by 9.3% to 1.3% of GDP.

In 2012, the state budget was executed with the deficit of KZT 890.3 bln. (3.0% of GDP), in 2011 the deficit amounted to KZT 568.6 bln. (Figure 1.3.1).

In 2012, revenues to the national budget amounted to KZT 4 763.4 bln. or were by 7.0% higher than in 2011. Tax revenues to the national budget decreased by 0.9%. Non-tax revenues increased significantly – by 2.3 times, proceeds from the sale of fixed capital increased by 7.4%, and receipts of transfers – by 14.7%.

² According to the Ministry of Finance

State budget execution, as % of GDP



The growth in the national budget spending which reached KZT 5 259.4 bln., accounted for 14.2% as compared to 2011, where a significant increase is observed in such items as “education” (by 41.3%), “others” (by 30.3%), “defence” (by 28.3%), “public order and safety” (by 25.5%), “public utilities sector” (by 23.6%), and “public healthcare” (by 20.3%).

The volume of net budget lending to the national budget in 2012 decreased by 42.1% to KZT 49.0 bln. due to decreased volume of public budget loans by 5.1% and increased volume of proceeds in repayment of public budget loans by 26.5%. The balance of operations with financial assets increased by 6.9%.

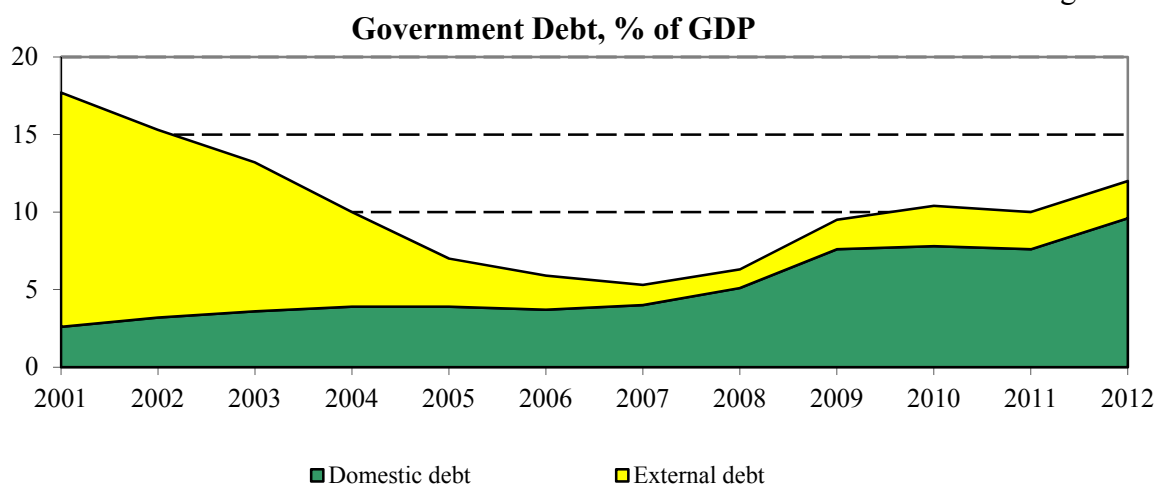
Thus, the actual national budget deficit in 2012 amounted to KZT 906.5 bln., (in 2011 – KZT 576.0 bln.), whereas according to the plan the deficit of KZT 758.5 bln. was expected.

In 2012, local budgets were executed with the deficit of KZT 26.2 bln. (in 2011 – the deficit of KZT 10.6 bln.), which ended up like this because of increase in revenues by 12.4%; expenditures increased by 15.3%, net budget lending increased by 8.9 times, and balance of operations with financial assets decreased by 59.4%.

In 2012, the domestic government debt amounted to KZT 2 897.0 bln. (9.6% of GDP), having increased by 39.2% as compared to 2011 (Figure 1.3.2).

The growth in the domestic debt was secured by the issue of long-term government savings treasury obligations, government medium-term treasury obligations and long-term government treasury obligations.

Figure 1.3.2



External debt of the Government of the Republic of Kazakhstan (the “Government”) during 2012 increased by 8.6% as compared to the respective indicator for 2011 and amounted to USD 4.8 bln. (2.4% of GDP). The external debt guaranteed by the government increased by 6.5%.

1.4. Balance of Payments and External Debt

The accelerated rate of growth in imports of goods and services compared to the growth of their exports has reduced the surplus of the current account in 2012 relative to the same indicator for 2011.

The surplus of the current account in 2012 was USD 7.7 bln. or 3.8% of the country's GDP (USD 12.3 billion or 6.5% of GDP in 2011) (Appendix 1 to Section I Subsection 1.4). Despite of that, in the 3rd quarter the current account developed with a deficit of USD 294 million caused by 9.4% decrease in the exports of goods and nearly 18% increase in imports of goods compared to the previous quarter.

The average world price for oil of a grade of Brent for 2012 was 112.0 US dollars per barrel, slightly exceeding its average level in 2011 (USD 110.9 per barrel). As a result, the export of goods which was equal to USD 92.1 billion increased by only 5.2% compared to 2011, whereas import of goods raised by 16.3% to USD 47.4 billion.

The surplus of trade balance decreased by 4.5% and was equal to USD 44.7 billion. The official exports of goods were USD 92.3 billion, USD 56.4 billion (or 61.2%) of which was accounted for the exports of oil and gas condensate. The cost of exports of ferrous metals dropped by 3.7%, and the cost of exports of non-ferrous metals raised by 13.2%. Thus, in the reporting period it was noted that contract prices for exports of ferrous and non-ferrous metals decrease during an increase in their quantitative supplies.

Imports of goods recorded by the official trade statistics went up by 20.1% and reached USD 44.5 billion. In the reporting period the growth in imports of investment goods, which is the largest component in total imports (about 38.4%) was 23.4%. Imports of intermediate goods for industrial consumption increased by 12.5% to USD 15.6 billion. The total cost of imports of consumer goods increased by 25.1%. Wherein the imports of provisions increased by 4.3% and import of non-food products increased by 41.3%, reaching USD 6.8 billion. There was a noticeable volume growth in major commodity groups of imports.

The net outflow of resources on revenue operations (including compensation and the balance of investment income) slightly exceeded (by 1.5%) the level of 2011, amounting to USD 28.2 billion. As for other components of the current account the negative imbalances of international services and transfers amounted to USD 7.8 billion and USD 1.0 billion, respectively.

The net outflow of USD 1.8 billion from the financial account was mainly due to the operations conducted in the second half of 2012.

There was USD 1.6 billion net outflows of foreign direct investment due to an increase in capital stock in foreign branches and subsidiaries by Kazakhstani enterprises, which was partially offset by the growth (by USD 0.8 billion.) in liabilities of Kazakhstani shareholders to their foreign branches in 2012.

The gross inflow of foreign direct investments ("FDIs") to Kazakhstan increased by 6.7% in 2012 compared to the same indicator for 2011 and was equal to USD 22.5 billion. The growth in the share capital from USD 2.2 billion to USD 5.1 billion in the reporting period is primarily explained by the purchase of shares of local enterprises such as "GSM Kazakhstan" LLP, "Kazakhtelecom" OJSC and "Shubarkol Komir" JSC by non-residents, as well as project financing within the framework of the State Program of Forced Industrial-Innovative Development of the Republic of Kazakhstan. At the same time, there was an outflow of capital stock as a result of completing the purchase of 10% shares in Karachaganak Project by the Republic of Kazakhstan.

In addition, gross inflow of FDIs was partially offset by the repayment of intercompany debt. As a result, net inflow of FDIs into Kazakhstan during 2012 was equal to USD 14.0 billion. The overall positive balance on direct investment operations in the reporting period was formed at the level of USD 12.4 billion, compared with USD 9.3 billion in 2011.

The growth in securities' holding of foreign assets by Kazakhstani residents (by USD 15.1 billion) and National Fund (by USD 14.5 billion) resulted in a USD 17.7 billion net outflow of portfolio investments.

The second half of 2012 had a favorable condition for attracting foreign portfolio investment. Thus, "Development Bank of Kazakhstan" JSC and "Samruk-Energo" JSC issued new debt securities in the amount of over USD 1.5 billion. There was a USD 2.6 billion net decrease in liabilities of portfolio investments due to BTA Bank's debt restructuring, purchases of local companies' Eurobonds by residents, and banks' repayments of liabilities arisen from debt securities.

The net inflow of other medium- and long-term investments in the amount of USD 4.3 billion was mainly achieved through the non-banking sector's net borrowings, while in the banking sector there was a reduction of assets in the form of medium-term loans to non-residents that was offset by a decrease in its external liabilities.

The net outflow on other short-term capital to USD 0.7 billion (USD 4.4 billion in the base period) was due to an increase in the short-term assets for USD 2.0 billion (USD 4.5 billion in 2011). 50% of the growth of short-term assets was because of an increase in overdue loans granted to non-residents by Kazakhstani banks, comparing with 2011 the growth rate decreased almost by half. Net increase in short-term liabilities by USD 1.3 billion was a result of an increase of deposits by non-residents in banks of Kazakhstan.

The National Bank Reserve assets decreased by USD 2.8 billion in 2012 as a result of operations conducted in the second half of 2012. Operations with monetary gold, volatility in exchange rates and assets' prices partially offset a decline in reserves of foreign exchange operations. In December 31, 2012, gross international reserves were estimated at USD 28.3 billion, which is equal to Kazakhstan's imports of goods and services for 5.6 months.

In December 31, 2012, gross external debt reached USD 137.0 bln., USD 5.5 bln. or 4% of which is the governmental external debt (liabilities of the Government and the National Bank), USD 66.5 bln. or 49% is the intercompany debt, and USD 13.6 bln. or 10% is a banking sector's debt (Appendix 2 to Section I Sub-section 1.4).

During 2012, gross external debt increased by USD 11.9 billion, where a USD 12.5 billion - foreign debt of "Other sectors", 0.4 bln - general government's external debt, a USD -1.0 bln reduction in foreign liabilities of "Banks" (banks and the Development Bank of Kazakhstan).

The main reasons for a decrease in the external debt of "Banks" were the repurchase and redemption (including early redemption) of Eurobonds by issuers and completion of BTA Bank's debt restructuring. There was a USD 1.2 bln decrease of Banks' debt under the item "Bonds and

Other Debt Securities”, resulted from the Eurobond offering of USD 1.0 bln par value by the Development Bank of Kazakhstan as well as the first issue of Islamic bonds “Sukuk-al-Murabaha” totaled USD 77 mln.

Mentioned decrease in liabilities of debt securities as well as a USD 340 mln. debt reduction in loans given by non-residents were partially compensated by USD 0.6 bln increase in deposits held by non-residents in Kazakh banks.

During 2012, the external debt of “Other sectors” grew to USD 10.7 bln. mainly due to borrowings made by residents both from direct investors and from other non-residents (these includes a USD 1 bln. loan provided by the Karachaganak Petroleum Operating Group to the National Company “KazMunaiGas” to purchase a 10% share in the “Karachaganak”, a loan of USD 400 mln. provided by the US Export-Import Bank to the “Locomotive” JSC to purchase locomotives and procure equipment, to finance the North Caspian Project, construction of gas pipelines, etc.).

This growth was partially smoothed by the payments of earlier accrued dividends to direct investors, payments of coupon interest on debt securities, repayment of foreign loans as well as partial reclassification of debt liabilities to a non-debt capital by a foreign company’s branch which is engaged in gas and oil field development in Kazakhstan. There was an investors’ decision to recognize earlier incurred gas and oil field development costs of USD 1.4 bln. as unreimbursable.

The growth in liabilities of “Other sectors’ under the item “Bonds and Other Debt Securities” by USD 0.9 bln. occurred because of the growth in the value of securities held by non-residents due to the exchange rate and price fluctuations as well as the Eurobond placement by the “Samruk-Energo” JSC of USD 500 mln.

Since the external debt growth rates in 2012 exceeded the exports of goods and services growth rates (the “EGS”) and GDP, relative external debt parameters linked to those indicators slightly deteriorated (Appendix 3 to Section I Sub-section 1.4).

In particular, in December 31, 2012, the gross external debt (the “GED”) to GDP ratio accounted for 68.0% versus 66.7% at the end of 2011. The gross external debt to EGS ratio was 141.2% versus 136.1% year on year. GED to GDP in the end-2012 accounted for 35.0% versus 34.5%, and GED to EGS accounted for 72.7% as compared to 70.5% in the end-2011, excluding the inter-company debt which bears minimum risks in terms of insolvency.

At the same time, the growth in the country’s foreign assets continued to exceed the growth in foreign liabilities, that is why net external debt of Kazakhstan during 2012 decreased by USD 0.7 bln. to USD 13.9 bln. It is worth mentioning that the sectors of government and Banks still retain the position of net lender in respect to the rest of the world.

International reserves of the National Bank represent an important component of foreign assets, especially in terms of smoothing the problems with foreign exchange liquidity; in December 31, 2012 they exceeded by 2.8 times the short-term external debt on original maturity terms.

1.5. Safeguarding Financial Stability

At the end of 2012, against the background of a slowdown in external demand as well as volatility in the financial markets, the trend of some growth in major risks for financial stability of Kazakhstan remained.

A low asset quality still represents the major problem in the banking sector. The risk of economic slowdown that was realized in 2012 didn’t allow improving business activity of enterprises, which in the environment of high level of indebtedness limits the banks’ potential to improve the quality of their assets and increase their client base. At the same time, portfolio encumbrances don’t allow banks to fully satisfy the demand of enterprises and the population for credit resources.

In turn, the assessment of a potential effect of the negative macroeconomic scenario on the current level of banks’ capital adequacy shows that despite a relatively high level of expected

losses, the system's ability to absorb negative credit portfolio shocks improved. The banking system's need in additional capitalization, according to the results of stress-testing, is lower as compared to the similar assessment performed in 2011.

In general, actions aimed at encouraging banks to improve the qualitative structure of their balance sheets and the growth in their risk appetite need to be taken in order to improve the quality, dynamics of the banking sector's development and its role in financing of the economy.

Lending Activity of Banks

In 2012, banks were adhering to a conservative lending policy, which is evidenced by a gradual easing in the price and non-price lending conditions. This is related to competitive impact from the banks with foreign participation and some of the medium-sized Kazakh banks that are striving to increase their presence in the market, as well as to preferential credit facilities as part of the government programs for the support and development of the economy.

With a view to increase their loan portfolio, banks made various arrangements intended for attraction of new borrowers and retain the existing good-quality borrowers. The most popular initiatives were the improvement of the quality of customer service by reducing the time frames for considering loan applications and the improvement of credit risk management system.

In the absence of long-term funding sources, short-term types of lending, especially consumer loans appeared to be the most desirable for banks. As a result, banks were actively building up their credit portfolios of consumer loans that led to a minor decrease in the cost of retail loans.

The level of mortgage lending in 2012 was still not high, since the population is waiting for a notable decrease in loan interest rates, however, it is idle to expect such decrease in the near future.

Credit Risk

At the end of 2012, a minor decrease in the share of non-performing loans of banks in total loans (excluding the BTA Bank) is noted, mainly because of the faster growth in new loans, particularly, a retail loan portfolio (during 2012 the growth in the retail portfolio accounted for 43.3% versus 10% in the corporate portfolio). The increasing consumer activity amidst a small debt burden and the growth in gross disposable income of the households and slowing industrial production were conducive to this fact.

In absolute terms, the amount of NPLs continued to grow, mainly because of a further deterioration in quality of loans, provided to the corporate sector companies.

In their turn, provisions created against non-performing loans in line with the regulatory requirements are not fully adequate to the level of problem debt existing in some banks.

The banks' potential of using "classical" instruments of improving the asset quality, including debt restructuring, in terms of their impact on the overall level of non-performing loans, has been virtually exhausted. In order to address the problem of low asset quality, in 2012 the National Bank introduced the mechanisms of "cleaning up" the bank balance sheets from non-performing loans; under such mechanisms problem loans may be (1) transferred to the Problem Loans Fund (the "PLF") and to bank subsidiaries that would acquire doubtful and bad loans of their parent bank (DAMCs); and in addition to that (2) terms and conditions have been established for bad debt remission without additional tax liabilities for banks.

Funding and Liquidity of the Banking Sector

In 2012, the deposit base contributed to increase with the 9% growth, where deposits of legal entities increased by 1.7% and deposits of individuals – by 23.6%. Deposits of the quasi-government sector, including the National Wealthfare Fund "Samruk-Kazyna" (the "NWF "Samruk-Kazyna") decreased by 25.3%³; such decrease was related to the necessity of project financing planned by the state-owned companies.

³ The amount of funds drawn down by banks under the government programs was calculated based on the data provided by banks as of October 1, 2012

Funds allocated under the government economic support programs remain attractive for end-borrowers in terms of interest rates, however, their role in the bank funding remains insignificant. Funds drawn up by banks under the government programs accounted for only 0.6%⁴ of the bank total liabilities and 1.6% of the total bank loans.

At the end of 2012, the structure of bank funding was represented by household deposits (75.3%), two thirds of which are made up by demand liabilities and with maturities less than one year, foreign liabilities (14.5%), securities issued into circulation (8.8%), as well as interbank deposits and loans (1.4%).

The prevalence of short-term instruments in the structure of liabilities (customer current accounts, demand deposits and deposits with maturity less than one year) help maintaining a high liquidity level of banks. Thus, at the end of 2012 the ratio of assets and liabilities with maturities less than one year accounted for 0.85. Moreover, a rapid growth in the least predictable liabilities component – demand liabilities – requires appropriate accumulation of highly-liquid assets.

In 2012, in the structure of liquid assets there was a redistribution of funds from government securities to liquid assets with correspondent accounts, to demand deposits with the National Bank and other banks. The decrease in the volume of government securities in the bank portfolios is one of the factors limiting the banks' potential to attract additional liquidity both from the National Bank and in the interbank market. Thus, the National Bank enters into reverse REPOs with banks with a limited list of collateral (government securities and bonds of the “NWF “Samruk-Kazyna” issued before April 1, 2009). At the same time, the shares of unencumbered securities of the “NWF “Samruk-Kazyna” and national companies of Kazakhstan, and good quality securities of foreign issuers remain insignificant. Dues from clients referred to the “standard” category could have a certain potential, however, the market for such securities is non-existent in Kazakhstan, thus making their pricing and further floatation virtually non-feasible. Also, the issue of possible expansion of the collateral list in order to obtain liquidity from the National Bank remains current due to the lack of financial instruments in their asset structure, should the liquidity risk materialize.

Measures Taken by the National Bank to Enhance Financial Stability

In 2012, the regulatory framework was adopted that governs the activities of entities engaged in improvement of the banking sector's credit portfolio – the PLF and bank subsidiaries acquiring doubtful and loss assets from the parent banks (DAMCs), including:

- the procedure for activities carried out by the PLF;
- the procedure for determining the value of doubtful and loss assets acquired by the PLF and their requirements as well as the procedure for managing doubtful and loss assets;
- the procedure for attributing the income receivable by the PLF to income subject to tax exemption;
- the procedure for issuing and revoking the permission to establish a DAMC by a bank or a bank holding company; Fund of problem loans, Special purpose vehicles
- the procedure for the activity of DAMCs, including the time frame during which acquired doubtful and loss assets will be managed as well as their requirements, the procedure for attributing the assets transferred by banks to DAMCs to the category of doubtful and loss assets, as well as the procedure for creating provisions (reserves) for such assets;
- the procedure for attributing the income receivable by DAMCs to income from activities provided for by the legislation of the Republic of Kazakhstan on banks and banking activity.

In addition, the duration of a simplified mechanism for the remission of bad debts was extended to the end of 2013; under such mechanism, banks will not incur additional tax liabilities in case of remission of their bad debt.

In order to encourage banks to take more dynamic actions for cleaning up the balance sheets from NPLs, in 2012 the National Bank took measures of an administrative nature. In particular, thresholds for the share of NPLs in the bank portfolios are introduced (from January 1, 2013 – not

⁴ The amount of funds drawn down by banks under the government programs was calculated based on the data provided by banks as of October 1, 2012

more than 20% and from January 1, 2014 – not more than 15% of the loan portfolio); in case of their violation, early response measures provided for by the legislation will be applied to a bank and/or its shareholders.

In order to reduce the procyclical effect of provisions created by banks against loan losses, a new provisioning model was developed which will start to be implemented from 2013. The model supplements the approach to provisioning based on the incurred loss model and focused on the expected losses by the dynamic reserve. The mechanism of dynamic reserve which is widely used in Spain and Latin American countries allows generating an additional “safety cushion” in the periods of credit expansion in order to absorb losses in subsequent periods of contraction.

With a view to formulate a policy of efficient development of the financial sector, in 2012 twelve sessions of the Council for Financial Stability and Financial Market Development in the Republic of Kazakhstan were held, where important issues in the development of the banking, insurance, pension and other segments of the financial system of Kazakhstan were discussed. The following matters were discussed during the sessions: pension system reforms; implementation of the most recent recommendations of the Basel Committee on Banking Supervision (Basel III) into the Kazakhstani practice; introduction of a new concept of provisioning by banks based on the realized and expected loss models; improvement of competitive conditions for Kazakh banks in relation to additional benefits of banks with foreign participation in the use of guarantees from their parent banks with a high rating; as well as the development of opportunities related to fine-tuning the system of compulsory occupational accident insurance.

