

CONTENT

SHAREHOLDING AND SHAREHOLDERS	3
KASE MEMBERS	4
KAZAKHSTAN STOCK MARKET IN 2003	6
CORPORATE SECURITIES MARKET	8
KASE TRADE LISTINGS	8
Listing requirements	9
Requirements for market-makers	10
Structure of Trade Listings	12
Securities	12
Capitalization	14
CORPORATE SECURITIES TRADES	18
Primary Market	18
Secondary market	19
Shares purchase-and-sale sector	21
Bonds purchase-and-sale sector	22
State block of shares trade sector	22
GOVERNMENTAL SECURITIES MARKET	24
PRIMARY MARKET	25
SECONDARY MARKET	27
Exchange Secondary Market	28
MUNICIPAL BOND MARKET	30
Primary Market	30
Secondary Market	31
THE REPO MARKET	33
THE REPO EXCHANGE MARKET	35
The Automated Repo Sector	37
"Direct" Repo Sector	38
FOREIGN EXCHANGE MARKET	40
FOREIGN EXCHANGE TRADES	42
IFI BONDS MARKET	45
FUTURES MARKET	47
PROMISSORY NOTES MARKET	49
INTERBANK DEPOSITS INDICATORS	50
SETTLEMENTS	51
TECHNOLOGIES	52
Software for the trade system	52
Practice trades in the futures contracts via Internet	53
Internet-trading system	53

Shortenings and abbreviations used in the text

\$	US dollar
ALT	Almaty time (GMT + 06:00)
APF	accumulative pension fund
bn	billion
CJSC	closed joint-stock company
CS	corporate securities
CSD	Central securities depository CJSC
EUR	euro
exchange	Kazakhstan Stock Exchange CJSC (since January 7 of 2004 – Kazakhstan Stock Exchange CJSC)
GAAP	General Accepted Accounting Principles
GDP	gross domestic products of the Republic of Kazakhstan
Government	Government of the Republic of Kazakhstan
GS	government securities
IAS	International Accounting Standards
IFO	International financial organization (organizations)
ISIN	International Securities Identification Number
KASE	Kazakhstan Stock Exchange (during 2003 – Kazakhstan Stock Exchange CJSC, since January 7 of 2004 – Kazakhstan Stock Exchange Inc.)
KIBID	indicative average interbank bid deposit rate in Kazakhstan
KIBOR	indicative average interbank offered deposit rate in Kazakhstan
KIMEAN	average value between KIBOR and KIBID
KZT	Kazakhstan tenge
LLP	limited liability partnership
m	million
MAOKO	state special compensation treasury bonds of the Ministry of Finance of the Republic of Kazakhstan (abbreviation of securities' name in Kazakh)
MCI	monthly calculation index for calculation of pensions, benefits and other social payments, and also for usage of punitive measures, taxes and other payments in compliance with the legislation of the Republic of Kazakhstan, size of which is set by the laws of the Republic of Kazakhstan about the republican budget for corresponding years
MEAKAM	special state treasure bills of the Ministry of Finance of the Republic of Kazakhstan with 10-year circulation term (abbreviation of securities' name in Kazakh)
MEIKAM	state indexed treasure bills of the Ministry of Finance of the Republic of Kazakhstan inflation indexed (abbreviation of securities' name in Kazakh)
MEKAM	state treasure bills of the Ministry of Finance of the Republic of Kazakhstan usually applied to all securities irrespective of maturity term (abbreviation of securities' name in Kazakh)
MEKKAM	state short-term treasure bills of the Ministry of Finance of the Republic of Kazakhstan with up to 1-year circulation term (abbreviation of securities' name in Kazakh)
MEOKAM	state mid-term treasure bills of the Ministry of Finance of the Republic of Kazakhstan with 1 - 10 years circulation (abbreviation of securities' name in Kazakh)
MF	Ministry of Finance of the Republic of Kazakhstan
Ministry of finance	Ministry of Finance of the Republic of Kazakhstan
M M	mass media
National Bank	National Bank of Kazakhstan
NBK	National Bank of Kazakhstan
NIN	national identification number of security assigned in compliance with the legislation of the Republic of Kazakhstan
OCIMPA	organization (organizations) conducting investment management of pension assets
OJSC	open joint-stock company
PA	pension assets
PAMC	pension assets management company
PAPF	private accumulative pension fund
REER	real effective exchange rate
RSE	republican state enterprise
RUB	Russian rouble
SAPF	State accumulative pension fund CJSC
SB	subsidiary bank
SBS	state block of shares
SPOT	settlement term, when liabilities on a deal are fulfilled one business day after the deal was concluded
SPV	Special Purpose Vehicle (special enterprise: legal entity – non-resident of the Republic of Kazakhstan, which is international bond issuer, the only founder (participant, shareholder) of which is a legal entity – resident of the Republic of Kazakhstan, which acts as the guarantor of liabilities fulfillment on the bonds)
SRR	single repo rate
STB	second tier bank (banks)
TOD	settlement term when liabilities on a deal are fulfilled on the same day when the deal is concluded (from English "today")
TOM	settlement term when liabilities on a deal are fulfilled on the day following the day when the deal was concluded (from English "tomorrow")
TS	trade system
USA	The United States of America
USD	US dollar

If references to the sources of the given information are not shown, it means that the stock exchange used the data, which is collected and systematized by its personnel during its activity.

SHAREHOLDING AND SHAREHOLDERS

As of January 01, 2004, KASE authorized capital totaled KZT **90,210,660.00**.

In all, KASE issued 300 common shares with a face value (offering price) of KZT 366,710.00 each. Thus, as of January 01, 2004, KASE outstanding stock totaled 246.

Tab. 1. List of KASE shareholders as of January 01, 2004

	Full name of KASE shareholder / number of shares	Stake in total number of shares, %
1	National Bank of Kazakhstan Institution / 54	21.95
2	BANK CASPIAN joint-stock company / 19	7.72
3	Nauryz Bank Kazakhstan open joint-stock company / 6	2.44
4	Kazkommertsbank joint-stock company / 6	2.44
5	KAZAKHSTAN-ZIRAAT INTERNATIONAL BANK closed joint-stock company / 18	7.32
6	Halyk savings bank of Kazakhstan joint-stock company / 7	2.85
7	Bank TuranAlem joint-stock company / 6	2.44
8	Bank CenterCredit open joint-stock company / 6	2.44
9	Subsidiary joint-stock bank ABN AMRO BANK KAZAKHSTAN closed joint-stock company / 9	3.66
10	International bank – Alma-Ata open joint-stock company / 8	3.25
11	ATF Bank joint-stock company / 6	2.44
12	NEFTEBANK open joint-stock company / 8	3.25
13	Senim-Bank open joint-stock company / 2	0.81
14	Kazakhstan financial company open joint-stock company / 1	0.41
15	FINANCIAL COMPANY GREENWICH CAPITAL MANAGEMENT open joint-stock company / 1	0.41
16	Alliance Investment Management joint-stock company / 6	2.44
17	CAIFC Company closed joint-stock company / 1	0.41
18	DB SECURITIES (KAZAKHSTAN) open joint-stock company / 1	0.41
19	Kazkommerts Securities open joint-stock company / 6	2.44
20	GLOBAL SECURITIES (KAZAKHSTAN) closed joint-stock company / 1	0.41
21	RBNT SECURITIES closed joint-stock company / 1	0.41
22	KIB ASSET MANAGEMENT joint-stock company / 1	0.41
23	CITIBANK KAZAKHSTAN closed joint-stock company / 6	2.44
24	Fondoviy service joint-stock company / 6	2.44
25	Demir Bank Kazakhtan open joint-stock company / 6	2.44
26	RG Securities limited liability partnership / 6	2.44
27	TuranAlem Securities joint-stock company / 6	2.44
28	VISOR Investment Solutions limited liability partnership / 6	2.44
29	Tau Securities limited liability partnership / 6	2.44
30	Alliance Bank open joint-stock company / 6	2.44
31	NURBANK open joint-stock company / 6	2.44
32	Nauryz Securities Kazakhstan limited liability partnership / 6	2.44
33	Development Bank of Kazakhstan joint-stock company / 6	2.44
34	Subsidiary Bank HSBC Bank Kazakhstan joint-stock company / 6	2.44
	Total¹	100.00

