

THE WORLD BANK

COMMONWEALTH OF INDEPENDENT STATES  
PAYMENTS AND SECURITIES SETTLEMENT INITIATIVE



**PAYMENTS AND SECURITIES CLEARANCE  
AND SETTLEMENT SYSTEMS IN  
KAZAKHSTAN**

**APRIL 2006**

## FOREWORD

Following the successful experience of the Western Hemisphere Payments and Securities Clearance and Settlement Initiative (WHI) in the Latin American and Caribbean region, in September 2004, the World Bank launched the Commonwealth of Independent States Payments and Securities Settlement Initiative (CISPI). The CISPI aims to assess and strengthen payments and securities systems in the Commonwealth of Independent States with a view to improving their safety, efficiency and integrity. The long term goal of the initiative is to build institutional capacity within the region in order to sustain the continued development of payment and securities settlement systems.

A key component of the CISPI is the International Advisory Council (IAC), which is comprised of representatives of international and national institutions with experience in the field of payments and securities systems. In addition to representatives from the World Bank, this council includes members from the Secretariat of the Committee on Payment and Settlement Systems (CPSS) of the Bank for International Settlements (BIS), Banque de France, European Central Bank (ECB), International Monetary Fund (IMF), Swiss National Bank (SNB), and the U.S. Securities and Exchange Commission (SEC). Other central banks, securities commissions and international organizations are expected to join the IAC over the course of the program.

To assure quality and effectiveness, the CISPI includes two important elements. First, all studies are conducted with the active participation of country officials and the project builds on the existing work being undertaken in the respective countries. Second, the initiative draws on international and national expertise on the subject, through the IAC, to provide guidance, advice and alternatives to current practices.

The initiative is undertaking a number of activities. These include: the preparation of public reports containing a systematic in-depth description of each country's payments, clearance and settlement systems; the delivery of recommendations reports to country authorities on a confidential basis; the organization of IAC meetings to review country studies and provide input for future work; the organization of workshops focusing on issues of particular interest; the creation of a web-page ([www.cis-pi.org](http://www.cis-pi.org)) to present the outputs of the Initiative and other information of interest in the payments systems area; and the promotion of working groups to ensure a continuation of the project activity.

The Kazakhstan Interbank Settlement Center (KISC) of the National Bank of Kazakhstan is currently acting as Technical Secretariat of the CISPI and is playing a major role in making the process sustainable. To this end, the initiative has helped strengthen KISC's in-house expertise. Additionally, practitioners in payments and securities clearance and settlement in some countries in the region have participated in the studies under the initiative through KISC coordination, and this has contributed to the broadening of knowledge and the transfer of know-how within the region. The endeavors of the working groups in coordination with the KISC will maintain the infrastructure created under the initiative and provide a permanent forum for the countries in the region to discuss, coordinate, and add a collective impetus to the work in the area of payments and securities clearance and settlement systems.

This report, *Payments and Securities Clearance and Settlement Systems in Kazakhstan*, is one of the public reports in the CISPI series and was prepared with the active support of the National Bank of Kazakhstan.

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## ABBREVIATIONS AND ACRONYMS

|        |  |
|--------|--|
| AML    | Anti-money Laundering  |
| ATM    | Automated teller machine   |
| BCP    | Business Continuity Plan   |
| BCSS   | Bulk Clearing Settlement System  |
| BEST   | Bourse Electronic System of Trade  |
| BIS    | Bank for International Settlements   |
| CDS    | Central Depository of Securities   |
| CEK    | Currency Exchange of Kazakhstan  |
| CFT    | Combat to the Financing of Terrorism   |
| CPI    | Consumer Prices Index  |
| CISPI  | Commonwealth of Independent States Payments and Securities Settlement Initiative           |
| CIS    | Commonwealth of Independent States   |
| CPSIPS | Core Principles for Systemically Important Payment Systems                                 |
| CPSS   | Committee on Payment and Settlement Systems  |
| CSD    | Central Securities Depository  |
| DVP    | Delivery versus Payment  |
| EBRD   | European Bank for Reconstruction and Development   |
| ECB    | European Central Bank  |
| EFTPOS | Electronic Funds Transfer at the Point of Sale   |
| FIAK   | Financial Institutions Association of Kazakhstan   |
| FIFO   | First-In-First-Out   |
| FSA    | Kazakhstan Financial Markets and Financial Organizations Supervision and Regulation Agency |
| GDDS   | General Data Dissemination Standards   |

|      |   |
|------|---|
| GDP  | Gross Domestic Product  |
| IAC  | International Advisory Council  |
| IAIS | International Association of Insurance Supervisors                        |
| IAS  | International Accounting Standards  |
| IMF  | International Monetary Fund   |
| IPO  | Initial Principal Offering  |
| ISIN | International Securities Industry Numbering                               |
| ISMT | Interbank System of Money Transfer  |
| KASE | Kazakhstan Stock Exchange   |
| KDIF | Kazakhstan Deposit Insurance Fund   |
| KISC | Kazakhstan Interbank Settlement Centre of the National Bank of Kazakhstan |
| LTA  | Local Treasury Authority  |
| ML   | Money Laundering  |
| MOF  | Ministry of Finance   |
| NBK  | National Bank of Kazakhstan   |
| NIN  | National Identification Number  |
| NPC  | National Payments Council   |
| OTC  | Over-the-counter  |
| POS  | Point of Sale   |
| PVP  | Payment versus Payment  |
| RTGS | Real time gross settlement  |
| SCPP | State Center of Pension Payments  |
| SML  | Securities markets law  |
| SRO  | Self-regulatory organization  |
| SSPF | Social Security Protection Fund   |

|       |  |
|-------|--|
| STP   | Straight-through processing  |
| SWIFT | Society for Worldwide Interbank Financial Telecommunication                    |
| UNDP  | United Nations Development Program   |
| WB    | World Bank   |
| WHI   | Western Hemisphere Payments and Securities Clearance and Settlement Initiative |

# PAYMENTS AND SECURITIES CLEARANCE AND SETTLEMENT SYSTEMS IN KAZAKHSTAN

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# 1 ECONOMIC AND FINANCIAL MARKET OVERVIEW

## 1.1 OVERVIEW OF RECENT REFORMS

The declaration of Kazakhstan's sovereignty, transition to a market economy and overall economic reformation entailed the necessity of building effective channels for the country's economic and financial activities. In February 1995, the Program on Banking System Reform was adopted in Kazakhstan. The movement to the market economy and the creation of formal financial markets were determined as priority objectives of the program.

With regard to the banking system, in 1995 the law "About banks and banking activities in the Republic of Kazakhstan", and the law "About the National Bank of Kazakhstan" were enacted. These two laws laid down the foundation for Kazakhstan's banking system reforms and defined tasks, main activities, legal status and powers of the National Bank of Kazakhstan (NBK) as well as its role in the banking system and its relationships with other public sector agencies.

Since the launching of the national currency, the "*tenge*", in November 1993, the NBK has been conducting an independent monetary policy. Since 1994, monetary policy has been conducted using modern regulatory instruments such as open market operations, official interest rates, norms on required reserves, rediscount facilities, and short-term loans to/ and deposits from commercial banks. Moreover, 1994 can be referred to as the year of the creation of the government securities markets.

Starting 1994-1995, the NBK's refinancing mechanism was changed significantly; in particular, the provision of targeted loans to banks by decision of the government was suspended. In general, the credit granting function was moved from the centralized source (i.e. the NBK) to commercial banks, which, in order to form credit resources, started attracting the population's savings and free funds of legal entities.

In 1996, Kazakhstan began with the implementation of international banking standards for minimum capital requirements, asset quality, management, and accounting principles, among others. In July 1996, the undertaking by Kazakhstan of obligations stemming from Article 8 of the International Monetary Fund charter agreement officially set the convertibility of the *tenge* for current account transactions and allowed multilateral cross-border payments free from limitations. Moreover, to protect the internal financial sector and the overall economy, the NBK ceased to finance directly public sector budget deficits starting in 1998.

Kazakhstan was the first country among the CIS countries to reform its pension system. The "funded pension system" based on a defined-contribution scheme has been functioning successfully since January 1998. Pension fund managing firms have since become large institutional investors investing actively in the real sector of economy through allocation of assets into internal financial instruments.

In that same year, Kazakhstan joined the system of the General Data Distribution Standard (GDDS) of the IMF, which include the statistics of four most important sectors of economy, i.e. real, fiscal, financial and external.

In April 1999, the exchange policy changed drastically after adopting a floating exchange rate. The introduction of the floating exchange rate facilitated the recovery of the competitiveness of Kazakhstan's exports and resumption of the production growth. Since then, the NBK intends to keep the regime of the floating exchange rate without any pre-determined long-term exchange rate corridor. At the same time, for the purpose of a timely

implementation of measures for the prevention of a potential overheating of the economy, the NBK closely monitors the status of the foreign currency inflows to the country. On a related issue, starting January 1, 2007, it will no longer be necessary to obtain a license from the NBK to perform foreign exchange transactions in Kazakhstan.

In this context, the monetary policy of the NBK has been aiming at preventing significant inflation growth, the preservation of positive real official interest rates, and improving the quality of financial intermediation.

At the end of 1999, in order to protect bank depositors from insolvency of banks the NBK created the Kazakhstan Deposit Insurance Fund (KDIF).

The Law "On insurance activities" was enacted to foster compliance with the main principles and standards of the International Association of Insurance Supervision (IAIS). The NBK became a member of the IAIS.<sup>1</sup>

A National Fund was established in 2000 in order to accumulate and invest long-term state savings, reduce dependence of the national budget on the volatility of oil prices, and ensure intergenerational equity for current and future citizens of the Republic of Kazakhstan.

In September 2005 the Concept of Accumulation and Usage of the National Fund assets for the middle-term prospect was adopted, in accordance with which the accumulation mechanism of the National Fund was modified. Under the new concept, starting from July 1, 2006 payments from all extractive companies will first be accumulated in the National Fund, and after that the legislature will have the authority to finance development programs by taking the required amount from the National Fund. A special formula will exist to make sure that allocations to the budget from the National Fund will not lead to either overheating of the economy or a fast depletion of the fund's portfolios.

## **1.2 MACROECONOMIC BACKGROUND**

Kazakhstan possesses enormous energy resources and plentiful supplies of other minerals and metals. It also has a large agricultural sector featuring livestock and grain. The country's industrial sector rests on the extraction and processing of these natural resources and also on a growing machine-building sector specializing in construction and agricultural equipment.

The breakup of the former Soviet Union in December 1991 and the collapse in demand for Kazakhstan's traditional heavy industry products resulted in a short-term contraction of the economy, with the steepest annual decline occurring in 1994.

In recent years, the favorable situation of international financial and commodity markets, together with the recovery of Kazakhstan's exporting competitiveness has had a positive impact in the macro-economic situation in the country. At the same time, the opening of the Caspian Consortium pipeline in 2001, from western Kazakhstan's Tengiz oilfield to the Black Sea, was a major development that substantially raised export capacity.

Kazakhstan enjoyed double-digit economic growth in 2000-01, and 8 percent or more per year in 2002-05, due largely to a booming energy sector, but also to economic reform and privatizations, good harvests, and foreign investment. The country has also embarked upon an industrial policy designed to diversify the economy away from overdependence on the oil sector by developing light industry. For 2006 economic growth is expected to exceed 8

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<sup>1</sup> At that time the NBK was the supervisor of insurance companies in Kazakhstan. This responsibility was later transferred to the Kazakhstan Financial Markets and Financial Organizations Supervision and Regulation Agency (FSA).

percent once again.

**Table 1: Basic Statistical Data\***

|                           | 2000   | 2001   | 2002   | 2003   | 2004   | 2005   |
|---------------------------|--------|--------|--------|--------|--------|--------|
| Population (in million)   | 14.9   | 14.8   | 14.9   | 15.0   | 15.1   | 15.2   |
| GDP (USD million)         | 18,292 | 22,153 | 24,637 | 30,833 | 40,742 | 56,100 |
| GDP per Capita (USD)      | 1,231  | 1,493  | 1,658  | 2,062  | 2,703  | 3,691  |
| Exchange rate KZT vs. USD |        |        |        |        |        |        |
| <i>Year end</i>           | 144.5  | 150.2  | 155.6  | 144.2  | 130.0  | 133.8  |
| <i>Average</i>            | 142.1  | 146.7  | 153.3  | 149.6  | 136.0  | 132.9  |

Sources: Statistical Agency of the Republic of Kazakhstan and NBK.

### 1.2.1 Monetary Policy

In 1997 the NBK actively started regulating the monetary base as an intermediate target through the instruments of the monetary policy, including the operations of repo and reverse repo.

In 1998, under conditions of strained crisis phenomena at the world financial markets and worsening of the conjuncture of Kazakhstan export goods, the NBK strengthened its monetary policy to ensure the stability of the financial system and steadiness of the national currency and banking system.

Starting 2001, the NBK began determining its monetary policy objectives for three years ahead. Annual adjustments are made based on previously unforeseen circumstances. The NBK started monitoring enterprises of the real sector in order to increase efficiency of the monetary policy.

In 2002, overall inflation was brought down to 5.9 percent, its lower level in more than a decade. Since then, inflation has been kept at relatively stable and low levels, i.e. within the 6-7 percent range based on year-to-year calculations of the consumer price index (CPI).

Since 2001, the monetary policy of the NBK has been characterized by a significant increase of the money supply to cope with high economic growth. In 2004, the monetary base expanded by 82 percent, amounting to KZT 578 billion, mainly as a result of the significant growth of the net international reserves of the NBK.<sup>2</sup> Cash in circulation increased by almost 60 percent to KZT 379 billion. In this period, commercial banks have been experiencing increasing surplus liquidity, and have engaged in aggressive lending policies. The latter was a key factor behind the 68 percent growth in money supply for 2004.

The official refinancing rate was increased twice in 2005: from 7.5 to 8.0 percent, and once more on April 1, 2006 – to 8.5 percent. In that same date, the NBK repo rate was also increased to 4.5 percent. The NBK also increased the amount of NBK short-term notes in circulation by more than 67 percent to keep on withdrawing excess liquidity from commercial banks to decrease inflationary pressures.

\* The following conventions for notation are used in all Tables throughout this Report: “n.a.” indicates data that are not available; “...” stands for data that are not applicable; “neg” indicates where data are very small relative to other relevant data in the table concerned.

<sup>2</sup> All throughout this report the symbol “KZT” is used to represent the national currency of Kazakhstan, the *tenge*. Also, the symbol “USD” is used to represent the United States dollar.

In recent years the local currency experienced upward pressures due to massive oil-related foreign exchange inflows. In order to avoid sharp short-term fluctuations of the exchange rate and replenish gold and foreign currency reserves, the NBK regularly carries out sell and buy operations of foreign currency in the domestic foreign exchange market.

## 1.3 FINANCIAL SECTOR

### 1.3.1 Market of Banking Services

Commercial banking activity in Kazakhstan is regulated by the law “About banks and banking activities in the Republic of Kazakhstan”. The law foresees a two-tier banking system, where the NBK represents its first level and all state-owned, commercial, and other banks are the second level. In recent years Kazakhstan’s banking system has been among the most dynamic within CIS countries.

**Table 2: Structure of the Banking Sector**

|  | 01 January 2005 | 01 April 2006 |
|--|-----------------|---------------|
| Number of commercial banks, including                            | 35              | 34            |
| With foreign capital   | 15              | 14            |
| Fully state-owned  | 1               | 1             |
| Number of branches   | 385             | 425           |
| Number of cash settlement centers                                | 1,106           | 1,286         |
| Number of representative offices abroad                          | 11              | 27            |
| Number of representative offices of foreign banks in Kazakhstan  | 18              | 19            |
| Number of banks-members of the Kazakhstan Deposit Insurance Fund | 34              | 33            |
| Number of banks having a custody license                         | 9               | 11            |

Source: NBK.

Kazakhstan’s commercial banks have also been expanding through the creation of subsidiaries or affiliates in other CIS countries. In 2003, the People’s Savings Bank created a subsidiary in the Russian Federation, while Kazkommertsbank created one in Kyrgyz Republic. In 2004 three more foreign affiliates were created, two of them in the Kyrgyz Republic by the People’s Savings Bank and ATF Bank, while Kazkommertsbank established a new one in the Russian Federation. By 2006, twelve indigenous banks had a total of 27 representative offices abroad.

As regards foreign investment in Kazakhstan’s banking sector, as of April 2006, a total of 14 banks had some foreign investment. Some of these banks are “native” domestic commercial banks with foreign participation in their share capital, including such large banks as Kazkommertsbank and Bank TuranAlem. The remaining ones are foreign banks which have created a subsidiary in Kazakhstan. There are also 19 representative offices of foreign banks operating in the country.

Another relevant feature of the banking sector in Kazakhstan is that it is highly concentrated. During 2004, the share of the 5 largest banks in terms of aggregate assets increased from 73 to 74 percent. In terms of total liabilities, this share went up from 75 to nearly 76 percent.

In 2004-2005, the banking sector developed under conditions of economic growth, lower inflation, growing personal incomes, solvency of real-sector enterprises, and lower prices of

financial resources in international capital markets. Deposits in commercial banks have been experiencing significant growth rates over the last few years, which in turn has promoted a boom in banking credit and the expansion of banking activities as a whole. In December 2004 the value of the aggregate assets of the banking sector totaled KZT 2,690 billion, a 60.5 percent growth from the same month of 2003.

In terms of asset allocation, in January 2005, the loan portfolio represented 63.5 percent of total assets. In April 2006, the figure was slightly lower at 62.8 percent. The rest was represented mainly by the securities portfolio and cash and sundry accounts with 5.6 percent.