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

2.1. Monetary Policy

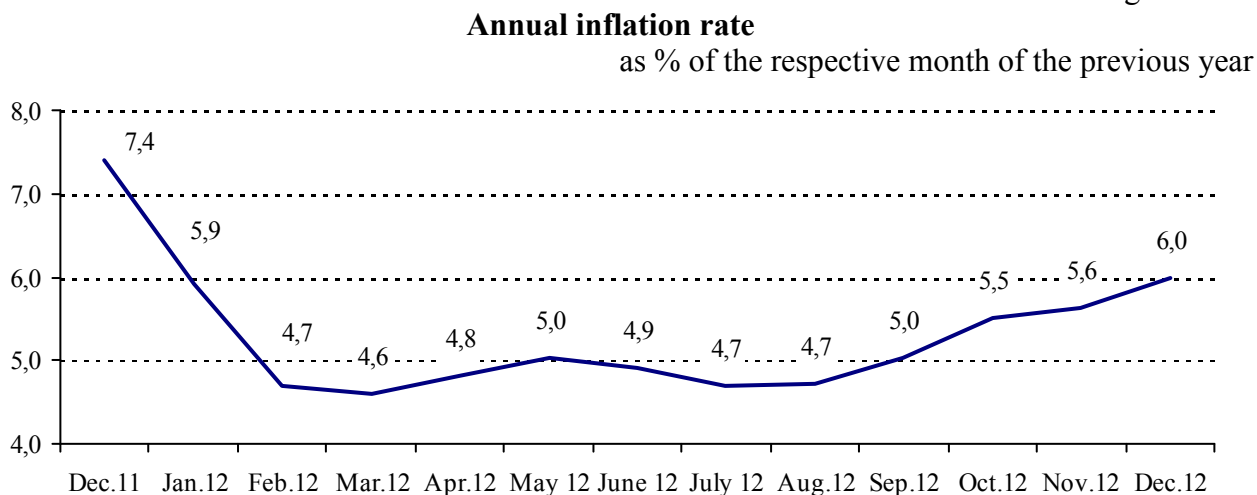
In the 1st half of 2012, the trend for slowing inflationary processes outlined. Since the fall of 2012, inflation somewhat accelerated due to increased tariffs for paid services, including utilities and transport services, as well as the impact by the seasonality factors.

The overall inflation dynamics in 2012 was stipulated by a number of factors, the most significant being the unstable situation in the global commodity markets, high level of world prices for raw materials and foodstuffs, inefficient pricing mechanism within Kazakhstan, and low competition in certain markets of goods and services.

Meantime, in 2012 the inflationary processes in Kazakhstan were building up amidst the minimal impact on the part of monetary factors. In 2012, monetary aggregates were growing at moderate pace. During 2012, the reserve money expanded by 1.9%, money supply increased by 7.9%, and the volume of cash in circulation increased by 11.9%. Money supply in the economy is generally maintained at the level corresponding to the economic growth.

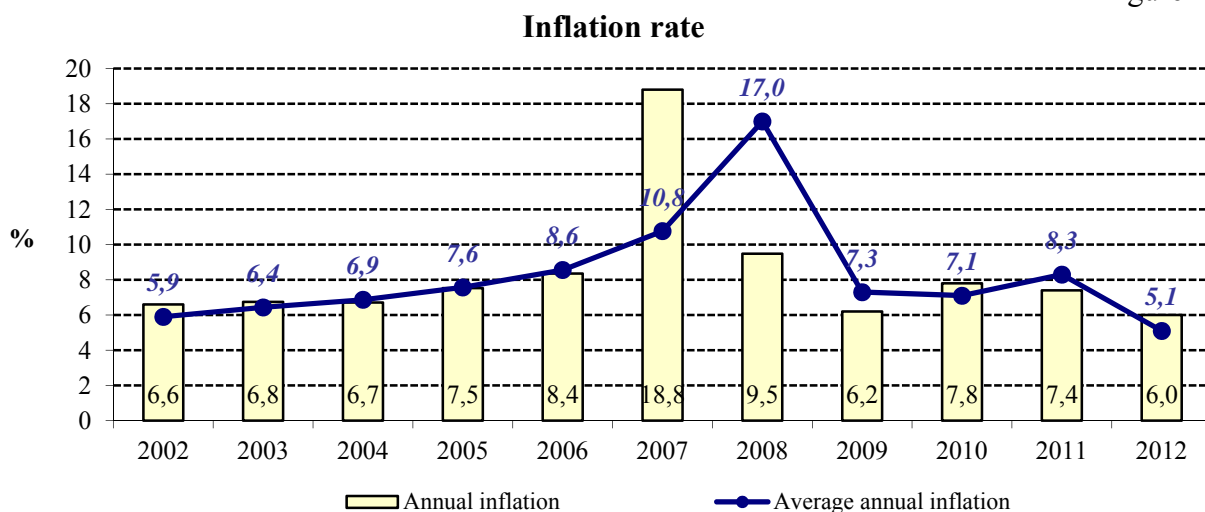
As a result, in 2012 the inflation didn't exceed the forecasted values and the annual inflation dynamics has demonstrated the lowest level since May 1999. At end-2012, the annual inflation was within the target band of 6-8% and accounted for 6.0% (Figure 2.1.1).

Figure 2.1.1



In 2012, the annual inflation was lower by 1.4 percentage points than in 2011 (Figure 2.1.2). Average annual inflation accounted for 5.1% in 2012, versus 8.3% in 2011.

Figure 2.1.2



In 2012, the rates of growth in prices for foodstuffs and non-food products slowed down significantly and those for utilities somewhat accelerated. At the beginning and at the end of the year inflationary processes were building up against the increase in prices for foodstuffs, and in the mid-year – against the increase in prices for paid services to the population. The rates of growth in prices for non-food products were moderate in 2012.

In 2012, the price of foodstuffs increased by 5.3% (in 2011 – by 9.1%), of non-food products – by 3.5% (by 5.3%), and of paid services to the population – by 9.3% (by 7.3%).

The highest growth was demonstrated by the prices for meat and meat products – by 9.5%, for utilities – by 8.2%, including hot water supply – by 10.8%, electricity – by 10.1%, district heating – by 9.3%, gas supply – by 8.8%, as well as for transport services – by 12.0%, communication services – by 12.2%, and education services – by 11.0%.

In 2012, the rates of growth in prices for industrial output of Kazakhstani producers were moderate. During 2012 as a whole, the price of industrial output increased by 2.1% (in 2011 – the growth by 20.3%).

The cost of output increased by 2.1%, including interim consumption products – by 1.2%, the cost of production means increased by 2.8%, and of consumer goods – by 9.0%. Production services increased in price by 2.7%.

Monetary Policy Instruments

In 2012, the main goal of the National Bank was to ensure the price stability in the country and maintain the annual inflation rate within 6-8%.

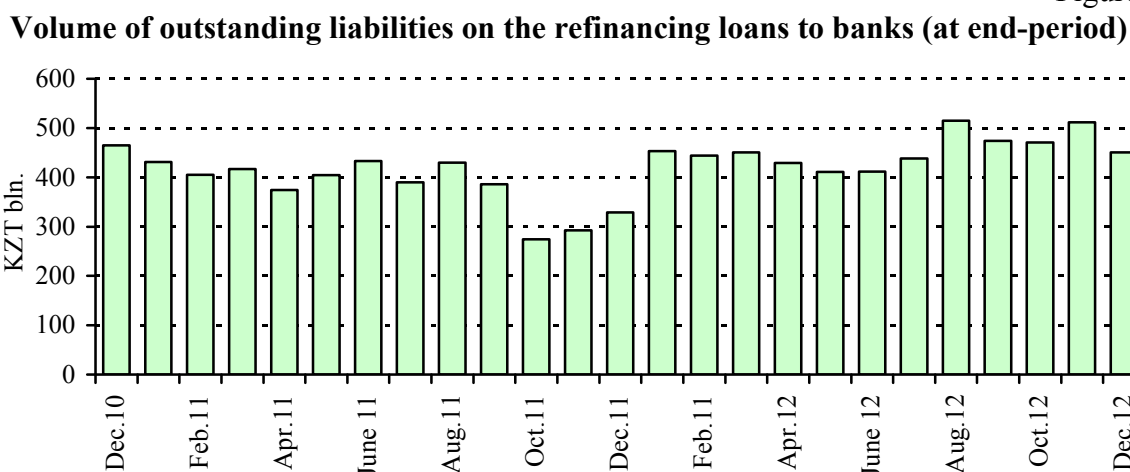
World prices for major items of Kazakhstani exports in 2012 were building up at a fairly high level. As a result, the situation in the domestic foreign exchange market remained stable. In 2012 the exchange rate of the Tenge was fluctuating within a narrow band. In 2012 the National Bank continued implementing the exchange rate policy on the basis of the managed float regime.

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

In 2012 the National Bank provided refinancing loans to banks. During 2012, the total volume of refinancing loans amounted to KZT 6.0 trln. Maturities of such operations didn't exceed 1 month.

As of the end of 2012, the volume of outstanding liabilities of banks to the National Bank on refinancing loans amounted to KZT 450.3 bln.(Figure 2.1.3).

Figure 2.1.3

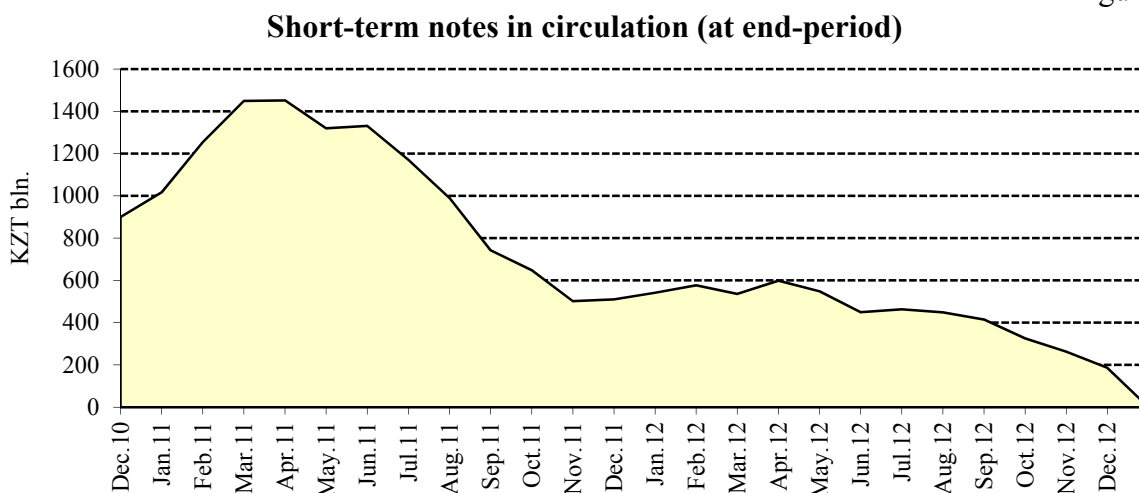


In 2012, the National Bank regulated short-term liquidity in the money market by performing operations mainly to absorb liquidity.

In the 1st half of 2012, despite a low level of interest rates, the demand for liquidity absorption instruments (issuing short-term notes and taking deposits) on the part of banks remained high. In the 2nd half of 2012, the liquidity volumes in the banking sector decreased and, respectively, the demand for such instruments on the part of banks decreased.

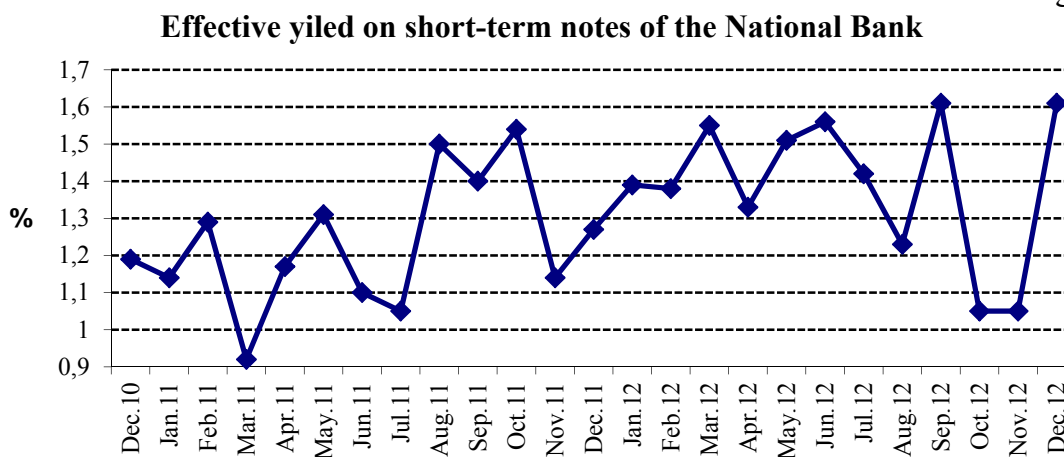
During 2012 as compared to 2011, the volume of issued short-term notes decreased by 3.5 times and amounted to KZT 857.2 bln. The volume of notes in circulation in December 2012 as compared to December 2011 decreased by 2.7 times to KZT 186.1 bln. (Figure 2.1.4).

Figure 2.1.4



The average-weighted yield on notes increased from 1.27% in December 2011 to 1.61% in December 2012 (Figure 2.1.5). In 2012, the National Bank was issuing short-term notes with 3, 6- and 9 month-maturities.

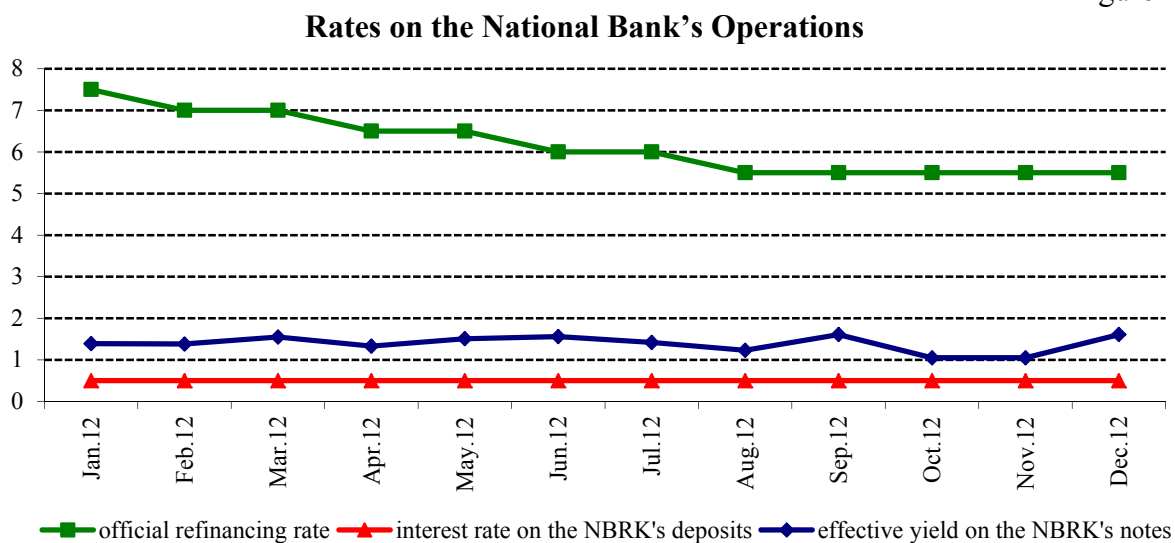
Figure 2.1.5



In 2012, deposits worth KZT 5.1 trln. were attracted from banks, which is by 2.8 times less than in 2011. As compared to December 2011, balances of bank deposits with the National Bank decreased by 37.4% and amounted to KZT 58.9 bln. as of the end of December 2012.

In 2012, the interest rate band of the National Bank had changed. Low inflation rates served as the basis for a gradual lowering of the official refinancing rate from 7.5% in February 2012 to 5.5% in August 2012 – a historical minimum. Interest rates on deposits attracted from banks remained unchanged throughout 2012 and were 0.5% on 7-day deposits and 1.0% – on one month deposits (Figure 2.1.6).

Figure 2.1.6



Minimum Reserve Requirements

In 2012, changes were made to the mechanism of minimum reserve requirements with regard to determining the minimum reserve requirement ratios per se, as well as the structure of bank liabilities employed to calculate minimum reserve requirements and the structure of reserve assets. So, cash and correspondent accounts in foreign currency were excluded from the structure of reserve assets. Building up the reserve assets of banks from the Tenge assets only will allow the National Bank to adequately assess the level of available Tenge liquidity in the money market, to be more proactive to changes in the demand for the domestic currency and, respectively, increase the efficiency of operations for liquidity regulation.

An additional criterion was introduced to differentiate between short-term (less than one year) and long-term (over one year) liabilities. Therefore, different ratios were introduced for each type of liabilities: for the domestic short-term liabilities – 2.5%, for the domestic long-term liabilities – 0%, for foreign short-term liabilities – 6.0%, and for foreign long-term liabilities – 2.5%. Differentiated regulation will help limiting the inflow of short-term speculative capital, diversifying bank portfolios, developing the market of long-term bank instruments, and reducing the pressure on foreign exchange market.

Such amendments to the minimum reserve requirements will not have negative impact on the banking sector in general.

Monetary Aggregates

In 2012, monetary aggregates had demonstrated positive dynamics of growth.

In 2012, international reserves of the National Bank decreased. Gross international reserves of the National Bank decreased by 3.6% to USD 28.3 bln. Net international reserves of the National Bank also decreased by 3.6% and amounted to USD 27.7 bln. The increased foreign currency balances of bank correspondent accounts with the National Bank, and foreign currency receipts to the Government's accounts with the National Bank were neutralized by the sale of foreign exchange in the domestic foreign exchange market, by operations for servicing the Government's external debt and replenishment of the National Fund's assets from accounts of gold and foreign currency reserves. As a result, net foreign currency reserves decreased by 12.3% in the reviewed period. Assets denominated in gold increased by 48.1% as a result of performed transactions and its price growth in the global markets.

During 2012, total international reserves of the country including foreign currency assets of the National Fund (USD 57.8 bln.) increased by 17.9% to USD 86.0 bln.

During 2012, the reserve money expanded by 1.9% and amounted to KZT 2 889.9 bln. (in 2011 – the expansion by 10.3%). The main reason for expansion in the reserve money was the growth in net domestic assets of the National Bank.

The narrow reserve money, i.e. the reserve money excluding time deposits of banks with the National Bank, expanded by 3.3% to KZT 2 831.0 bln.

During 2012, net domestic assets of the National Bank increased mainly due to the growth in loans to banks and decrease in liabilities of the National Bank to banks on short-term notes.

In 2012, the largest contraction of the reserve money (by 14.6%) was observed in July, and the maximum expansion of the reserve money occurred in January (by 19.3%).

During 2012, money supply increased by 7.9% and amounted to KZT 10 522.5 bln. due to the growth in the domestic and net foreign assets of the banking system.

In the structure of net foreign assets of the banking system in 2012, net foreign assets of banks increased whereas net foreign assets of the National Bank decreased. The growth in net foreign assets of banks was mainly caused by the decrease in bank liabilities to non-residents.

The level of monetization of the economy decreased from 35.7% at end-2011 to 35.0% at end-2012 as a result of outstripping growth in the nominal GDP (by 10.0%) versus the growth rates of money supply (by 7.9%).

The money multiplier increased from 3.44 in December 2011 to 3.64 in December 2012 as a result of outstripping growth rates of money supply versus the rates of expansion in the reserve money.

In the structure of money supply, during 2012 cash in circulation (M0) increased by 11.9% to KZT 1 528.0 bln., and deposits of residents – by 7.2% to KZT 8 994.5 bln. Thus, in the structure of the main components of the money supply the outstripping growth rates of cash in circulation versus the growth rates of deposits of residents in the banking system were observed. As a result, the share of deposits of residents in the structure of money supply decreased from 86.0% in December 2011 to 85.5% at end-December 2012.

2.2. International Assets Management

Trends in the International Assets

The total volume of gross international assets of the National Bank at end-2012 excluding closing turnovers amounted to USD 28.3 bln, which is less by USD 1.0 bln. as compared to 2011-end. This change in the amount of gross international assets was caused by a decrease in assets denominated in freely convertible currency by USD 3.04 bln.; assets denominated in precious metals increased by nearly USD 2 bln.

The change in the foreign currency portion of assets in 2012 was caused by the following.

In 2012, the volume of net sale by the National Bank at the Kazakhstan Stock Exchange (KASE) and the OTC market exceeded USD 1 bln. Net sales on operations with the Ministry of Finance of the Republic of Kazakhstan (“the Ministry of Finance”) amounted to USD 355.4 mln during the year.

Foreign exchange inflows in favour of the Ministry of Finance totaled USD13.1 bln. as tax payments by companies in the oil and gas sector and other payments. Funds of circa USD 10.6 bln were transferred into the National Fund’s stabilization portfolio. During 2012, the monies of the National Fund were converted and reconverted which resulted in a net sale of foreign currency assets of USD 1.95 bln.

In 2012, the National Bank made external debt payments on behalf of the Ministry of Finance totalling to USD 284 mln.

At the same time, world prices for gold increased from USD 1 531.0 per oz as of January 1, 2012 to USD 1 657.5 per a oz as of January 1, 2013 or by 8.3%.

Thus, based on transactions performed by the National Bank, according to the accounting records and excluding closing turnovers, net market value of the international assets decreased as compared to end-2011 by more than USD 1 bln and amounted to USD 27.7 bln.

Management of International Assets of the National Bank

In the reporting period, under the Resolution of the National Bank's Board of January 30, 2012 No. 16 and of April 28, 2012 No. 160, the Euro share in the investment portfolio was decreased by 7% in total in favor of Hongkong and Singapore dollars and the Danish krone (3%, 2% and 2%, respectively). Also, changes were made in the benchmark for the Euro sub-portfolio; the new benchmark includes core European countries, instead of countries with prime credit rating : Germany, France, Netherlands, Austria, Finland, and Luxembourg. Also, the concepts of risk hedging, benchmark portfolio as well as the list of financial instruments eligible for investments and their operations were specified, the target distribution of the strategic portfolio was changed, and definitions of alternative instruments were specified in the internal policies.