¹ As of January 1, 2004 there are 34 officially registered shareholders at KASE. During 2003 the following organizations were excluded of the list of shareholders: CJSC Turkish-Kazakhstan International Bank (the legal representative of which is CJSC KAZAKHSTAN-ZIRAAT INTERNATIONAL BANK); the Exchange stocks were sold to: JSC Kazkommertsbank – 2 shares, JSC ATFBank – 2 shares, OJSC Nauryz Bank Kazakhstan – 3 shares; the Exchange stocks were purchased by: OJSC Alliance Bank – 6 shares, JSC BANK CASPIAN – 5 shares, OJSC NURBANK – 6 shares, LLP Nauryz Securities Kazakhstan – 6 shares, OJSC Kazkommerts Securities – 5 shares, Subsidiary bank JSC HSBC Bank Kazakhstan – 6 shares, JSC Kazakhstan Development Bank – 6 shares.

KASE MEMBERS

Tab. 2. Change by categories of KASE members in 2003

Mem-ship category	As of Jan 1, 03	As of Jan 1, 04
"B"	28	28
"C"	5	5
"K"	46	50
"P"	40	45
"H"	20	21
Total	56	56

- "B"** The right of participation in the trades in foreign currencies;
- "C"** The right of participation in the trades in futures contracts as clearing (CKE) or trading (CTE) member;
- "K"** The right of participation in GS trades admitted to circulation at KASE;
- "P"** The right of participation in NGS trades included in the official listing of KASE;
- "H"** The right of participation in NGS trades in the sector of Non-listing securities and SS only.

Category "B"

Admitted to KASE membership in this category: Subsidiary Bank HSBC Bank Kazakhstan JSC (December 23, 2003).

Stripped of KASE membership in this category: Turkish-Kazakh International Bank CJSC (January 31, 2003).

Category "K"

Admitted to KASE membership in this category: Tsesnabank JSC (February 28, 2003), Nauryz Securities Kazakhstan LLP (February 28, 2003), Alliance Bank OJSC (April 10, 2003), VISOR Investment Solutions LLP (April 10, 2003), MONEY EXPERTS JSC (May 08, 2003), Senim-Bank OJSC (July 22, 2003).

Stripped of KASE membership in this category: Intertrade OJSC (June 02, 2003), KBS Brokers LLP (August 06, 2003).

Category "P"

Admitted to KASE membership in this category: Tsesnabank JSC (February 28, 2003), Nauryz Securities Kazakhstan LLP (February 28, 2003), Alliance Bank OJSC (April 10, 2003), VISOR Investment Solutions LLP (April 10, 2003), MONEY EXPERTS JSC (May 08, 2003), Senim-Bank OJSC (July 22, 2003), State Accumulative Pension Fund CJSC (October 10, 2003).

Stripped of KASE membership in this category: Intertrade OJSC (June 02, 2003), KBS Brokers LLP (August 06, 2003).

Category "H"

Admitted to KASE membership in this category: Nauryz Securities Kazakhstan LLP (February 28, 2003), VISOR Investment Solutions LLP (April 10, 2003), MONEY EXPERTS JSC (May 08, 2003).

Stripped of KASE membership in this category: Intertrade OJSC (June 02, 2003), KBS Brokers LLP (August 06, 2003).

Tab. 3. List of KASE members as of January 01, 2004

Short title of KASE member	Category of membership				
	"B"	"C"	"K"	"P"	"H"
1 National Bank of the Republic of Kazakhstan	✓		✓		
2 Bank TuranAlem JSC	EPP ²	CKE ³	✓	✓	
3 BANK CASPIAN JSC	EPP		✓	✓	
4 International Bank Alma-Ata OJSC	EPP		✓		
5 SB HSBC Bank Kazakhstan JSC	✓		✓	✓	
6 ALASH-BANK CJSC	EPP				
7 Demir Bank Kazakhstan OJSC	EPP		✓	✓	
8 BANK OF CHINA IN KAZAKHSTAN CJSC	✓				
9 CITIBANK KAZAKHSTAN CJSC	EPP		✓		
10 NURBANK OJSC	EPP		✓	✓	
11 Kazkommertsbank JSC	EPP		✓	✓	
12 KAZAKHSTAN-ZIRAAT INTERNATIONAL BANK CJSC	✓		✓	✓	
13 Alliance Bank OJSC	EPP		✓	✓	
14 Halyk savings bank of Kazakhstan JSC	EPP	CKE	✓	✓	
15 TEMIRBANK OJSC	EPP		✓	✓	
16 TEXAKABANK OJSC	EPP		✓	✓	
17 Bank CenterCredit OJSC	EPP		✓	✓	
18 Tsesnabank JSC	EPP		✓	✓	
19 NEFTEBANK OJSC	✓				
20 Subsidiary bank ABN AMRO BANK KAZAKHSTAN CJSC	EPP		✓	✓	
21 Eximbank Kazakhstan OJSC (membership under "K" category stopped)	✓		✓		
22 Senim-Bank OJSC	✓		✓	✓	
23 SB Alfa Bank OJSC	EPP		✓	✓	
24 Eurasian Bank JSC	EPP		✓	✓	
25 ATFBank JSC	EPP		✓	✓	
26 JB LARIBA-BANK OJSC	EPP		✓	✓	
27 Valut-tranzit-Bank OJSC	✓				
28 Nauryz Bank Kazakhstan OJSC	EPP				
29 Development Bank of Kazakhstan JSC			✓	✓	
30 DB SECURITIES (KAZAKHSTAN) OJSC			✓	✓	✓
31 Kazkommerts Securities OJSC			✓	✓	✓
32 CAIFC Company CJSC			✓	✓	✓
33 Kazakhstan financial company OJSC			✓	✓	✓
34 FINANCIAL COMPANY GREENWICH CAPITAL MANAGEMENT OJSC			✓	✓	✓
35 Alliance Investment Management JSC			✓	✓	✓
36 RSE Information-stocking center					✓
37 RBNT SECURITIES CJSC			✓	✓	✓
38 GLOBAL SECURITIES (KAZAKHSTAN) CJSC			✓	✓	✓
39 KIB ASSET MANAGEMENT JSC			✓	✓	✓
40 RG Securities LLP		CTE ⁴	✓	✓	✓
41 Fondoviy service JSC			✓	✓	✓
42 PAMC Ak niet CJSC ⁵			✓	✓	
43 TuranAlem Securities JSC		CTE	✓	✓	✓
44 Pension assets management company of Halyk Bank of Kazakhstan JSC			✓	✓	
45 State accumulative pension fund CJSC			✓	✓	
46 Organization conducting investment management of pension assets Zhetysu JSC			✓	✓	
47 KAZPOST OJSC			✓		
48 Central Asian Trust Company LLP			✓	✓	✓
49 General Asset management LLP			✓	✓	✓
50 PAMC ABN AMRO Asset Management CJSC		CTE	✓	✓	
51 FUTURE CAPITAL LLP ⁶			✓	✓	✓
52 Tau Securities LLP			✓	✓	✓
53 KG Securities LLP			✓	✓	✓
54 Nauryz Securities Kazakhstan LLP			✓	✓	✓
55 VISOR Investment Solutions LLP			✓	✓	✓
56 MONEY EXPERTS JSC			✓	✓	✓
Total	29	6	42	33	20

² The participants of the Early Payment Processing – payments in the immediate delivery mode.