**Table 3: Structure of Aggregate Assets of the Banking Sector**  
(in KZT billion)

|   | <i>January 2005</i> | <i>April 2006</i> |
|---|---------------------|-------------------|
| Cash                                      | 55                  | 77,7              |
| Correspondent accounts                    | 150                 | 282               |
| Securities                                | 468                 | 735               |
| Deposits placed with other banks          | 85                  | 226               |
| Interbank loans                           | 105                 | 113               |
| Loans to customers                        | 1,708               | 3,131             |
| Capital investments and subordinated debt | 14                  | 31                |
| Fixed assets and intangible assets        | 45                  | 61                |
| Other assets                              | 60                  | 331               |
| <b>Total assets</b>                       | <b>2,690</b>        | <b>4,987</b>      |

Source: NBK.

In 2004, the total loan portfolio, excluding interbank loans, grew by 67 percent or KZT 727 billion. New mortgage loans provided by commercial banks amounted to KZT 441 billion, of which KZT 136.5 billion were residential mortgages of individuals. Consumer credit increased by nearly 110 percent or KZT 122.1 billion.

The most significant source of growth for bank liabilities has been customer deposits. In 2004, customer deposits increased by 66 percent to KZT 1,619 billion. The share of customer deposits in the total liabilities of the banking sector was 67 percent.

Nevertheless, commercial banks have also been increasing their borrowing from external financial markets. This is seen as a strategy aiming at lowering interest rates in the domestic market due to competitive pressures.

As of year-end 2004, the maturity structure of banking assets was as follows: i) assets with maturity of 1 year or less: 49.9 percent; ii) assets with maturities from 1 to 5 years: 30.2 percent; and, iii) assets with maturities of more than 5 years: 19.9 percent. On the liabilities side, short-term obligations (1 year or less) were 56.7 percent of the total.

During 2004, a deterioration of asset quality was observed. Standard quality loans decreased from 60.8 to 56.3 percent of the total loan portfolio. On the other hand, provisions for loan losses rose from 6.2 to 6.7 percent of total loans.

Regarding shareholders' equity, during 2004 there was a 49 percent increase equivalent to KZT 114.0 billion. Tier 1 capital increased by 49 percent, mainly as a result of growth in retained profits. On the other hand, tier 2 capital grew by 47 percent. Capital adequacy ratios

for the banking system as a whole were close to 16 percent (tier 1 capital + tier 2 capital).

### **1.3.2 Non-bank Credit Organizations**

The development of non-bank credit organizations in Kazakhstan began in 2001. On average, 6 non-banking credit organizations are located in each oblast (i.e. political subdivision) of Kazakhstan. The highest number of these organizations can be found in the South-Kazakhstan and Almaty oblasts.

Despite their significant number and relatively uniform distribution by regions, for the time being non-bank credit organizations do not have any significant impact in the credit market of the country.

As of year-end 2004, the ratio of assets of non-bank credit organizations to the GDP was 2.7 percent, and 1.7 in the case of the loan portfolio. Comparable figures for the banking sector were 49.5 and 33.4 percent respectively.

### **1.3.3 Insurance Market**

Out of 36 functioning insurance companies, the center offices of 28 organizations are located in Almaty. The number of branches of the insurance organizations varies by oblasts from 5 (Almaty Oblast) up to 13 (West-Kazakhstan Oblast) companies. Nearly 60 percent of the collected insurance premiums are concentrated in the five largest insurance companies.

The aggregate volume of insurance premiums collected by the insurance organizations for 2004 increased by KZT 11.1 billion, a 38.5 percent increase from the previous year.

### **1.3.4 Market of Pension Services**

Economic growth, real increase of salaries, decrease of tax rates for individuals as well as tighter controls over the full and timely payment of compulsory contributions to mandatory pension schemes have had a positive impact on the so-called funded pension system.

The largest number of beneficiaries of the funded pension funds is in Almaty City, with approximately 50 percent of the nation's total. The aggregate amount of pension contributions as of January 1, 2005 amounted to KZT 380 billion. On the other hand, pension payments for 2004 amounted to KZT 26.3 billion.

Just as with other areas of the financial sector, the pensions industry is very concentrated. Thus, the number of beneficiaries, the share of pension savings, pension fees, and pension payments of the three largest pension funds are, respectively, 67.3, 64.6, 67.8 and 66.7 percent of the total.

Pension funds invest more than 80 percent of their assets in domestic government and non-government securities, including NBK notes, securities of the Ministry of Finance, equities and private debt securities.

## **1.4 CAPITAL MARKETS**

The Kazakhstan Financial Markets and Financial Organizations Supervision and Regulation Agency (FSA) is charged by the Kazakhstan's securities markets law (SML) with the authority to oversee financial market participants, stock exchanges, securities depositories, and other institutions performing professional securities markets activities. The FSA also exerts control over the banking market, insurance activity, pension funds administrators, and



mutual funds.

The Kazakhstan Stock Exchange (KASE) was established in 1993 and is the only stock exchange in the country. The KASE provides an organized market for foreign currency, government securities, corporate shares and bonds, and derivatives.

Securities market activity is dominated by debt issuances, mainly government and banking securities. The Ministry of Finance (MOF) issues government securities in dematerialized form, with the KASE serving as agent for the placement of the securities in the primary market. The government issues T-bills and bonds with various maturities of up to 5 years, Eurobonds, and discount papers and municipal bonds. The NBK also issues securities, called short term notes, for monetary purposes. Only some of the banks have access to primary auctions of NBK securities.

During 2004, the FSA registered 327 new issuances, approved 284 reports on issuance results and share floatation, and annulled 694 issuances. The total number of securities issuances outstanding as of January 1, 2005 was 3,154. At the same time, the number of joint-stock companies with securities outstanding reached 3,071 as of the specified date.

A constantly growing investment potential of commercial banks and institutional investors has had a positive impact on the development of the market for corporate debentures in Kazakhstan.

During 2004, the number of the registered bond issues increased by 34. As of January 1, 2005 the number of bond issuances outstanding reached 109 with a face value of KZT 404.8 billion. Out of this number, 88 issuances are included in the official listing of the KASE under category "A", and 8 issuances under the category "B". Among corporate debentures, there are 14 issuances of mortgage bonds with a face value of KZT 54.5 billion.

During 2004, the volume of transactions with non-government securities more than duplicated. The most significant increase was observed in securities included in the "A" category with 117 percent. In the case of the "B" category the increase was almost 84 percent.

As a result, the volume of non-government bonds in the aggregate portfolio of the commercial banks amounted to KZT 42.1 billion or 7.6 percent of the total. In the case of insurance organizations the comparable data are KZT 7.5 billion and 22 percent.

In the case of equities, as of January 1, 2005, the number of shares included into the official listing of KASE under the "A" category reached 44, and 34 under the "B" category. Overall market capitalization ("A" plus "B" categories) amounted to KZT 1,198 billion. This represented an increase of almost 69 percent compared to the previous year.

The volume of secondary market transactions with government securities at the stock exchange increased by almost 82 percent during 2004. The volume of repo transactions with government securities increased by 92 percent and reached 88 percent of the total volume of transactions with these securities.

## 1.5 MAJOR TRENDS IN PAYMENT SYSTEMS

The payments system in Kazakhstan is characterized by the use of credit transfers for large value payments and mainly credit transfers and cash for retail transactions. To date, debit payment instruments such as cheques and direct debits are not widely used either at the intrabank or interbank level. The *tenge* is the unique legal tender in the country. Monetary obligations in the territory of the Republic of Kazakhstan must be expressed in the Tenge,

except for the cases which are provided for by legislative acts of the Republic of Kazakhstan. The use of foreign currency, and also of payment documents in foreign currency when making payments on obligations in the territory of the Republic of Kazakhstan, shall be allowed in the cases and on the conditions defined by legislative acts of the Republic of Kazakhstan or in accordance with the procedure established by them.

There are two major payment systems in Kazakhstan: the Interbank System of Money Transfer (ISMT) for large value and high priority payments, and the Interbank Clearing for low value payments. Both are operated by the Kazakhstan Interbank Settlement Center (KISC), a not-for-profit organization owned by the NBK.

The ISMT is a real-time gross settlement (RTGS) system that conducts electronic funds transfers between participant accounts at the NBK. The ISMT provides irrevocable and final settlement in *tenge* on a real time basis if sufficient funds are available to cover a payment. If sufficient cover is not available, the transaction is sent automatically to a waiting queue, where it is kept pending until funds become available as a result of incoming payments. The NBK offers refinancing loans, loans of special assignment, and other credit facilities for participants with insufficient liquidity. Generally, however, commercial banks tend to turn to the interbank money market to meet their liquidity needs. Participants are permitted to use their reserve requirement during the day, which at present stands at 6 percent of a group of bank liabilities in local currency.

The Interbank Clearing is a system for low value payments and is a multilateral netting system. Payments sent from 3:01 p.m. of T-1 and until 3:00 p.m. of T are settled on day T. The system calculates net positions of payment orders with the same value date on a continuous basis. However, this is only for information purposes as final settlement of multilateral net positions takes place only once per day, from 3:00 p.m. till 3:15 p.m., through the ISMT.

Regarding other cashless payment instruments, the payment card base is low overall, but growing at a fast pace, particularly in recent years. As of January 2006, a total of 3.22 million cards had been issued to 3.08 million cardholders, representing growths of 36.4 and 35.2 percent respectively, in comparison with the same period last year. The overwhelming majority of cards in circulation are debit cards. In general, cards are used for cash withdrawals from automated teller machines (ATMs) rather than for direct payments at point-of-sale (POS) terminals.

In 2005, 21 commercial banks and the postal service "KazPost" had a license to issue payment cards. Cards of both national and international systems are issued and distributed, including VISA, Europay International, American Express and Diners Club. There are eight independent payment card processing centers which basically process card issued through local circuits.

Regarding cross-border payments, the NBK and 28 commercial banks are SWIFT users and payments are made through foreign correspondent banks. Currently, 26 of the banks connect to SWIFT through the Service Bureau connection organized by the KISC. Remittances, either incoming or outgoing, are not very relevant in terms of neither volume of transactions or aggregated value in the case of Kazakhstan.

A National Payments Council (NPC) was created to help in the undertaking of the payment system reform effort during the mid-1990s. This Council included representatives of the NBK and the largest commercial banks. The NPC ceased to exist once the major systems, the ISMT and the Interbank Clearing, started operations successfully.

## **1.6 MAJOR TRENDS IN SECURITIES CLEARANCE AND SETTLEMENT SYSTEMS**

By law, all types of securities must be dematerialized, and with the exception of government

securities must be registered in the Central Depository of Securities (CDS) as well as in one of the Securities Registrars. Government securities need only to be registered in the CDS.

The CDS is a non-profit joint stock company. By law, there can only be one central securities depository in the country. As of September 2005, CDS shareholders included KASE (54 percent), NBK (25 percent) and other commercial banks and private investors (26 percent).

All securities transactions made at the KASE are settled through the CDS. Trades are settled according to the BIS Delivery Versus Payment (DVP) model 1 in quasi-real time (15-20 minutes following the trade).<sup>3</sup> For this purpose, the CDS has a settlement-only account at the ISMT, through which it collects funds from securities buyers and then credits the accounts of securities sellers. In case of insufficient funds or securities, transactions are rejected and must be re-entered into the trading system. Participants of the CDS are obliged by law to segregate their own securities holdings from those of their customers. Customers' securities are identified at the individual level in the CDS.

As of September 2005, there were 56 direct depositors in the CDS and securities under custody amounted to KZT 1,914.4 billion. Of this amount, government securities represented 28 percent, corporate shares 56 percent; corporate debentures 15 percent, and other securities 1 percent.

The FSA has developed the Draft Law "On introduction of changes and amendments to some of legislative enactments on the market of securities and joint-stock companies" which was recently introduced to the Senate of the Parliament.

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<sup>3</sup> "Delivery versus Payment in Securities Settlement Systems", Committee on Payment and Settlement Systems of the Central Banks of the Group of Ten Countries of the Bank for International Settlements, September 1992.

## 2 INSTITUTIONAL ASPECTS

### 2.1 GENERAL LEGAL FRAMEWORK

#### 2.1.1 Payments

The Organic Law of Kazakhstan on the National Bank dated 30 March 1995 N 2155, includes as the basic function of the NBK “the maintenance of the functioning of the payment systems” (Article 7 subparagraph 2). In addition, the basis for the payment system oversight function is stated in article 8 and especially in article 48. Indeed, on July 8, 2005, this Law was modified to clarify the oversight function and main responsibilities of the NBK. Paragraph 2 of the latter article states: “...To oversee the payment system NBK has a right: to issue (?) regulations, defining the conditions and organizational procedures for the functioning of the payments system; to monitor and assess the organization and functioning of the payment system; to obtain information from participants and payment system operators; to perform surveys of payment system participants’ according to the legislation and NBK regulations...”.

This law also regulates reserve requirements (Article 32), the issuance of short term notes by the NBK (Article 36-2), and central bank loans to banks (Article 35). Chapter VII deals with bank notes and coins. Articles 49 and 52 allow the NBK to open accounts to commercial banks and non-bank organizations.

The “Law on Banks and Banking”, Law No. 2444 dated 31 August 1995, includes the basis for opening banks, branches, their liquidation and licensing. Articles 41 and 42 stipulate banking regulations, prudential rules and obligatory norms and limits. Article 44 provides the rights for audits and inspections of banks by the FSA and the NBK. Article 48 defines the conditions for suspending or withdrawing a banking license.

#### **Box 1: Other Laws and Regulations related to the Payments System**

1. The Law “On banks and banking in the Republic of Kazakhstan” #2444 (August 1995).
2. The Law “On the National Bank of Kazakhstan” #2155 dated (March 1995).
3. The Law “On the State’s financial regulation and supervision of the financial market and financial organizations” #474 (July 2003).
4. The Law “On payments and funds transfers” #237-I (June 1998).
5. The Law “About electronic documents and electronic digital signature” #370-II (January 2003).
6. “Rules on the use of payment documents and accomplishment of non-cash payments and funds transfers in Republic of Kazakhstan”, #179, approved by the resolution of the Board of the NBK dated (April 2000).
7. “Rules of electronic documents exchange in committing of payments and money transfers in Republic of Kazakhstan”, #146, approved by the resolution of the Board of the NBK dated (April 2000).
8. “Rules of funds transfers in the Interbank System of Money Transfers” #242, approved by a resolution of the Board of the NBK (November 1998).
9. “Procedures of resolving conflicts regarding authenticity of electronic documents in the payment system of Republic of Kazakhstan”, #386, approved by the resolution of the Board of the NBK (November 1999).
10. “Rules provisioning security of operator’s working place of payment system participants of the state enterprise Kazakhstan Interbank Settlement Centre of the National Bank of Republic of Kazakhstan” #325, approved by the resolution of the Board of the NBK (October 1999).

11. "Instruction to requirements to software and hardware which provide access to payment system of Republic of Kazakhstan" #400, approved by the resolution of the Board of the NBK (October 2000).
12. "Instruction of using cryptographic security to exchange electronic payments between subdivisions of the National Bank of Republic of Kazakhstan" #177, approved by the resolution of the Board of the NBK (October 1995).
13. "Clearing Rules in the Republic of Kazakhstan" #273, approved by the resolution of the Board of the NBK (June 2000).
14. "Operational Rules in the Clearing System of the Kazakhstan Interbank Settlement Centre" #157, approved by the resolution of the Board of the NBK (July 1999).
15. "Rules of access to the Payment system of the Republic of Kazakhstan, operator of which is Kazakhstan Interbank Settlement Centre of the National Bank of Kazakhstan", affirmed by the decree of the Board of Directors of the NBK #235 (July 2003).
16. "System of payments – messages formats and exchange procedures".
17. Service agreement for ISMT between KISC and participants.
18. Service agreement for interbank clearing between KISC and system participants.
19. Service agreement for providing of information services in Banking Messaging Exchange System.

Sources: NBK and KISC.

## 2.1.2 Securities

The major laws regulating the securities market in Kazakhstan are the "Securities Market Law" Law No. 461 dated July 2, 2003, the "Law on Joint Stock Companies" No. 415 dated May 13, 2003, the Civil Code and the "Decree on the Agency of the Republic of Kazakhstan regulating and supervising financial markets and financial organizations" No. 1270 of December 31, 2003.

The Securities Markets Law (SML) was approved in December 1998. This law includes the legal basis for licensing and obligations of a central securities depository (Articles 78 - 82) and Securities Registrars (Article 65, 66). The SML regulates the functions and responsibilities of the FSA (Articles 108 - 112). Chapter 18 (Articles 91-100) describe the tasks and functions of self-regulatory organizations (SROs). At present, however, neither CDS nor the KASE are considered SROs in Kazakhstan. Other relevant aspects of the SML are the following:

- According to the SML, only one CDS can perform securities depository functions in the country (Article 78). The legal basis for ownership transfers by means of book-entries is established in Article 36, paragraph 2 of the SML.
- Pledge of securities and registration of the rights for pledged securities as well as the responsibilities of the parties involved are described in Article 37.

The basis for the dematerialization of publicly-held securities is included in Article 12 of the Law about Joint Stock Companies: "... Joint stock companies have rights to issue shares or privileged shares. Shares are issued in dematerialized form... "

The status of the FSA as a national regulator is defined in the "Decree about the Agency of the Republic of Kazakhstan regulating and supervising financial markets and financial organizations", approved by the president of the Republic of Kazakhstan N1270 dated 31 December 2003. In particular, Article 12 states that "The FSA, according to the tasks and responsibilities performs the main functions of regulation and supervision... of banking, insurance, saving pension funds and securities market activities." The tasks of the FSA are included in Chapter 2 (Articles 13, 15) of the Decree.