The 'Core Principles of Asset Management in Foreign Currency and Precious Metals' approved by the Resolution of the National Bank's Board of September 21, 2012 No. 292 were adopted.

In the reporting period, funds totaling about USD 2 bln were transferred from the investment portfolio of international assets of the National Bank into the strategic portfolio of international assets of the National Bank with a purpose for investing in global equities, corporate investment grade bonds, emerging market sovereign debt and convertible bonds.

In 2012, in order to support liquidity, funds with the total market value of about USD 3.5 bln were transferred from the investment portfolio of international assets of the National Bank to the liquidity portfolio of international assets of the National Bank.

With a view to diversify the management styles of international assets of the National Bank, in pursuance of the respective mandate by the Head of State, the National Bank's Board approved the Concept for Management of International Assets of the Republic of Kazakhstan. To implement the Concept, the National Bank established a Joint-Stock Company "National Investment Corporation of the National Bank of Kazakhstan" (the "National Investment Corporation"). A part of the National Bank's international assets will be transferred for fiduciary management to the National Investment Corporation for investments into alternative instruments.

Performance results of the National Bank's International Assets Management

Investment Portfolio

The market value of the investment portfolio of international assets was over USD 20 bln. at the beginning of 2012 and by the end of 2012 the market value of the investment portfolio of international assets was USD 14.8 bln. In 2012, about USD 3.5 bln were transferred to the liquidity portfolio and about USD 2 bln – to the strategic portfolio. During 2012, the investment portfolio of international assets generated an investment return (realized and unrealized), which amounted to USD 341.5 mln.

Return on the investment portfolio of international assets during 2012, denominated in the currency basket was 1.21%. As compared to the benchmark portfolio return of 0.90%, excess returns comprised 31 basis points.

Return on the investment portfolio of gold and foreign currency assets during 2012 denominated in the US Dollars accounted for 1.90%. As compared to the benchmark portfolio of return 1.59%, excess returns comprised 31 basis points.

At end-2012, the distribution of assets in the investment portfolio by instruments had the following structure: cash and cash equivalents – 0.37%, government securities – 92.68%, agency securities – 3.88%, securities of international financial institutions – 1.75%, and corporate securities – 1.33%. The distribution of assets in the investment portfolio on the yield curve had the following structure: less than 1 year – 39.71%, 1-2 years – 37.19%, 2-3 years – 22.97%, and over 3 years – 0.13%.

Strategic Portfolio

At the beginning of 2012, the market value of the strategic portfolio of gold and foreign currency assets was USD 398.5 mln., and at the year-end – USD 2.5 bln. Total returns of the components in this portfolio was 6.1%.

Such change is due to asset transfer of USD 2 bln from the investment portfolio of the international assets during the year for investing into global equities, corporate investment grade bonds, emerging market sovereign debt and convertible bonds. Returns of the strategic portfolio after the introduction of new asset classes (from 16.04.2012) totalled for 6.85%.

Liquidity Portfolio

The market value of the liquidity portfolio of international assets was USD 4.8 bln. at the beginning of 2012, and at the end of 2012 it amounted to USD 4.9 bln.

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

Gold Portfolio

With market price valuations, the volume of the gold portfolio exceeded USD 4 bln. at the beginning of 2012 and at the end of 2012 it amounted to USD 6.1 bln.

Gold purchases, both in the foreign and in the domestic market, caused the change in the portfolio volume. Total volume of net gold purchases during 2012 in the foreign market amounted to about 340 thousand oz. In domestic market gold purchases were made from the Kazakhstani enterprises through the exercise of the National Bank's priority right for gold purchase. The total net purchase volume amounted to about 729 thousand oz.

2.3. Currency Regulation and Currency Control

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

Since January 1, 2007, the licensing of foreign currency operations was cancelled and the license is only required to engage in managing the exchange operations with foreign currencies. In doing so, banks and the "KazPost" JSC manage the exchange operations with foreign currencies as part of their banking activities (a separate license is not required).

In order to collect statistical information about operations related to capital movement (financial loans, direct investments, commercial credits, and accounts with foreign banks), a regime of registration and notification is implemented in Kazakhstan. Information obtained as part of these regimes is used to prepare statistical and analytical information on the balance of payments, international investment position and gross external debt.

Registration and notification regimes record large capital movement operations which provided for inflow of capital (property, monies) into the Republic of Kazakhstan in the amount exceeding the equivalent of USD 500 000 or the transfer of capital (monies, property transfer) from the Republic of Kazakhstan in the amount exceeding the equivalent of USD 100 000.

With a view to ensure the supply of foreign exchange in the domestic foreign exchange market, the foreign currency legislation of the Republic of Kazakhstan provides for the requirement to repatriate the currency of proceeds from exports of goods (works, services) and repayment of the advance payment for imports of goods (works, services) unused by a non-resident to the bank accounts with authorized banks. Under the existing legislation, the time frame during which the repatriation should be carried out, is determined solely by the terms and conditions of a foreign trade contract. Control over the execution of the repatriation requirement is exercised in respect of foreign trade transactions in the amount exceeding the equivalent of USD 50 000, through the record registration of a foreign trade contract with a commercial bank that provides services to a resident involved in a foreign trade transaction.

In 2012, the National Bank's effort in the area of currency regulation and control was aimed to further simplify the procedure for performing certain types of foreign currency operations by residents, to fine-tune the procedures for currency regulation regimes and simplify and optimize the approval procedures and currency control.

In 2012, amendments to the laws of the Republic of Kazakhstan "On the National Bank of the Republic of Kazakhstan", "On Currency Regulation and Currency Control" and "On Licensing" were made. Accordingly, during 2012 new versions of the "Rules for Foreign Currency Operations in the Republic of Kazakhstan", "Rules for Export and Import Control in the Republic of Kazakhstan and for Obtaining Registration Numbers on Export and Import Contracts by Residents" came into effect; also, amendments were made to the "Rules for Managing Currency Exchange Operations with Foreign Cash in the Republic of Kazakhstan". In addition, the "Instruction for Monitoring the Demand and Supply Sources as well as Areas of Foreign Exchange Use in the Domestic Foreign Exchange Market" was adopted in a new version.

Regulation of the Exchange Office Operations

As of January 1, 2013, 3 016 exchange offices including 2 051 exchange offices of banks (including 4 automated exchange offices), 922 exchange offices of the authorized organizations (non-bank legal entities) and 43 exchange offices of the "KazPost" JSC were operating within the Republic of Kazakhstan.

During 2012, the National Bank's branches issued 25 licenses to the authorized organizations for arranging exchange operations with foreign cash. The authorized organizations returned 15 licenses on a voluntary basis.

During 2012, 320 registration certificates for the exchange offices were issued to banks and authorized organizations, 289 registration certificates for the exchange offices were returned on a voluntary basis.

Amendments simplifying the licensing procedure for managing foreign currency exchange operations were made by the Resolution of the National Bank's Board of July 4, 2012 No. 202 "On Amendments to the Resolution of the Board of the National Bank of the Republic of Kazakhstan of October 27, 2006 "On Approval of the Rules for Managing Exchange Operations with Foreign Cash in the Republic Kazakhstan".

Regimes of Currency Regulation

In 2012, within the framework of registration of foreign currency transactions, regional branches of the National Bank issued 1551 registration certificates, including on the following types of transactions:

- credits to non-residents by residents – 284;
- credits to residents by non-residents – 891;
- direct investments in Kazakhstan by non-residents – 271;
- direct investments abroad by residents – 82;
- other capital movements – 23.

In 2012, within the framework of notification about foreign currency transactions, regional branches and the head-office of the National Bank issued 325 certificates of notification, including:

- credits by non-residents to banks – 95;
- direct and portfolio investments in Kazakhstan by non-residents – 23;
- direct and portfolio investments abroad by residents – 29;
- transactions with financial derivatives – 3;
- other capital movements – 20;
- opening account abroad by residents – 155.

Pursuant to the Law of the Republic of Kazakhstan "On Amendments to Some Legislative Acts of the Republic of Kazakhstan Regarding Currency Regulation and Currency Control" of January 6, 2012, the National Bank's Board passed the Resolution "On Approval of the Rules for Foreign Currency Operations in the Republic of Kazakhstan" dated April 28, 2012 No. 154, which

ensure simplification of the procedure under which residents can engage in certain types of foreign currency operations, and fine-tuning of the procedures for currency exchange regulation regimes.

Export and Import Currency Control

The National Bank exercises control over the compliance by residents with the requirement to repatriate foreign and domestic currency on export and import transactions through export and import currency control (the “EICC”). The EICC framework is implemented by comparing the information on cash flows and flows of goods under a contract that is provided by banks and the customs authorities within the automated EICC framework. For the purposes of EICC, authorized banks used to prepare deal passports on export and import contracts when their amount exceeded the equivalent of USD 50 000.

The Law of the Republic of Kazakhstan “On Amendments to Some Legislative Acts of the Republic of Kazakhstan Regarding Currency Regulation and Currency Control” provides for exclusion of the “deal passport” concept and introduction of a procedure for the record registration of a foreign trade contract.

To realize provisions of the Law, from July 1 2012 the National Bank brought into effect the Resolution of its Board “On Approval of the Rules for Export and Import Control in the Republic of Kazakhstan and for Obtaining Registration Numbers on Export and Import Contracts by Residents” dated February 24, 2012 No. 42; the Resolution established the procedures for the record registration of contracts and also made provisions for the specifics of control over compliance with the repatriation requirement in respect of transactions that imply the transfer of goods within the Customs Union and that do not require customs clearance for the goods. Such procedures have been developed in cooperation with the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan.

Administrative Proceedings in Relation to Violations of the Foreign Currency Legislation

In 2012, efforts to detect and preclude administrative violations of the foreign currency legislation were continued.

During 2012, for violations in the area of foreign currency legislation and provision of primary statistical data, 1 445 cases of administrative offence were initiated. 79 remedial actions were taken in respect of banks and authorized organizations for violations of the foreign currency legislation.

In addition, 8 registration certificates of exchange offices of two authorized organizations were suspended.

Based on the amendments made to the Administrative Code in relation to the foreign currency legislation and government statistics, and introduced from August 1, 2012: set of elements of an offence was specified including by separating some of the elements into separate articles of the Administrative Code; reduced amounts of penalties; imposition of penalties in case of recurring violations; some of the elements of an offence of minor importance; as well as competence in relation to cases initiated under Article 187 of the Administrative Code; transferring the cases to another level of courts.

Examination of Matters Related to Currency Control

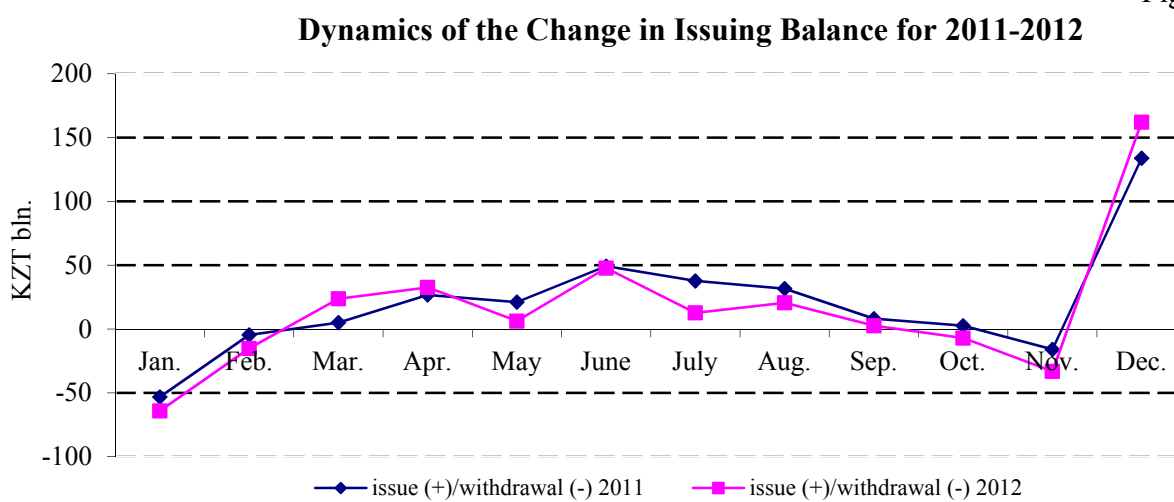
During 2012, the National Bank (its branches and the head office) conducted 896 inspections of banks, organizations engaged in certain types of banking operations, other legal entities and individuals in respect of compliance with foreign currency legislation, including 350 scheduled inspections (of which – 234 inspections of authorized organizations, and 116 – of the authorized banks/branches) and 546 unscheduled inspections (of which – 2 inspections of authorized organizations, 10 – of the authorized banks/branches, inspections of other legal entities in respect of compliance with foreign currency legislation – 505 and individuals – 29).

III. ISSUING OPERATIONS AND CASH CIRCULATION

The year 2012 was characterized by the decreased demand in cash by economic entities, as compared to the previous year.

During 2012, KZT 2 572.3 bln. were issued into circulation from the National Bank's reserve funds, which is by KZT 310.3 bln.(13.7%) greater than the issue of cash into circulation during 2011 (KZT 2 262.0 bln.). The volume of cash withdrawn from circulation in 2012 increased by KZT 363.7 bln. (the growth by 18.0%) and amounted to KZT 2 383.7 bln. (in 2011 – KZT 2 020.0 bln.). Thus, there was a positive issuing balance of (+)188,6 bln., which is by KZT 53.4 bln. less than in 2011 (KZT 242.0 bln.).

Figure 3.1



In the reporting year the issuing balance was lower than the respective indicator for the prior year as a result of significant growth in the amount of cash withdrawn from circulation in January-February and the decreased issue of cash in circulation during May-November.

IV. PAYMENT SYSTEMS

In 2012, the National Bank continued its effort to further develop the payment systems of Kazakhstan and to fine-tune its regulations in the area of payments and money transfers.

In the reporting period, 2 electronic money systems were launched in Kazakhstan, allowing making payments for goods and services via the Internet and other services sought-for by the population with the help of electronic money. Also, the work related to the development and connection of banks to the system of retail payments processing by the Kazakhstan Interbank Settlements Center of the National Bank of the Republic of Kazakhstan (the "KISC") was continued (the number of banks – users of the system – increased from 8 to 13).

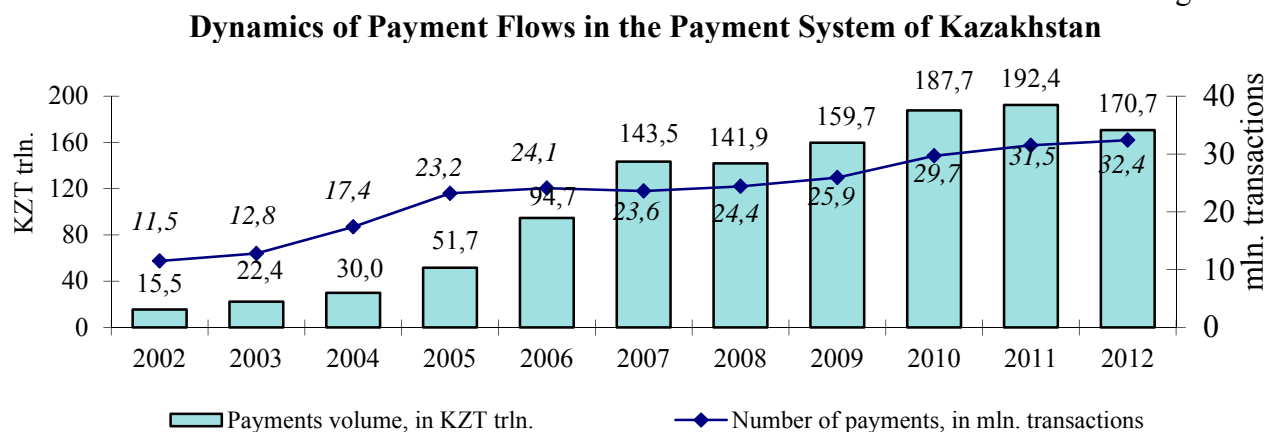
As part of the project for transition to the use of unified identification numbers of individuals and legal entities, throughout 2012 the National Bank was engaged in a comprehensive effort to arrange, coordinate and monitor the actions of all payment systems users and their operator in respect of implementation of preliminaries; inter alia, automated information systems of payment systems users and sub-systems of the National Bank and payment systems of the KISC were tested. Based on the works done from December 30, 2012 through January 1, 2013, the transition of payment systems of the Republic of Kazakhstan to the use of identification numbers of individuals and legal entities was accomplished.

In 2012 as a whole, 32.4 mln. transactions amounting to KZT 170.7 trln. (or USD 1 144.8 bln.) were processed in the payment systems of Kazakhstan. As compared to 2011, the number of

payments in the payment systems increased by 2.8%, and the amount of payments decreased by 11.3%.

In 2012, the operability coefficient of the Interbank System of Money Transfers (the “ISMT”) was 99.989%, and that of the Interbank Clearing System (the “ICS”) – 99.998%, which is a sign of high efficiency of the payment systems operation.

Figure 4.1.



At the same time, 97.5% of the total amount of non-cash payments in the country and 38.0% of their total number were effected through the ISMT, which is a systemically important payment system of the country; this totals 12.3 mln. transactions in the amount of KZT 166.5 trln. (USD 1 116.5 bln.) and exceeds the Kazakhstan’s GDP by 5.5 times. As compared to 2011, the number of payments in the system increased by 3.9%, and the amount of payments decreased by 11.8%.

In the ICS, where a large number of retail payments are made, 62.0% of the total number of all non-cash payments and 2.5% of their total volume were processed, totaling 20.1 mln. payment documents in the amount of KZT 4 218.5 bln. (or USD 28.3 bln.). As compared to 2011, the number of documents in the clearing system increased by 2.2%, and the amount of payments increased by 13.3%.

During 2012 as a whole, banks and the KazPost JSC performed 310.3 mln. transactions amounting to KZT 124 948.2 bln. (or USD 838.0 bln.) with the use of payment instruments⁵ (Table 4.1).

Table 4.1

Information about the Use of Payment Instruments

(in thousands of transactions and KZT bln.)

Payment Instrument		2011		2012		Change (%/times)
		Value	As % of the Total Volume	Value	As % of the Total Volume	
Payment Instructions ⁶	Quantity	101 162.0	39.2%	122 011.0	39.3%	20.6%
	Amount	119 776.6	92.2%	118 868.1	95.1%	-0.8%
Payment	Quantity	53.2	0.02%	533.7	0.2%	10.0 times

⁵ Payment documents on passed customer payments and on own transactions of banks and KazPost via ISMT, ICS, correspondent accounts with the National Bank, nostro and loro accounts, except the correspondent account with the National Bank, within the Republic of Kazakhstan, and the system of money transfers within the Republic of Kazakhstan, are taken into account.

⁶ Payment instructions of clients of banks and the KazPost as well as payment instructions of banks and the KazPost on their own operations are taken into account.

Orders-Instructions	Amount	39.7	0.03%	3.1	0.002%	-92.2%
Collection Orders	Quantity	253.7	0.1%	84.0	0.03%	-66.9%
	Amount	327.3	0.3%	32.8	0.03%	-90.0%
Payment Cards	Quantity	155 671.6	60.3%	187 645.9	60.5%	20.5%
	Amount	4 347.5	3.3%	5 562.6	4.5%	27.9%
Other Instruments ⁷	Quantity	1 235.3	0.5%	32.6	0.01%	-97.4%
	Amount	5 434.6	4.2%	481.6	0.4%	-91.1%
Gross Total	Quantity	258 375,9	100.0%	310 307.2	100.0%	20.1%
	Amount	129 925.7	100.0%	124 948.2	100.0%	-3.8%

At the same time, special attention is given to the development of the payment card market, which is characterized by the growth in a number of card issuers and acquirers, the number of issued cards and their holders, transaction volumes as well as expansion of the range of potential new card products and services. So, the overall number of issued and distributed payments cards by the Kazakh banks and the “KazPost” JSC was 12.1 mln. at January 1, 2013, which exceeds the level for the respective period of the last year by 26.9%. The number of their card holders amounted to 11.1 mln. individuals, having increased by 25.1% as compared to the respective period of the last year.

There are 14 173 sales outlets in Kazakhstan that accept payments cards, which exceeds their number recorded as of January 1, 2012 by 2 140 pieces. As of January 1, 2013, the payment card service network in Kazakhstan is represented as follows: 8 652 ATMs (the growth by 542 units versus January 1, 2012), 31 318 POS–terminals (the growth by 4 721 units) and 202 imprinters (the decrease by 411 units). As of January 1, 2013, there were 483 individuals in a community per 1 terminal, and 1 860 individuals – per 1 ATM.

During 2012, 187.6 mln. transactions with the use of payment cards of the Kazakh issuers amounting to KZT 5 562.6 bln. (USD 36.3 bln.) were performed. As compared to 2011, the number of transactions increased by 20.5%, and the amount – by 27.9%.

V. FINANCIAL MARKET

5.1. Foreign Exchange Market

In 2012, the domestic foreign exchange market was developing with minimal involvement of the National Bank in maintaining the exchange rate of the Tenge.