³ Clearing member on the futures contracts.

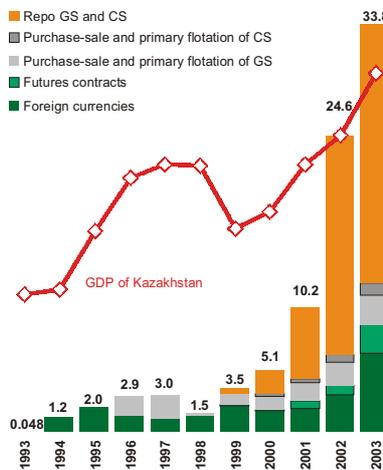
⁴ Trade member on the futures contracts.

⁵ The membership was suspended from October 21, 2003 in accordance with the decision of the KASE Board of October 20, 2003 based on the Resolution # 211 of the Board of Directors of the National Bank of the Republic of Kazakhstan of June 17, 2003.

⁶ The membership was suspended from July 14, 2003 in accordance with the decision of the KASE Board of July 14, 2003 based on the Resolution # 255 of the Board of Directors of the National Bank of the Republic of Kazakhstan of July 9, 2003.

KAZAKHSTAN STOCK MARKET IN 2003

Fig. 1. Dynamics of the structure of turnover and volume of the stock exchange market of Kazakhstan for last 11 years (bn USD)



The structure of the stock financial market of Kazakhstan did not change a lot within the reporting period in relation to the year 2002. In the course of the year 2003, KASE conducted trade in foreign exchange, Government Securities (GS) (including the securities of local executive bodies which will subsequently be called 'municipal bonds' for short), Non-Government Securities (NGS) (including State-owned shares (SS)), International Financial Institutions (IFI) bonds, futures contracts and promissory notes. The initial placement of municipal and corporate bonds and the preferred shares of listing companies was carried out on the Stock Exchange. Throughout the year two repo sectors worked at KASE. Their activity was focused on GS and NGS. In the so-called automatic repo sector, money supplies trades were conducted using the exchange's main method - open trade. Furthermore, participants of the stock market had the opportunity to conduct repo transactions by means of 'direct' trading (i.e. by closing direct deals).

In the reporting year KASE, as it had done before, regularly calculated the indicators for the Kazakhstan inter-bank deposits market - KIBOR, KIBID and KIMEAN rates with different offering (raising) terms - upon the instruction of market participants and based on their quotations. The stock market's climate was characterized on a daily basis by means of a series of indices-indicators: KASE_Shares, KASE_EP, KASE_EC, KASE_EY, KASE_BP, KASE_BC, KASE_BY, and TONIA.

The development of the Kazakhstan market in 2003 was first and foremost characterized by the volume of trade. The exchange turnover reached an equivalent of \$33.8 bn U.S. dollars or KZT 5.0 trillion, and for the first time in the history of the republic significantly - by 13.1% - exceeded the GDP of the republic (according to the current data in 2003 the GDP of Kazakhstan reached \$29.8 bn U.S. dollars or KZT 4.4 trillion).

In the previous reporting period the exchange turnover formed 101.2% of GDP and in 2001 - 46.1% of GDP.

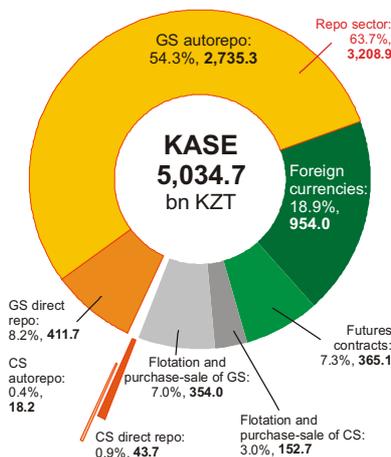
As it is obvious from Tab. 4, the growth of the exchange turnover in 2003 was showed mainly due to the sector of the foreign exchange trade. This resulted from the significant increase in the inflow of currency to the internal market. The volume of the stock-exchange deals related to the futures contracts and deals in the repo market significantly increased in total monetary terms.

The further development of NGS stock market became another important feature of the year 2003. For the first time in the history of KASE the volume of deals related to the shares and corporate bonds exceeded the sum equivalent to \$1 bn U.S. dollars. And the rate of growth of their stock turnover stays high.

However, in 2003 KASE did not manage to maintain the rate of growth of the stock turnover that was reached in 2002 (Fig. 1). The main increase in the volume of deals in 2002 was caused by the significant development of recently appeared sector of the automatic repo. In 2003 this stock market segment, when it was formed completely, could not further demonstrate the previous growth rate. Furthermore, the refusal of the National Bank of the Republic of Kazakhstan in September, 2003 to place funds on this stock site did not contribute to the further market extension.

In general, the structure of KASE turnover did not change significantly in the reporting year as compared to 2002 (Fig. 2).

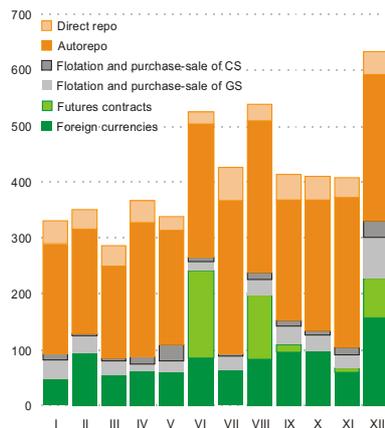
Fig. 2. Volume and structure of the stock exchange market of Kazakhstan in 2003 (bn KZT)



Tab. 4. Comparative data on the turnover at KASE and its structure in 2002 and 2003

Market sector	2002				2003				Trend		m USD	
	Volume	%	Volume	%	Volume	%	Volume	%	Volume	%	Volume	Trend
Foreign currencies sector	458.6	12.1	954.0	18.9	+495.4	+108.0	2,980.7	12.1	6,413.4	19.0	+3,432.7	+115.2
GS sector	300.4	7.9	354.0	7.0	+53.6	+17.8	1,951.1	7.9	2,378.0	7.0	+426.9	+21.9
CS sector	93.2	2.5	152.7	3.0	+59.5	+63.8	603.6	2.4	1,025.2	3.0	+421.6	+69.8
Repo sector (GS and CS)	2,809.4	74.1	3,208.9	63.7	+399.5	+14.2	18,274.2	74.2	21,523.6	63.7	+3,249.5	+17.8
Futures contract sector	129.5	3.4	365.1	7.3	+235.6	+181.9	833.8	3.4	2,458.7	7.3	+1,624.9	+194.9
IFO bond sector	0	0	0	0	-	-	0	0	0	0	-	-
Promissory note sector	0.004	0.0001	0.015	0.0003	+0.011	+309.9	0.02	0.0001	0.096	0.0003	+0.07	+309.7
TOTAL	3,791.2		5,034.7		+1,243.5	+32.8	24,643.4		33,799.1		+1,542.5	+37.2

Fig. 3. Dynamics of the structure of turnover and volume of the stock exchange market in 2003 (bn KZT)



The dynamics of the volume of transactions at KASE on a monthly basis did not appear to be traditional as it used to be during several previous years. It was mainly set by the exchange market climate which in the year 2003 significantly differed from the exchange market environment of the previous years and the market of the forward exchange contracts that relates to it. The commitment to the traditions was only noted in the last month of the year when the commercial activity of KASE members and the issuing activity of the corporate issuers increased (Fig. 3).