## Box 2: Other Laws and Regulations related to Securities

1. The Code of the Republic of Kazakhstan “On taxes and other compulsory payments to the budget” as of June 12, 2001, Ref. No. 209-II (Tax Code) (with the changes as of April 15, 2005).
2. The Resolution of the Government of the Republic of Kazakhstan “On approval of the Development Program of the securities market of the Republic of Kazakhstan for 2005-2007” No.1385 dated December 24, 2004.
3. The Agreement on cooperation of the member states of the Eurasia Economic Community at the market of securities (Astana City, June18, 2004).
4. The Resolution of the Government of the Republic of Kazakhstan of July 28, 2003, Ref. No. 753 “On concept of the financial sector development of the Republic of Kazakhstan” (with the changes introduced by resolutions of the Government of the Republic of Kazakhstan of February 24, 2005, Ref. No. 169).
5. The Resolution of the Board of Directors of the NBK “On the order of purchase of the thirty and more percent of the voting shares of the community at the secondary market of securities” Ref. No. 361, dated October 23, 2003.
6. The Resolution of the Board of Directors of the FSA “On approval of the main measures on improvement of regulation and control over the financial market taking into account the directives of the European Union and plan of activities on implementation of main measures aimed at improvement of the regulation and control over the financial market taking into account the directives of the European Union for 2004” Ref. No. 115 dated April 12, 2004.

Sources: FSA and NBK.

### 2.1.3 Derivatives

The domestic legal framework dealing with derivative instruments and derivative markets are summarized in Box 3. Kazakhstan authorities also use some Directives issued by the European Union as a basis for the regulation of the derivatives market.

## Box 3: Regulations related to Derivatives

1. The Decree of the President of the Republic of Kazakhstan “On approval of the Report on formation and use of the National Fund of the Republic of Kazakhstan” Ref. No. 1381, dated June 9, 2004.
2. The Resolution of the Government of the Republic of Kazakhstan “On concept of the international (regional) financial center establishment in Almaty City” No. 1364, dated December 24, 2004.

Sources: FSA and NBK.

### 2.1.4 Specific Legal Issues Related to Clearance and Settlement

#### 2.1.4.1 Settlement Finality, Zero-Hour Rule

Finality and irrevocability of payments are explicitly stated in the “Law on Payments and Funds Transfers”, Law No. 237-I dated 29 June 1998 (Article 24 and 36) and in the “Rules of Money Transfers in the Interbank System of Money Transfers” of March 1999 (Chapter 2 paragraphs 8, 9, and 10). The rules of the ISMT state that “the funds transfer occurs only after acceptance of the payment order by the KISC. The payment order is considered to be

accepted once the KISC sends a confirmation to the payer concerning the debiting of its account. After acceptance of the payment order by KISC, it cannot be canceled either by the initiative of the relevant parties or the NBK and the funds transfer cannot be revoked”.

On the other hand, there is no explicit mention to the so-called zero-hour rules. In case a banking license is withdrawn by the FSA, according to the Article 48-1 of The “Law on Banks and Banking”, No. 2444 dated 31 August 1995; the relevant bank is obliged to cease all financial operations with its accounts, except for current administrative expenses. Article 29-7 of the Instruction No. 98 approved by the resolution of the Council of Directors of the NBK dated April 20, 1999 describes in detail the procedures the NBK must follow in case a commercial bank is suspended from actively participating in the payments system. In case the FSA decides to suspend or withdraw a license from the bank, the NBK will notify the KISC in writing that such bank is no longer able to use its account at the NBK for payment system purposes.

#### *2.1.4.2 Netting*

The Law “On payments and funds transfers” dated June 29, 1998 and the “Rules on interbank clearing in the Republic of Kazakhstan and issue license for carrying out interbank clearing to non-bank organizations by NBK”, approved by the resolution of the Board of the NBK dated June 16, 2000 contain the legal underpinning for clearing and netting arrangements.

#### *2.1.4.3 Electronic Documents and Signatures*

The electronic signature is protected by the law “About electronic documents and electronic digital signature”, dated July 1, 2003.

In the current legislation, in particular to comply with the “Law on Payments and Funds Transfers”, the usage of electronic documents must be in line with the rules of the NBK “Rules of electronic documents exchange in committing of payments and funds transfers in the Republic of Kazakhstan”, dated April 21, 2000, and message structure has to correspond with the formats established by the KISC.

## **2.2 THE ROLE OF FINANCIAL INSTITUTIONS: PAYMENTS**

### **2.2.1 The Banking Sector**

The NBK represents the first tier of the banking system of Kazakhstan. The objectives, functions, legal status, and powers of the NBK are determined in the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan.” The NBK is responsible for the regulation of certain banking issues within the scope of its authority and shall promote the establishment of general conditions for the functioning of banks and institutions performing certain types of banking operations.

According to the law “On banks and Banking”, only commercial banks can provide the full range of payment services to customers. At present, among financial intermediaries only commercial banks are direct participants in both the ISMT and the Interbank Clearing, the two major payment systems in the country. Also, at present only commercial banks and KazPost are authorized to issue payment cards.

As of April 2006, there were 34 commercial banks comprising the second tier of the banking system, with the exception of the Kazakhstan Development Bank which has a special legal status determined by a legislative act of the Republic of Kazakhstan.

As of April 2006, the total number of branches was 425. The largest branch networks are those of Halyk Bank, Caspian Bank, and Kazkommertsbank with 147, 40 and 23 branches respectively. The number of banks' cash settlement centers amounted to 1,286.

## **2.2.2 Non-Bank Financial Organizations**

As of January 2006, the non-banking market of financial services comprised 277 organizations, among which the most relevant ones include credit cooperatives (136), pawnshops (84), and other non-banking organizations (57).

Non-bank financial institutions deliver a variety of banking services to individuals, small and medium-sized enterprises, agricultural producers and others. Non-bank financial institutions do not play a major role in the payments system of Kazakhstan.

## **2.2.3 Other Institutions that Provide Payment Services**

### *2.2.3.1 Kazakhstan Interbank Settlement Centre*

The Kazakhstan Interbank Settlement Centre of the National Bank of Kazakhstan (KISC) was established by a decree of the Board of Directors of the NBK dated December 30, 1995 as part of the banking system reform program. The KISC is the operator of the main payment systems of the country, which include the ISMT and the Interbank Clearing. The activities of the KISC are regulated by the NBK.

The core functions of the KISC are:

- The daily operation of the ISMT and the Interbank Clearing.
- Settlement of net positions cleared by the VISA system arising out of local VISA cards transactions.
- Operating the SWIFT Service Bureau providing access to the SWIFT network to various financial institutions.

### *2.2.3.2 KazPost*

The Kazakhstan postal service was re-organized in 1999 through a Government Decree and was converted into an open joint-stock company called KazPost. The government owns 100 percent of the company.

KazPost has more than 3,500 offices through the country, the majority of which are located in rural areas. Through its branches, KazPost provides some payment services to individuals, such as collection of utility payments and disbursement of pensions, among others. KazPost has a correspondent account at the NBK and is a direct participant of both the ISMT and the Interbank Clearing.

### *2.2.3.3 National Processing Center*

in 1999 the NBK created the National Processing Center to provide nationwide payment card clearing and settlement services, switching, to become a central acquiring center, and for the development of local payment card projects. The National Processing Center was formally incorporated in December 2000.

Although it is currently fully equipped, the National Processing Center has not yet gone live. At present, the organization is focusing on developing its own transaction acquiring network and working on e-government projects and education campaigns.



## **2.3 THE ROLE OF FINANCIAL INSTITUTIONS: SECURITIES**

### **2.3.1 Securities Market Participants**

According to Kazakhstan's SML, the professional participants of the market of securities are brokers-dealers, registrars, mutual fund managing firms, organizations implementing the investment management of pension assets, custodians, transfer-agents, and the central depository of securities.

### **2.3.2 Exchanges**

The Currency Exchange of Kazakhstan (CEK) was founded in November 1993 by the NBK and twenty three leading commercial banks of Kazakhstan. Since then, the exchange changed its official name several times depending on legislation requirements and business activity. The latest changes were made in April 1996 when the stock exchange was re-registered under the name "Kazakhstan Stock Exchange" (KASE). In November 1996, the KASE obtained a general (unlimited) license from the authorities to organize securities trades.

Currently, the KASE is a universal financial market, which can be functionally divided into four major sectors: the foreign currency market, the government securities market, including supranational securities of Kazakhstan, the market of shares and corporate bonds, and the derivatives market.

At present, the KASE is the only stock exchange operating in the country.

### **2.3.3 Securities Clearance and Settlement Institutions**

The Central Depository for Securities (CDS) is a joint stock non-for-profit company. According to the SML, the CDS is the only authorized securities depository in Kazakhstan. The CDS provides depository, clearing and settlement services for shares transactions undertaken at the KASE and settlement services for off-exchange trades. The CDS provides the special services assigned by the rules of the FSA. Membership is open to banks, investment companies and brokerage companies. The CDS is not recognized as a SRO in the SML and it falls under the regulation and supervision of the FSA.

The CDS was created in 1997 by the NBK and until recently the latter institution held the majority of the CDS's shares. At present, its owners are the KASE with 54 percent, the NBK with 25 percent and other banks, brokers-dealers and private investors with the remaining 21 percent.

Regarding governance arrangements and decision-making at the CDS, the highest governing body is the General Meeting of Shareholders. The number of votes does not depend on the percentage of shares actually owned. Instead, each shareholder has one vote. By the end of 2004, there were a total of 21 entities with voting power at the CDS.

The CDS is organized internally in three divisions: the Division of Depository Functions is responsible of registering securities ownership transfers; the Division of Clearinghouse is responsible for carrying out the settlement of the cash leg of securities transactions; and, the Division of Registration is responsible for performing the duties of the CDS as one of the 18 Securities Registrars in the country.

In November 2004, the FSA granted the CDS a license to carry out banking transactions and open banking accounts for legal persons.

The CDS has its own criteria for participation in the system. The criteria are based on minimum capital requirements as established by the SML and the rules of the FSA. Participants are monitored by the FSA to ensure that the actions of participants are in accordance with the depositories' rules and procedures. Charter capital of the CDS is 90 bearer shares with a face value of KZT 18,000,000 (approximately USD 150,000).

In December 2004, the CDS participated in the creation of the Association of Eurasian Central Securities Depositories.

## **2.4 THE ROLE OF THE CENTRAL BANK**

### **2.4.1 Monetary Policy and Other Functions**

The main goal of the NBK is to secure price stability in the Republic of Kazakhstan. The NBK is entrusted with the following high-level objectives in order to fulfill the main goal:

- 1) Development and implementation of the monetary policy of the state;
- 2) Support of the payment system functioning;
- 3) Implementation of the currency regulation and currency control;
- 4) Assistance in support of stability of the financial system.

Some of the more specific functions of the NBK include the following:

- 1) Being the sole issuer of the bank-notes and coins at the territory of the Republic of Kazakhstan;
- 2) Taking part in servicing of the national debt of the government upon its agreement and servicing the national debt of the NBK;
- 3) Constituting the lender of last resort for banks;
- 4) Fulfilling the functions of the bank, financial adviser, agent of the government;
- 5) Ensuring the smooth operation of the payment system.

### **2.4.2 Involvement in the Payments System**

Since 1993, the NBK has been playing an active role in the launch of more efficient interbank payment systems. The scope of the reform led by the NBK was broad and reached, in addition to large value systems, securities settlement systems, foreign exchange settlement systems, and retail funds transfer systems. Moreover, the reform included not only improvements to the systems but also the revamping of the legal and regulatory framework.

The NBK outsourced the operational part of the payment system to the KISC and since then it has been performing solely regulatory and oversight functions. Payment system participants are nevertheless obliged to hold a correspondent accounts at the NBK.

At the international level, the NBK has been participating actively in various payment systems fora and technical groups.

### **2.4.3 Payments System Oversight**

The NBK Organic Law includes as the basic function of the NBK "the maintenance of functioning of payment systems". The payment system oversight function is explicitly mentioned in article 8 and especially in article 48 that deals with the powers of the NBK to organize and regulate payment systems, payments and money transfers.

## **2.5 THE ROLE OF THE KAZAKHSTAN FINANCIAL MARKETS AND FINANCIAL ORGANIZATIONS SUPERVISION AND REGULATION AGENCY**

The FSA was established in January 1, 2004 through separation from the structure of the NBK based on the Presidential Decree No. 1270 "On further improvement of the public administration system of the Republic of Kazakhstan".

The FSA exerts a regulatory and supervisory function over the market of securities as well as over commercial banks and other financial intermediaries involved in the areas of insurance, mutual funds, and pension funds.

The main objectives of the FSA include:

- ensuring the financial stability of the financial market and financial organizations and maintaining trust in the financial system as a whole;
- ensuring the proper protection of the interests of the consumers of financial services;
- establishing equitable terms and conditions for the activities of the financial organizations with the purpose of maintaining fair competition in the financial market.

### **2.5.1 Banking Supervision**

In compliance with the law of the Republic of Kazakhstan "On the national regulation and control over the financial market and financial organizations" of January 1, 2004, the authority for implementation of the national regulation and supervision over the financial market was handled to the FSA.

Regulation and supervision of commercial banks is performed both on an off-site basis and through on-site inspections in compliance with the laws "On national regulation and control over the financial market and financial organizations", "On banks and banking activities in the Republic of Kazakhstan", and other legal and regulatory enactments of the FSA.

The present system of bank supervision is based on procedures aimed at the prevention and limitation of risks in the activity of banks, the observance by banks of prudential norms traditionally represented by the system of limits and constraints, the assessment of banks' activity based on the analysis of the information provided by them, and on inspections aimed at determining the safety and security of bank operations and banks' observance of the legislation in force, among others.

For the purposes of regulating and supervising the activities of the banks and non-bank financial organizations the FSA:

- issues all banking licenses to new and existing banks and non-banking financial institutions, and also licenses external auditors for carrying out the auditing of banking activities;
- issues or refuses to issue the permits for opening branches, bank's voluntary re-organization and liquidation plans, for the creation or acquisition of subsidiaries by banks, for participation in the charter capital of the legal entities through which a bank may directly or indirectly hold more than 50 percent of the voting shares, for the acquisition by banks of rights to determine the decisions of legal entities, for the opening the branches and representative offices of foreign banks in the country, for individuals and legal entities to acquire a major stake in any bank or bank holding company;
- gives its consent for the appointment or election of the candidates to the key posts of

- any bank;
- issues the normative legal acts to be abided by all banks, non-banking financial institutions, and by their clients, and also supervise their observance;
  - establishes the list, forms, terms, and the procedure for submission of periodic and ad-hoc regulatory reports;
  - carries out the regulation of the activities of the banking groups and supervises the activities of the banks' affiliated entities with the assistance of other state bodies and organizations, to determine how and to what degree such affiliated entities may be having an influence over banks' activities;
  - establishes the prudential norms and risk limits to be observed by banks;
  - makes decisions on the conservation of banks and on the appointment of the temporary administrators for such banks;
  - appoints the Liquidation Commissions taking into account the branches and representative offices of liquidated bank, and determines the procedure for the compulsory liquidation.

#### **Box 4: Deposit Insurance Schemes in Kazakhstan**

The mandatory collective insurance of individuals' deposits placed with commercial banks in the Republic of Kazakhstan is operated by the Kazakhstan Deposit Insurance Fund (KDIF) a not-for-profit organization organized as a closed joint-stock company. The KDIF mission is to ensure, in the event of forcible liquidation of a bank, the refund of individual deposits.

The following types of individuals' deposits denominated in KZT and foreign currencies are covered by the KDIF (less accrued interest):

1. Time, conditional and demand deposits;
2. Participating bank's current account balances;
3. Participating bank's card account balances.

The following types of deposits denominated in KZT and foreign currencies are not insured:

1. Time, conditional, demand deposits, current and card account balances owned by a participating bank's top executives, their close relatives (either of parents, brother, sister, son or daughter) and spouses, as well as those placed by shareholders owning five per cent or more of the bank's voting shares and their close relatives (either of parents, brother, sister, son or daughter) and spouses;
2. Time and conditional deposits in an amount per single account equal to or exceeding the amount equivalent of USD 50,000.

In terms of procedures for the reimbursement of insured deposits in case of the liquidation of a bank, within seven business days after the effective date of the court's decision on the mandatory liquidation of such bank, the KDIF shall announce via mass media that the participating bank has been liquidated and that the payoff will start, indicating the name of the agent bank (or KazPost where an agent bank could not be selected) that will pay off deposits, as well as the place(s) where and the time when depositors can get their money.

The KDIF shall pay a depositor the compensation on his/her deposit as much as the amount of the insured deposit, less accrued interest, but not more than an equivalent of KZT 400,000. If a depositor has more than one deposit account opened with the participating bank, the KDIF will pay an aggregate amount of compensation on these

accounts, though not more than an equivalent of KZT 400, 000. To pay these amounts, besides the premiums received from participating banks the KDIF may use its own capital up to KZT 500 million. If the size of the payoff reserve is still not sufficient, the KDIF may borrow from the NBK, the Government of Kazakhstan, or borrow funds under their guarantees, at or below the NBK official refinancing rate.

A bank can join the deposit insurance system upon obtaining NBK approval. The following serves the basis for such approval:

- compliance with prudential normative requirements during a six-month period prior to the application date to the KDIF;
- compliance with minimum reserve requirements during a six-month period prior to the application date to the KDIF;
- compliance, during a six-month period prior to the application date, with the requirement of investing a portion of a bank's funds in internal assets;
- no enforcement measures or sanctions envisioned by banking legislation are being currently applied to the bank.