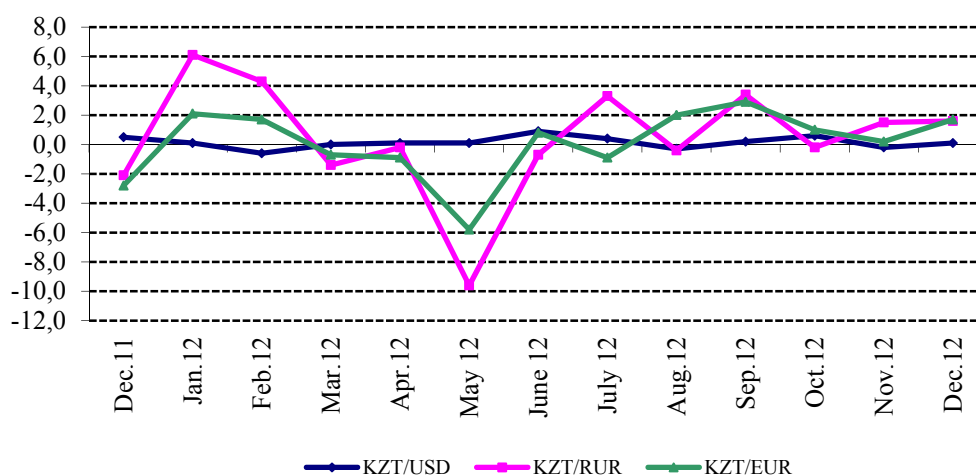
In 2012, the average-weighted exchange rate of the Tenge was KZT 149.08 per 1USD. The stock exchange rate amounted to KZT 150.74 per 1 USD at the year-end. Over the year the Tenge has depreciated in nominal terms versus the US Dollar by 1.58%.

During 2012, the official exchange rate of the Tenge versus the Euro depreciated by 3.73%, and versus the Russian ruble – by 7.16% (Figure 5.1.1).

⁷ Other payment instruments include check payments for goods and services, executed letters of credits and direct bank account debiting.

Figure 5.1.1

**Dynamics of the Exchange Rate of the Tenge versus the US Dollar,
Euro and Russian ruble,
as % of the previous month⁸**



In 2012, the decreased volumes of foreign currency transactions were observed at the Kazakhstan Stock Exchange and in the interbank market.

The volume of stock exchange trading in the US Dollar position amounted to USD 55.4 bln., having decreased by 21.6% as compared to 2011. The minimum transaction volume was observed in January and the maximum – in August.

In the off-exchange forex market the volume of transactions performed by resident banks decreased by 25.3% as compared to 2011 and amounted to USD 26.9 bln. The minimum transaction volume was observed in March and the maximum – in December 2012.

The shares of transactions with the Russian ruble and the Euro were insignificant in the turnover of the stock exchange and off-exchange segments of the foreign exchange market. In the stock exchange market the volume of transactions with the Russian ruble increased by 59.1% to RUR 8.3 bln., and the volume of transactions with the Euro decreased by 95.9% to €12.4 mln. In the off-exchange forex market the volumes of conversions of the Russian ruble decreased by 21.1% to RUR 4.0 bln., and the volumes of conversions of the Euro decreased by 5.3% to €519.3 mln.

Just as in the past years, the preference in the foreign cash market was made to the US Dollar. In 2012 the volumes of net sales by exchange offices amounted to USD 13.0 bln., having increased by 4.4%. The volumes of net sales of the Russian ruble by exchange offices increased by 31.0% to RUR 18.4 bln. The volumes of the Euro decreased by 15.6% to €7.8 bln.

At end-2012, the real effective exchange rate index (the “REER” index) was by 12.0% higher than the baseline level of competition in December 2000. Versus December 2011, the appreciation accounted for 0.1%.

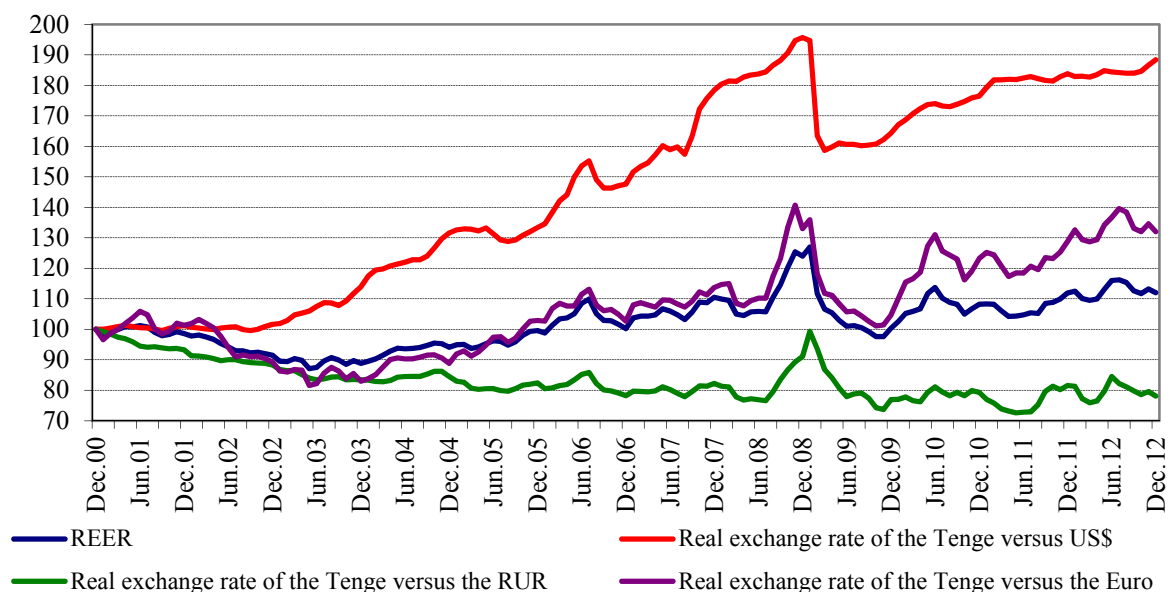
During 2012, the depreciation of the REER index versus the currency basket of the CIS accounted for 3.3%, while the Tenge has appreciated by 1.2% versus the currencies of other countries.

⁸ “+” – appreciation of the Tenge versus a foreign currency, “-“ - depreciation of the Tenge versus a foreign currency.

Figure 5.1.2

Indices of the Real Exchange Rate of the Tenge

December 2000 = 100%



5.2. Interbank Money Market

In 2012 as compared to 2011, the total volume of placed interbank deposits decreased by 35.0% and amounted to the equivalent of KZT 20.3 trln.

The volume of placed interbank deposits in the Tenge decreased by 62.2%, amounting to KZT 5.2 trln. (25.8% of the total volume of deposits placed in 2012). The average-weighted interest rate on placed interbank Tenge deposits increased from 0.57% in December 2011 to 1.23% in December 2012.

The volume of deposits attracted from banks by the National Bank in 2012 decreased by 62.8% and amounted to KZT 5.0 trln.

In 2012, the volume of placed Dollar deposits amounted to USD 93.5 bln., having decreased by 7.5% (68.6% of the total volume of deposits placed in 2012). The average weighted interest rate on placed US Dollar deposits in December 2012 was 0.13%, whereas in December 2011 it was 0.26%.

The placements in the Euro and Ruble deposits are insignificant – 3.0% and 2.5% of the total volume of deposits placed, respectively.

The share of interbank deposits in foreign currency has increased over the year from 55.6% in 2011 to 74.2% in 2012. The major share of foreign currency deposits (73.2%) was placed with non-resident banks.

5.3. Deposit Market

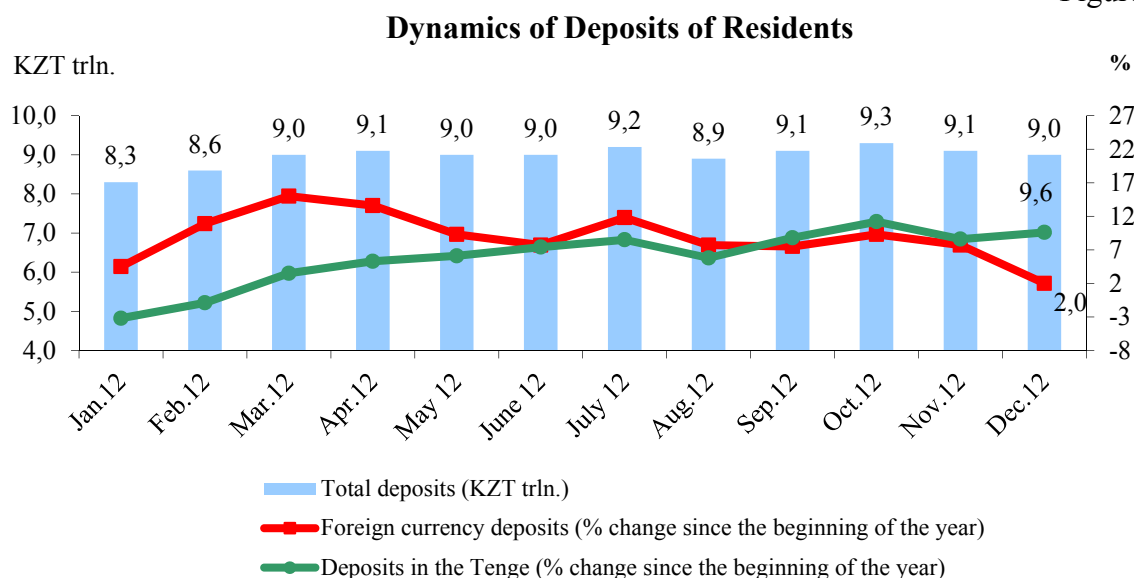
In 2012, the growth rate of deposits of residents with depository institutions slowed down to 7.2% as compared to 14.3% in 2011, and the volume of savings reached KZT 8 994.5 bln. or USD 59.8 bln. in the foreign currency equivalent. The volume of deposits to GDP decreased from 30.4% to 29.9%.

The slowdown in the growth of the deposit base was caused by decreased deposits of legal entities. During 2012, deposits of non-bank legal entities decreased by 0.7% to KZT 5 622.7 bln., and deposits of individuals increased by 23.8% to KZT 3 371.8 bln.

The structure of deposits by types of currencies had undergone changes caused by a higher rate of growth in the Tenge deposits as compared to an insignificant increase in foreign currency

deposits, resulting in the growth in the percentage of the Tenge deposits in the total deposit volume from 68.6% to 70.2%. During 2012, deposits in the domestic currency increased by 9.6% to KZT 6 311.5 bln., and foreign currency deposits increased by 2.0% to KZT 2 683.0 bln. (Figure 5.3.1).

Figure 5.3.1



During 2012, deposits of the population with the banks (including accounts of non-residents) increased by 23.6% to KZT 3 409.5 bln. Deposits of the population in the Tenge increased by 29.7% to KZT 2 072.5 bln., and foreign currency deposits increased by 15.2% to KZT 1 337.0 bln., resulting in the decreased level of dollarization of personal savings. As a result, the percentage of deposits of the population in the Tenge increased from 57.9% to 60.8%.

5.4. Credit Market

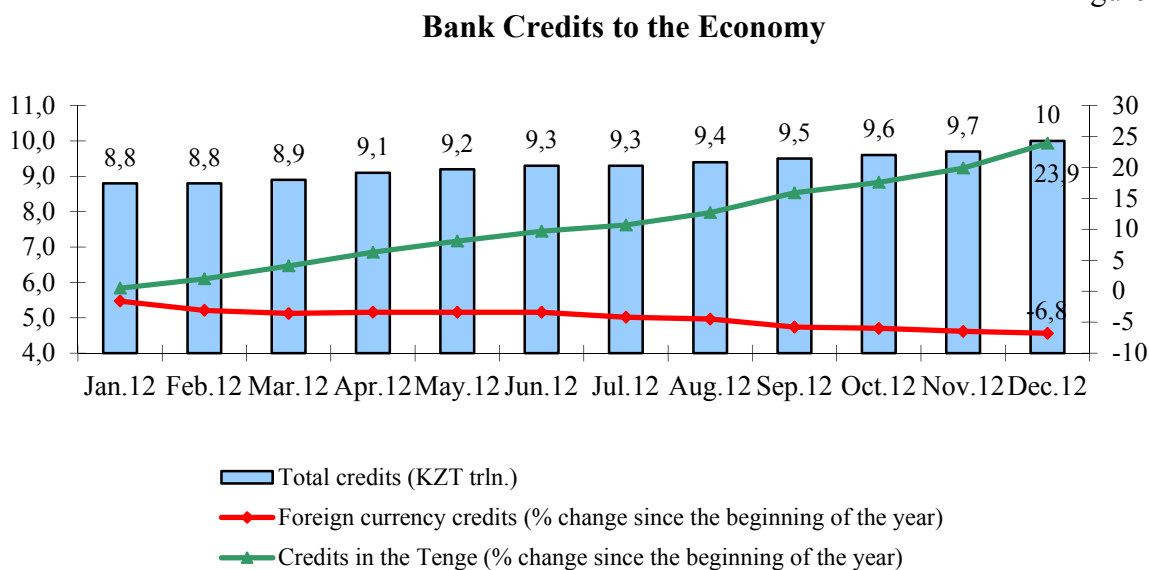
In 2012, the volume of bank credits to the economy increased by 13.0% and reached KZT 9 958.0 bln. (USD 66.3 bln.). The ratio of credits to GDP in 2012 as compared to 2011 increased from 32.0% to 33.1%.

During 2012, credits to legal entities increased by 9.9%, amounting to KZT 7102.7 bln., and credits to individuals increased by 21.7% to KZT 2855.3 bln. The percentage of credits to individuals grew from 26.6% to 28.7%.

The decreased lending activity was only observed in the foreign exchange segment of the credit market; this, in its turn, ensured the growth in the percentage of the Tenge credits in the total volume from 64.5% to 70.7%.

As a result, during 2012 foreign currency credits decreased by 6.8% to KZT 2 916.7 bln., whereas credits in the domestic currency increased by 23.9% to KZT 7 041.3 bln. (Figure 5.4.1).

Figure 5.4.1



In the sectoral breakdown, the largest amount of credits to the economy falls on the trade – 20.1%, construction – 14.0%, industry – 12.0%, transport – 4.3%, and agriculture – 3.2%.

5.5. Government Securities Market

In 2012, 101 auctions were held on government securities issued by the Ministry of Finance. As compared to 2011, the emission volume increased by 58.3% and amounted to KZT 1 066.7 bln., including short-term securities – KZT 80.8 bln., medium-term notes – KZT 235.1 bln., and short-term notes – KZT 750.8 bln.

As of January 1, 2013, the volume of outstanding government securities of the Ministry of Finance denominated in the domestic currency amounted to KZT 2 905.2 bln. at a discounted price, having increased during 2012 by 39.7%, including: short-term securities – KZT 80.8 bln., medium-term securities – KZT 591.0 bln., and long-term securities – KZT 2233.4 bln.

During 2012, the volume of placed short-term notes decreased by 71.1% and amounted to KZT 857.2 bln. The average-weighted yield of short-term notes of the National Bank issued during 2012 was at 1.46% per annum (in 2011 – 1.21%), with the average-weighted maturity of 153.9 days (in 2011 – 121.43 days). As of January 1, 2013, there were short-term notes in circulation of KZT 186.1 bln. (at a discounted price).

National Bank's Operations in the Secondary Government Securities Market

During 2012, the National Bank made purchases of government securities. The volume of government securities purchased amounted to KZT 32.77 bln. at par. In 2012, the National Bank didn't perform any operations on early repurchase of short-term notes or direct REPO operations.

Reverse REPO operations amounted to KZT 6 225.77 bln., their average maturity was 26.11 days and their average-weighted yield was 6.17% pa.

At January 1, 2013, the government securities portfolio of the National Bank amounted to KZT 33.18 bln.

VI. REGULATORY ACTIVITY

With a view to refine the financial and banking legislation, legislation in the area of payment systems and foreign currency legislation, in 2012 the National Bank drafted the following laws:

1) The Law of the Republic of Kazakhstan “On amendments to certain legislative acts of the Republic of Kazakhstan on the matters of regulation of the banking activities and financial organizations with regard to risk minimization” dated December 28, 2011 No. 524-IV;

2) The Law of the Republic of Kazakhstan «On amendments to certain legislative acts of the Republic of Kazakhstan related to currency exchange regulation and currency control” (signed by the President of the Republic of Kazakhstan (the “President”) on January 6, 2012 No. 530-IV);

3) The Law of the Republic of Kazakhstan “On amendments to certain legislative acts of the Republic of Kazakhstan on the matters related to operation of the National Bank of the Republic of Kazakhstan, regulation of the financial market and financial organizations” (signed by the President on July 5, 2012 No. 30-V 3PK);

4) The Law of the Republic of Kazakhstan as of September 27, 2012 No. 39-V “Concerning validation of the Agreement on fundamental principles of foreign exchange policies of the member countries of the Eurasian Economic Community on regulation and control of operations related to capital movement” (signed by the President on September 27, 2012 No. 39-V);

5) The Law of the Republic of Kazakhstan “On Microfinance Organizations” (signed by the President on November 26, 2012 No. 56-V 3PK);

6) The Law of the Republic of Kazakhstan “On amendments to certain legislative acts of the Republic of Kazakhstan related to activities of microfinance organizations” (signed by the President on November 26, 2012 No. 57-V 3PK);

7) The draft Law of the Republic of Kazakhstan “On amendments to certain legislative acts of the Republic of Kazakhstan related to insurance and Islamic finance”.

With a view to implement the President’s mandate as of November 14, 2011 No. 2124-36, the National Bank prepared the draft Presidential Edict of the Republic of Kazakhstan “On amendments to the Presidential Edict of the Republic of Kazakhstan dated October 28, 2007 No. 501 “On actions to optimize the civil servant jobs” (passed on April 8, 2012 No. 293). The draft provides for amendments to the job register of administrative civil servants in respect of existence of departments in the structure of the Financial Supervision Committee and thereby referring the position of the Deputy Chairman of the Financial Supervision Committee to the C-1 Category.

In 2012, with a view to implement the Law of the Republic of Kazakhstan dated July 5, 2012 No. 30-V “On amendments to certain legislative acts of the Republic of Kazakhstan on the matters related to operation of the National Bank of the Republic of Kazakhstan, regulation of the financial market and financial organizations”, the National Bank of the Republic of Kazakhstan prepared the draft Presidential Edict of the Republic of Kazakhstan “On approval of the List of positions of the staff of the National Bank of the Republic of Kazakhstan and its institutions and on amendments to the Presidential Edict of the Republic of Kazakhstan dated December 28, 2007 No. 501 “On actions to optimize the civil servant jobs” (passed on November 15, 2012 No. 432). The draft provides for approval by the President of the List of positions for the staff of the National Bank by categories with regard to excluding positions of the staff of the National Bank and its institutions from the Section “Group of Categories C”.

To implement the Laws of the Republic of Kazakhstan ”On amendments to certain legislative acts of the Republic of Kazakhstan on the matters related to operation of the National Bank of the Republic of Kazakhstan, regulation of the financial market and financial organizations”, “On Microfinance Organizations”, “On amendments to certain legislative acts of the Republic of Kazakhstan related to operation of microfinance organizations”, as well as in order to ensure conformity with the Standard Statute of a Government Authority approved by the Presidential Edict dated October 29, 2012 No. 410, the National Bank prepared the draft Presidential Edict “On certain matters pertinent to the National Bank of the Republic of Kazakhstan” (passed on December 29, 2012 No. 458).

In 2012, with a view to implement the existing legislative acts and the newly passed legislature of the Republic of Kazakhstan, the National Bank prepared the draft Presidential Edict “Recognizing as void the Presidential Edict of the Republic of Kazakhstan dated December 14, 2011 No. 196 “On approval of public service standards of the National Bank of the Republic of

Kazakhstan and recognizing as void some of the Presidential Edicts of the Republic of Kazakhstan”.

In 2012, the National Bank reviewed and provided its conclusions on 71 draft laws that were submitted for coordinated approvals by the government authorities of the Republic of Kazakhstan.

During 2012, 169 regulations of the National Bank were registered with the Ministry of Justice (Appendix 1 to Section VI).

Regulation of the Banking and Non-Bank Sectors

In 2012, a comprehensive effort was made to refine regulations of the Republic of Kazakhstan, including as part of implementation of the following legislative acts of the Republic of Kazakhstan:

1) The Law of the Republic of Kazakhstan “On amendments to certain legislative acts of the Republic of Kazakhstan on the matters of regulation of the banking activities and financial organizations with regard to risk minimization”;

2) The Law of the Republic of Kazakhstan “On Microfinance Organizations”;

3) The Law of the Republic of Kazakhstan “On amendments to certain legislative acts of the Republic of Kazakhstan related to operation of microfinance organizations”;

4) The Law of the Republic of Kazakhstan “On amendments to certain legislative acts of the Republic of Kazakhstan on Taxation”.

Within the framework of the Law of the Republic of Kazakhstan “On amendments to certain legislative acts of the Republic of Kazakhstan on the matters of regulation of the banking activities and financial organizations with regard to risk minimization” measures were taken aimed at strengthening consolidated supervision of bank conglomerates through minimization of risks of financial organizations from transactions with their affiliates, as well as measures to ensure transparency in the operation of banks. Specifically, the following actions were taken:

- transparency framework in the operation of financial organizations has been implemented;
- the system of corporate governance in financial organizations has been improved;
- a number of regulations governing the activities of bank subsidiaries purchasing doubtful and bad assets of their parent banks were passed;
- a list of related parties of a bank conglomerate was specified ;
- the National Bank adjusted the procedure under which a credit bureau provides a bank guarantee report;
- a set of measures was established to ensure that a bank holding company as well as a large participant of a bank maintain capital adequacy ratios for a bank and a bank conglomerate;
- requirements to the internal policy on compensations to managerial staff in financial organizations were established ;
- the formation of a credit bureau with the government’s share of participation was formalized (on September 19, 2012 the joint-stock company “Public Credit Bureau” was established).

The laws of the Republic of Kazakhstan are directed towards further development of the microlending market, promotion of the protection of rights and interests of potential borrowers, transparency in the activities of microlending organizations, increasing their investment attractiveness and stimulation of effective competition.

With a view to implement these laws, the National Bank’s Board passed 33 regulations.

Regulation of the Insurance Sector

In this segment of the financial market the efforts were made to improve the regulatory environment in the following areas:

mitigating risks pertinent to compulsory insurance: particularly, in respect of the compulsory worker occupational accident insurance it was proposed to solve the problem of occupational diseases ;

strengthening control over reinsurance transactions and insurance intermediaries by encouraging self retention and establishing requirements for insurance agents.