The most active participants in the stock market of Kazakhstan in 2003 are the followings:

- 1) BankTuranAlem OJSC - 20.6% of the total volume of operations conducted on KASE, is the leader in the sectors: foreign exchange, repo operations, GS purchase and sale, and futures contracts; the KASE market-maker for the U.S. dollar and the Russian ruble;
- 2) ATFBank JSC - 8.1% of the exchange turnover;
- 3) Nurbank OJSC- 5.6% of the exchange turnover;
- 4) Eurasian Bank JSC - 5.3% of the exchange turnover;
- 5) Halyk Saving Bank of Kazakhstan JSC - 5.1% of the exchange turnover.

In 2003 the TuranAlemSecurities JSC should be mentioned as the leader in the volume of NGS purchase and sale transactions and the leading financial consultant of the issuers, who offered on KASE the biggest emissions of these securities. RG Securities LLP is the leading operator in the securities exchange market among the broker-dealer organizations.

Tab. 5. Detailed structure of the KASE turnover in 2003 (m USD, %)

Segment of stock market	Total structure		Sector structure			Instrumental structure		
	volume	stake	segment	volume	stake	instrument	volume	stake
Corporate securities (CS)	1,025.2	3.0	primary floatations	96.4	0.3	shares	7.6	0.02
			bonds			bonds	88.7	0.26
			SBS	150.2	0.4	shares	150.2	0.44
			purchase-sale	778.7	2.3	shares	263.2	0.78
Government securities (GS)	2,378.0	7.0	primary floatations	31.3	0.1	bonds	515.4	1.5
			purchase-sale	2,346.7	6.9	municipal bonds	31.3	0.09
						eurobonds	379.5	1.1
						NB notes	977.1	2.9
						MEKKAM	30.4	0.09
						MEOKAM	632.1	1.9
						MEIKAM	12.1	0.04
						MEAKAM	275.8	0.82
Futures contracts	2,458.7	7.3	purchase-sale	2,458.7	7.3	futures for \$1,000	2,458.7	7.3
						futures for 1,000	0.03	0.0001
Foreign currencies	6,413.4	19.0	purchase-sale	6,413.4	19.0	EUR	7.1	0.021
						RUB	0.9	0.03
						USD	6,405.5	19.0
Repo	21,523.6	63.7	auto. repo	18,472.4	54.7	GS	18,350.3	54.3
			"direct" repo	3,051.2	9.0	CS	122.2	0.4
						GS	2,759.7	8.2
						CS	291.6	0.9
Promissory notes	0.096	0.0003	purchase-sale	0.096	0.0003	N_ALKS	0.096	0.00028
TOTAL	33,799.1	100.0		33,799.1	100.0		33,799.1	100.0

CORPORATE SECURITIES MARKET

Tab. 6. Volume of the CS market in Kazakhstan and its change

Year	Turnover,	Trend to previous	
	m USD	m USD	%
1997	2.3	x	x
1998	26.2	+23.9	+1,032.0
1999	31.2	+5.0	+19.1
2000	119.7	+88.5	+283.6
2001	315.7	+196.0	+163.7
2002	603.6	+287.8	+91.2
2003	1,025.2	+421.6	+69.8

Fig. 4. Comparison of the turnover of shares and corporate bonds at KASE

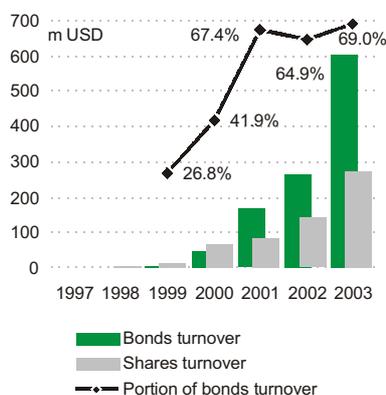
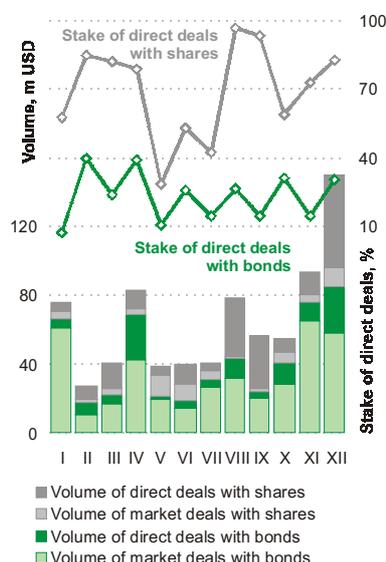


Fig. 5. Volumes (left axis) and stake (right axis) of different types of deals with CS in the purchase-and-sale sector in 2003



In the year 2003 Kazakhstan NGS market continued developing in the tendencies of three previous years and did not change qualitatively. As before the main market driving forces were the growing assets of main institutional investors - Second-Tier Banks and APF.

The most important event of the year was the passage of two laws that determine legal infrastructure of the stock market - the law "On Joint Stock Companies" and the law "On securities market" that substituted the cognominal laws of previous years (1997-1998). Not diminishing the importance of the new laws for the future market development we still have to admit that their implementation insignificantly affected NGS real market in 2003.

According to the reporting to KASE of the issuers of securities which trade on the Exchange, the year 2003 was not less successful than the previous year for the majority of these issuers. It was reflected accordingly by the leading world rating agencies in the evaluation of the issuers' activities. In 2003 none of the agencies lowered the ratings of the issuers of Kazakhstan. The existing ratings were either approved or raised. The same is related to the prognoses. Furthermore, in 2003 several companies that did not have the credit ratings before, have obtained the ratings from the leading rating agencies.

As for NGS market, a certain difficulty was brought to it by the unexampled tenge adjustment to U.S. dollar that was observed during almost the whole 2003. This required the issuers and investors to significantly restructure their strategies. But according to the annual results NGS market on the whole has lost nothing because of the economy dedollarization except for the significant reduction of the pension assets profitability.

The rate of growth in volume of NGS market of Kazakhstan judging by its stock component⁷ continued decreasing in the reporting year (Tab. 6). As well as in the year 2002, it was caused by the volume of the market itself that in terms of money grew speedily and could not maintain the previous rate of growth in terms of percentage points. In terms of money the volume of deals increase that was achieved in 2003 is the all-time high in the new history of Kazakhstan.

It is also obvious that in 2003 the republic still did not have the developed stock market and we can only hope it will appear in the future. This sector stays narrow, it isn't marketable enough and the prices developing in this market still reflects neither the economic development of the republic nor separate sectors of its economy. The rates down-fall resulting from the monetary policy of Government and the National Bank of Kazakhstan and the inflation risks that increased within the second half of the year led to another activation of corporate bonds market. This caused the reversal of the keeping forward tendency of the stock turnover growth in relation to the bond turnover that was planned in 2002 (Fig. 4). Furthermore, in 2003 the share of the non-market deals with the stock at KASE increased significantly, but it is not the characteristic of the fact that this market was developing in a civilized way (Fig. 5).

KASE TRADE LISTINGS

During the last five years the structure of KASE securities listings has not undergone any change. For the beginning of 2004 there were five NGS listings allowed to trade at KASE:

- ◆ the official securities listing, category "A";
- ◆ the official securities listing, category "B";
- ◆ the "Non-listed securities" listing, first level of admittance;
- ◆ the "Non-listed securities" listing, second level of admittance;
- ◆ the State Owned Shares listing.

As in 2002, each of the first four trading sectors has been divided into stock and bond sectors due to the presence of corporate bonds in KASE listing.

⁷ Unfortunately, the data on NGS third market in 2003 is not published anywhere which does not allow comparing it with the stock market in this report.

Listing requirements

During 2003 the "Listing Rules" internal KASE document which is effective from March 01, 2002 was amended five times and the amendments were mostly of the editorial character.