The KDIF, on the other hand, expects the participating banks to comply with the following requirements:

- to pay, in a timely fashion and in full, the mandatory ordinary, additional and extraordinary premiums according to what stated in the Agreement with the KDIF;
- to inform its customers about its membership in the deposit insurance system, disclosing the registration number and the date of issuance of a participating bank's certificate, as well as the terms of the deposit payoff;
- to make sure that a copy of the regulation governing the procedures for mandatory collective insurance of individuals' deposits be available for customer review in every bank and all its branches in which deposit-taking is performed;
- to make sure that time and conditional deposit agreements include a clause on the potential for such deposits to change their status from insured to a non-insured category, or from non-insured to an insured category in cases where a depositor deposits additional money or withdraws a portion of funds, or as a result of the extension of the deposit agreement which may give rise to such circumstance;

The following mandatory calendar premium rates have been established for participating banks:<sup>4</sup>

- during the first two years: 0.25 per cent of total insurable deposits in a participating bank, due the first day of each month following the reporting one;
- in subsequent years: 0.16 per cent of total insurable deposits in a participating bank, due the first day of the each month following the reporting one.

Sources: KDIF, FSA and NBK.

<sup>4</sup> The participating banks pay mandatory calendar premiums on a quarterly basis.

## 2.5.2 Securities Regulation and Supervision

The FSA is charged in the SML with the authority to oversee stock exchanges, the CDS, and brokerage firms.

For the purposes of regulation and supervision of securities market subjects, some of the relevant powers of the FSA include:<sup>5</sup>

- determining whether assets of the financial market constitute securities;
- carrying out the public registration of the securities issuances except for those issued by the government;
- considering and approving the reports on the results of issuance and placement of the shares, placement and payment of the bonds, and annulment of the issues of the securities;
- assigning national identification numbers to government securities;
- determining the terms and the procedures for issuance, placement, circulation, and payment for the securities, including derivatives;
- determining the terms and conditions and the procedure for suspension and renewal of the placement and circulation of securities and derivatives;
- keeping the State Securities Registry, register of the licenses and permits for carrying out the activities in the securities market, and the Register of Qualification Certificates giving the right to perform the activities in the securities market;
- establishing the terms and conditions and the procedure for carrying out professional activities in the securities market, including the requirements to the terms and conditions and the procedure to carry out the transactions with the securities;
- establishing the terms and conditions for firms involved in the management of pension assets and for institutional investors to perform investment activities;
- establishing the procedure to carry out the activities of securities tender organizers and self-regulated organizations; and,
- regulating and supervising the functioning of mutual funds.

The FSA may carry out inspections of the activities of securities market participants to determine whether they are operating in conformance with the requirements of legislation on securities.

## 2.6 THE ROLE OF OTHER PRIVATE AND PUBLIC SECTOR ENTITIES

### 2.6.1 The Ministry of Finance

The Ministry of Finance (MOF) of the Republic of Kazakhstan is a central executive body of the Republic of Kazakhstan carrying out the implementation and supervision, and, to the extent provided for by the legislation, coordination of activities assigned to its competence in different fields of the economy.

The major tasks of the MOF include the implementation of the state policy in the area of budget execution, customs control, tax control, internal financial control and public procurement, state regulation of production and circulation of tobacco products, ethyl alcohol and alcoholic products, specific types of oil products, bankruptcy proceedings (except for banks and insurance (reinsurance) organizations), extrajudicial debtor liquidation

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<sup>5</sup> Article 13 of the Law No. 474 of the Republic of Kazakhstan, “on State’s Regulation and Supervision of the Financial Market and Financial Organizations”.

proceedings, rehabilitation procedures with respect to insolvent debtors, state property management, accounting, financial reporting and audit.

The following public agencies are organized under the umbrella of the MOF, though with their own responsibilities and tasks: the Treasury Committee, the Customs Control Committee, the Tax Committee, the Financial Control and State Procurement Committee, the Insolvent Debtors Committee, the State Property and Privatization Committee.

The MOF issues government securities in dematerialized form, with the KASE serving as the primary placement agent. The government issues T-bills and bonds with various maturities of up to 5 years, as well as Eurobonds, and discounted papers.

### **2.6.2 Bankers' Association**

The Bankers' Association of Kazakhstan is not active in the area of payment systems.

### **2.6.3 Financial Institutions Association of Kazakhstan**

The Financial Institutions Association of Kazakhstan (FIAK) has been working actively in the field of payment systems. Recently, it signed agreements of cooperation with the NBK and the FSA, so that financial institutions be notified and be able to express their views whenever a new regulation or law is being developed. The FIAK supports a working group on "Improvement of Payment Systems" as well as a specific task force with the NBK to improve the structure of the banking account and migrate it from 17 to 20 digits. The FIAK is also working with the KISC, KASE, the CDS and other institutions to discuss the creation of a new secondary processing site for major financial system infrastructures.

The number of FIAK members is approximately 150 organizations. This figure includes commercial banks, insurance organizations, brokerage firms, pension funds managers, asset management companies, and other professional securities market participants, leasing companies, and microfinance organizations. Some audit firms, consulting companies and scientific and educational organizations are also FIAK members.

The main line of activities for the FIAK is to protect and represent its members' interests, facilitate financial market development and improve the legal framework related to the regulation of financial organizations by means of innovative proposals, participation in the work groups with competent regulators, with the country's Government and Parliament.

Cooperation with international peer organizations is a priority. In this last regard, in recent years the FIAK:

- Together with the bankers' associations of Armenia, Russia and of the Republic of Belarus launched the Coordinating Board of Banking Unions of the CIS-countries.
- Agreements on Cooperation and Information Exchange were signed with the Association of Russian Banks, the Association of Belarusian Banks, Association of Uzbekistani Banks, Association of Lithuanian Banks, Bank Union of Armenia, the Association of Insurers of the RF's Fuel and Energy Complex and Polish Banks Association.
- Contacts have been established with the European Federation of Bank Associations, Bank Associations of Latvia, the United States, Croatia, Switzerland, Estonia, South Korea, and Japan as well as the Association of Insurance and Reinsurance Companies of Turkey, All-Russian Insurers Union, the Insurance Organizations League of Ukraine Association of Investment Funds Managers of Poland, Pension Funds Chamber of Poland.

During 2004 the FIAK conducted the discussions of 19 draft amendments to the laws,

including the Tax Code, the Law on Joint-Stock Companies, the SML, as well as the regulations "On Securitization", "On Foreign Currency Regulation and Foreign Currency Control", "On the System of Mandatory Guaranteeing of Deposits with the second tier Banks of the Republic of Kazakhstan", among others. Over 60 problems and issues of financial sector development have been raised by the initiative of the FIAK and its members to the competent government authorities.



### 3 PAYMENT MEDIA USED BY NON-FINANCIAL ENTITIES

#### 3.1 CASH

Bank notes and coins are an important means of payment for individuals, representing about 50 percent of monetary aggregate M1. In most rural areas, cash is the only means of payment.

The official currency in Kazakhstan is the *Tenge*, which was introduced in November 15, 1993. The NBK is the only issuer of legal tender in the country.

The NBK designs and prints bank notes, distributes them, replaces the damaged ones, and identifies and removes from circulation counterfeit notes. The NBK has 17 branches in the country intervening in the collection and distribution of bank notes.

Bank notes are issued in the following denominations: 200, 500, 1000, 5000 and 10000. Denominations of coins are: 1, 2, 5, 10, 20, 50 and 100. As of June 2006, KZT 550 billion were in circulation, including bank notes and coins, an amount equal to approximately 7 percent of the GDP.

In November 2006 the NBK will introduce banknotes with new designs for all denominations.

**Table 4: Bank Notes and Coins**  
(in KZT million)

|                                       | 2000    | 2001    | 2002    | 2003    | 2004    |
|---------------------------------------|---------|---------|---------|---------|---------|
| Total currency issued                 | 116,875 | 145,988 | 178,451 | 262,727 | 411,592 |
| Total banknotes issued                | 115,249 | 143,045 | 174,021 | 256,115 | 403,353 |
| <i>of which, in denominations of:</i> |         |         |         |         |         |
| 100                                   | 4,075   | 2,886   | 3,520   | 1,803   | 608     |
| 200                                   | 13,390  | 16,357  | 14,035  | 15,147  | 9,341   |
| 500                                   | 20,973  | 29,296  | 27,680  | 38,091  | 26,698  |
| 1,000                                 | 22,547  | 22,399  | 29,994  | 65,639  | 77,037  |
| 2,000                                 | 20,583  | 32,402  | 41,813  | 52,918  | 80,078  |
| 5,000                                 | 32,299  | 38,208  | 53,250  | 58,904  | 134,933 |
| 10,000                                | -       | -       | -       | 21,849  | 73,220  |
| Coins issued                          | 1,626   | 2,943   | 4,430   | 6,612   | 8,239   |

Source: NBK.

## 3.2 PAYMENT MEANS AND INSTRUMENTS OTHER THAN CASH

### 3.2.1 Cheques

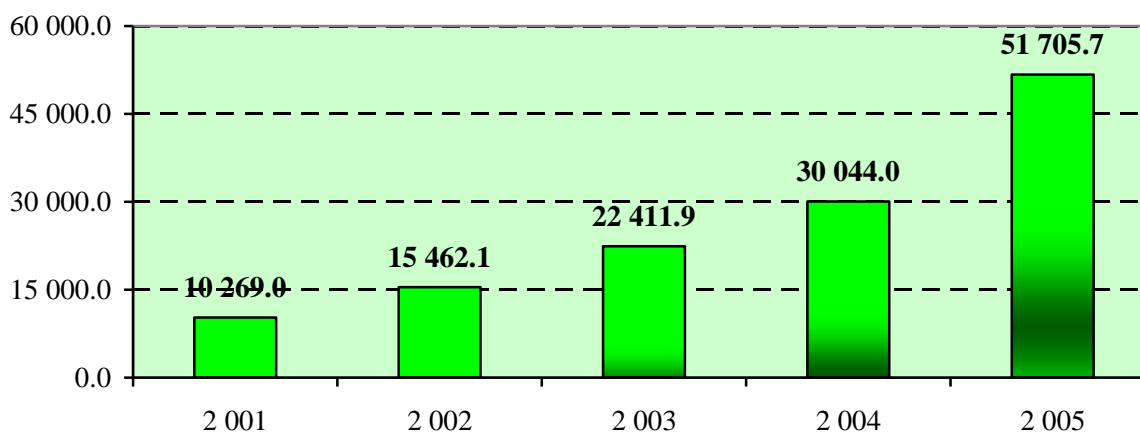
Cheques are not a common payment instrument and are very seldom used in Kazakhstan.

### 3.2.2 Direct Debits/Direct Credits

There are two major interbank payment systems in Kazakhstan processing electronic payment documents: the ISMT and the Interbank Clearing. In both systems it is possible to make credit and debit transfers, although in the ISMT the usage of direct debit transactions are limited to two of the participants: the NBK and the CDS.

The vast majority of customer and interbank payments are credit transfers. The ISMT processes payments in real time, while the Interbank Clearing registers and settles direct credit transactions with a value date up to T+3.<sup>6</sup>

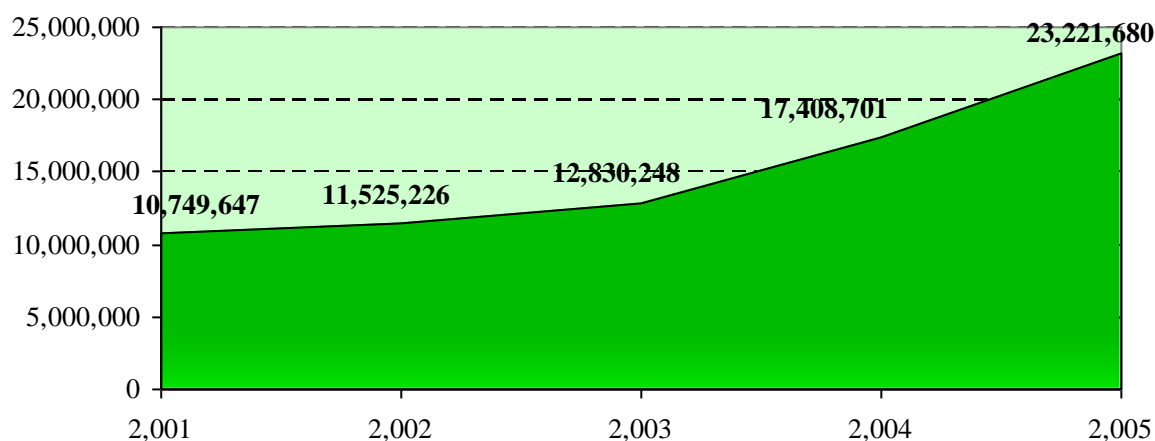
**Figure 1: Combined Value of Transactions in the Interbank Clearing and ISMT**  
(in KZT billion)



Source: KISC:

An electronic debit message in the Interbank Clearing can be placed only with a T+2 value date in order to give time to the payer's bank to validate the transaction. The sender and the receiver may cancel the transaction. To reduce the risk of unauthorized money withdrawals, commercial banks provide the KISC with information about the counterparty banks they have authorized to send electronic debit messages, together with the bilateral agreements authorizing debit operations, and the specific account numbers involved in these transactions. This information is recorded in the system filter and each electronic debit transaction is automatically verified in accordance to it.

<sup>6</sup> On value date, however, all payment instructions are settled with same-day finality.

**Figure 2: Combined Volume of Transactions in the Interbank Clearing and ISMT**

Source: KISC:

### 3.2.3 Payment Cards

As of January 1, 2006, 21 second-tier banks and KazPost have a license to issue payment cards through local systems. The market for credit and debit cards has been developing rapidly in recent years. In December 2005, a total of 3.22 million cards had been issued to 3.08 million card holders, representing growths of 36.3 and 35.2 percent, respectively, in comparison with the same month of the previous year. Cards are mostly used for cash withdrawals from ATMs.

Commercial banks issue and distribute payment cards of both national and international systems including VISA, Europay International, American Express and Diners Club. The vast majority of cards in circulation are debit cards.

**Table 5: Number of Payment Cards in circulation**

|   | 2001      | 2002      | 2003      | 2004      | 2005      |
|---|-----------|-----------|-----------|-----------|-----------|
| Cards with a cash withdrawal function     | 1,218,893 | 1,495,987 | 1,928,900 | 2,359,333 | 3,215,108 |
| Cards with a debit and/or credit function | 1,218,893 | 1,495,987 | 1,928,900 | 2,359,333 | 3,215,108 |

Source: NBK.

### 3.2.4 Postal Instruments

Through its network of more than 3,500 branches, KazPost provides some payment services to individuals such as collection of utility payments and disbursement of pensions, among others.

KazPost has a correspondent account at the NBK and directly participates in the ISMT and the Interbank Clearing. In rural areas, however, payment/collection services provided by

KazPost are handled almost exclusively with cash.

### **3.3 NON-CASH GOVERNMENT PAYMENTS**

The public sector has a very important role in the payments system of Kazakhstan. Government payments are organized through the Treasury of the Ministry of Finance. The Treasury has a single account within the NBK for all collections and disbursements. The Treasury has direct access to both the ISMT and the Interbank Clearing, although it uses mainly the latter to distribute state employee salaries and payments to government suppliers through the commercial bank network. On the other hand, all collections from legal entities or individuals are collected through commercial banks. Commercial banks then transfer all collections to the single Treasury's account at the NBK.

The State Center of Pension Payments (SCPP) is also a direct participant of the ISMT and Interbank Clearing. Just like the Treasury, the SCPP uses mainly the Interbank Clearing to make pension payments and collect pension scheme contributions through the commercial bank network.

The SCPP has been successful in using MT 102 message formats allowing pension-related payments to be processed with high straight-through processing (STP) rates. In the case of public employee salaries, however, there is still a high degree of manual intervention.

## **4 PAYMENTS: INTERBANK EXCHANGE AND SETTLEMENT CIRCUITS**

### **4.1 LOW-VALUE PAYMENT SYSTEMS**

#### **4.1.1 Payment Cards**

As of January 1, 2006, there were eight independent payment card processing centers. For a number of years there have been plans to implement a single national card processing center. Although the National Processing Center was created by the NBK in 1999 and formally incorporated since 2000 and is already fully equipped, it has not yet gone live.

For transactions made with Visa cards, both in ATMs and POS terminals, the most relevant in terms of market share, clearance and calculation of net positions among member banks is made by Visa's London Office. In that office, the transactions are separated into local and international ones.

For local transactions, VISA calculates the net positions among member banks and sends them back to the KISC for settlement through the ISMT.

International transactions i.e. transactions by foreigners who use their (foreign) payment cards in Kazakhstan or transactions of Kazakhstan nationals in foreign payment card systems are settled abroad through correspondent banks.

#### **4.1.2 Interbank Clearing**

The Interbank Clearing is a multilateral netting system operated by the KISC. A total of 34 institutions, including the Treasury of the MOF and the State Center of Pension Payments, participate in the Interbank Clearing on January 1, 2006. In order to become a participant, banks and other institutions must also be participants of the ISMT. In 2005 the clearing system processed 15,286,193 payments for a value of KZT 1,448.1 billion (approximately USD 10.9 billion). Daily average volume of payments in the Interbank Clearing in 2005 was 61,145 transactions for a value of KZT 5.8 billion, with peaks of 132,261 transactions, and KZT 9.8 billion per day.