In 2012, the National Bank's Board passed 19 regulations with a view to regulate the insurance sector. Actions taken in 2012 were focused on improvement of regulations of insurance organizations and on further development of the insurance market infrastructure.

Regulation of the Pension Sector

With a view to improve the regulation of the activities of APFs and OEIMPAs that would promote financial stability of the accumulative pension system, prevent the crisis developments and ensure respect for depositors' rights, 22 regulations were passed in 2012.

Regulation of the Securities Market

Within the framework of advancing the infrastructure of the stock market, in 2012 legal conditions have been created by passing 42 regulations. With a view to advance the infrastructure of the securities market, the "Unified Securities Registrar" in the form of a joint-stock company was established, which from January 1, 2013 is a sole entity within the Republic of Kazakhstan to engage in maintaining the system of securities holders registers.

Foreign Currency Regulation

As part of currency exchange regulation, 4 regulations were passed aimed at simplifying the procedure of some foreign currency operations, improving the administration of procedures for currency exchange regulation regimes and currency control procedures.

Regulation of Accounting

With a view to improve regulation of accounting and financial reporting as well as to automate accounting records of certain entities of the financial market, 9 regulations were passed.

Regulation of Cash Circulation

In the area of regulation of cash circulation, 12 regulations were passed aimed at improving the regulation of the domestic cash circulation as well as activities of financial organizations related to cash operations and collection of banknotes, coins and valuable items.

Monetary Policy Implementation

In 2012, the National Bank's Board passed 4 regulations registered with the Ministry of Justice of the Republic of Kazakhstan for the purposes of its monetary policy implementation.

Regulation of Payments and Money Transfers

In 2012, the National Bank's Board passed 10 regulations registered with the Ministry of Justice of the Republic of Kazakhstan for the purposes of regulation of payments and money transfers.

Gold and Foreign Currency Assets Management

In 2012, the National Bank's Board passed 5 regulations registered with the Ministry of Justice of the Republic of Kazakhstan for the purposes of gold and foreign currency assets management.

Regulation of Operation of the Regional Financial Center of Almaty

In 2012 the National Bank's Board passed one regulation registered with the Ministry of Justice of the Republic of Kazakhstan for the purposes of regulation of operation of the Regional Financial Center of Almaty.

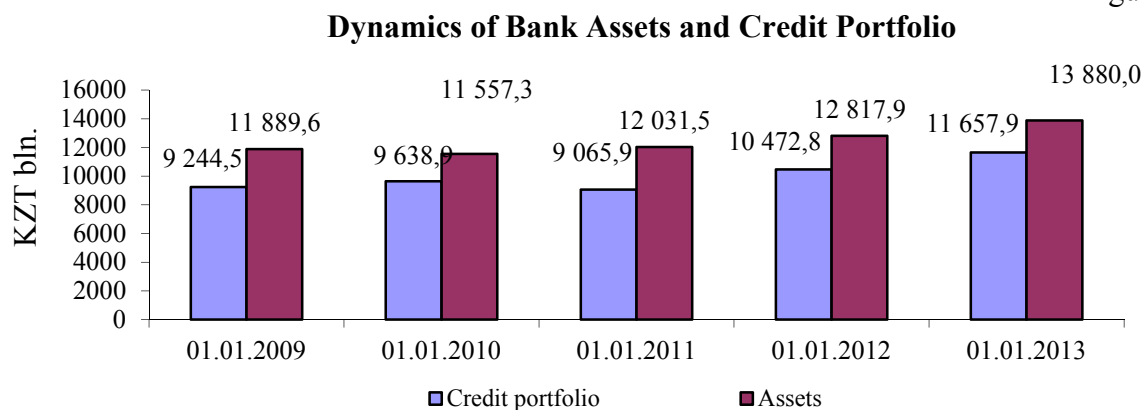
VII. FINANCIAL MARKET ENTITIES: POSITION AND SUPERVISION

7.1. Banking and Non-Bank Sector

On January 1st of 2013, 38 banks and 11 non-bank organizations including 3 mortgage companies were functioning in the Republic Kazakhstan.

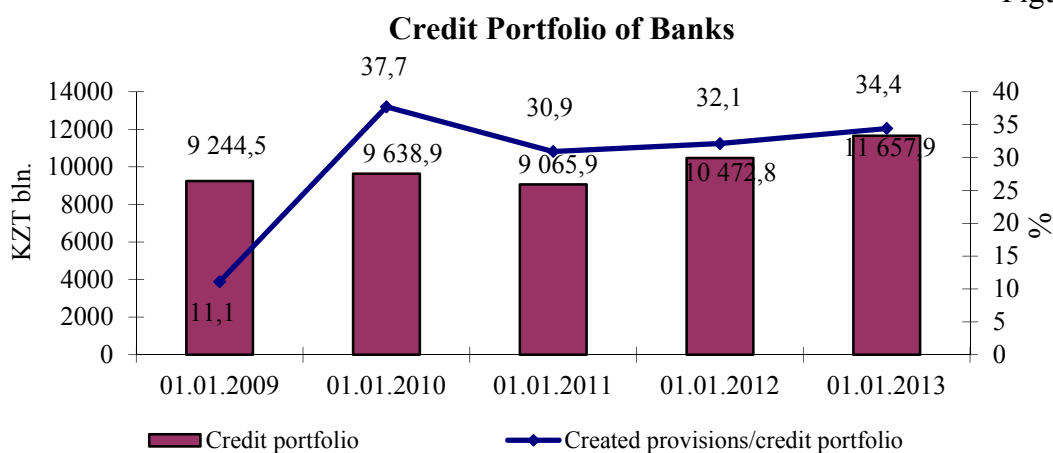
During 2012, assets of the banking sector increased by KZT 1 062.1 bln. or by 8.3% and amounted to KZT 13 880.0 bln. as of January 1, 2013 (Figure 7.1.1).

Figure 7.1.1



As on January 1st of 2013, the credit portfolio of the banking sector amounted to KZT 11 657.9 bln., having increased by 11.3% or by KZT 1 185.1 bln. from the beginning of 2012 (Figure 7.1.2)

Figure 7.1.2



As on January 1st of 2013, provisions created for the credit portfolio of the banking sector in line with the requirements of the authorized body amounted to KZT 4 008.1 bln. or 34.4% of the total credit portfolio.

The doubtful loans share in the credit portfolio decreased from 52.3% to 43.5%, the share of loss loans increased by 6.2 percentage points and accounted for 28.2% at end of 2012. The standard loans share increased from 25.7% to 28.3%.

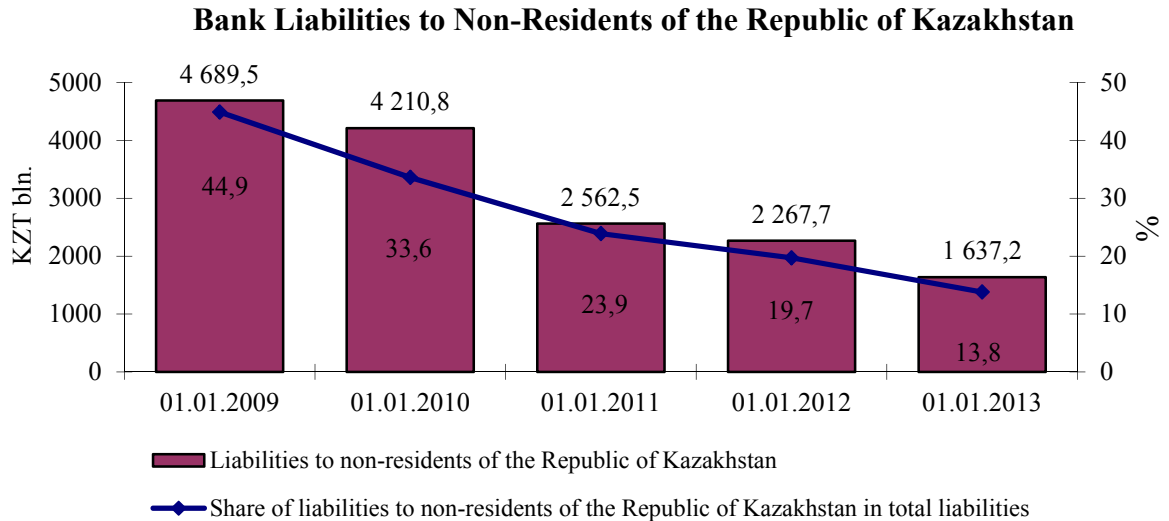
During 2012, non-performing loans⁹ increased by KZT 435.2 bln. or by 11.3%, amounting to KZT 4 277.9 bln. (36.7% of the total credit portfolio of banks) as on January 1st of 2013. Loans which are past due on their principal amount and/or accrued interest over 90 days amounted to KZT 3 473.2 bln. on January 1st of 2013 and their share in the total credit portfolio of banks accounted for 29.8%.

During 2012 bank liabilities increased by KZT 360.0 bln. or by 3.1% and amounted to KZT 11 874.6 bln. in comparison to 2013.

Foreign liabilities during 2012 decreased by KZT 630.5 bln. or by 27.8% and as of January 1, 2013 amounted to KZT 1 637.2 bln. and its share in total liabilities decreased from 19.7% to 13.8% over the year (Figure 7.1.3).

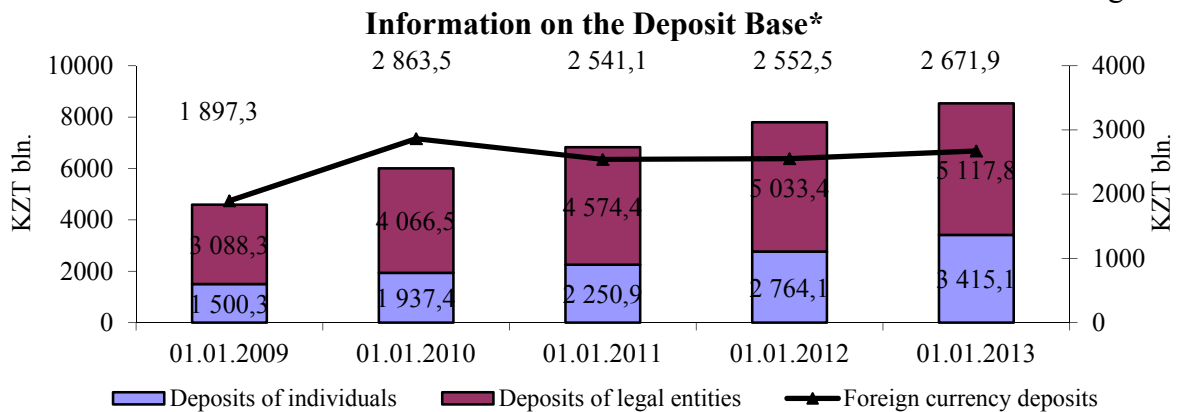
⁹ Non-performing loans are calculated as the sum of doubtful loans of category 5, loss loans and provisions for individually assessed loans in doubtful categories from 1 to 4.

Figure 7.1.3



During 2012 bank customers' deposits increased by KZT 735.4 bln. or by 9.4%, amounting to KZT 8 532.9 bln. on January 1, 2013. The major percentage of deposits was represented by corporate deposits (60.0% of the total amount of customer deposits). Corporate deposits increased by 1.7%, while the increase in deposits of individuals accounted for 23.6% (Figure 7.1.4).

Figure 7.1.4



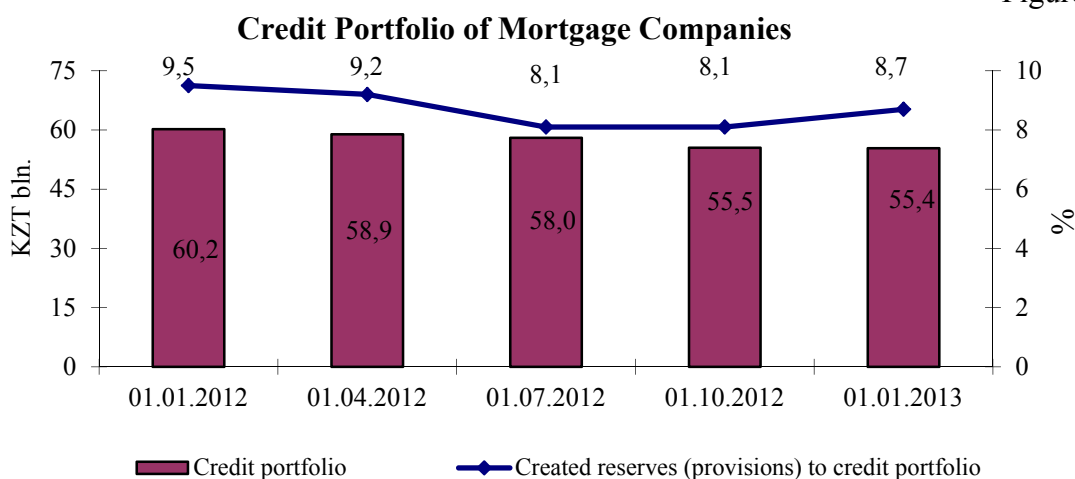
* *excl. deposits of special purpose vehicles

Mortgage Companies

As on January 1st of 2013 the total assets of mortgage companies amounted of KZT 110.1 bln., which exceeds the respective indicator against January 1st of 2012 by KZT 11.7 bln. or by 11.9%.

As on January 1st of 2013 the total credit portfolio of mortgage companies amounted to KZT 55.4 bln., which is by KZT 4.8 bln. or by 8.0% less than the respective indicator at the beginning of the prior year (Figure 7.1.5).

Figure 7.1.5



In the credit portfolio structure of mortgage companies in terms of its quality the increase in the standard loans share is observed. The standard loans share accounted for 85.9% as on January 1st of 2012, whereas at the respective date of 2013 it accounted for 88.1%. The share of doubtful loans decreased from 6.8% to 4.0%, and the share of bad loans increased from 7.3% to 7.9%.

Other Non-Bank Organizations

As on January 1st of 2013 the total assets of other non-bank organizations increased by 6.5% as compared to the data at January 1st of 2012 and amounted to KZT 559.5 bln.

As on January 1st of 2013 in the total credit portfolio structure, the share of standard credits accounted for 63.9%, doubtful credits – 19.5% and loss credits – 16.6%, while in 2012, the share of standard credits accounted for 57.5%, doubtful credits – 30.0%, and loss credits – 12.5%. As on January 1st of 2013, the owners' total volume equity of other non-bank organizations amounted to KZT 248.1 bln. increased by KZT 12.3 bln. or by 5.2% over the reporting period.

Licensing

In 2012 the Committee for Control and Supervision of the Financial Market and Financial Organizations of the National Bank of the Republic of Kazakhstan (the “Financial Supervision Committee”) re-issued the license of one bank due to the change in the bank’s name.

A banking license was issued to one non-bank organization to engage in bank account opening and maintenance for legal entities.

One non-bank organization had its banking license terminated in respect to banking operations provided by the banking legislation of the Republic of Kazakhstan in the domestic currency, due to the licensee exclusion from entities subject to licensing by the legislation of the Republic of Kazakhstan “On amendments to certain legislative acts of the Republic of Kazakhstan on the regulation matters of the banking activities and financial organizations with regard to risk minimization”.

Off-site Supervision

The Financial Supervision Committee, based on its review of regulatory reports as part of the off-site supervision, prepared 152 status reports and 304 status reviews in respect of banks as well as 32 status reports and 24 status reviews in respect of non-bank organizations, including 12 status reports and 24 status reviews in respect to mortgage companies.

During 2012 the Financial Supervision Committee based on its regulatory reports review of banks comprising a bank conglomerate, prepared 50 status reports in respect to bank conglomerates, 52 status reports in respect of banks and 104 status reviews in respect to banks comprising a bank conglomerate.

Inspection

In 2012 the Financial Supervision Committee conducted 35 examinations of banks and non-bank organizations, including 12 scheduled examinations and 23 unscheduled examinations.

Supervisory Response

The Financial Supervision Committee based on the off-site supervision took the following measures in response to the legislation violations of the Republic of Kazakhstan in respect of:

banks – 82 restricted remedial actions were taken (including the requirement to commitment submit letters – in 33 cases written warnings were made in 39 cases, written improvement notices were sent in 9 cases, and a written agreement was concluded in one case);

non-bank organizations – 9 restricted remedial actions were taken (including the submit letters request of commitment – in 2 cases, written warnings were made in 6 cases, and a written improvement notice was sent in 1 case);

credit bureaus – written improvement notices were sent in 2 cases;

banks comprising a bank conglomerate – 32 restricted remedial actions were taken (including written improvement notices sent in 2 cases, written warnings made – in 21 cases, letters of commitment were requested in 8 cases and a written agreement was concluded in one case).

In addition, the following measures had been taken in 2012:

sanctions in the fines' imposition and collection forms of in respect to 7 banks, 1 mortgage company and 1 credit bureau totaling KZT 2.4 mln.;

sanctions in the license suspension form in respect of 7 non-bank organizations and revocation of a banking license from one non-bank organization;

sanctions in the fine form collected from 3 banks comprising a bank conglomerate totaling KZT 1.9 mln.

Based on inspections conducted in banks and non-bank organizations, 13 restricted remedial actions were taken (7 letters of commitment were requested and 4 written improvement notices were sent, 1 written agreement was concluded and 1 written warning was made) and 34 administrative sanctions were applied. The total amount of administrative sanctions applied to banks and non-bank organization was KZT 8.2 mln.

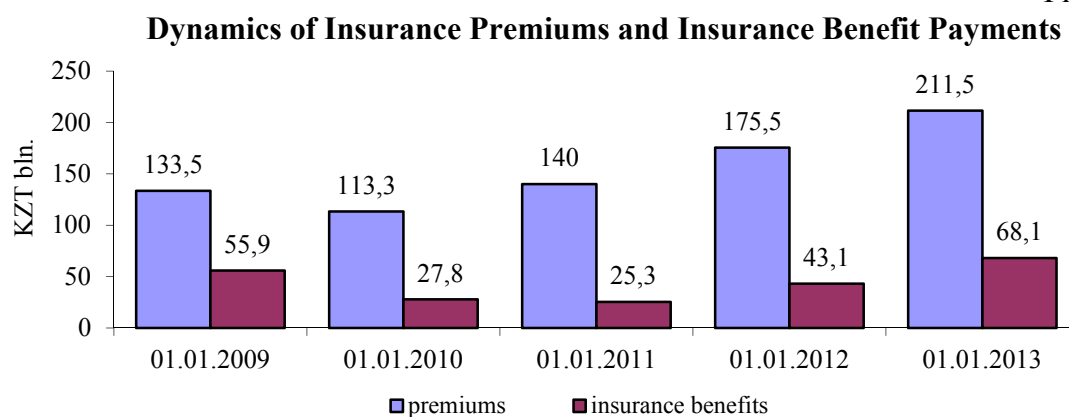
7.2. Insurance Sector

As on January 1st of 2013, the insurance sector represented 35 insurance organizations, 13 insurance brokers and 82 actuaries.

The total assets of insurance organizations on January 1st of 2013 amounted to KZT 442 647.7 mln., which is by 14.2% greater than the same indicator on January 1st of 2012.

In 2012 the total volume of insurance premiums written by insurance (reinsurance) organizations under the direct insurance contracts amounted to 211 513.1¹⁰ mln., which is by 20.5% greater than the volume collected during the same period of the prior year (Figure 7.2.1).

Figure 7.2.1



¹⁰ excl. insurance premiums underwritten under reinsurance contracts.

The total volume of insurance benefit payments made during 2012 was KZT 68 050.9 mln. and increased by 57.7% as compared to the respective indicator for the prior year.

The insurance benefit structure payments by lines of insurance are following: voluntary personal insurance – 58.8%, compulsory insurance – 23.8% and voluntary property insurance – 17.4%.

The volume of insurance premiums ceded to reinsurance amounted to KZT 65 161.7 mln. or 30.8% of total insurance premiums. Alongside with that, 22.8% of total insurance premiums were ceded to reinsurance to non-residents of the Republic of Kazakhstan.

As on January 1st of 2013 the liabilities of insurance organizations amounted to KZT 202 920.5 mln., which is by 29.7% greater than at the respective date of the prior year.

Licensing

The Financial Supervision Committee issued insurance (reinsurance) licenses to 11 insurance organizations adding additional classes of insurance, including in reinsurance - 1 insurance organization.

Licenses were issued to engage in the insurance broker activity to a newly established insurance broker and to 2 individuals allowing them to engage in actuarial business in the insurance market.

Accreditation Certificates were issued to 6 individuals and 13 legal entities authorizing them to make assessment of the property damage amount of a person who suffered from operation of a transport vehicle.

6 insurance organizations licenses were re-issued due to the change in their name and insurance class exclusion.

2 insurance organizations' licenses, 1 insurance broker and 5 individuals for carrying out actuarial activities in the insurance market were terminated due to their voluntary surrender.

Off-site Supervision

The Financial Supervision Committee as part of its off-site supervision was monitoring compliance with prudential ratios, assets' and liabilities' movements, large amounts of insurance premiums and insurance benefits, reinsurance business lines as well as the securities portfolios value with a view to determine potential gain/loss from the change in the financial instrument price and from foreign currency adjustment.

Inspection

In 2012 the Financial Supervision Committee conducted 19 examinations among insurance organizations and insurance brokers, including 12 scheduled examinations and 7 unscheduled examinations.

Supervisory Response

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

insurance organizations – 51 letters of commitment were requested, 33 written improvement notices were sent, 3 written warnings were made and 1 written agreement was concluded;

insurance brokers – 7 commitment letters were requested;

actuaries – 77 written improvement notices were sent;

Insurance Indemnity Guarantee Fund – 1 written agreement was concluded.