The most essential amendment to the "Listing Rules" document was the requirement on the owned capital size to "B" category listing companies and to the candidates for such companies. This requirement is effective from July 01, 2003. In accordance with this requirement the issuer's owned capital should not be less than its authorized capital.

Furthermore, the particular dates (January 01 and July 01) when the amendments improving the effective listing requirements or establishing the additional listing requirements come into force, were cancelled; the rules for financial consultant's participation in the preparation of the documents on securities that are planned to be included into the official list of the Exchange were more accurately determined; the requirement on providing the Exchange with the material of the advertising or informative character for the public distribution was added; Attachment 1 to the "Listing Rules" was amended and the material on the method of calculation of the issuers' financial indicators when checking their compliance with the listing requirements was added. The assets that Listing Committee has the right to deduct from the sum-total of the issuer's assets when estimating his owned capital size were extended and specified within these listing requirements.

By the end of 2003 the listing requirements in the Tabs. 7 and 8 were effective in relation to the securities of the issuers who are the residents of the Republic of Kazakhstan.

In December 2003 the new KASE internal document was approved - "Rules of admission of securities to circulation in the "Non-listed securities" sector", effective from January 01, 2004. This document has the similar purpose as the "Order of admission of securities to "Non-listed securities" sector" that was effective from June, 1998 and established the order and procedure of admission of securities to the trade at KASE non-listed floor. The differences between these two documents are mostly of an editorial character and practically do not affect the principles of admission of securities to circulation on the non-listed floor. The following is referred to the number of the essential differences: the

Tab. 7. Listing requirements of KASE to share issuers

Qualifying standards	By the end of 2003
Official list, category "A"	
Legal-organizational form	open joint-stock company
Existence term	not less than three years ⁸
Presence of the net income	on any two of the last three years or for the last year, confirmed by auditor ⁹
Debt of dividends	to be absent
Debt of issued bonds	to be absent
Presence of market-maker of shares	necessarily
Audit	annually by an auditor of "the big four"
Number of issued shares	common – not less than 100,000 units, privileged – not less than 10,000 units
Shareholders equity	not less than KZT 1.5 bn. ¹⁰ , insurance companies – not less than KZT 150.0 m.
Sales volume for the year (for non-financial organizations)	not less than KZT 1.5 bn. while shares including not less than KZT 1.0 bn. – during shares circulation ¹¹
Size of assets (banks and other financial organizations)	not less than KZT 5.0 bn.
Insurance payments for the last two years (for insurance companies)	not less KZT 500.0 m.
Official list, category "B"	
Legal-organizational form	open joint-stock company
Existence term	not less than one year
Number of issued shares	common – not less than 100,000 units, privileged – not less than 10,000 units
Shareholders equity	not less than authorized capital

⁸ Under the special decision of the KASE Board for non-financial organizations – not less than two years.

⁹ Exception for non-financial organizations – for the last two years.

¹⁰ Exception for non-financial organizations – not less than 800,0 m tenge.

¹¹ Exception for non-financial organizations – not less than 800,0 m tenge.

Tab. 8. Listing requirements of KASE to bond issuers

Qualifying standards	By the end of 2003
Official list, category "A"	
Legal-organizational form	open joint-stock company or republican state enterprise (does not apply to special purpose vehicles)
Existence term	not less than 3 years ¹²
Presence of the net income	on any two or the last three years or for the last year, confirmed by auditor ¹³
Debt of dividends	to be absent
Debt of issued bonds	to be absent
Presence of market-maker of bonds	necessarily
Audit	annually by an auditor of "the big four"
Minimum issue volume	not less than KZT 300.0 m and 20.0 th. bonds
Shareholders equity	not less than KZT 1.5 bn. ¹⁴
Sales volume for the year (for non-financial organizations)	not less than KZT 1.5 bn. while bonds including, not less than KZT 1.0 bn. – during bonds circulation ¹⁵
Size of assets (banks and other financial organizations)	not less than KZT 5.0 bn. ¹⁶
Official list, category "B"	
Existence term	not less than one year ¹⁷
Minimum issue volume	not less than KZT 50.0 m and 3,000 units
Shareholders equity	not less than authorized capital

new document provides for the terms where the trades in this sector may be suspended or cancelled (including the way of excluding securities from the trade lists) and does not divide "Non-listed securities" sector in accordance with the admission levels (before there were the first and the second level of admission with different requirements on disclosure of the information on the issuers of the securities).

In the reporting year extension of the pension assets investments to the foreign securities and low profitability rates in Kazakhstan exchange market led to the growth of interest of the Kazakhstani investors to the foreign issuers' securities. The objective need appeared therefore to develop the documents that would regulate the listing requirements to the securities of foreign corporate issuers and issues of their listing at KASE.

During the first six months of 2003 the new KASE "Listing requirements to the foreign securities and Kazakhstani depositary receipts" internal document was developed and came into effect on July 07, 2003. The document contains the definition of the securities in relation to which the listing requirements are established, listing requirements to the foreign securities (shares and bonds), including those that are the base assets of the derivative financial instruments (Tabs. 9 and 10) and description of related different standards.

It is determined that the listing procedures of the foreign securities and derivative financial instruments to which such securities are the base asset are regulated by the "Listing Rules".

In 2003 this document was not applied in practice, because applications for the inclusion into KASE official list of securities of the foreign corporate issuers as well as the derivative financial instruments to which this type of securities are the base asset were not submitted to the Exchange.

Requirements for market-makers

As before, two types of market-makers have operated at KASE during the reporting year: the market-makers themselves and securities professionals. The latter constitutes market-makers that are confronted with more rigorous requirements regarding obligatory quotation spreads.

¹² Exception for not financial organizations – not less than two years, for banks and the organizations which are carrying out separate kinds of bank operations which shareholders are the Government and local agencies of the Republic of Kazakhstan or the National Bank of the Republic of Kazakhstan – is not established.

¹³ Exception for non-financial organizations – for last two years.

¹⁴ Exception for non-financial organizations – not less than 800,0 m tenge, for banks and the organizations which are carrying out separate kinds of bank operations which shareholders are the Government and local agencies of the Republic of Kazakhstan or the National Bank of the Republic of Kazakhstan – not less than 1,0 bn tenge.

¹⁵ Exception for non-financial organizations – not less than 800,0 m tenge.

¹⁶ Exception – not less than 1,0 bn tenge.

¹⁷ It is not established for the organizations which unique owner is the State on behalf of the National Bank of the Republic of Kazakhstan and/or the Ministry of Finance of the Republic of Kazakhstan.