Payments sent from 3:01 p.m. of T-1 and until 3:00 p.m. of T are settled on day T. The system calculates net positions of payment orders with the same value date on a continuous basis. However, this is only for information purposes as final settlement of multilateral net positions takes place only once per day, from 3:00 p.m. till 3:15 p.m., through the ISMT.

There are no bilateral debit or credit limits, and the only risk management tool in this system is the so-called "queue unwind" method. All payment messages accepted during the operational day are kept in a queue following the FIFO principle until final settlement, and until that moment participants are able to cancel the payments they have sent to the system. In case of unavailability of the necessary funds, the Interbank Clearing first blocks the available amount in the participant's ISMT account and then performs an unwinding procedure of the participant queue on a FIFO basis.

During the operational day, at noon and at 2:00 p.m. the Interbank Clearing distributes electronic reports to all users. Such reports allow participants to have full information about their net positions in the clearing, manage liquidity, plan and regulate payment balances and form payment outflows.

The system authenticates incoming payment messages through numerous parameters. While processing, the Interbank Clearing checks for:

- Compliance with the accepted message format.
- Correctness of the electronic signature.
- Exclusivity of the reference.
- Bank Identification Codes, correctness of remitter and recipient.
- Check bit's of remitter and recipients accounts.
- Correspondence of the value date.
- Rights to send a payment for the remitter and right to accept for the recipient.
- Presence of the so-called "Uniform Classifier for Designating Payments".
- Conformance with existing limit on maximum payment value.

Other relevant features of the Interbank Clearing include:

- The system accepts only electronic payment documents, and once settlement is accomplished delivers electronic confirmations to users.
- An individual payment cannot exceed KZT 5,000,000 (about USD 37,000).
- Participants have an opportunity to send payments with value dates up to T+3. Such payment instructions are stored in the system.
- Participants are able to cancel payments from the waiting queue until settlement has taken place.

Current fees charged by the NBK for accepted and processed electronic payment instructions are shown in Table 6. However, in the Interbank Clearing there is a minimum monthly charge of KZT 8,000.

**Table 6: Tariffs applicable in the Interbank Clearing**

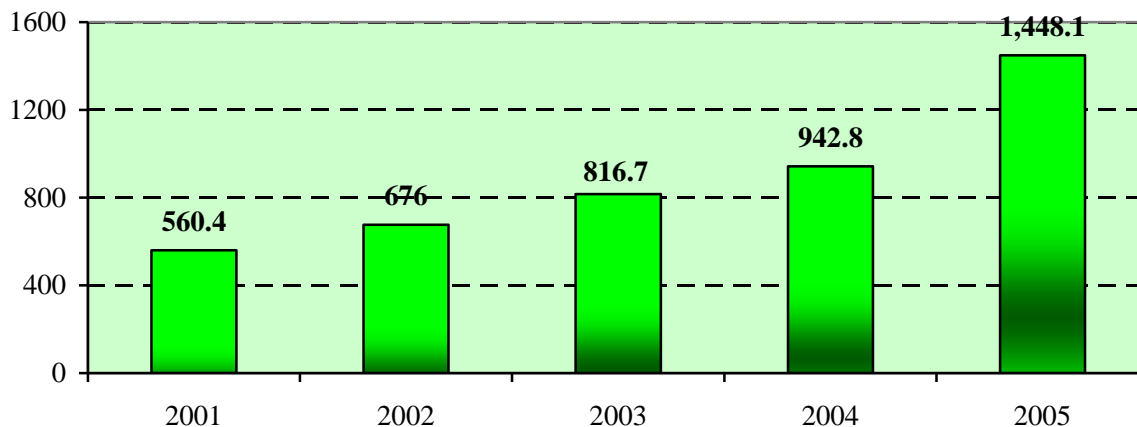
| Sending time                | Price (KZT)   |
|-----------------------------|---------------|
| 16:00 (of T-1) to 09:00 (T) | 9 (USD 0.07)  |
| 09:00 to 13:00              | 11 (USD 0.08) |
| 13:00 to 16:00              | 22 (USD 0.16) |

*Source: KISC.*

At the beginning of 2005, the Interbank Clearing launched a new payment instrument, the interbank direct debit. Beneficiary's banks send electronic debit messages in the format of MT100 or MT102 to the Interbank Clearing with a T+2 value date. The system places this message in a debit queue of the sending bank and a credit queue of the beneficiary bank until the value date. Once an electronic debit message is received, the system delivers it to the sending bank for authorization. Either the sender or the receiver can cancel the payment instruction.

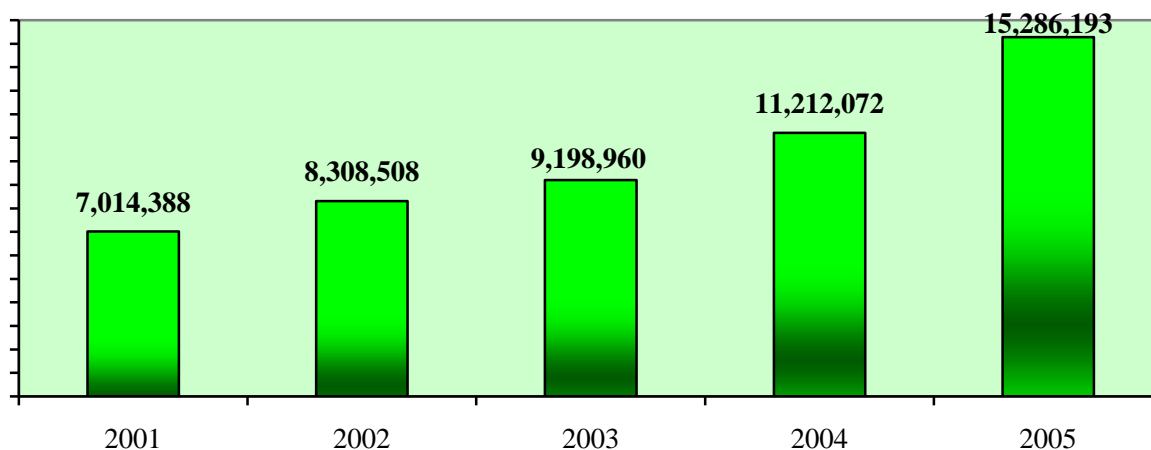
Calculation and settlement of net positions for interbank direct debits is processed in the same way as with electronic credit transfers.

**Figure 3: Value of Payments channeled through the Interbank Clearing**  
(in KZT billion)



Source: KISC.

**Figure 4: Number of Payments channeled through the Interbank Clearing**



Source: KISC.

## 4.2 LARGE-VALUE PAYMENT SYSTEMS

In Kazakhstan there is only one large-value interbank payments system, the Interbank System of Money Transfers (ISMT), operated by the KISC.

The ISMT is designed as a pure Real Time Gross Settlement (RTGS) system and processes payments fully electronically through system accounts on a real time basis. Immediate finality and irrevocability are therefore technically achieved and further supported by adequate legal and regulatory provisions. Payments cannot be cancelled unless they are in the designated queuing mechanism.

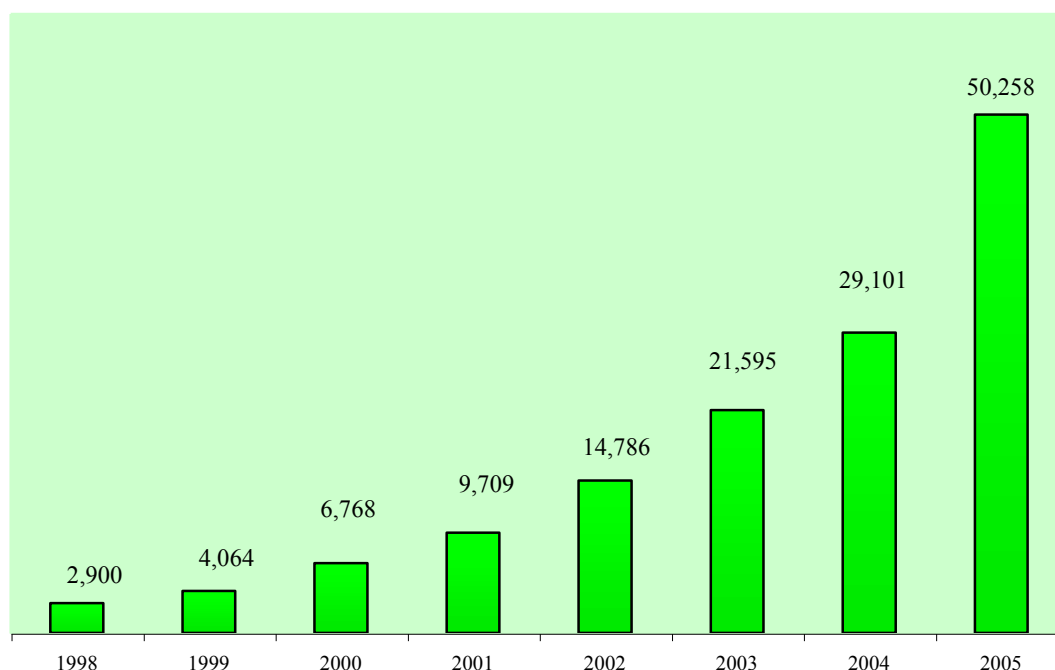
All transactions processed through the ISMT are settled indirectly at the NBK banking accounts via the accounts of the participants in the ISMT. At the beginning of the operating day the NBK makes virtual transfers of the balances participants request from their banking accounts to their ISMT account in order to enable payment processing. For this purpose, minimum reserve requirements can be used throughout the day. This balance becomes the opening position for each participant and the NBK sends a message to KISC with all the details of the transfer. In addition, further balance transfers during the day are possible upon request. At the end of the operational day the balances are transferred back to the banking account at the NBK.

The architecture of the system is V-shaped and system design allows for fully electronic straight through processing (STP) for both interbank payments as well as for payments on behalf of third parties.

In 2005 the ISMT processed 7,935,487 payments for a value of KZT 50.3 trillion (approximately USD 378.2 billion). Daily average volume of payments in the ISMT was 31,742 transactions for a value of KZT 201 billion, with a peak of 61,134 transactions and KZT 578.4 billion in a single day. The maximum capacity of the ISMT is at 7 to 12 transactions per second. Accordingly, system capacity limits are not a major concern to date. System capacity issues are monitored on a real time basis by the NBK and the KISC.

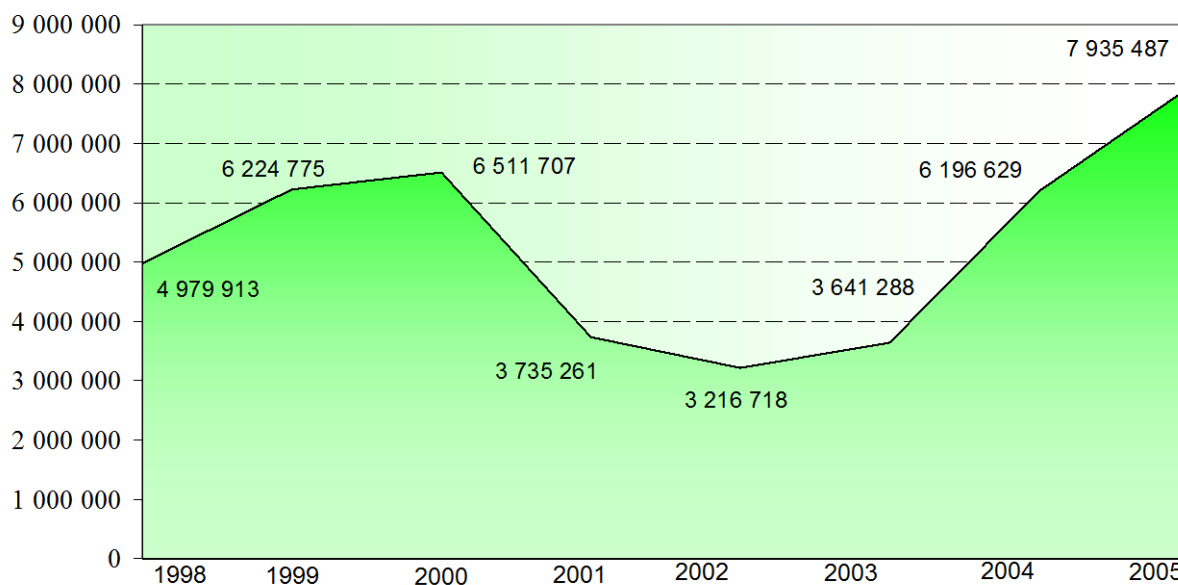
In 2004, approximately 6.2 million transactions for a total value of about KZT 29 trillion were processed in the ISMT. During the first eight months of 2005, nearly 5 million transactions for a value of approximately KZT 32 trillion had been settled by the system. The daily averages are KZT 173.2 billion and 32,000 transactions. Peak daily values amount to KZT 514 billion and 61,000 transactions. The maximum capacity of the ISMT is at 5 to 7 transactions per second. Accordingly, system capacity limits are not a major concern to date. System capacity issues are monitored on a real time basis by the NBK and the KISC.

**Figure 5: Value of Payments channeled through the ISMT**  
(in KZT billion)



Source: KISC.



**Figure 6: Number of Payments channeled through the ISMT**

Note: The sharp decline in payments volume in the ISMT during 2001 is related to the forwarding of all retail payments to the SRP.

Source: KISC.

Although the ISMT is intended for large-value and high priority payments, there is no maximum or minimum limits set on the value of the payments. Hence, the settlement of payments through the ISMT is exclusively controlled by price incentives.<sup>7</sup> The ISMT also settles the KZT leg of foreign exchange transactions made at the KASE as well as the cash leg of securities transactions. The final daily multilateral net balances of the interbank Clearing are settled at the ISMT as well.

ISMT activities are governed by the “Rules on Funds Transfers in the Interbank System of Money Transfer” where the structure, organization and operation of the system are specified in detail. Further detailed rules regarding the organization and operation of the ISMT are defined in trilateral contractual agreements between the respective parties, i.e. between the participants and the NBK, between the NBK and the KISC and between the participants and the KISC.

The ISMT keeps a record of all transfers between participants during the operating day. Consequently the KISC conducts bookkeeping of each participant’s balance on the basis of debits and credits and therefore all electronic messages processed in the ISMT leave an audit trace. During the operating day, participants can request a position statement on the following items: executed payment orders, the remaining balance at the ISMT and payment orders in the queuing mechanism.

<sup>7</sup> In the case of low value payments with low priority, it is less expensive to settle these through the SRP.

### 4.2.1 Management of Credit and Liquidity Risks

The operational day starts at 08:00 a.m. and payments are processed in real time provided that participants have sufficient balances in their ISMT account. Otherwise payments remain pending in the queue. The NBK sends participants an electronic message containing the value of payments in the queue, the maximum amount of the debit queue allowed to the respective participant, identification codes and additional available balances at the NBK banking account. Payments in the queue are settled according to the priorities established by participants or according to the FIFO principle. There are 100 priority codes and it is the participant's decision to set the priority code and to change it in the queue in order to manage liquidity issues. If the value of the payments in a participants' debit queue exceeds the maximum set by the NBK, new payment instructions are automatically rejected by the system. The ISMT has a gridlock resolution mechanism. The system checks the queues periodically during the operating day and at the end of the day. If it encounters a gridlock, it executes multilateral offsetting of the payment orders involved in the gridlock.

Participants have access to additional liquidity mechanisms. The interbank money market is active, although as a last resort participants may recur to the credit facilities the NBK and which include loans of refinancing and loans of special assignment.

The end of the operational day is 08:00 p.m., although an extension of the day until midnight is possible. After the closing of the operating day participants receive an electronic slip containing the following information: i) a brief report on executed payments; ii) an extended report on executed payments; and, iii) a report on cancelled payments. After retransferring the balances from the ISMT account to the participant's account at the NBK, reconciling of the balances takes place.

The system authenticates incoming payments through numerous parameters. While processing, ISMT checks:

- Compliance with the accepted message format.
- Correctness of the electronic signature.
- Exclusivity of the reference.
- Bank Identification Codes, correctness of remitter and recipient.
- Check bit's of remitter and recipients accounts.
- Correspondence of the value date.
- Rights to send a payment for the remitter and right to accept for the recipient.
- Presence of Uniform Classifier for Designating Payments.
- Available Liquidity on the remitter account at ISMT.

### 4.2.2 Pricing

The current pricing scheme that is applicable for the settlement of transactions in the ISMT is shown in Table 7.

**Table 7: Tariffs applicable in the ISMT**

| Time of settlement      | Price (KZT)    |
|-------------------------|----------------|
| 08:00 a.m. – 01:00 p.m. | 57 (USD 0.37)  |
| 01:00 p.m. – 08:00 p.m. | 114 (USD 0.74) |
| 08:00 p.m. – 10:00 p.m. | 740 (USD 5.00) |

Source: KISC.

### 4.2.3 Participation Criteria

There are 51 participants, including 34 commercial banks and the NBK itself, with access to the ISMT. Non-banking participants include the Treasury of the Ministry of Finance, the State Centre of Pension Payments, the KASE, and the CDS.

To become a participant, the holding of a banking account at the NBK is mandatory. In turn, in order to receive the permission to run a banking account, participants have to fulfill several minimum requirements, including technical ones, defined in the “Rules of Access to the Payment System of the Republic of Kazakhstan”, approved by the Board of Directors of the NBK. Generally only one account per participant is allowed to settle payments via the ISMT:

The main requirement for a bank to get access to the KISC-operated payment systems is the fulfillment of all prudential norms issued by the FSA to ensure financial stability and customer protection. Moreover, a bank has to organize access points to the payment system according to the KISC rules and guidelines establishing security and reliability of operations.