Besides, sanctions in the administrative fine form totaling KZT 7.1 mln. were imposed on 13 insurance organizations, 1 insurance broker and 1 actuary. Licenses of 2 insurance organizations and 6 actuaries were suspended. License of one insurance organization was revoked.

Based on inspections conducted, 11 restricted remedial actions (6 written improvement notices and 5 commitment letters), 1 sanction in the license revocation form and 2 sanctions in the license suspension form were applied in respect to 4 insurance organizations and 1 broker. In addition, administrative fines totaling KZT 13.0 mln. were imposed on 9 insurance organizations.

7.3. Securities Market Entities

On the January 1st of 2013 there were 62 brokers-dealers, 10 custodians, 13 pension assets investment management companies, 33 investment portfolio managers, 2 self-regulating organizations, 2 transfer agents, and 1 securities trading organizer. In addition, under the legislation of the Republic of Kazakhstan “On amendments to certain legislative acts of the Republic of Kazakhstan on the regulation matters of the banking activities and financial organizations with regard to risk minimization”, one unified registrar is operating in the market.

On the January 1st of 2013 the total number of joint-stock companies with current issue of securities was 1 913. The number of current issues of bonds was 353 with the overall per value of KZT 5 710.0 trln., where 144 issues were included in the KASE official list rating, 66 issues – without the rating of the first sub-category, 16 issues – without the rating of the second sub-category and 5 issues – of the buffer category.

On the January 1st of 2013 there were 27 issuers, which didn’t repay their debt on coupon payment and principal repayment on bonds.

There is a downward trend in the current issues of equity units whose number reached 126 as on January 1st of 2013 (on January 1st of 2012 were 152).

As on January 1st of 2013 there were 126 mutual investment funds in the market where 96 – closed-end funds (Assets – KZT 573.7 bln.), 11 – open-end funds (Assets – KZT 0.5 bln.) and 19 – interval funds (Assets – KZT 1.3 bln.), as well as 32 joint-stock investment funds engaging in risky investments (Assets – KZT 47.7 bln.).

Stock Market

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

The major securities’ share eligible to be negotiable at the KASE falls on debt securities – 43.3% (231 issues). In the government securities sector – 37.1% (198 issues), in the stock sector – 19.0% (101 issues), in the sectors of securities of investment funds and international financial organizations – 0.2% (1 issue) and 0.4% (2 issues), respectively.

As of January 1, 2013, overall capitalization of the market of non-government securities included in the KASE's official listing amounted to KZT 10 114.5 bln., demonstrating the decrease in respect of bonds during 2012 by 20.0% (from KZT 5 936.5 bln. on January 1st of 2012 to KZT 4 748.7 bln. on January 1st of 2013), in respect of shares - by 16.5% (from KZT 6 425.9 bln. on January 1st of 2012 to KZT 5 363.5 bln. on January 1st of 2013) (Figure 7.3.1).

Figure 7.3.1



During 2012 the transactions volume with non-government securities increased by 14.2%. Alongside with that, REPO volume transactions significantly increased (five-fold increase). The transactions with shares volume (placement and circulation) increased by 1.3% and the transactions with debt volume securities increased by 6.4%.

Licensing

The Financial Supervision Committee issued a license to one APF to engage in broker and dealer business without the right to maintain clients' accounts in the nominal holder capacity.

A license was issued to one trade organizer to carry out clearing operations on transactions with financial instruments in the securities market.

Licenses were issued to 2 professional players of the securities market (PPSM) to engage in the activities related to investment portfolio management.

Licenses of 11 PPSM to engage in the activities in the securities market were terminated due to their voluntary surrender.

License of 1 PPSM to engage in the activities in the securities market was re-issued due to the change in its name.

Off-Site Supervision

The Financial Supervision Committee has been constantly conducting the PPSM off-site monitoring of financial soundness; such monitoring included the financial statements review and regulatory reports for compliance with prudential ratios, capital adequacy requirements, the stock exchange procedure for transactions in the trading system, in the international and non-organized securities markets, as well as other ratios and limits established by the National Bank's regulations.

Inspection

In 2012 the Financial Supervision Committee conducted 10 PPSM scheduled examinations.

Supervisory Response

The Financial Supervision Committee based on the off-site supervision applied 160 restricted remedial actions in respect of PPSM (including 61 written improvement notices sent, 91 commitment requested letters, 2 written agreements signed and 6 existing agreements agendas).

7 written improvement notices were sent to audit organizations because of auditors' reports non-submission on financial statements of 7 financial organizations to the authorized body.

Also, 31 administrative penalties were imposed in respect to 23 PPSM and 2 individuals totaling KZT 8.5 mln. 5 PPSM licenses were revoked and license of 1 PPSM was suspended.

Based on inspections conducted, the following PPSM actions was taken: 4 sanctions in the form of license revocations, 1 sanction in the license suspension form and 7 restricted remedial actions in requesting form of the submission of commitment letters. Apart from those, 38 administrative sanctions were imposed in respect of PPSM, 38 in the form of penalties totaling KZT 12.1 mln., including 1 administrative penalty of KZT 566 300 imposed by the court in respect of an entity of financial monitoring due to detected violation of the Anti-Money Laundering and Terrorist Financing Legislation.

7.4. Pension Funds

On the January 1st of 2013 eleven APF organizations were functioning in the country. On the January 1st of 2013 the individual pension accounts number of contributors (beneficiaries) under compulsory pension contributions amounted to KZT 8 422 512, having increased by 285 117 units (3.5%) during 2012. As on January 1st of 2013 total pension contributions received amounted to KZT 2 470.1 bln., having increased during 2012 by KZT 466.4 bln. (23.3%).

During 2012 *net* return from investment of pension assets (less commissions) increased by 20.2% or by KZT 112.3 bln., amounting to KZT 667.4 bln. on the January 1st of 2013.

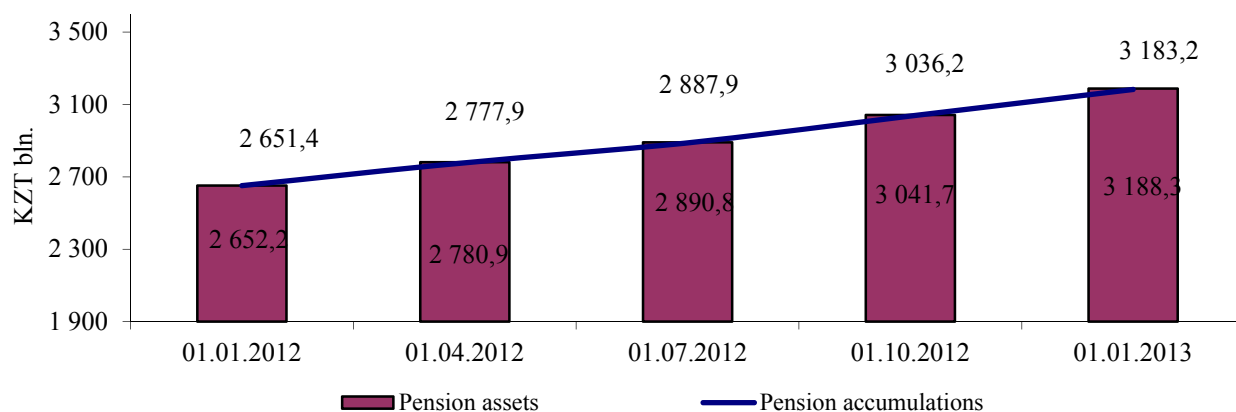
As on the January 1st of 2013, pension accumulations of contributors (beneficiaries) amounted to KZT 3 183.2 bln., increased during 2012 by KZT 531.8 bln. (20.1%).

The Structure of Pensions Assets of APFs

On the January 1st of 2013 the total volume of pension assets in investment management at the pension assets' investment managers ("OEIMPA") amounted to KZT 3 188.3 bln., having increased during 2012 by KZT 536.0 bln. or by 20.2%. The average monthly increase in pension assets during 2012 amounted to KZT 44.7 bln. (Figure 7.4.1).

Figure 7.4.1

Dynamics of Total Pension Assets and Pension Accumulations



As on the January 1st of 2013, the total investment portfolio of APFs amounted to KZT 3 129.4 bln., having increased by KZT 583.2 bln. or 22.9 % as compared to the January 1st of 2012.

It should be noted that on the January 1st of 2013 the securities percentage whose issuers defaulted on the securities issues accounted for 0.5% of the pension assets' total volume or KZT 16.9 bln.

On the January 1st of 2013 the total owners' equity of APF amounted to KZT 101.3 bln. The authorized capital share in the owners' APF equity as on January 1st of 2013 accounted for 52.5% or KZT 53.2 bln. During 2012 the total APF authorized capital increased by KZT 3.5 bln. or by 7.0% (from KZT 49.7 bln. to KZT 53.2 bln.).

As on the January 1st of 2013 total assets of APFs amounted to KZT 107.3 bln., having increased by KZT 13.7 bln. (14.6%) as compared to the beginning of 2012.

Licensing

The Financial Supervision Committee re-issued a license of 1 APF due to the change in its name.

The license of 1 APF to engage in the activity related to collection of pension contributions and retirement benefit payments, and the securities market activities was terminated due to its voluntary surrender.

Off-site Supervision

The Financial Supervision Committee, as part of its off-site supervision of the operation of APF and OEIMPA, monitors the investment portfolios structure of these organizations that were created both from the pension assets and own assets, as well as the compliance with prudential ratios and other ratios and limits, including the control over:

- compliance with the amount of investments in financial instruments made from the pension assets and own assets of APF and OEIMPA;

- minimal returns reimbursement by all APF and inflation to corporate APF.

Control was exercised over APF compliance with legislative requirements regarding the establishment of APF multi-portfolio investment system..

APFs were monitored in relation to its compliance with the current legislation requirement to include the shares of APFs in the categories of the stock exchange official listing by January 1st of 2013. As on January 1st of 2013, this requirement was met by all APFs.

Control was exercised over implementation of the Reorganization Plan (the merger of the APF “Industrial Kazakhstan” JSC with the APF “State Accumulation Pension Fund” JSC).

Inspection

The Financial Supervision Committee conducted APFs 3 scheduled inspections and 3 unscheduled inspections.

Supervisory Response

The Financial Supervision Committee, based on the APFs off-site supervision and OEIMPAs, took 32 restricted remedial actions (including 8 written improvement notices sent, 20 commitment requested letters, and 4 written agreements signed). Administrative penalties were imposed on 1 APF and 1 OEIMPA totaling KZT 1.1 mln.

Based on the inspections conducted, the following measures had been taken in respect of APFs: 3 restricted remedial actions were taken (2 commitment letters were requested and 1 written improvement notice was sent), as well as 5 administrative sanctions in the form of penalties were imposed totaling KZT 2.7 mln.

7.5. Liquidation Process

As on January 1st of 2013 2 banks (“Valut-Transit Bank” JSC and “Nauryz Bank Kazakhstan” JSC), 2 insurance organizations (“Altyn Policy” Insurance Company JSC and “Premier Insurance” JSC) and 1 APF (APF “Korgau” JSC) were undergoing forced liquidation.

In 2012 the voluntary liquidation process of the “Temir At” Insurance Company was finalized all over.

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

Table 7.5.1

No.	Financial Organizations under Liquidation	Percentage of Payouts Under the List of Creditor's Claims, as of January 1, 2013
1	“Valut-Transit Bank” JSC	50.5% of the total debt under the 3rd order of priority in the List of creditor's claims
2	“Nauryz Bank Kazakhstan” JSC	88% of the total debt under the 3rd order of priority in the List of creditor's claims
3	"Altyn Policy" Insurance Company	settlements with 143 creditors included into the category of extraordinary payouts
4	“Premier Insurance” JSC	settlements with 8 creditors included into the category of extraordinary payouts
5	APF "Korgau" JSC	22% of the total debt under the 2nd order of priority in the List of creditor's claims

7.6. Protecting the Rights of Financial Services Consumers

By the end of 2012, the Financial Supervision Committee received 4 497 appeals (including collective appeals – 4 681 appeals) from individuals and legal entities in relation to various matters pertinent to the activities of financial organizations. The major portion of such appeals falls on the banking sector – 57.2%.

Banking and Non-Bank Sector

During 2012, the Financial Supervision Committee received 2 573 appeals (including collective appeals - 2 757 appeals) regarding the activities of banks and non-bank organizations, which accounted for 57.2% (61.3%, respectively) of the total number of received appeals.

The ratio of the indicator of “Relevance/irrelevance of appeals (complaints)” of the total number of appeals in relation to the banking sector accounted for 2.3%.

During 2012, the number of detected violations by banks of the legislation of the Republic of Kazakhstan and terms and conditions of bank loan agreements amounted to 34, for which reason the Financial Supervision Committee:

- sent 8 written improvement notices in respect of 4 banks;
- sent 20 written warnings in respect of 9 banks;
- requested 4 letters of commitment from 4 banks;
- sent 2 letters to 2 banks requiring to remedy the violations.

In 2012, the Financial Supervision Committee conducted the review of the following procedures:

- how banks address appeals from their customers occurring in the course of the banking services provision;
- dealing with insolvent borrowers;
- for recalculation of the amount of assessed penalty (fine, collections) to the amount set forth by the banking legislation.

Based on the review, the Financial Supervision Committee detected violations of the legislative requirements of the Republic of Kazakhstan on the part of 12 banks.

In addition to that, the Financial Supervision Committee conducted unscheduled examinations in 2 banks in respect of the process of consideration of customer appeals and the procedure for loan restructurings.

The Financial Supervision Committee held 288 meetings with problem borrowers and banks.

175 individuals and representatives of legal entities were received by the Financial Supervision Committee regarding claims to financial organizations; the issues were resolved through appropriate consultations and explanations. In the regional centers 22 round table discussions (presentations) were arranged involving representatives from community-based organizations, regional, municipal and district akimats (mayorates) and other government authorities with the presentation of the effort made by the Financial Supervision Committee in respect of protection of rights of financial services consumers.

With the input from the Financial Supervision Committee, loan debts of 425 borrowers were restructured.

Insurance Sector

During 2012, the Financial Supervision Committee considered 389 appeals of individuals and legal entities on the matters pertinent to the activities of insurance (reinsurance) organizations (8.7% of the total appeals received).

The ratio of the indicator of “Relevance/irrelevance of appeals (complaints)” of the total number of appeals in relation to the insurance sector accounted for 5.7%.

During 2012, the number of detected violations by insurance organizations of the legislation of the Republic of Kazakhstan and terms and conditions of concluded agreements amounted to 11, for which reason the Financial Supervision Committee:

- sent 4 written improvement notices in respect of 4 insurance organizations;
- sent 1 written warning in respect of 1 insurance organization;
- requested 5 letters of commitment from 3 insurance organizations;
- sent 1 letter to 1 insurance organization requiring to remedy the violations.

Alongside with that, in 2012 administrative actions in the form of a penalty totaling KZT 113 200 were taken in respect of 2 insurance organizations.

Securities Market

During 2012, the Financial Supervision Committee received 74 appeals of individuals and legal entities regarding the activities of the securities market entities (1.7% of the total appeals received).

The ratio of the indicator of “Relevance/irrelevance of appeals (complaints)” of the total number of appeals in relation to the securities market accounted for 5.4%.

During 2012, the number of detected violations by the securities market entities of the legislation of the Republic of Kazakhstan amounted to 3, for which reason the Financial Supervision Committee:

sent 2 written improvement notices in respect of 2 joint-stock companies;
requested 1 letter of commitment from 1 joint-stock company.

Pension Services Sector

Total number of appeals received in relation to the pension market operation was 211 (4.7 % of the total appeals received).

The ratio of the indicator of “Relevance/irrelevance of appeals (complaints)” of the total number of appeals in relation to the pension services sector accounted for 1.4%.

During 2012, the number of detected violations by APFs of the legislation of the Republic of Kazakhstan amounted to 5, for which reason the Financial Supervision Committee:

sent 1 written improvement notice in respect of 1 APF;
requested 4 letters of commitment from 2 APFs.

Other Matters

During 2012, the Financial Supervision Committee received 1 133 inquiries (25.2% of the total appeals received) from individuals and legal entities (including financial organizations) with the requests to clarify the legislative provisions of the Republic of Kazakhstan and to provide information about financial market entities or financial services; also, there were 117 appeals on the matters beyond the scope of the Financial Supervision Committee (2.6% of the total appeals received).

It should be noted that the Financial Supervision Committee attended all appeals by providing relevant information of advisory and explanatory nature with regard to the application of provisions of the insurance, banking and pension legislation and the legislation related to the securities market.

VIII. REGIONAL FINANCIAL CENTRE OF ALMATY CITY

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

One of the National Bank’s objectives is to develop a competitive regional financial centre of Almaty city (the “financial centre”) conforming to the international standards, and its entrance to the top ten financial centers of Asia by 2020, as well as to implement a set of measures aimed at achieving the objective.

In 2011-2012, with a view to indentify the level and the place of the financial centre globally, efforts were made to include the financial centre in the GFCI rating (first stage). Negotiations were conducted with the sponsor of the GFCI rating. As a result, based on selection and filling in questionnaires, the financial centre was included into the GFCI’s questionnaire (within the first stage) and based on that Almaty city was included in the interim rating (GFCI 11.5) “List of prospective financial centres”.

Negotiations (presentations) were conducted as part of the Summit of International Financial Centres held by Luxembourg for Finance (the Agency for the development of the financial centre) (in London, UK), V Astana Economic Forum, with the EuroParliament Delegation (Switzerland), as well as with representatives of the Singapore Stock Exchange in order to get familiar with the activity of a financial centre. Representatives of the National Bank took part in the round table discussions with representatives from the British Embassy in Kazakhstan on occasion of the visit of David Wootton, Lord Mayor of London, to Almaty.

Efforts to implement the Plan for the Financial Centre Development until 2015 as approved by the Government Decree of January 30, 2009 No. 90, were continued. Apart from that, the National Bank is engaged in drafting the Concept of the Financial Centre Development.

The National Bank, pursuant to the legislation of the Republic of Kazakhstan “On Regional Financial Centre of Almaty city” as part of promotion of the financial center, exercises the authority aimed to render services to the financial centre participants as provided by the laws.

Providing Public Services

One of the National Bank’s activities is dealing with the financial centre participants – professional players in the securities market licensed to engage in the broker and dealer business, by providing them certain public services.

The National Bank is a registration authority for legal entities – the financial centre participants, whose main line of business is the broker and dealer business. The provision of such service is one of competitive advantages of the financial centre since it’s provided based on the “one window” principle and significantly simplifies the procedure of obtaining the legal entity status by potential financial centre participants within minimum time frames – one business day.

Another competitive advantage is the formalization by the National Bank of petitions to the Consular Department of the Ministry of Foreign Affairs of the Republic of Kazakhstan to issue (extend) visas to foreigners and stateless persons that arrive in the Republic of Kazakhstan to carry out their activities in the financial centre and obtain their entry visas upon arrival to the Almaty international airport.

To encourage small-and medium business to enter the stock market, another public service is provided for – reimbursement of expenses related to the audit of financial statements to those issuers that placed their securities for the first time at a specialized trading floor of the financial centre. New Rules were developed for reimbursement of expenses related to the audit of financial statements of the securities issuers admitted to the specialized trading floor of the financial centre, which were approved by the Resolution of the National Bank’s Board of August 31, 2012 No. 283.

The financial centre participants are supported on an ongoing basis by being provided advisory services and legal support, explanation of their rights and responsibilities including the translation of documentation from English into the Kazakh and Russian languages.

8.2 Development of Islamic Finance

The National Bank drafted the Law “On amendments and additions to some legislative acts of the Republic of Kazakhstan on insurance and Islamic finance”, which provides for the introduction of the “Islamic insurance” concept, regulation of the matters pertinent to Islamic insurance – takaful, recognition of commodity murabaha as a banking operation of Islamic banks, tax administration of such operations, as well as the procedure for wakala (deposit-taking). The above draft law was submitted to the Parliament of the Republic of Kazakhstan (the “Parliament”) for its consideration by the Government Decree of August 22, 2012 No. 1067.

The National Bank, in cooperation with the government authorities and financial institutions, was involved in the development and implementation of the Road Map for the Development of Islamic Finance until 2020. In addition, the implementation of the Road Map for the Development of Islamic Finance until 2020 was analyzed on a quarterly basis, appropriate information was provided to the Ministry of Economic Development and Trade of the Republic of Kazakhstan. The work in this area will be continued.

As a part of the development of the Islamic capital market, the National Bank provided assistance in the issuance of debut sukuk by the Development Bank of Kazakhstan. Based on this effort made in July 2012, the Development Bank of Kazakhstan became the first issuer in the region that carried out transaction of the issue of Islamic bonds Sukuk al-Murabaha.

International Cooperation

Given the importance of developing Islamic finance in the country as well as the necessity of training the qualified staff, the National Bank is considering the establishment of the Academy of Islamic Finance in Almaty for the CIS and Eastern European countries, in conjunction with the Islamic Corporation for the Development of the Private Sector (ICD).

The Country Partnership Strategy between the Republic of Kazakhstan and the Islamic Development Bank (IDB) developed jointly by the government authorities and the IDB was signed on October 2, 2012. As part of the Country Partnership Strategy, the National Bank is undertaking an attraction of the technical assistance (a grant) from the IDB in order to improve the system of regulation and supervision of Islamic financial institutions.

On February 13, 2012 the Agreement about the National Bank's membership in the Islamic Financial Services Board as an associate member, was signed.

With a view of development of the infrastructure for Islamic finance, work had been carried out to cooperate with the Islamic International Rating Agency in respect of considering the possibility for assigning a sovereign rating to the Republic of Kazakhstan, establishing the local Islamic rating agency as well as conducting a training seminar for central government authorities of the country.