Tab. 9. Listing requirements of KASE to shares of foreign issuers, including those, which are basic asset of KDR

Qualifying standards	By the end of 2003
Official list, category "A"	
Legal-organizational form	providing free circulation of shares
Existence term	not less than three years
Shareholder's equity	not less than equivalent of USD100 m, confirmed by auditor
Presence of the net income	while including – for each year of the last three years, during circulation – annually, confirmed by auditor ¹⁸
Accounting standards	IAS or GAAP
Audit	annually by an auditor of "the Big Four"
Long-term credit rating of the issuer in foreign currency	not lower than "A" on Standard & Poor's and Fitch or "Aa2" on Moody's
Debt on dividends	to be absent
Debt on issued bonds	to be absent
Presence of market-maker of shares at KASE	necessarily
Official list, category "B"	
Legal-organizational form	providing free circulation of shares
Existence term	not less than three years
Shareholder's equity	not less than equivalent of USD10 m, confirmed by auditor
Presence of the net income	while including – for the last year, during circulation – annually, confirmed by auditor ¹⁹
Accounting standards	IAS or GAAP
Audit	annually by an auditor of "the Big Four"
Long-term credit rating of the issuer in foreign currency	not lower than "B" on Standard & Poor's and Fitch or "B2" on Moody's
Debt on dividends	to be absent
Debt on issued bonds	to be absent
Presence of market-maker of shares at KASE	necessarily

Tab. 10. Listing requirements of KASE to bonds of foreign issuers, including those, which are basic asset of KDR

Qualifying standards	By the end of 2003
Official list, category "A"	
Legal-organizational form	not set
Existence term	not less than three years
Shareholder's equity	not less than equivalent of USD100 m, confirmed by auditor
Presence of the net income	while including – for each year of the last three years, during circulation – annually, confirmed by auditor ²⁰
Accounting standards	IAS or GAAP
Audit	annually by an auditor of "the Big Four"
Bonds rating	not lower than "A" on Standard & Poor's and Fitch or "Aa2" on Moody's
Debt on dividends	to be absent
Debt on issued bonds	to be absent
Presence of market-maker of shares at KASE	necessarily
Official list, category "B"	
Legal-organizational form	not set
Existence term	not less than three years
Shareholder's equity	not less than equivalent of USD10 m, confirmed by auditor
Presence of the net income	while including – for the last year, during circulation – annually, confirmed by auditor ²¹
Accounting standards	IAS or GAAP
Audit	annually by an auditor of "the Big Four"
Bonds rating	not lower than "A" on Standard & Poor's and Fitch or "Aa2" on Moody's
Debt on dividends	to be absent
Debt on issued bonds	to be absent
Presence of market-maker of shares at KASE	necessarily

In 2003 the Exchange modified the requirements to the market-makers only once. Amendments to the "Rules of the market-makers' activities" which are effective since November 11, 2003 were approved by the Exchange Board's decision of October 10. In accordance with these amendments the procedure of application of privileges to the commissions paid by NGS specialists and market-makers and fees paid to NGS specialists was clarified. It was particularly established that the privileges on commissions did not cover the privatized organizations' SS transactions; transactions related to the repo securities operations; securities purchase and sale transactions which conduct by the direct deal method.

¹⁸ Within the circulation the absence of the net income not more than for one financial year is allowed.

¹⁹ Within the circulation the absence of the net income not more than for three financial years running is allowed.

²⁰ Within the circulation the absence of the net income not more than for one financial year is allowed.

²¹ Within the circulation the absence of the net income not more than for three financial years running is allowed.

Tab. 11. Dynamics of KASE listing structure in 2003

Category of admission	As of Jan 1, 03		As of Jan 1, 04	
	securities	issuers	securities	issuers
A	63	32	90	40
B	25	18	39	29
A+B	88	50	129	69
N1	0	0	2	2
N2	36	28	49	40
N1+N2	36	28	51	42
TOTAL	124	79	180	106

- A:** official list, category "A";
- B:** official list, category "B";
- A+B:** official list;
- N1:** "Non-listing securities" sector, first level of admission;
- N2:** "Non-listing securities" sector, second level of admission;
- N1+N2:** "Non-listing securities" sector.

Fig. 6. Number of CS admitted to trades in 2003 (by the end of period)

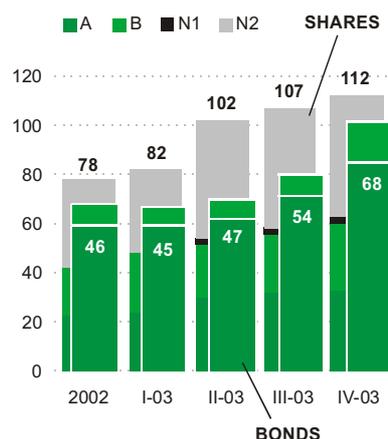
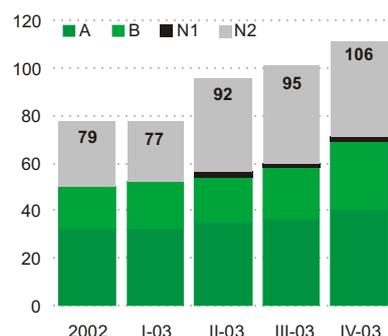


Fig. 7. Number of issuers, whose securities admitted to CS trades in 2003 (by the end of period)



Amendments also describe the cases when KASE does not pay specialist the bonus in the sum of the half of the commission fee, added according to the deal to its other party. Furthermore, it is established in the new edition of the rules that if NGS specialist conduct his duties for less than 180 days, he is obligated to refund in full the amount of the bonus received from KASE for the period he acted at KASE as a specialist.

Structure of Trade Listings

Securities

As of January 01, 2004, KASE Trade Listing consisted of 180 securities from 106 issuers. The number of securities admitted to circulation at KASE increased by 45.2% (by 29.2% in 2002), and issuers - by 34.2% (25.8%). More detailed information on the dynamics of trade listing structure, with the exception of SS, is displayed on Tab. 11 and in the diagrams (Fig. 6 and 7).

The trade listing dynamics maintained the main trend of the two previous years: the extension of number of instruments admitted to trading at KASE was mainly by way of "A" category securities listing procedures. In accordance with the annual results, KASE Listing increased by 56 securities. The number of "A" category instruments increased by 27, "B" category - by 14, N1 - by 2, N2 - by 13. However, the highest rate of growth in percentage terms was noted on "B" category. This tendency was noted in 2002 and according to the current data continued to further develop in the reporting period.

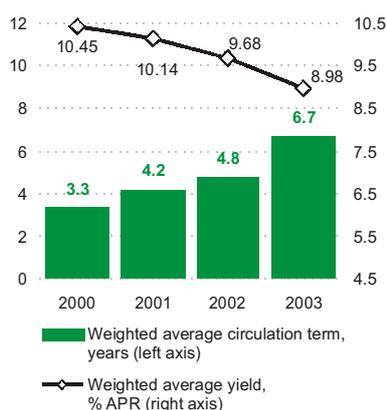
Change of the number of issuers, whose securities were admitted to trading at KASE, emphasizes the tendency of the increased attention of the companies to the "B" category official listing (Fig. 7). Within the total increase in the number of such issuers by 27 (from 79 to 106) there are 8 companies falling into "A" category of the official listing (increased by 25.0%), 11 companies falling into "B" category of the official listing (61.1%) and 14 companies falling into "Non-listed securities" sector (50.0%).

In accordance with the results of KASE trade listing instrumental structure analysis "A" category official listing was mostly growing due to the bonds included in it (17 of 27 new securities or 63% increase). 26% of the increase is covered by the common shares (7 securities) and 11% - by the preferred shares (3 securities). Different was the situation with "B" category of the official listing where the increase was mainly due to the common shares included in it (8 of 14 new securities or 57% increase). 36% of increase was covered by bonds and 1% - by preferred shares. The list of securities traded on the non-listing floor grew due to the common (14 of 15 securities, 93% increase) and preferred (1 security, 7% increase) shares trading.

We may conclude the following based on the above mentioned.

In 2003 the issuers tended to include their securities into "A" category of KASE official listing which was mainly dictated by intension to access the institutional investors' funds (and largely - the pension assets of the Accumulative Pension Fund) that in the reporting year could be attracted on more favorable terms due to the steady interest rates reduction and the loan terms extension (Fig. 8). Issuers were ready to pay for the highest category listing procedures and meet "A" category listing requirements that are the most rigorous ones to achieve it. However, in some cases their expenses were not very high. In the reporting year the tendency of rerunning the listing procedures in relation to "A" category securities, issued by the issuers whose shares and bonds have already been registered in this category within KASE official listing, has significantly developed. In 2003 the number of "A" category listing securities increased by 27 and there were only nine new issuers whose securities were not included into this KASE official listing category before. They are the following: CNPC-Aktobemunaigas OJSC, Eurasian Bank JSC, CHARALTYN JSC, INTERGAS CENTRAL ASIA CJSC, Kazpost OJSC, KazTransCom OJSC, Sokolovsk-Sarbaisk ore-dressing production association JSC, Tsesnabank OJSC and AES Oskemen steam-electric plant OJSC. The rest of the increase was achieved due to securities (mainly bonds) of the companies whose shares and bonds were already traded at KASE in "A" category. Furthermore, the simplified listing procedure provided in the Clause 19-1 of the Listing Rules was often applied.