The signing of the agreement with the NBK for the opening and maintenance of a correspondent account at the NBK is another key requisite. However, participation in the ISMT and the Interbank Clearing also requires separate agreements with the KISC.

Suspension from participating in the system is also regulated. Before suspending a participant, the NBK assesses the severity of non-compliance.

The criteria for access and suspension of the system as well as the technical participation requirements are defined and are publicly available.

### 4.2.4 Operational Risk Management

Regarding business continuity, a full back-up processing facility is in place as well as rules for emergency situations and a fully-fledged business continuity plan (BCP). The rules and the BCP have been approved by the NBK and are tested on a regular basis.

Secondary power supply and telecommunication lines have been installed and regular audits are performed by qualified companies. Moreover a Change Management and Release Process has been defined and agreements with vendors of the major pieces of software and hardware exist. In case of a disruption, participants have access to the help desk located at the KISC. A process to provide the NBK with an analysis of major disruptions is defined as well as incident reporting including monthly delivering of a system logbook.

As the payment system operator KISC pays much attention to aspects of payment system security such as safety, integrity, confidentiality and validity.

Payment system security is seen as a combination of normative and ethic rules, administrative and organizational measures, technical, software and cryptography tools aimed to create the security features to protect system from casual or premeditated fraud. Security measures must protect normal processing of payment system with minimization of possible information damage, destruction or divulge.

The security system is based on the current analysis of security conditions, monitoring of fraud attempts, methodology of management and technological procedures, mechanisms providing informational security.

In order to achieve its objectives in this area, the KISC has established the following set of

systems:

- Software complex for crypto-security of information "TUMAR".
- PKI and certification center "CERTEX".
- Hardware solution for LAN security (Firewall) and VPN system.
- Dial-up authorization server.
- Integrated system of security access to KISC premises including video monitoring.
- Hardware complex for information leakage prevention through technical channels.
- System of attack detection and security analysis.

### **4.3 CROSS-BORDER PAYMENT SETTLEMENT SYSTEMS**

Cross-border payments made by commercial banks are settled via correspondent banks abroad.

In December 2001, the KISC launched a SWIFT Service Bureau. At present, 29 banks and financial institutions in the country use this service. Connection of users to the SWIFT network is done through two schemes, a "shared connection" via SWIFT Alliance Access or "gateway connection" via SWIFT Alliance Gateway.

As a SWIFT Service Bureau provider, the KISC is responsible for the following:

- Provision and maintenance of required infrastructure of the central SWIFT interface in conformity with SWIFT criteria. This infrastructure comprises dedicated lines to SWIFT, M-CPE equipment, cryptographic equipment and other peripheral devices.
- Installation of software, testing and adjusting of equipment for all users.
- Timely provision of all types of software updates.
- Provision of online support for all issues, related to SWIFT operation; provision of technical and operational consultations; solution of problems, associated with analysis and investigation of specific cases; provision of temporary solutions within required time.
- Operation of SWIFT Help Desk on behalf of KISC users.
- Provision of assistance for completion of registration documents.

### **4.4 FOREIGN EXCHANGE SETTLEMENT SYSTEMS**

There is a formal trading system for foreign exchange transactions in Kazakhstan which is operated by the Kazakhstan Stock Exchange (KASE). Besides foreign exchange trading, the KASE is also involved in the settlement process of these trades. Settlement via KASE is regulated according to the "Settlement Rules for Foreign Exchange Trades" and further regulatory agreements issued by the KASE.

Approximately 50 percent of the total value traded in the domestic foreign exchange market (approximately USD 19 billion annually) is traded at the KASE and settled on a Payment versus Payment (PvP) basis through the KASE clearinghouse. This option is available only for those commercial banks that have been granted a license to operate foreign exchange. The currencies that are traded at the KASE are the US dollar, the Euro and the Russian Ruble, although the US dollar represents more than 95 percent of total market volume.

The foreign currency trading system at the KASE is a "blind" system, i.e. trades are made on an anonymous basis. Trading takes place from 10:15 a.m. - 06:00 p.m. and it is split up into

three different sessions. The first session is for trades with a T+0 value date. The remaining sessions are for trades with a T+1 or T+2 value dates.

At 3:30 p.m., the KASE calculates the net positions in each currency for trades with same-day value and the settlement process begins. The *tenge* leg is settled through the ISMT while the foreign currency leg is transferred via correspondent bank accounts abroad. For this purpose, the KASE holds a settlement-only account at the ISMT as well as accounts with 3 foreign correspondent banks: Bank of New York, Citibank London, and Savings Bank of the Russian Federation. The KASE steps in the middle of the settlement process and transfers the amount corresponding to one of the legs if and only if it has received the counter amount in the other currency. Unlike central counterparties, however, it does not guarantee the fulfillment of settlement obligations. Hence KASE is not liable for any occurring losses due to a failing party.

In order to increase the number of successfully settled trades and reduce replacement cost risk the KASE has established 3 different guarantee mechanisms:

- The first is that participants simply have to pre-fund their trades.
- The second procedure, which is the most common used in KASE, is the following: a commercial bank selling a foreign currency must fund the account of the KASE correspondent bank abroad before 4:30 p.m. Almaty time in order to receive the corresponding amount in *tenge* from KASE via the ISMT before the closing the operating day. If the commercial bank cannot fulfill its obligation, it has signed an agreement with KASE whereby it must have blocked government securities at the CDS to be pledged to the KASE to secure the delayed payment. If the commercial bank is not able to meet its obligation KASE is entitled to sell the pledged securities to cover the delayed or failed payment. In the event the commercial bank does not provide the securities, KASE cancels the deal and applies a penalty fee of 0.1 percent of the nominal amount per day. KASE subsequently returns the amount of the leg it had already received to the respective party. Another consequence of a settlement failure is that the defaulting bank is obliged to settle future trades via the pre-funding mechanism.
- A third mechanism called “uncontrolled regime” is used only for trades in which the NBK is involved as one of the counterparties.

The remaining half of the market corresponds to over-the-counter (OTC) trades which are settled through ordinary correspondent bank arrangements. Settlement of these transactions is based solely on private bilateral arrangements and not regulated in any particular manner. Therefore full credit and liquidity risk could occur depending on the private agreements between the different parties.

There is a hypothetical possibility to settle foreign exchange domestic interbank trades via the current accounts denominated in foreign currency that commercial banks can keep at the NBK. However, funds transfers denominated in foreign currencies within the borders of Kazakhstan are currently prohibited by law.

## **5 SECURITIES, MARKET STRUCTURE AND TRADING**

### ***INSTRUMENTS***

#### **5.1 FORMS OF SECURITIES**

All securities must be dematerialized at the CDS according to the 2003 Law “On Joint Stock Companies”, and all transfers are handled by electronic book entries. However, approximately 1 percent of securities issued before 2003 are still held in the form of paper certificates, but immobilized at the CDS.

With the exception of government securities, all other securities must be registered both at the CDS and with one of the existing Registrars.

#### **5.2 TYPES OF SECURITIES**

The legislation of the Republic of Kazakhstan does not have a clear definition of the various types of securities allowed in Kazakhstan’s securities markets. According to the Civil Code, securities are considered to be equities, bonds and other types of securities defined by legislative acts of the Republic of Kazakhstan. According to the SML, promissory notes, options, swaps and futures also constitute securities.

##### **5.2.1 NBK and Government Securities**

The most important securities in the marketplace are the T-Bills issued by the MOF. These are short-term, non-interest bearing securities with maturities of 3, 6, 9 and 12 months.<sup>8</sup> The MOF also issues longer-term securities such as middle-term treasury bonds (maturity from 1 to 5 years), long-term treasury notes (maturity of more than 5 years), middle-term inflation-linked treasury bonds (maturity from 1 to 5 years), and long-term treasury savings notes (maturity more than 5 years).

The NBK also issues short-term notes for monetary control purposes. These are securities sold at a discount, with maturities up to 1 year.

##### **5.2.2 Shares**

According to the Article 13 of the Law “On Joint Stock Companies”, there are the following types of shares:

- ordinary shares: these provide a shareholder with a voting right of participation in general meeting of shareholders, right for dividends if a company has net profit, and right for a part of property, in case of company liquidation;
- preferred shares: holders of this type of shares take advantage in dividends distribution in the guaranteed amount according to the company’s charter and have a right for a part of property, in case of company liquidation.

##### **5.2.3 Other Securities**

Other relevant types of securities include municipal bonds (discontinued in 2005), corporate fixed income securities which are mainly issued by commercial banks, and securities issued by some of the agencies of the government of Kazakhstan.

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<sup>8</sup> T-bills are sold at a discount from face value.

### **5.3 SECURITIES IDENTIFICATION CODE**

ISIN codes are not used either for public or private securities. Local securities have their own coding system, called the National Identification Number (NIN). However, securities that are intended for international markets are assigned a NIN that is compatible with ISIN codes.

### **5.4 TRANSFER OF OWNERSHIP**

The legal basis for ownership transfers by means of book-entries is established in Article 36 of the SML. The SML also states that the specific procedure of registration of dealings in securities settled in the formal securities market shall be established by the internal documents of the central depository and bids organizer.

If both the buyer and the seller are clients of the same nominal holder, ownership rights are transferred from the moment a trade is registered in the system of that nominal holder. Otherwise, ownership is transferred after registering a deal in the CDS on the accounts of nominal holders.

The SML indicates that final ownership of the securities is to be found in the CDS. In order to reduce custody risk in the current system of double registration of securities ownership (i.e. with the CDS and with another Securities Registrar), the CDS itself appears as the nominal holder of the securities with each of these Registrars.

In the case of over-the-counter (OTC) transactions, the CDS transfers the ownership based only on the counter instructions of both parties involved in the transaction (i.e. transfer free-of-payment).

### **5.5 PLEDGE OF SECURITIES AS COLLATERAL**

Registration of a pledge is done by the CDS on the basis of the request of a debtor and a creditor. The request must contain all necessary information for the pledge including the ownership rights of the pledged securities. The FSA also has the power to instruct the CDS to pledge securities. Pledged securities are transferred from the “main” section of the debtor’s sub account to the special “blocked” section of the same sub account. The nominal holder should open a pledge sub account if such does not exist for the creditor and record the information about pledged securities in his favor. No transfer of ownership occurs.

In case of the non-fulfillment or improper fulfillment of the obligation secured by the pledge, or in case of the bankruptcy of the debtor, the creditor may execute through judicial proceedings the securities with this kind of pledge. The creditor can apply to a court to authorize the selling of the pledged securities once the guaranteed obligations are due.

### **5.6 TREATMENT OF LOST, STOLEN OR DESTROYED SECURITIES**

All securities are deposited in the CDS. These include government securities, corporate bonds, corporate shares, supranational securities and securities issued by the NBK.

Nominal holders, including the CDS, are responsible for keeping records and confirmation of ownership rights, and should organize proper back-up and storage of electronic data following the relevant rules of the FSA. If data was lost or destroyed a nominal holder must restore the information within the timeframe established by the FSA.

## 5.7 LEGAL MATTERS CONCERNING CUSTODY

The SML mandates the segregation of all securities holdings. Segregation of accounts is clearly stated in article 45 paragraph 5: "Money and securities of the clients (deponents) must be accounted by a licensee separately from its own assets, which shall not be included in the liquidation mass in case of bankruptcy or voluntary liquidation of the licensee". Segregation of accounts is also referenced in the Articles 74 and 57.

Nominal holding of securities is allowed to the CDS, custodian banks, brokers-dealers, having the right of opening customer accounts for nominal holding of securities.<sup>9</sup> In Kazakhstan only commercial banks can be custodians.<sup>10</sup>

In the case of the CDS, direct participants must open one account for their own position and one account for holdings of third parties, with sub-accounts for each of their clients. Due to the system of individual sub-accounts, all securities trades, including those made by customers of the same broker-dealer, must go through the CDS. The SML further mandates that all assets belonging to third parties be accounted for as off-balance sheet items.

The SML states that final ownership of the securities is to be located only in the CDS.

## MARKET STRUCTURE AND TRADING SYSTEMS

### 5.8 PRIMARY MARKET

The most important securities in the marketplace are the T-Bills issued by the MOF. Since January 1, 2005, the financial agent of the national government for the placement of government securities in the primary market is the Kazakhstan Stock Exchange (KASE). The Ministry of Finance issues securities regularly in the primary market. The auction process is automated.

**Table 8: Private Sector and Local Government Debt Issuances**  
(in KZT billion)

|                            | 2003   |         | 2004   |         | 2005   |         |
|----------------------------|--------|---------|--------|---------|--------|---------|
|                            | Number | Value   | Number | Value   | Number | Value   |
| T-bills                    | 35     | 105,270 | 29     | 131,430 | 8      | 122,779 |
| -MEKKAM <sup>11</sup>      | 3      | 8,390   | 10     | 52,475  | 2      | 34,000  |
| -MEOKAM <sup>12</sup>      | 32     | 96,880  | 18     | 75,273  | 4      | 52,589  |
| -MEUZHAKAM <sup>13</sup>   | 0      | 0       | 0      | 0       | 2      | 36,190  |
| NBK Notes                  | 125    | 626,758 | 67     | 578,467 | 51     | 1,960   |
| Corporate securities       | 25     | 14      | 48     | 21      | 21     | 17      |
| Municipal Government bonds | 2      | 4,693   | 0      | 0       | 0      | 0       |

Source: KASE.

<sup>9</sup> Article 57 of the SML.

<sup>10</sup> Article 73 of the SML.

<sup>11</sup> "MEKKAM" - Short-term Treasury Bills with 3, 6, 9, 12 months maturity.

<sup>12</sup> "MEOKAM" - Medium-term Treasury Bills with from over 1 year to 5 years inclusive.

<sup>13</sup> "MEUZHAKAM" - Long-term Savings Treasury Bills with from over 5 years maturity.



The NBK also issues short-term notes for monetary control purposes. These securities are auctioned through the NBK's own electronic systems and are issued electronically through the CDS. The information produced during the auction is forwarded to the CDS for settlement purposes. Only some of the banks (at present 17 out of 35) may participate in the securities auctions of the NBK.

## 5.9 SECONDARY MARKET

The secondary market of securities in Kazakhstan is still small but growing at a fast pace. The total value of trades in 2005 reached USD 6.4 billion. Trades with NBK Notes constitute more than 45 percent of total trading volume, corporate securities (including equities and corporate debt) represent approximately 40 percent, and T-bills the remaining 15 percent.

In 2005 the stock exchange turnover of corporate securities continued to grow at a high rate. Total volume of deals with shares and corporate bonds reached KZT 368 billion. Compared to the previous year, the turnover increased by more than 48 percent.

**Table 9: Trades at KASE in different Market Segments**  
(in KZT billion)

| Market segment                              | 2004  |         | 2005  |         |
|---|-------|---------|-------|---------|
|   | Value | percent | value | percent |
| Foreign exchange                            | 1,270 | 16      | 1,606 | 15      |
| Kazakhstan government securities            | 753   | 9.5     | 632   | 5.9     |
| Foreign government securities               | neg   | neg     | neg   | neg     |
| Corporate securities                        | 248   | 3.1     | 368   | 3.4     |
| REPO  | 5,684 | 71.4    | 8,090 | 75.6    |
| Urgent contracts                            | neg   | neg     | neg   | neg     |
| International financial organizations bonds | neg   | neg     | neg   | neg     |

Source: KASE.

The interbank money market is active in Kazakhstan. The basic instrument is the repo, which constitutes 75 percent of all transactions in this market. Government securities and (to a lesser extent) corporate debentures are used as underlying securities. At present, the interbank money market is the main source of liquidity for payment system purposes.

## 5.10 STOCK EXCHANGE TRADING

Participants at the KASE have access to a so-called "blind",<sup>14</sup> automated, screen-based system that produces automatic matching and confirmations. The trading results and the details of the transaction and of the buying and selling parties are automatically forwarded on the same day from the trading system to the CDS for settlement.

The trading system of the KASE can be accessed by participants from the trading floor of the KASE or remotely. If the trading system is not accessible, trades are organized as a voice auctions. Brokers' offices at the KASE are equipped with personal computers and telecommunication facilities to notify clients about the market situation on a timely basis.

<sup>14</sup> There is also the option to make trades in the so-called "direct system" through which participants are able to know who their trading counterparties are. However, trading in this system is far more expensive and in practice its use is negligible.

Trading sessions on the KASE are held every working day, Monday through Friday from 11:30 a.m. until 5:00 p.m.

### **5.10.1 Business Continuity**

In recent years both the KASE and the CDS have taken some measures to improve their operational reliability. These include back-up processing servers and procedures to back-up the information generated by the main trading system. Information back-ups are done every minute in the case of the KASE and once a day in the case of the CDS. However, both the back-up servers and the information are kept in the same premises of the main site. The CDS also stores a second back-up copy in another location in Almaty. At this stage, a disaster recovery or contingency plan has not been prepared.

Both the KASE and the CDS have been making plans to build secondary processing sites. In this regard, they are likely to join the initiative of the NBK to build a joint secondary processing site for all major financial system infrastructures.

## **5.11 OVER-THE-COUNTER MARKET (OTC)**

The OTC market is small and there is no specific settlement cycle for securities transactions in the OTC market. The timing of settlement depends on private agreements.

## **5.12 RECENT TRENDS IN THE MARKET**

At present, the main trend at the securities market is the increasing a number of companies managing investment portfolios following the enactment of the Law "On Investment Funds" in 2004, and possibility for creation of unit investment funds.