Promotion of the Financial Centre as the Regional Centre for Islamic Finance

As part of implementation of objectives for promotion of the financial centre as the regional centre for Islamic finance, the National Bank conducted various activities. Thus, workshops on products of Islamic finance were arranged in cooperation with the Islamic Bank "Al Hilal" for the market and business participants as well as for the staff of the National Bank.

As part of the effort to promote Almaty as a financial hub in the CIS and Central Asian region, the National Bank carried out the following activities in cooperation with:

Islamic Research and Training Institute (member of the IDB group) a regional workshop "Islamic Modes of Finance and Sukuk" on April 23 - 26, 2012 in Almaty;

the IDB and the International Monetary Fund a regional conference "Islamic Finance: Building the Enabling Environment" on September 17 – 18, 2012 in Almaty.

In addition, the National Bank's representatives took part and made speeches in the international workshop of scientists with the representatives of the industry and businesses as part of development of the program "The Road Map "Business and Science – 2020" (city of Almaty), in the working seminar (master class) "Sukuk Certificates in Kazakhstan and Worldwide" (city of Astana), in the Kazakhstani Conference on Islamic Finance-2012 (city of Astana), and in the 8th World Islamic Economic Forum (Johore Bahru, Malaysia).

With the purpose of clarification of the fundamentals and principles of Islamic finance, the National Bank developed and posted a number of materials on Islamic finance, both in the Kazakhstani and international mass media.

IX. IMPROVING ACCOUNTING AND FINANCIAL REPORTING

In 2012, the National Bank continued the further improvement of legal acts and guidelines in the area of accounting and financial reporting of financial organizations and special financial companies according to the IFRS requirements.

With a goal to ensure accuracy of information disclosed in the financial statements, there was adopted a legal act which establishes the procedure of maintaining accounting records by financial organizations, special financial companies, Islamic special financial companies, joint-stock investment funds and the Development Bank of Kazakhstan.

The legal act determining the rules for automation of accounting by financial organizations, special financial companies, Islamic special financial companies, the Development Bank of Kazakhstan and joint-stock investment funds was adopted in a new edition.

The Instruction regarding the list, forms and deadlines for submission of financial statements by financial organizations and the Development Bank of Kazakhstan was amended with regard to

extension of the deadline for implementation of the requirement to conduct an audit of separate financial statements for financial organizations and the Development Bank of Kazakhstan which have subsidiaries.

Over the year there were specified the deadlines for publications of financial statements by financial organizations that are joint-stock companies, and established the requirements for publications of quarterly financial statements by insurance companies.

In 2012, the National Bank continued the exercise of control over compliance of financial organizations with the requirements in the area of accounting, financial reporting and automation of accounting records. Respective penalties were imposed and restricted compulsory measures were taken with respect to violations detected in the course of examinations.

With the aim to reduce administrative barriers, the public service of the National Bank on delivering opinions to banks on the availability of an automated banking system meeting the requirements for automation of the accounting records, was discontinued starting from August 2012.

The National Bank, jointly with the Financial Institutions' Association of Kazakhstan (FIAK), proposed amendments to the Tax Code regarding the taxation of provisions created by banks.

To enhance the expertise of the financial sector professionals in the area of IFRS, in 2012 the National Bank organized and conducted a round table on the international level entitled "Application of IFRS: Challenges, Progress and Outlook".

There were representatives of the Ministry of Finance, IASB, European Financial Reporting Advisory Group, Accounting and Auditing Organization for Islamic Financial Institutions, Asian Development Bank, European Bank for Reconstruction and Development, central banks of the CIS and other foreign countries, partners from head offices of internationally recognized audit firms who took part in the round table discussions and made reports.

Besides, in 2012 the National Bank's staff continued providing training activities.

X. NATIONAL FUND MANAGEMENT

As of December 31, 2012 the total market value of the National Fund's portfolio amounted to USD 58 539 281 175.34¹¹, including foreign currency portfolio — USD 57 915 804 870.57 (98.93%) and the bond portfolios of the National Welfare Fund "Samruk-Kazyna" and the National Management Holding "KazAgro" — USD 623 476 304.77¹² (1.07%). The market value of stabilization and savings portfolios which comprise the National Fund's foreign currency portfolio were USD 19 814 269 519.56 (34.21%) and USD 38 101 535 351.01 (65.79%) respectively.

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

According to BNY Mellon, from January 1 to December 31, 2012, an investment return (both realized and unrealized) was generated, which was calculated in base currency – US Dollars – and amounted to USD 1 658 632 700. Investment return adjusted to account for transaction expenses amounted to USD 1 658 127 100.

Performance of the National Fund.

Returns of the National Fund during 2012 was 3.33%. Returns of the National Fund since its inception¹³ 2 to December 31, 2012 totaled as 67.25%, which accounts for 4.54% in annual terms.

The return is calculated in the base currency of the National Fund - the US Dollars (Appendix 1 to Section XI Sub-section 11.1, Figure 11.1.1).

¹¹ Excluding accounts payable in the Tenge for services provided to the Fund and balance of the Tenge account

¹² Use National Bank's exchange rate at 31.12.2012.

¹³ Since June 2001

Performance of the Stabilization Portfolio. In 2012 assets in the stabilization portfolio were invested under internal management in the money market instruments, mainly the US Treasury securities.

Stabilization portfolio returns in 2012 was 0.15%, and returns on the benchmark portfolio (Merrill Lynch 6-month US Treasury Bill Index) was 0.17%. Thus, positive excess returns of (-)0.02% were achieved (Appendix 1 to Section XI Sub-section 11.1, Figure 11.1.2).

Performance of the Savings Portfolio. In 2012 returns on the savings portfolio accounted for 5.10, and returns on the benchmark portfolio (30% - Merrill Lynch US Treasuries; 28% - Merrill Lynch All Euro Government Index, DE, FR, NL, AT, LU, FI; 10% - Merrill Lynch UK Gilts; 10% - Merrill Lynch Japan Governments; 5% - Merrill Lynch Australian Governments; 5% - Merrill Lynch Canadian Governments; 5% - Merrill Lynch South Korean Government Index; 3% - Merrill Lynch Hong Kong Government Index; 2% - Merrill Lynch Singapore Government Index; 2%-Merrill Lynch Danish Government Index) and 20% and 20% – developed markets stock index MSCI World) accounted for 5.09%. Thus, positive excess returns of 0.01%. were achieved (Appendix 1 to Section IX Sub-section 11.1 Figure 11.1.3).

Global Bond Mandate. Assets in the savings portfolio for this mandate type are managed both by the National Bank and by international investment managers (external managers). As of December 31, 2012, assets in the savings portfolio for this mandate type managed by the National Bank amounted to 73.49% and 26.51% of assets on the bond sub-portfolio were in the external management.

The return from the management of the bond sub-portfolio for the "Global bonds" type of mandate accounted for 2.49% in 2012. The return on the benchmark portfolio of this sub-portfolio accounted for 2.21%.

As a result of management of this mandate type excess return resulted in 0.28%. As of December 31, 2012, this type of mandate was managed by 8 external managers and the National Bank (Appendix 2 to Section XI Sub-section 11.1 Figure 11.1.4).

Global Equity Mandate. Assets in the savings portfolio for this type of mandate were managed by external managers. The return from asset management under this type of mandate was 16.38%, and the return on the benchmark portfolio was 16.62%. As of December 31, 2012, this type of mandate was managed by 5 external managers¹⁴. (Appendix 2 to Section XI Sub-section 11.1 Figure 11.1.4).

Global Tactical Asset Allocation Mandate. Assets in the savings portfolio for this type of mandate were managed by one external manager. The return from the savings portfolio asset management was 6.74%, and the return on the benchmark portfolio was 5.08%. Thus, excess returns resulted in 1.66%. (Appendix 2 to Section XI Sub-section 11.1 Figure 11.1.4)

¹⁴ Including a temporary external manager

Appendix 1 to Section I Sub-section 1.2

Figure 1.2.1

Market Demand for the Final Products of Enterprises

#	Responses of Enterprises, %	1 qtr. 2012	2qtr. 2012	3qtr. 2012	4 qtr. 2012
1	Increase	19.8	28.2	28.7	24.7
2	Invariance	54.3	55.6	55.7	54.2
3	Decrease	25.7	15.9	15.8	21.0
4	Line1-Line3	-5.9	12.4	12.9	3.8
5	Diffusion index	47.1	56.2	56.8	51.9

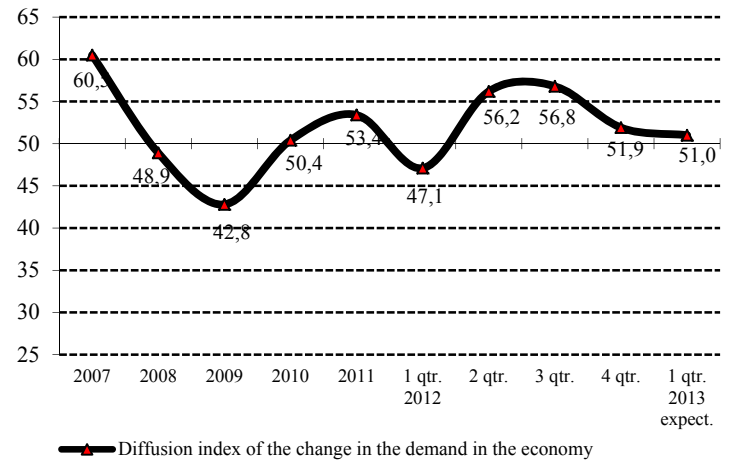
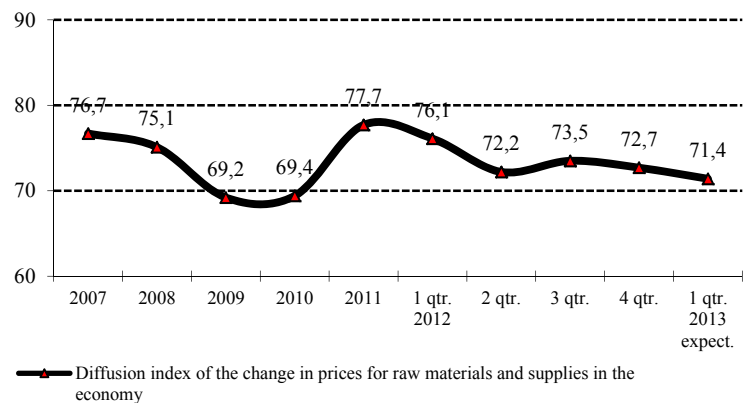


Figure 1.2.2

Change in Prices for Raw Materials and Supplies

#	Responses of Enterprises, %	1qtr. 2012	2qtr. 2012	3qtr. 2012	4 qtr. 2012
1	Increase	54.0	47.5	49.0	48.6
2	Invariance	44.1	49.2	48.8	48.3
3	Decrease	1.7	3.1	1.9	3.2
4	Line1-Line3	52.3	44.4	47.1	45.4
5	Diffusion index of the change in prices for FP	76.1	72.2	73.5	72.7



Appendix 2 to Section I Sub-section 1.2

Figure 1.2.3

Change in Prices of Final Products of Enterprises

#	Responses of Enterprises, %	1qtr. 2012	2qtr. 2012	3qtr. 2012	4qtr. 2012
1	Increase	21.9	18.9	27.6	26.6
2	Invariance	71.8	73.5	66.5	67.8
3	Decrease	6.2	7.3	5.4	5.6
4	Line1-Line3	15.7	11.6	22.2	21.0
5	Diffusion index of the change in prices for raw materials and supplies	57.9	55.8	61.1	60.5

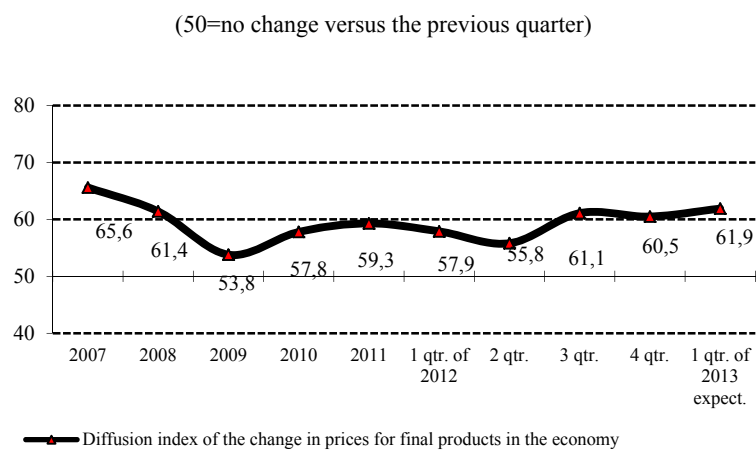
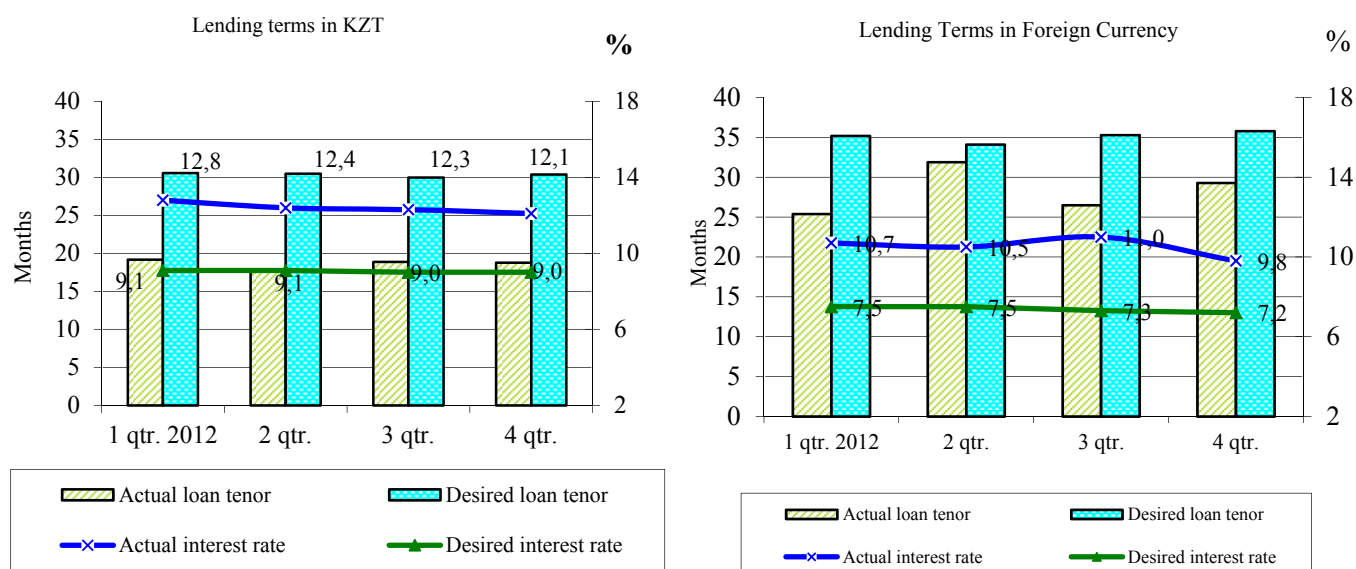
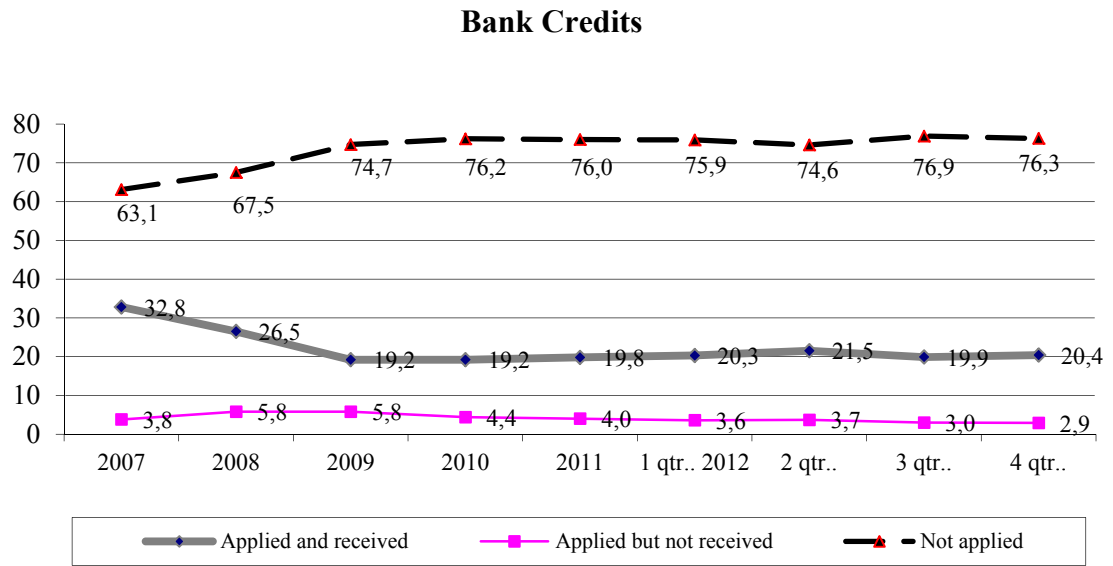


Figure 1.2.4

Lending Terms





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

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

Appendix 1 to Section I Sub-section 1.4

Table 1.4.1

Balance of Payments of the Republic of Kazakhstan: Analytic Presentation

USD mln.

	2011	2011				2012	2012			
		I	II	III	IV		I	II	III	IV
A. Current Account	12280.6	1618.7	5000.4	3925.5	1736.0	7716.5	3242.2	3971.4	-294.0	796.9
Trade Balance	46777.4	9027.6	14213.3	13195.9	10340.7	44673.1	12290.0	13575.8	9167.4	9639.9
Exports f.o.b.	87518.2	16340.4	25387.4	23703.7	22086.7	92073.4	21824.6	24961.3	22600.4	22687.0
Imports f.o.b.	-40740.8	-7312.8	-11174.1	-10507.9	-11746.0	-47400.2	-9534.6	-11385.5	-13433.0	-13047.1
Services	-6464.3	-947.2	-1284.5	-1947.7	-2284.8	-7760.5	-1557.3	-1859.8	-2176.1	-2167.4
Exports	4472.7	922.6	1144.0	1261.6	1144.5	4956.8	1082.7	1272.2	1344.7	1257.2
Imports	-10937.0	-1869.8	-2428.5	-3209.3	-3429.3	-12717.3	-2640.0	-3131.9	-3520.8	-3424.5
Compensation of Employees Balance	-1730.2	-400.2	-412.7	-490.5	-426.8	-1927.8	-496.4	-497.5	-488.4	-445.5
Investment Income Balance	-26046.4	-6063.8	-7505.3	-6747.1	-5730.3	-26263.1	-6949.4	-7031.4	-6421.5	-5860.8
Credit	1948.0	530.8	479.2	520.4	417.7	1865.3	381.6	464.1	565.2	454.4
Interest on reserves and assets of the National Fund	1006.4	231.9	287.2	259.4	227.8	1028.7	223.9	268.9	267.5	268.5
Income on direct investment abroad, net	0.7	-36.8	-13.1	58.5	-7.9	102.9	-7.2	13.1	116.9	-19.9
Other investment income	940.9	335.6	205.0	202.5	197.8	733.7	165.0	182.1	180.9	205.8
Debit	-27994.5	-6594.6	-7984.4	-7267.5	-6148.0	-28128.3	-7331.0	-7495.5	-6986.7	-6315.2
Income on direct investment in Kazakhstan, net	-24892.0	-5838.0	-7124.5	-6520.7	-5408.7	-24589.2	-6587.3	-6470.0	-6018.7	-5513.1
Income on debt (interest)	-2974.2	-756.3	-736.3	-745.5	-736.1	-3010.8	-743.7	-721.9	-758.7	-786.5
Dividends from portfolio investments	-128.3	-0.2	-123.7	-1.2	-3.2	-528.3	0.0	-303.6	-209.2	-15.6
Current Transfers Balance	-255.9	2.4	-10.3	-85.1	-162.8	-1005.2	-44.7	-215.8	-375.4	-369.3
B. Capital and Financial Account	-6361.9	2936.4	-5094.3	-1814.0	-2390.1	-1774.4	530.5	1220.1	-2940.6	-584.4
Capital account	9.3	5.0	-6.8	-11.0	22.1	-7.1	3.2	-0.4	-6.9	-3.0
Financial account	-6371.2	2931.5	-5087.5	-1803.0	-2412.2	-1767.3	527.3	1220.5	-2933.7	-581.4
Direct investment balance	9272.8	2516.9	2040.8	3704.8	1010.2	12440.3	5138.4	1994.0	3839.6	1468.3
Direct investment abroad	-4630.2	-1918.8	-1474.2	-513.0	-724.3	-1581.8	-623.5	-627.1	292.2	-623.4
Assets	-4684.5	-1435.4	-1155.8	-1493.6	-599.7	-2416.3	-629.8	-765.6	-293.3	-727.7
Liabilities	54.3	-483.4	-318.3	980.6	-124.7	834.5	6.3	138.4	585.5	104.3
Direct investment in Kazakhstan	13903.0	4435.7	3515.0	4217.7	1734.6	14022.1	5762.0	2621.1	3547.3	2091.7
Assets	-329.4	-67.3	-81.5	-205.0	24.4	-260.7	-45.3	-248.1	-6.1	38.8
Liabilities	14232.4	4503.0	3596.5	4422.8	1710.1	14282.8	5807.3	2869.2	3553.5	2052.9
Portfolio investment balance	-12966.5	106.2	-4794.0	-3469.6	-4809.1	-17707.6	-4030.0	-5263.2	-3656.7	-4757.8
Assets	-13566.3	-3012.0	-4628.1	-1408.7	-4517.4	-15120.6	-3838.2	-4477.6	-3599.1	-3205.7
General Government and Central Bank	-12204.6	-2586.7	-4866.6	-913.5	-3837.8	-14549.6	-4531.3	-4057.5	-3609.2	-2351.6
Banks	-179.6	-53.9	237.4	-202.8	-160.3	-236.9	-94.1	-23.5	-3.4	-115.9
Other sectors	-1182.1	-371.5	1.1	-292.4	-519.3	-334.1	787.2	-396.6	13.5	-738.2
Liabilities	599.7	3118.2	-165.9	-2060.9	-291.7	-2587.1	-191.8	-785.6	-57.6	-1552.1
General Government and Central Bank	-241.6	2282.3	-550.7	-1700.0	-273.2	-46.5	-18.3	-21.4	0.0	-6.8
Banks	-296.8	221.8	242.2	-301.9	-458.9	-2234.9	-325.6	-509.0	-112.0	-1288.4
Other sectors	1138.1	614.2	142.6	-59.1	440.4	-305.7	152.1	-255.2	54.4	-256.9
Financial derivatives (net)	126.1	11.3	61.0	94.6	-40.8	-137.5	-138.2	20.7	3.1	-23.0