Fig. 8. Dynamics of circulation terms and yield of bonds traded at KASE in 2000-2003



It also needs to be mentioned that the steady tenge adjustment to the U.S. dollar in the internal market in 2003 motivated the issuers to issue unindexed bonds, nominated in tenge or securities where profit related to them was protected from the inflation. If the face value of new bonds was indexed as before according to the change of the rate of tenge to U.S. dollar, the majority of issuers in 2003 had to add to the bonds issue terms the protection of the investors' revenue from the tenge revalorization. In other words, if the rate of tenge to U.S. dollar effective for the date of admission of bonds to circulation was higher than the current rate, the indexed face value of these bonds based on which the amount of the accumulated fee is calculated, was estimated not according to the current rate, but according to the rate effective to the date the securities are admitted to circulation (Tab. 12). Such an approach to the new bonds issue became the particularity of 2003 and let the investors spread their risks.

In 2003 the issuers' motives to include the securities into "B" category of the official listing were different. There are weighty grounds to assume that in most cases the shares were moved into this category of KASE official listing for their further use in the financial schemes providing the legal tax avoidance. The privileged tax regime in relation to the securities, included into KASE official listing, was established by the legislation of Kazakhstan on January 01, 2002. It is more likely that this explains the last two years tendency for the extension of KASE official listing "B" category due to the shares. As a rule, these securities are in demand on the part of strictly limited circle of investors and are traded at KASE mostly by the direct deals method, the prices of which are varying within the unexplainably wide from the point of view of the market situation range. Considering that "B" category listing procedures costs are significantly lower than these of "A" category as well as the listing requirements themselves, the described issuers' activities are apparently justified.

The above mentioned does not exclude positive motivation of issuers when including the securities into "B" category official listing. For the instance, the bonds listing allowed obtaining of the relatively cheap source of funding. Shares of a number of companies included into this category listing are considered by their issuers as "not fitting" "A" category according to a number of indicators as a kind of pre-listing, where company has an opportunity to demonstrate itself in public and so get potential investors interested.

Extension of the list of shares traded in the "Non-listed securities" sector in 2003 was mostly explained by traditional reasons - need for their market valuation. It is obvious that there cannot be any market valuation with practically no liquidity on this floor at least for the reason of the direct deals closing only. However, such deals costs and even quotations were officially considered by NBK when evaluating the charter capital of national companies and their subsidiaries.

The second reason, why the brokers-dealers in 2003 put the shares on non-listing floor is the need for closing of the individual deals on the packages resale with minimum costs or working with shares placed privately. The examples of such deals in the reporting year may be the operations with the common shares of the second issue of Almaty Kus OJSC, shares of Voskhod OJSC or Rakhat OJSC (see below). After such operations at KASE the shares stay in the Exchange lists till the time they are excluded for no demand and supply.

For the mentioned reason the instruments of "Non-listed securities" sector are ignored by KASE when calculating the capitalization of stock market shares.

As of January 01, 2004 the official KASE listing is displayed in Tabs. 13 and 14.

It is necessary to mention that in 2003 five bonds were excluded from the official KASE listing as were retired, three securities (SHAKHARMUNAIGAS OJSC bonds of the first issue, common and preferred shares of Zhyluenergiya OJSC) were de-listed for the breach of the Listing Rules by their issuers.

The second issue common shares of Almaty Kus OJSC were excluded from "Non-listed securities" sector in 2003. Five shares went through the listing procedure according to the official listing and as a result of it were excluded from the list of shares admitted to circulation in "Non-listed securities" sector. The major "cleaning" of this sector was conducted by KASE on January 07, 2004 when 45 shares of 38 issuers were excluded from the non-listed securities listings for the reason of no deals.

Tab. 12. Main parameters of bond issues passed listing procedure at KASE in 2003

Brief name of the issuer	Code of KASE	Issue date	Issue currency	Issue volume in issue currency, m.	Circulation term, years	Indexation type	Payments a year	Coupon rate	Floating price at KASE, % APR
Alliance-Bank OJSC	ASBNb2	31.10.03	KZT	2,000.0	3	D/R	2	8.5%	–
Astana-finance OJSC	ASFlb3	27.11.03	KZT	1,000.0	5	D/R	2	7.0%	–
ATFBank JSC	ATFBb3	01.12.03	KZT	4,500.0	5	–	2	8.5%	–
Development Bank of Kazakhstan JSC	BRKZe2	12.11.03	USD	100.0	10	–	2	7.375%	–
BTA Mortgage OJSC	BTAIb1	26.12.03	KZT	500.0	7	–	4	*10.0%	–
Bank TuranAlem JSC	BTASb3	06.11.03	KZT	7,500.0	10	I	2	*8.0%	–
TuranAlem Finance B.V.	BTASe3	02.06.03	USD	225.0	7	–	2	7.875%	–
Bank CenterCredit OJSC	CCBNb3	07.06.03	KZT	2,000.0	7	I	2	*12.1%	–
Chimfarm JSC	CHFMb1	29.10.03	KZT	1,550.0	3	D/R	2	10.0%	–
BANK CASPIAN JSC	CSBNb2	28.05.03	KZT	3,100.0	7	D/R	2	9.5%	–
	CSBNb3	06.12.03	KZT	7,500.0	7	D/R	2	8.75%	–
Eurasian Bank JSC	EUBNb1	25.11.03	KZT	1,500.0	5	–	2	*7.0%	8.00%
Halyk savings bank of Kazakhstan JSC	HSBKb3	19.06.03	KZT	4,500.0	6	–	2	9.0%	9.0%
ITSA CJSC	INCAb1	01.12.03	KZT	4,963.7	1	–	–	–	7.34%
Karazhanbasmunai OJSC	KARMB2	29.12.03	KZT	11,100.0	5	D/I	2	*8.0%	–
Kazkommerts International B.V.	KKGBe4	16.04.03	USD	500.0	10	–	2	8.5%	–
Kazakhstan Mortgage Company CJSC	KZIKb2	11.08.03	KZT	3,000.0	10.1	I	4	*6.9%	6.90%
	KZIKb3	01.12.03	KZT	5,000.0	10.3	I	4	*8.3%	8.38%
Kazpost OJSC	KZPSb1	13.05.03	KZT	1,413.0	5	D	2	8.0%	8.50%
KazTransCom OJSC	KZTCb1	25.07.03	KZT	3,000.0	7	D/R	2	8.0%	9.58%
NURBANK OJSC	NRBNb2	12.06.03	KZT	4,000.0	8	D	2	9.0%	9.00%
RG Brands OJSC	RGBRb3	31.01.03	KZT	2,350.0	5	D/R	2	10.0%	–
TEXAKABANK OJSC	TXBNb2	04.07.03	KZT	3,000.0	7	–	2	11.0%	–
AES Ust-Kamenogorsk HS OJSC	UKTCb1	21.10.03	KZT	612.8	3	–	2	9.0%	–
VALUT-TRANZIT-SECURITY LLP	VTSKb2	30.10.03	KZT	1,000.0	8	–	1	10.0%	–
VALUT-TRANZIT TECHNOLOGY OJSC	VTTHb1	06.11.03	KZT	1,000.0	9	–	1	10.0%	–
VALUT-TRANZIT ZOLOTO OJSC	VTZLb1	29.10.03	KZT	2,500.0	10	–	1	10.0%	–
YASSY OJSC	YASYb1	04.07.03	KZT	550.0	1	–	–	–	–

Bonds with floating coupon, on which rate for the first coupon period is given, are marked with asterisk.