## **6 SECURITIES CLEARANCE AND SETTLEMENT CIRCUITS**

### **6.1 ORGANIZATIONS AND INSTITUTIONS**

#### **6.1.1 Kazakhstan Stock Exchange (KASE)**

The KASE, which was originally established in 1993, is the only stock exchange in Kazakhstan. It provides an organized market for foreign currency, government securities, corporate shares and bonds, and derivatives. The KASE is regulated by the FSA.

At present, there are 57 shareholders: the NBK with 12.5 percent and commercial banks, brokers-dealers, registrars and private investors with the remaining 87.5 percent.

The number of votes does not depend on the percentage of shares actually owned. Instead, each shareholder has one vote in all cases.

#### **6.1.2 Central Depository of Securities (CDS)**

The CDS is a joint stock non-for-profit company. The CDS was created in 1997 by the NBK and until recently the latter institutions held the majority of the CDS's shares. At present, its owners are the KASE with 54 percent, the NBK with 25 percent and other banks, brokers-dealers and private investors with the remaining 21 percent. Charter Capital of the CDS is 90 bearer shares with a face value of KZT 18,000,000 (approximately USD 150,000).

According to the SML, the CDS is the only authorized securities depository in Kazakhstan. The CDS provides depository, clearing and settlement services for shares transactions undertaken at the KASE and settlement services for off-exchange trades. The CDS provides the special services assigned by the rules of the FSA.

Regarding governance arrangements and decision-making at the CDS, the highest governing body is the General Meeting of Shareholders. The number of votes does not depend on the percentage of shares actually owned. Instead, each shareholder has one vote. By the end of 2004 there were 21 entities with voting power at the CDS.

The CDS is organized internally in three divisions: the Division of Depository Functions is responsible of registering securities ownership transfers; the Division of Clearinghouse is responsible for carrying out the settlement of the cash leg of securities transactions; and, the Division of Registration is responsible for performing the duties of the CDS as one of the 18 Securities Registrars in the country.

In November 2004, the FSA granted the CDS a license to carry out banking transactions and open banking accounts for corporations.

Membership is open to banks, investment companies and brokerage companies. The CDS has its own criteria for participation in the system. The criteria are based on minimum capital requirements as established by the SML and the rules of the FSA. Participants are monitored by the FSA to ensure their actions are in accordance with the Depository's rules and procedures.

As of September 2005, there were 56 direct depositors in the CDS and securities under custody amounted to KZT 1,914.4 billion. Of this amount, government securities represented 28 percent, corporate shares 56 percent, corporate bonds 15 percent, and other securities 1 percent.

## 6.2 SECURITIES REGISTRATION AND CUSTODY PROCEDURES

All securities must be dematerialized at the CDS according to the 2003 Law on Joint Stock Companies. With the exception of government securities, all other securities must be registered both at the CDS and with one of the existing Registrars. In order to reduce custody risk in the current system of double registration of securities ownership (i.e. with the CDS and with another Securities Registrar), the CDS itself appears as the nominal holder of the securities with each of these Registrars.

There are two types of accounts at the CDS, those in which the KASE participant is the beneficial owner and those owned by third parties and for which the KASE participant appears as the nominal holder. Beneficial owners are identified at the individual level in the system of the CDS. However, only KASE participants may initiate transactions directly at the KASE.

Some brokers-dealers are not entitled to perform nominal holding of securities, and thus can only hold an account of securities on own behalf.

## 6.3 SECURITIES CLEARANCE AND SETTLEMENT PROCESS

Trades are settled following the BIS Delivery Versus Payment (DVP) model 1.<sup>15</sup> All securities transactions performed through the KASE are settled on T some 15-20 minutes after trade matching and confirmation.

Securities are blocked automatically at the CDS at the moment the trading bid has been matched. To ensure settlement of securities transactions occurs on a DvP basis for all transactions, either of the primary or secondary markets, the CDS steps in the middle of the settlement of the cash leg. For this purpose, it holds a settlement-only account at the ISMT.

There are two different set of requirements for KASE participants, depending on whether they hold a banking account at the NBK or not. The CDS holds cash accounts for those participants that do not hold an account at the NBK. Such participants are required to pre-fund their cash accounts at the CDS in case they wish to purchase securities either on their own behalf or on behalf of third parties. KASE participants that do hold an account at the NBK are exempted from this pre-funding requirement.

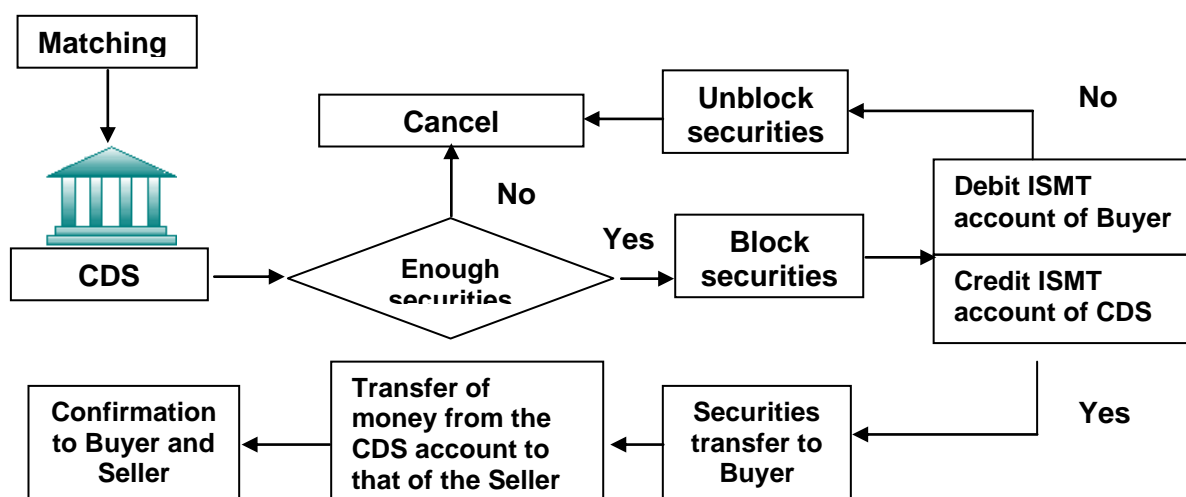
For buying participants that do hold an account at the ISMT, once the trade is matched, the information flows to the CDS. The CDS blocks the securities from the account of the buyer. The CDS then debits the ISMT cash account of the buyer and transfers the funds to its own account at the ISMT. If the debit transaction was successful, the CDS unblocks the securities on the seller's account and immediately transfers them to the buyer's account. Finally, the CDS transfers the respective funds from its own ISMT account to that of the seller. In case the accounts of this type of participants do not have enough funds with the CDS, the CDS sends a message to the KASE that the transaction cannot be settled.

For buying participants that do not hold an account at the ISMT, once the CDS receives the information on the matching of the transaction it verifies whether the necessary amount was pre-deposited. If yes, then it proceeds with the rest of the transaction flow as described in the previous paragraph.

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<sup>15</sup> "Delivery versus Payment in Securities Settlement Systems", Committee on Payment and Settlement Systems of the Central Banks of the Group of Ten Countries of the Bank for International Settlements, September 1992.

**Figure 7: DVP at the CDS**  
(for participants that hold a cash account at the ISMT)



Source: CDS.

### 6.3.1 Pricing

The CDS applies no charge for securities transfers. Instead, it applies a monthly charge of 0.00015 and up to 0.003 percent of the face value of deposited securities.

The income it generates from these sources does not allow the CDS to cover its operational costs. However, the CDS is at the same time one of the official Securities Registrars in the country, and through this Division it obtains the necessary income to cover its costs and some capital expenditures.

## 6.4 GUARANTEE SCHEMES

Transactions are settled on a gross basis. Hence, a guarantee fund is not needed to reduce or eliminate principal risk.

On the other hand, there is no queuing system or securities lending or any other mechanism for participants to better manage liquidity risks. No buy-in or sell-out procedures have been established either. In case of insufficiency of securities or funds, the transaction is cancelled and must be re-entered later into the system. The party that failed to fulfill its obligation becomes subject to penalties.

## 6.5 SECURITIES LENDING

The Civil Code of the Republic of Kazakhstan allows the lending of securities. For the time being, however, there is no queuing system or securities lending to expedite the settlement of securities markets transactions.

## **6.6 INTERNATIONAL LINKS AMONG CLEARANCE AND SETTLEMENT INSTITUTIONS**

At present, the CDS has a securities deposit account with Clearstream Banking and also with the Securities Depository of the Kyrgyz Republic.

On the other hand, the two securities depositories of the Russian Federation have an account at the CDS through which residents of that country may trade securities issued in Kazakhstan.

In 2004 the CDS became a user of SWIFT to interact with Clearstream.

## **7 THE ROLE OF THE CENTRAL BANK IN CLEARANCE AND SETTLEMENT SYSTEMS**

### **7.1 RESPONSIBILITIES**

The Organic Law of Kazakhstan on the National Bank includes as the basic function of the NBK “the maintenance of functioning of payment systems”. To fulfill this role, since the mid-1990s the NBK has worked in the design, development and implementation of the ISMT and the Interbank Clearing. The NBK is also responsible for the oversight of payment systems in the country.

The NBK outsourced the operational responsibility for the operation of the ISMT and the Interbank Clearing to the KISC, and since then it has been performing the issuing of policy directives together with regulatory and oversight functions.

### **7.2 SETTLEMENT**

The banking accounts at the NBK are the means through which payments made through the payment systems operated by the KISC are settled with finality among financial intermediaries and other accountholders at the NBK.

The NBK, through the banking accounts, and the payment system operator, the KISC, through the ISMT clearing accounts have created a liquidity bridge between them. At the beginning of the operating day, upon request from payment system participants the NBK transfers the necessary balances from the banking accounts to the ISMT clearing accounts in order to enable payments processing. During the operational day participants may attract additional liquidity to the ISMT from their banking accounts at the NBK and withdraw liquidity back. At the end of the operational day the balances are transferred back to banking account at the NBK.

### **7.3 PAYMENTS SYSTEM OVERSIGHT**

The payment system oversight function is explicitly mentioned in article 8 of the Organic Law of Kazakhstan on the NBK, and particularly in article 48 that deals with the powers of the NBK to organize and regulate payment systems, payments and money transfers and which was reformed recently to clarify the oversight responsibilities and powers of the NBK.

In terms of organizational arrangements, the NBK recently created a payment system oversight unit within its payment systems department. The oversight unit is strictly segregated from the operation and currently and initially focused in the development of the next steps of the oversight function to become operative. A payment system oversight concept for the ISMT was prepared and the objectives of oversight are being drafted at present.

The NBK itself and/or through the KISC has regular publications covering payment system developments and news. Statistical information on the payments system is available on a regular and structured basis.

## 7.4 MONETARY POLICY AND PAYMENT SYSTEMS

The monetary policy of the NBK is implemented through:

- determining the official rate of refinancing;
- setting of the levels of the rates and fees charged for the main monetary policy operations;
- defining the standards for the minimum compulsory reserves;
- in exceptional cases, determining direct quantitative limits for the level and volume of separate types of operations.

For the purpose of implementation of its monetary and credit policies, the NBK performs the following types of operations:

- provision of loans to banks;
- receiving deposits in national and foreign currencies;
- *ad hoc* interventions in the foreign currency market;
- issuance of short-term NBK notes;
- purchase and sale of government and other types of securities;
- commercial rediscount.

### 7.4.1 Foreseen Changes to the Monetary Policy Stance

In order to increase the efficiency of the process of decisions made by the NBK, an advisory body on monetary policy issues will be created with participation of representatives from the NBK and concerned public sector bodies, from parliament, the scientific society, as well as representatives of the financial and real sectors of economy.

In addition, changes will be made to the mechanism for the integration of the minimum reserve requirement in order to deal with the current problem of excessive liquidity surpluses and to provide more flexible regulation of liquidity of banks. For these purposes, potential changes in the determination of banks' liabilities structure are being considered.

The NBK will also focus its strengths on determining or influencing the interest rates for the different types of instruments of the monetary policy and in increasing its regulatory role for short-term interest rates. Open market operations will be expanded mainly to increase the NBK's portfolio of securities and to boost the development of the new financial instruments.

## 7.5 THE ROLE OF THE CENTRAL BANK IN CROSS-BORDER PAYMENTS

In December 2001, the KISC launched a SWIFT Service Bureau to, among other objectives, provide access to the international SWIFT network to commercial banks and other institutions. At present, 29 banks and financial institutions in the country use this service.<sup>16</sup>

The NBK does not provide settlement services in foreign currency or through foreign correspondent banks for other commercial banks.

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<sup>16</sup> For further details see Section 4.3 of this Report.



## 7.6 PRICING POLICY

For *tenge*-denominated transactions sent through the ISMT, there is a differentiated price scheme based on the hour of the day a payment instruction is sent to the system for settlement. This scheme gives incentives to payment system participants to operate according to the NBK's objective of ensuring a smooth flow of payments throughout the operational day, and fosters the provision of liquidity by the commercial banks themselves through the interbank money market. At the same time, the pricing policy aims at the recovery of variable costs.

A fixed-amount per transaction equivalent to USD 0.37 is applied before 1:00 p.m. After that time, the fee duplicates, and a much higher fee of USD 5.00 becomes applicable for payments sent after 08:00 p.m.

As for the Interbank Clearing, the pricing policy is also used to provide incentives to system participants to send their payments instructions right after the closing of the previous settlement cycle and up to three hours before the cutoff time for the current settlement cycle.<sup>17</sup>

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<sup>17</sup> The Interbank Clearing receives payment instructions on a 24-hour basis.

## **8 SUPERVISION OF SECURITIES CLEARANCE AND SETTLEMENT SYSTEMS**

### **8.1 SECURITIES REGULATOR SUPERVISORY AND STATUTORY RESPONSIBILITIES**

Some of the most relevant responsibilities of the FSA in relation to securities clearance and settlement systems include:

- to pursue the state policy to ensure the forming of the infrastructure of the national securities market, the protection of the rights and investors interests;
- to establish the terms and conditions and the procedure of maintenance of the State Register of the emission securities, register of the licenses and permits for performance of the activities in the securities market;
- to assign national identification numbers, and establish the procedure of assignment of the national identification numbers to the securities;
- to establish the structure of the prospectus of the emission securities issue, bonds program and issue the bonds within the bonds program, the procedure of their execution and drafting, and also the structure of the reports on the results of placement and payment for the securities;
- to establish the requirements to be observed by the banks or organizations that perform certain types of the banking transactions, if they intend to issue the bonds upon circulation of the bonds in the securities' secondary market which it issued earlier.
- establishing the terms and the procedure of the issuance and issue the licenses to performance of the professional activities in the securities market to be licensed in accordance with the legislation of the Republic of Kazakhstan, suspend and renew such licenses and withdraw them;
- to determine the rules for performance of the professional activities and other licensed types of activities in the securities market, including the requirements to the terms and procedure to execute the transactions with the securities, registration of those transactions and accounts thereon;
- to supervise the activities of the issuers, licensees, self-regulatory organizations (SROs), professional participants of the securities market and organizations that train the specialists to work in the securities market, and also qualification certificates holders, and supervise by examinations on the site and with employment the specialists on the securities market as the consultants;
- to grant to legal entities the status of the self-regulatory organizations, and also to determine the requirements and procedure through which such status may be granted and revoked.

### **8.2 SROs SUPERVISORY AND STATUTORY RESPONSIBILITY**

Neither the stock exchange, nor the CDS are currently empowered as SROs.

The KASE used to have SRO powers before 2002, but these were abolished in a further reform to the SML.

The CDS is not recognized as a SRO in the SML and it falls under the regulation and supervision of the FSA.

## APPENDIX: STATISTICAL TABLES

Series A tables are statistics on payments and securities clearance and settlement in Kazakhstan and were completed following a standard model prepared in the context of the CISPI. They slightly differ from the model due to data availability constraints.

### SERIES A

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### SERIES B

#### *General Financial System Statistics*

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**SERIES A***Payments and Securities Clearance and Settlement Statistics***Table A1: Basic Statistical Data\***

|                          | 2001   | 2002   | 2003   | 2004   | 2005   |
|--------------------------|--------|--------|--------|--------|--------|
| Population (in million)  | 14.8   | 14.9   | 15.0   | 15.1   | 15.2   |
| GDP (USD million)        | 22,153 | 24,637 | 30,833 | 40,742 | 56,100 |
| GDP per Capita (USD)     | 1,493  | 1,658  | 2,062  | 2,703  | 3,691  |
| Exchange rate KZT vs USD |        |        |        |        |        |
| <i>Year end</i>          | 150.2  | 155.6  | 144.2  | 130.0  | 133.8  |
| <i>Average</i>           | 146.7  | 153.3  | 149.6  | 136.0  | 132.9  |

Sources: Statistical Agency of the Republic of Kazakhstan and NBK.

**Table A2: Settlement Media used by Non-Banks**  
(in KZT million)

|  | 2001    | 2002    | 2003    | 2004      | 2005      |
|--|---------|---------|---------|-----------|-----------|
| Total notes and coins issued               | 145,988 | 178,451 | 262,727 | 411,592   | 459,266   |
| Transferable deposits in domestic currency | 93,059  | 125,591 | 173,594 | 301,359   | 387,627   |
| <i>Non-banking legal entities</i>          | 91,148  | 107,792 | 143,754 | 257,196   | 329,748   |
| <i>Individuals</i>                         | 16,912  | 17,799  | 29,840  | 44,164    | 57,879    |
| Narrow money supply M1                     | 224,234 | 287,293 | 412,139 | 680,632   | 799,440   |
| Transferable deposits in foreign currency  | 46,525  | 94,838  | 67,056  | 74,758    | 143,400   |
| <i>Non-banking legal entities</i>          | 45,675  | 83,735  | 53,625  | 60,347    | 120,505   |
| <i>Individuals</i>                         | 850     | 11,104  | 13,431  | 14,411    | 22,896    |
| Money aggregate M2                         | 337,980 | 498,071 | 693,381 | 1,175,495 | 1,515,970 |

Source: NBK.