Medium- and long-term loans and credits	1592.3	-433.8	670.2	800.2	555.6	4343.5	500.4	2170.2	252.6	1420.3
Assets	795.4	444.2	311.4	-1.5	41.3	-815.9	121.6	23.0	76.0	-1036.6
General Government and Central Bank	1.2	0.3	0.3	0.3	0.3	2.9	0.0	0.6	0.3	2.0
Banks	2084.8	574.7	324.3	605.3	580.6	871.3	258.2	146.7	554.1	-87.7
Other sectors	-1290.6	-130.8	-13.2	-607.0	-539.6	-1690.1	-136.6	-124.3	-478.4	-950.9
Liabilities	796.9	-878.0	358.9	801.7	514.3	5159.4	378.8	2147.2	176.5	2456.9
General Government and Central Bank	660.1	6.8	36.4	174.8	442.2	476.4	-22.8	32.3	67.4	399.5
Banks	-2011.3	-1232.1	130.7	-471.8	-438.2	-705.1	-105.8	-247.9	-597.5	246.1
Other sectors	2148.1	347.3	191.8	1098.7	510.3	5388.2	507.5	2362.8	706.7	1811.2
Other short-term capital	-4395.8	730.9	-3065.5	-2932.9	871.8	-706.0	-943.4	2298.8	-3372.2	1310.8
Assets	-4531.7	-450.4	-2359.6	-2105.8	384.1	-2044.6	-851.6	1762.7	-3546.9	591.2
Liabilities	136.0	1181.2	-705.9	-827.1	487.7	1338.6	-91.7	536.1	174.7	719.6
C. Errors and omissions	-5618.8	1780.2	-1053.4	-3698.3	-2647.3	-8698.7	-1661.0	-4772.0	-349.1	-1916.5
D. Overall balance	299.8	6335.4	-1147.3	-1586.8	-3301.5	-2756.6	2111.7	419.4	-3583.7	-1704.0
E. Financing	-299.8	-6335.4	1147.3	1586.8	3301.5	2756.6	-2111.7	-419.4	3583.7	1704.0
Reserve Assets of the NBK	-299.8	-6335.4	1147.3	1586.8	3301.5	2756.6	-2111.7	-419.4	3583.7	1704.0

Appendix 2 to Section I Sub-section 1.4

Table 1.4.2

Dynamics of Gross External Debt

USD mln.

	31.12.2009	31.12.2010	31.12.2011	31.03.2012	30.06.2012	30.09.2012	31.12.2012
TOTAL Gross External Debt	112 866.9	118 222.8	125 195.0	129 269.9	132 695.5	134 641.7	137 051.0
<i>Short-term</i>	10 261.0	9 111.2	9 179.7	9 888.5	10 197.0	10 472.5	9 927.3
<i>Long-term</i>	102 605.9	109 111.6	116 015.3	119 381.3	122 498.5	124 169.2	127 123.7
General Government	2 218.1	3 800.3	4 487.3	4 418.5	4 450.0	4 553.9	4 855.0
<i>Short-term</i>	0.0	49.1	31.6	39.0	21.2	21.1	14.1
Money market instruments*	0.0	49.1	31.6	39.0	21.2	21.1	14.1
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Long-term</i>	2 218.1	3 751.2	4 455.7	4 379.6	4 428.8	4 532.8	4 840.9
Bonds and other debt securities*	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	2 218.1	3 751.2	4 455.7	4 379.6	4 428.8	4 532.8	4 840.9
Trade credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Monetary Authorities	1 017.5	1 000.6	563.3	657.8	539.2	550.0	618.9
<i>Short-term</i>	479.7	470.4	36.3	123.7	15.3	18.1	88.1
Money market instruments*	376.1	230.9	19.8	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash and deposits	103.6	239.5	16.5	123.7	15.3	18.1	88.1
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Long-term</i>	537.8	530.2	526.9	534.1	523.9	531.9	530.8
Bonds and other debt securities*	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	537.8	530.2	526.9	534.1	523.9	531.9	530.8
Banks	30 190.1	19 947.9	14 601.2	14 835.4	14 507.3	14 029.5	13 578.7
<i>Short-term</i>	3 938.4	1 622.5	1 043.1	1 043.7	1 368.2	1 410.2	1 645.0
Money market instruments*	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	353.1	227.7	130.8	275.3	196.2	319.3	360.9
Cash and deposits	837.6	1 275.4	771.9	499.8	932.6	547.6	1 203.3
Other liabilities	2 747.7	119.4	140.3	268.5	239.4	543.3	80.8
<i>Long-term</i>	26 251.7	18 325.3	13 558.2	13 791.7	13 139.1	12 619.3	11 933.6
Bonds and other debt securities*	2 859.6	10 695.5	7 916.3	7 989.7	7 543.8	7 588.9	6 696.1
Loans	23 102.4	7 354.7	5 379.6	5 252.1	5 004.4	4 480.4	4 809.0

Cash and deposits	289.6	275.1	262.2	549.9	590.9	550.1	428.6
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	79 441.2	93 473.9	105 543.2	109 358.2	113 199.0	115 508.3	117 998.5
Short-term	5 842.8	6 969.1	8 068.7	8 682.2	8 792.3	9 023.1	8 180.1
Money market instruments*	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Loans	918.4	1 287.7	1 558.8	1 280.4	1 346.5	1 315.9	943.0
Cash and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	3 788.3	5 305.6	5 961.1	5 885.1	6 003.7	6 130.7	6 500.6
Other liabilities	1 136.0	375.7	548.8	1 516.7	1 442.1	1 576.5	736.4
Long-term	73 598.4	86 504.8	97 474.6	100 676.0	104 406.7	106 485.2	109 818.3
Bonds and other debt securities*	801.8	9 055.0	10 251.5	10 876.3	10 615.1	11 115.2	11 175.4
Loans	69 767.4	74 453.8	83 326.8	85 763.1	89 614.6	91 031.2	94 610.9
Cash and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits	3 029.2	2 996.0	3 896.2	4 036.6	4 177.0	4 338.8	4 032.0
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo items:							
Direct investments:							
intercompany debt	49 632.0	52 274.7	60 367.3	63 309.5	64 904.0	65 996.1	66 479.6
Liabilities to affiliated entities	6 643.6	2 553.0	2 597.8	2 604.2	2 742.6	3 328.1	3 429.3
Liabilities to direct investors	42 988.4	49 721.8	57 769.5	60 705.3	62 161.3	62 667.9	63 050.4

* Debt securities are recorded at market value (if available)

Appendix 3 to Section I Sub-section 1.4

Table 1.4.3

Absolute and Relative Indicators of Gross External Debt

Items	2009	2010	2011	1 qtr. 2012	2 qtr. 2012	3 qtr. 2012	4 qtr. 2012	2012
A. Absolute Parameters (USD mln.)								
1. Gross external debt (at end-period)	112 866.9	118 222.8	125 195.0	129 269.9	132 695.5	134 641.7	137 051.0	137 051.0
<i>Of which, intercompany debt</i>	49 632.0	52 274.7	60 367.3	63 309.5	64 904.0	65 996.1	66 479.6	66 479.6
2. Gross external debt excl. intercompany debt (at end-period)	63 234.9	65 948.0	64 827.7	65 960.4	67 791.5	68 645.6	70 571.4	70 571.4
3. Payments for debt extinction and servicing (including intercompany debt)*	30 463.5	21 144.0	22 502.9	4 251.4	5 928.6	5 291.2	8 253.5	23 724.7
4. Payments for debt extinction and servicing (excl. intercompany debt)*:	22 374.5	12 692.8	15 270.1	2 815.3	3 729.8	3 402.0	5 693.8	15 640.9
5. Export of goods and non-factor services for the period (EGSp) **	48 166.9	65 650.4	91 990.9	22 907.4	26 233.5	23 945.1	23 944.2	97 030.1
6. Export of goods and non-factor services for the year (EGSy) **	48 166.9	65 650.4	91 990.9	97 635.2	97 337.4	96 317.1	97 030.1	97 030.1
B. Relative Parameters								
1. Gross external debt per capita (USD, excluding intercompany debt)	3 943.3	4 011.0	3 887.6	3 941.6	4 036.7	4 072.3	4 172.9	4 172.9
2. Gross external debt to GDP (% , including intercompany debt)	98.3	79.9	66.7	67.4	67.2	67.1	68.0	68.0
3. Gross external debt to GDP (% , excluding intercompany debt)	55.1	44.5	34.5	34.4	34.3	34.2	35.0	35.0
4. Gross external debt to EGS (%, including intercompany debt)	234.3	180.1	136.1	132.4	136.3	139.8	141.2	141.2
5. Gross external debt to EGSy (% , excluding intercompany debt)	131.3	100.5	70.5	67.6	69.6	71.3	72.7	72.7
6. Payments for debt extinction and servicing to EGSp (% , including intercompany debt)	63.2	32.2	24.5	18.6	22.6	22.1	34.5	24.5
7. Payments for debt extinction and servicing to EGSp (% , excluding intercompany debt)	46.5	19.3	16.6	12.3	14.2	14.2	23.8	16.1
8. Interest payments to EGS π (%)	10.5	7.0	5.0	5.2	4.5	5.4	5.3	5.1
9. International reserves to short-term external debt to original maturity	225.0	310.3	319.5	326.5	317.1	287.4	285.0	285.0
Memo items:								
Population *** (thousand individuals)	16 036.1	16 442.0	16 675.4	16 734.5	16 793.9	16 856.6	16 911.9	16 911.9
GDP (KZT bln.), for the period***	17 007.6	21 815.5	27 571.9	5 976.7	6 559.1	7 842.4	9 694.3	30 072.5
GDP for 12 months (USD bln.)	114.8	148.0	187.8	191.9	197.6	200.5	201.4	201.4

* Since 2000 - long-term debt repayment and servicing

** Information Source: Kazakhstan's Balance of Payments, National Bank of the RK

*** Information Source: Agency of Statistics of the RK

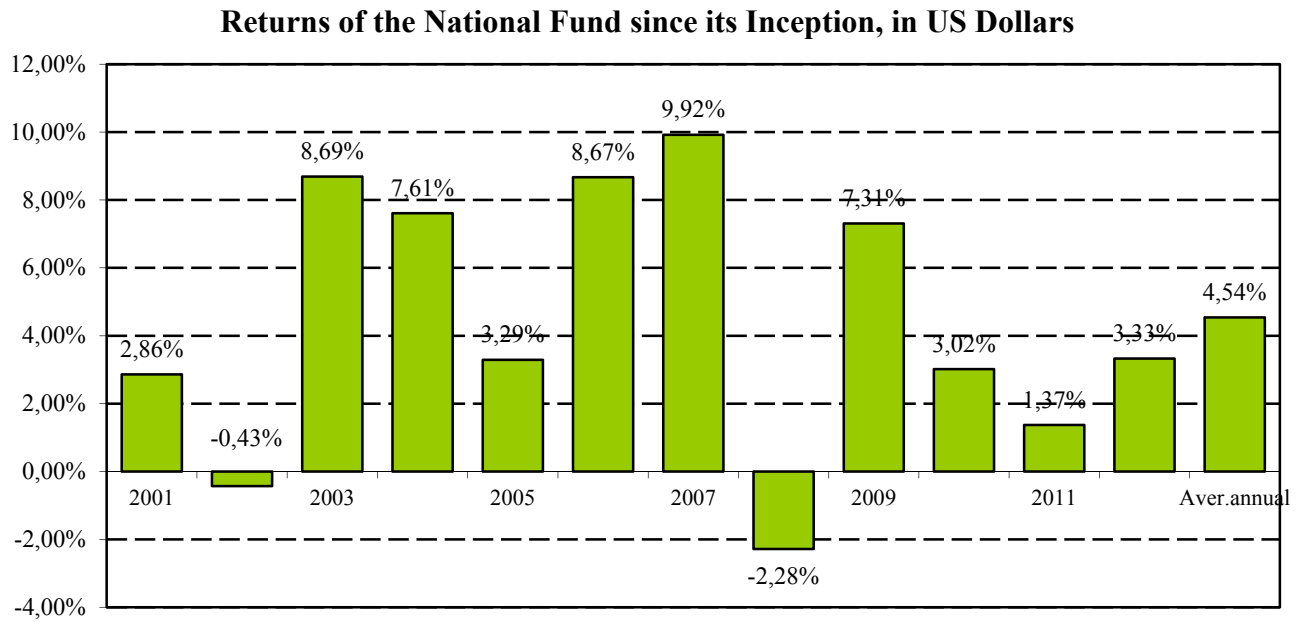
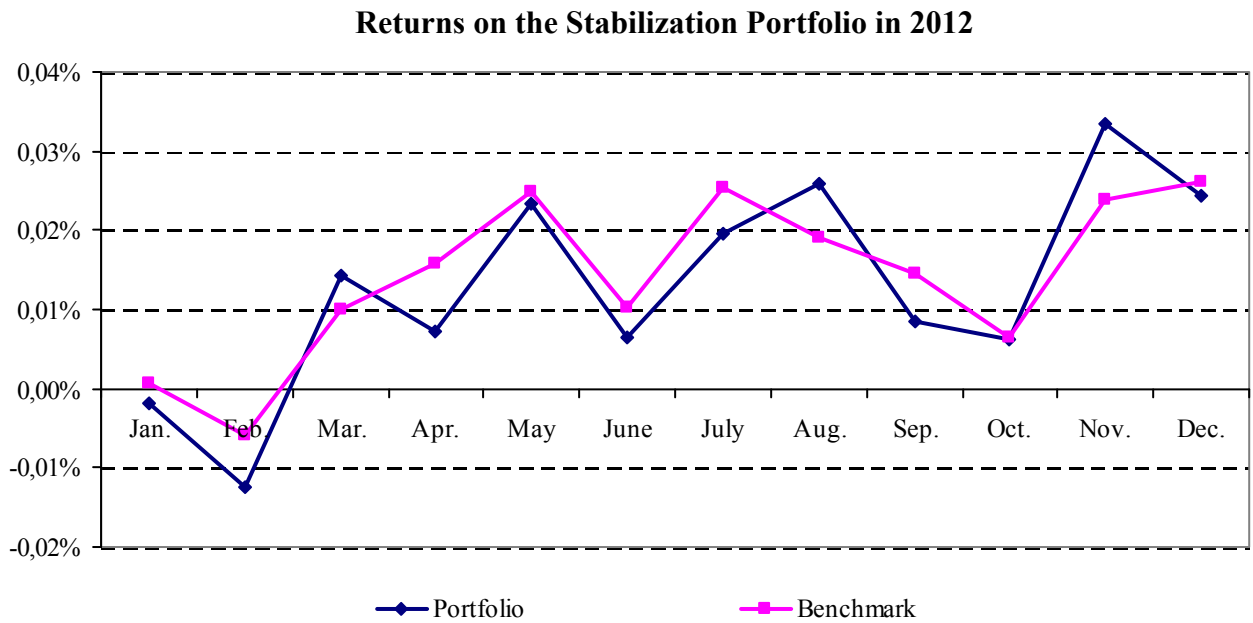
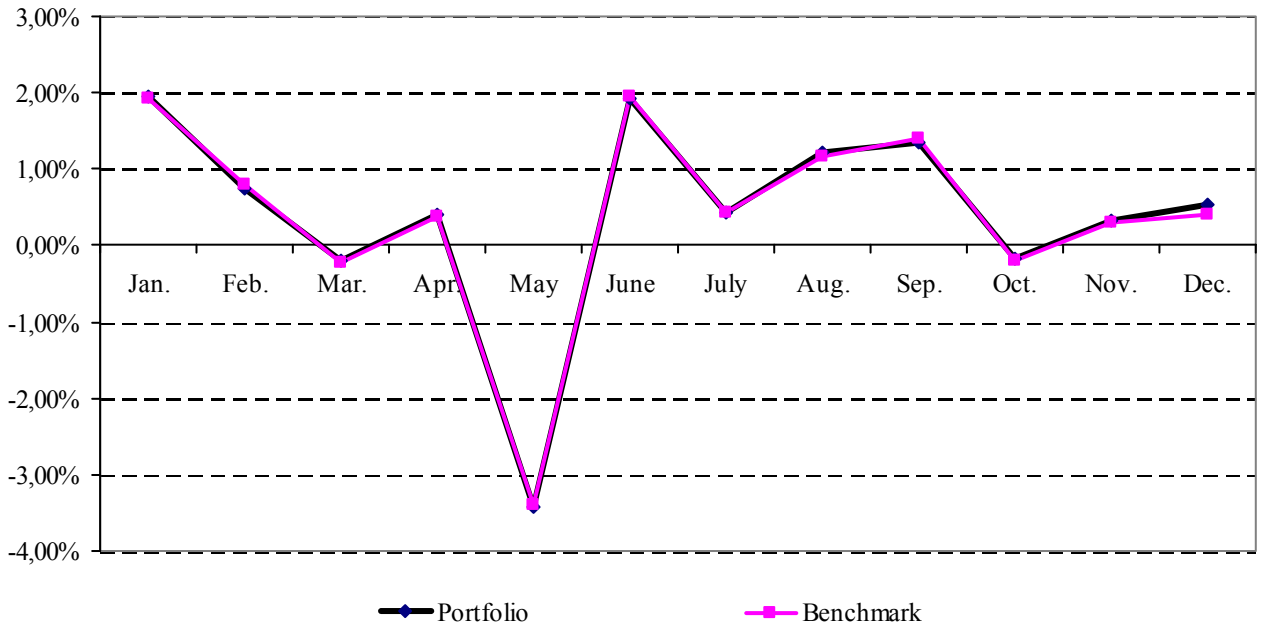


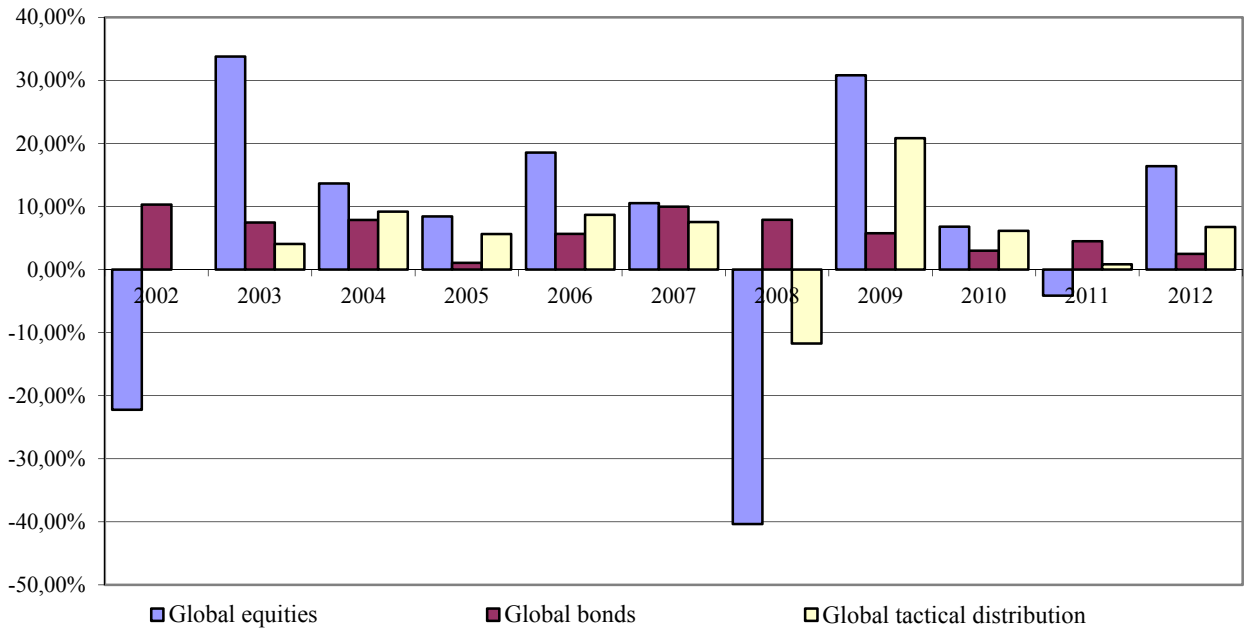
Figure 10.2



Returns on the Savings Portfolio in 2012



Returns on the Savings Portfolio by the Type of Mandates



List of Abbreviations Used

a second-tier bank	bank
government securities	GSs
US Dollar	USD
Commonwealth of Independent States	CIS
International Monetary Fund	IMF
million	mln.
billion	bln.
International Financial Reporting Standards	IFRS
accumulation pension fund	APF
organization engaged in investment management of pension assets	OEIMPA
a subsidiary purchasing doubtful and bad assets of the parent bank	DAMC
professional player in the securities market	PPSM
trillion	trln.
thousand	thous.