\* The following conventions for notation are used in all Tables throughout the Appendix: "n.a." indicates data that are not available; "..." stands for data that are not applicable; "neg" indicates where data are very small relative to other relevant data in the table concerned.

**Table A3: Settlement Media Used by Credit/Deposit Taking Institutions**  
(in KZT million)

|  | 2001   | 2002   | 2003    | 2004   | 2005    |
|--|--------|--------|---------|--------|---------|
| Reserves at the Central Bank                   | 19,289 | 21,821 | 33,192  | 85,437 | 110,457 |
| <i>In domestic currency</i>                    | 16,229 | 15,394 | 31,604  | 79,737 | 92,901  |
| <i>In foreign currency</i>                     | 3,460  | 6,427  | 1,588   | 5,700  | 17,556  |
| <i>Of which usable for settlement</i>          | 16,229 | 15,394 | 31,604  | 79,737 | 92,901  |
| <i>In domestic currency</i>                    | n.a.   | n.a.   | n.a.    | n.a.   | n.a.    |
| <i>In foreign currency</i>                     | n.a.   | n.a.   | n.a.    | n.a.   | n.a.    |
| Institutions' borrowing from the Central Bank* | 2,385  | 4,294  | 3,592   | 441    | 439     |
| Transferable deposits at other institutions    | 3,114  | 2,211  | 102,231 | 18,249 | 60,631  |

\* Excludes REPO operations.

Source: NBK.

**Table A4: Institutional Framework**

|                                   | Number of Institutions | Number of branches |
|-----------------------------------|------------------------|--------------------|
| Central Bank                      | 1                      | 17                 |
| Commercial Banks                  | 34                     | 418                |
| <i>Of which:</i>                  |                        |                    |
| <i>State banks</i>                | 1                      | 11                 |
| <i>Foreign banks</i>              | 14                     | 30                 |
| Non-bank financial institutions   | 330                    | 608                |
| <i>Of which</i>                   |                        |                    |
| <i>Credit unions</i>              | 136                    | 1                  |
| <i>Pawn Shops</i>                 | 84                     | 334                |
| <i>Mortgage companies</i>         | 7                      | 1                  |
| <i>Insurance companies</i>        | 37                     | 129                |
| <i>Accumulative pension funds</i> | 14                     | 75                 |
| <i>Other institutions</i>         | 52                     | 68                 |
| Postal Office                     | 1                      | 14                 |

Sources: Statistical Agency of the Republic of Kazakhstan and NBK.

**Table A5: Bank Notes and Coins**  
(in KZT million)

|   | 2001    | 2002    | 2003    | 2004    | 2005    |
|---|---------|---------|---------|---------|---------|
| Total currency issued                     | 145,988 | 178,451 | 262,727 | 411,592 | 459,266 |
| Total banknotes issued                    | 143,045 | 174,021 | 256,115 | 403,353 | 449,478 |
| <i>Of which, in denominations of:</i>     |         |         |         |         |         |
| 100                                       | 2,886   | 3,520   | 1,803   | 608     | 301     |
| 200                                       | 16,357  | 14,035  | 15,147  | 9,341   | 11,642  |
| 500                                       | 29,296  | 27,680  | 38,091  | 26,698  | 25,533  |
| 1,000                                     | 22,399  | 29,994  | 65,639  | 77,037  | 59,505  |
| 2,000                                     | 32,402  | 41,813  | 52,918  | 80,078  | 82,397  |
| 5,000                                     | 38,208  | 53,250  | 58,904  | 134,933 | 130,708 |
| 10,000                                    | ...     | ...     | 21,849  | 73,220  | 138,136 |
| Coins issued                              | 2,943   | 4,430   | 6,612   | 8,239   | 9,788   |
| Notes and coins circulating outside banks | 135,555 | 166,614 | 244,419 | 389,151 | 425,519 |

Source: NBK.

**Table A6: Cash dispensers, ATMs and EFTPOS Terminals**

|                                     | 2001  | 2002  | 2003  | 2004  | 2005  |
|-------------------------------------|-------|-------|-------|-------|-------|
| <b>Cash dispensers and ATMs</b>     |       |       |       |       |       |
| Number of networks                  | 5     | 7     | 8     | 9     | 8     |
| <i>National</i>                     | 5     | 7     | 8     | 9     | 8     |
| <i>Regional</i>                     | ...   | ...   | ...   | ...   | ...   |
| Number of terminals                 | 539   | 702   | 875   | 1,124 | 1,692 |
| Volume of transactions (millions)   | 13.7  | 20.4  | 27.8  | 34.6  | 44.4  |
| Value of transactions (KZT billion) | 138.0 | 241.4 | 381.7 | 541.9 | 780.2 |
| <b>EFTPOS</b>                       |       |       |       |       |       |
| Number of networks                  | 5     | 7     | 8     | 9     | 8     |
| <i>Debit cards</i>                  | n.a.  | n.a.  | n.a.  | n.a.  | n.a.  |
| <i>Credit of terminals</i>          | n.a.  | n.a.  | n.a.  | n.a.  | n.a.  |
| Number of terminals                 | 4,369 | 5,286 | 6,208 | 5,822 | 8,485 |

Source: NBK.

**Table A7: Number of Payment Cards in circulation**

|  | 2001      | 2002      | 2003      | 2004      | 2005      |
|--|-----------|-----------|-----------|-----------|-----------|
| Cards with a cash function             | 1,218,893 | 1,495,987 | 1,928,900 | 2,359,333 | 3,215,108 |
| Cards with a debit/credit function     | 1,218,893 | 1,495,987 | 1,928,900 | 2,359,333 | 3,215,108 |
| <i>Of which</i>                        |           |           |           |           |           |
| <i>Debit cards</i>                     | n.a.      | n.a.      | n.a.      | n.a.      | n.a.      |
| <i>Credit cards</i>                    | n.a.      | n.a.      | n.a.      | n.a.      | n.a.      |
| Cards with a cheque-guarantee function | ...       | ...       | ...       | ...       | ...       |
| Retailer and fidelity cards            | n.a.      | n.a.      | n.a.      | n.a.      | n.a.      |
| Stored-value cards                     | n.a.      | n.a.      | n.a.      | n.a.      | n.a.      |

Source: NBK.

**Table A8: Indicators of Use of Various Cashless Payment Instruments**  
(volume of transactions, in millions)

|                        | 2001 | 2002 | 2003 | 2004 | 2005 |
|------------------------|------|------|------|------|------|
| Cheques issued         | neg  | 0.3  | 0.2  | 0.2  | 0.2  |
| Payments by cards      | 0.4  | 0.6  | 0.9  | 2.1  | 5.4  |
| Payments orders        | 14.4 | 15.8 | 19.2 | 25.9 | 30.5 |
| Payment request-orders | 0.2  | 0.1  | 0.1  | 0.1  | 0.1  |
| Direct debits          | 0.03 | 0.2  | 0.2  | 0.2  | 4.2  |
| Collection letter      | 0.2  | 0.3  | 0.2  | 0.3  | 0.3  |
| <b>TOTAL</b>           | 15.2 | 17.3 | 20.9 | 28.8 | 40.6 |

Source: NBK.

**Table A9: Indicators of Use of Various Cashless Payment Instruments**  
(value of transactions, in KZT billion)

|                        | 2001     | 2002     | 2003     | 2004     | 2005     |
|------------------------|----------|----------|----------|----------|----------|
| Cheques issued         | 4.7      | 195.2    | 191.7    | 205.9    | 230.8    |
| Payments by cards      | 6.0      | 10.4     | 14.5     | 24.2     | 68.5     |
| Payment orders         | 11,244.4 | 14,536.6 | 20,774.5 | 32,269.2 | 44,929.3 |
| Payment request-orders | 27.2     | 33.0     | 46.6     | 93.5     | 217.2    |
| Direct debits          | 15.9     | 35.0     | 25.1     | 4.8      | 361.2    |
| Collection letter      | 161.2    | 450.3    | 288.0    | 223.9    | 140.7    |
| <b>TOTAL</b>           | 11,459.4 | 15,260.5 | 21,340.4 | 32,821.5 | 45,947.8 |

Source: NBK.



**Table A10: Payment Instructions Handled by selected Interbank Funds Transfer Systems**  
(volume of transactions)

|  | 2001      | 2002      | 2003      | 2004       | 2005       |
|--|-----------|-----------|-----------|------------|------------|
| Low value system<br>(Interbank Clearing) |           |           |           |            |            |
| <i>In domestic currency</i>              | 7,014,386 | 8,308,508 | 9,188,960 | 11,212,072 | 15,286,193 |
| Large value system (ISMT)                |           |           |           |            |            |
| <i>In domestic currency</i>              | 3,735,261 | 3,216,718 | 3,641,288 | 6,196,629  | 7,935,487  |

Source: NBK.

**Table A11: Payment Instructions Handled by selected Interbank Funds Transfer Systems**  
(value of transactions, in KZT billion)

|  | 2001      | 2002       | 2003       | 2004       | 2005       |
|--|-----------|------------|------------|------------|------------|
| Low value system<br>(Interbank Clearing) |           |            |            |            |            |
| <i>In domestic currency</i>              | 560,428   | 675,883    | 816,689    | 942,762    | 1,448,105  |
| Large value system (ISMT)                |           |            |            |            |            |
| <i>In domestic currency</i>              | 9,708,561 | 14,786,204 | 21,595,220 | 29,101,250 | 50,257,643 |

Source: NBK.

**Table A12: Securities and Accounts Registered in Central Securities Depositories**

|                                 | 2001 | 2002 | 2003  | 2004  | 2005  |
|---------------------------------|------|------|-------|-------|-------|
| Number of securities registered | 364  | 277  | 459   | 483   | 506   |
| Number of participants          | 49   | 40   | 46    | 49    | 57    |
| Number of accounts              | 692  | 748  | 1,645 | 2,363 | 2,454 |
| Number of foreign investors     | 4    | 41   | 54    | 90    | 167   |

Source: CDS.

**Table A13: Securities Holdings in Central Securities Depositories**  
(in KZT billion)

|                       | 2001      | 2002      | 2003      | 2004      | 2005        |
|-----------------------|-----------|-----------|-----------|-----------|-------------|
| Government Securities | 125,301.5 | 204,883.6 | 403,343.2 | 662,025.9 | 479,014     |
| Corporate Bonds       | 35,084.6  | 50,612.5  | 119,274.2 | 193,020.4 | 360,983     |
| Corporate Shares      | 7,777.6   | 8,757.5   | 785,414.2 | 885,821.0 | 1,114,176.2 |
| Others                | -         | -         | -         | 633       | 8,875       |

Source: CDS.

**Table A14: Transfer Instructions Handled by Securities Settlement Systems**  
(volume of transactions, in thousands)

|          | 2001 | 2002 | 2003 | 2004 | 2005 |
|----------|------|------|------|------|------|
| CDS-ISMT | 12.7 | 20.7 | 32.6 | 41.3 | 44.0 |

Source: NBK.

**Table A15: Transfer Instructions Handled by Securities Settlement Systems**  
(value of transactions, in KZT billion)

|          | 2001    | 2002    | 2003    | 2004    | 2005     |
|----------|---------|---------|---------|---------|----------|
| CDS-ISMT | 1,231.6 | 2,897.8 | 4,575.4 | 6,724.7 | 12,646.7 |

Source: NBK.

**Table A16: Participation in SWIFT by Domestic Institutions**

|                       | 2001  | 2002  | 2003  | 2004  | 2005  |
|-----------------------|-------|-------|-------|-------|-------|
| Domestic SWIFT users  | 24    | 29    | 29    | 32    | n.a.  |
| <i>Of which</i>       |       |       |       |       |       |
| Members               | 17    | 21    | 22    | 23    | n.a.  |
| Sub members           | 6     | 7     | 6     | 7     | n.a.  |
| Participants          | 1     | 1     | 1     | 2     | n.a.  |
| Worldwide SWIFT users | 7,199 | 7,466 | 7,527 | 7,667 | 7,888 |
| <i>Of which</i>       |       |       |       |       |       |
| Members               | 3,847 | 4,006 | 4,085 | 4,224 | n.a.  |
| Sub members           | 3,027 | 3,079 | 3,051 | 3,019 | n.a.  |
| Participants          | 325   | 381   | 391   | 424   | n.a.  |

Source: SWIFT.

**Table A17: SWIFT Message Flows To/From Domestic Users**

|                         | 2000          | 2001          | 2002          | 2003          | 2004          |
|-------------------------|---------------|---------------|---------------|---------------|---------------|
| Total messages sent     | 316 249       | 440 670       | 523 822       | 688 362       | 893 998       |
| <i>Of which</i>         |               |               |               |               |               |
| Category I              | 172 660       | 264 078       | 314 662       | 412 360       | 522 560       |
| Category II             | 48 570        | 55 028        | 61 615        | 80 572        | 101 455       |
| Total messages received | 376 555       | 451 959       | 535 302       | 660 904       | 844 369       |
| <i>Of which</i>         |               |               |               |               |               |
| Category I              | 115 031       | 138 725       | 164 217       | 196 526       | 239 084       |
| Category II             | 6 308         | 8 233         | 9 530         | 11 894        | 14 447        |
| Global SWIFT traffic    | 1,274,856,642 | 1,533,906,047 | 1,817,443,994 | 2,047,564,360 | 2,299,074,199 |

Source: SWIFT.

**SERIES B**  
*General Financial System Statistics*

**Table B1: Number of Financial Entities**

|   | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|------|------|------|------|------|
| Deposit-taking institutions, of which                                     | 42   | 35   | 35   | 35   | 34   |
| <i>Commercial Banks including branches of foreign banks</i>               | 42   | 35   | 35   | 35   | 34   |
| Non-bank financial institutions, of which                                 |      |      |      |      |      |
| <i>Multiple or universal banks without commercial banks' capabilities</i> | n.a. | n.a. | n.a. | n.a. | n.a. |
| <i>Investment banks</i>   | n.a. | n.a. | n.a. | n.a. | n.a. |
| <i>Development banks</i>  | 1    | 1    | 1    | 1    | 1    |
| <i>Customer finance companies</i>   | n.a. | n.a. | n.a. | n.a. | n.a. |
| <i>Mortgage companies</i>   | 1    | 2    | 2    | 3    | 7    |
| Other financial intermediaries, of which                                  | 89   | 83   | 84   | 95   | 144  |
| <i>Brokers/dealers</i>  | 51   | 50   | 52   | 57   | 62   |
| <i>Mutual investment funds</i>  | -    | -    | -    | 2    | 45   |
| <i>Leasing companies</i>  | n.a. | n.a. | n.a. | n.a. | n.a. |
| <i>Insurance companies</i>  | 38   | 33   | 32   | 36   | 37   |

Source: FSA.

**Table B2: Assets**  
(year-end, in KZT billion)

|   | 2001  | 2002    | 2003    | 2004    | 2005    |
|---|-------|---------|---------|---------|---------|
| Deposit money banks- Total assets                   | 816.6 | 1,145.0 | 1,676.0 | 2,687.5 | 4,515.0 |
| Deposit money banks- foreign assets                 | 83.4  | 206.0   | 295.6   | 496.5   | 1,194.6 |
| Other banking institutions - Total assets           | n.a.  | n.a.    | n.a.    | n.a.    | n.a.    |
| Other banking institutions – Foreign assets         | n.a.  | n.a.    | n.a.    | n.a.    | n.a.    |
| Non banking financial institutions – Total assets   | 24.9  | 57.6    | 181.2   | 235.5   | 735.3   |
| Non banking financial institutions - Foreign assets | n.a.  | n.a.    | n.a.    | n.a.    | n.a.    |
| Commercial Banks – Net Loans                        | 492.2 | 677.8   | 1,19.1  | 1,691.8 | 2,891.0 |

Source: FSA.

**Table B3: Deposits**  
(year-end, in KZT billion)

|                  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005    |
|------------------|-------|-------|-------|-------|-------|---------|
| Demand deposits  | 149.4 | 187.6 | 36.2  | 17.2  | 21.9  | 27.0    |
| Time deposits    | 156.2 | 299.2 | 415.7 | 501.7 | 756.7 | 1,089.7 |
| Savings deposits | n.a.  | n.a.  | n.a.  | n.a.  | n.a.  | n.a.    |

Source: FSA.

**Table B4: Equity**  
(year-end, in KZT billion)

|                                    | 2001  | 2002  | 2003  | 2004  | 2005  |
|------------------------------------|-------|-------|-------|-------|-------|
| Deposit money Banks                | 122.1 | 161.2 | 233.5 | 347.2 | 584.8 |
| Other banking institutions         | n.a.  | n.a.  | n.a.  | n.a.  | n.a.  |
| Non-banking financial institutions | -     | -     | 27.3  | 27.6  | 352.5 |

Source: FSA.

**Table B5: Loans**  
(year end, in KZT billion)

|                             | 2001  | 2002  | 2003  | 2004    | 2005    |
|-----------------------------|-------|-------|-------|---------|---------|
| Total credit to business    | 151.7 | 216.8 | 934.7 | 1,443.4 | 2,319.1 |
| Total credit to individuals | 39.0  | 36.2  | 122.1 | 304.7   | 671.6   |

Source: FSA.