Indexation type: I – on inflation, D – on devaluation of tenge, D/R – on devaluation of tenge with protection from revaluation, D/I – on inflation and devaluation of tenge; bonds, revenue of whose holders depends on dynamics of the rate KZT/USD, are **green**, de facto dollar securities are written with **bold type**

Capitalization

The method of calculating the capitalization of NGS market had some changes in 2003 but the changes related to the shares only. As before, to capitalize this market segment, the recent market prices for the shares of the official KASE listing and the number of shares in circulation approved by the extracts from the registrars of the securities holders or (when they are not available) the certificate of the issue state registration were taken into account. When the market share prices were not available (i.e. no shares related deals) the shares face value was taken into account. However, in the new Kazakhstani law "On Joint Stock Companies" of May 13, 2003 the notion of the share face value relating to the secondary securities market is excluded. The new share issues therefore registered after this law came into effect were characterized by the share offering prices determined by JSC Boards of Directors and had to be approved in the market within the process of primary distribution. Taking this circumstance into account in the reporting year with no transactions in the stock market with official listing shares issued within the new legislation, KASE considered such shares price as zero and actually did not take it into account when calculating stock market capitalization.

As before, bond market capitalization reflected the current cost of the corporate debt that verified that the bonds were included into KASE official listing. In the case of no deals the face value of liabilities was taken into account when calculating capitalization.

Both indicators of capitalization were in the U.S. dollars considering the prices according to the current market rate of tenge to the U.S. dollar.

Shares market capitalization increased in 2003 by 80.9% from \$1.341 bn to \$2.425 bn US dollars (in 2002 this indicator increased only by 11.1%). As opposed to 2002, the new shares included into KASE official listing had a greater impact on the capitalization of this market segment. Judging by the dynamics of KASE_Shares index (Fig. 9) calculated according to the market-makers' best

Tab. 13. Official list of the KASE securities (bonds) as of January 01, 2004

Issuer	Trade code	Included in lists	Face value of the issue m USD	Last clean price or face value, %	Capitalization, m USD	Stake of issue in capitalization, %
Official list, category "A"	(57)		2,479.4		2,540.401	97.6
SB Alfa-Bank OJSC	ALBNb1	28.02.02	10.5	100.0000	10.466	0.4
Almaty Kus OJSC	ALKSb2	24.07.01	20.0	99.2949	19.859	0.8
ARNA OJSC	ARNAb1	20.11.02	3.2	100.7123	3.267	0.1
Alliance-Bank OJSC	ASBNb1	28.12.02	20.9	89.1675	18.664	0.7
	ASBNb2	24.11.03	14.0	100.0000	13.954	0.5
Astana-finance OJSC	ASFfb2	01.04.02	31.4	99.3910	31.206	1.2
	ASFfb3	27.11.03	7.0	94.7991	6.614	0.3
ATFBank JSC	ATFBb2	07.01.02	10.0	100.0000	10.000	0.4
	ATFBb3	05.12.03	31.4	100.0000	31.397	1.2
Development Bank of Kazakhstan JSC	BRKZb1	19.02.02	31.4	104.1319	32.694	1.3
	BRKZe1	10.10.02	100.0	105.5000	105.500	4.1
	BRKZe2	14.11.03	100.0	103.7500	103.750	4.0
Bank TuranAlem JSC	BTASb1	19.02.01	20.0	114.2799	22.856	0.9
	BTASb2	29.04.02	26.2	102.1478	26.726	1.0
	BTASb3	06.11.03	52.3	104.0385	54.442	2.1
TuranAlem Finance B.V.	BTASe1	19.07.01	100.0	103.7501	103.750	4.0
	BTASe2	06.12.02	100.0	111.0000	111.000	4.3
	BTASe3	31.07.03	225.0	100.0000	225.000	8.6
Bank CenterCredit OJSC	CCBNb1	15.12.00	4.5	107.0667	4.818	0.2
	CCBNb2	01.04.02	10.5	96.8216	10.133	0.4
	CCBNb3	27.06.03	14.0	109.0000	15.210	0.6
BANK CASPIAN JSC	CSBNb1	19.07.01	15.0	99.8234	14.974	0.6
	CSBNb2	01.07.03	21.6	99.9914	21.627	0.8
	CSBNb3	13.12.03	52.3	100.0000	52.328	2.0
Eurasian Bank JSC	EUBNb1	25.11.03	10.5	97.9670	10.253	0.4
Halyk savings bank of Kazakhstan JSC	HSBKb	26.06.00	16.0	108.7765	17.404	0.7
	HSBKb2	21.05.02	14.2	95.3010	13.578	0.5
	HSBKb3	25.06.03	31.4	104.3649	32.767	1.3
INTERGAS CENTRAL ASIA CJSC	INCAb1	01.12.03	34.6	93.9449	32.535	1.3
Zhayremskiy OMPE OJSC	JGOKb1	01.07.02	16.0	100.0000	16.047	0.6
Karazhanbasmunai OJSC	KARMb2	29.12.03	77.4	100.0000	77.444	3.0
Kazkommertsbank JSC	KKGBb2	02.12.02	52.3	102.3656	53.566	2.1
	KKGBe2	27.12.00	20.0	103.2361	20.647	0.8
KAZKOMMERTS INTERNATIONAL B.V.	KKGBe3	23.09.02	200.0	112.8600	225.720	8.7
	KKGBe4	11.08.03	500.0	98.2000	491.000	18.9
Kostanai minerals JSC	KZASb1	12.02.01	6.0	101.1175	6.067	0.2
NAC Kazatomprom CJSC	KZAPb1	01.04.02	16.0	100.7880	16.174	0.6
Kazakhstan Mortgage Company CJSC	KZIKb1	18.11.02	10.4	106.7364	11.101	0.4
	KZIKb2	25.08.03	20.9	106.7000	22.334	0.9
	KZIKb3	03.12.03	34.9	98.6794	34.425	1.3
Kazpost OJSC	KZPSb1	13.05.03	9.9	98.1000	9.671	0.4
KazTransCom OJSC	KZTCb1	26.09.03	20.2	97.8727	19.755	0.8
Kazakhtelecom	KZTKb1	02.04.01	25.0	100.6050	25.151	1.0
KazTransOil CJSC	KZTOe1	27.08.01	150.0	106.7500	160.125	6.2
NURBANK OJSC	NRBNb1	05.06.02	10.5	99.9810	10.464	0.4
	NRBNb2	18.07.03	27.9	100.0000	27.908	1.1
Corporation Ordabasy JSC	ORDBb1	08.08.02	10.8	99.9755	10.812	0.4
RG Brands OJSC	RGBRb3	31.01.03	16.4	102.5358	16.812	0.6
Hurricane Oil Products OJSC	SYRGb1	05.03.01	25.0	100.5315	25.133	1.0
TEMIRBANK OJSC	TEBNb	07.08.00	5.0	100.0000	5.000	0.2
	TEBNb2	11.09.01	5.9	107.0846	6.318	0.2
	TEBNb3	26.12.02	15.3	99.9849	15.347	0.6
NC Kazakstan temir zholy CJSC	TMJLb2	10.07.01	30.0	100.9260	30.278	1.2
TEXAKABANK OJSC	TXBNb1	25.09.01	10.4	106.6403	11.091	0.4
	TXBNb2	17.07.03	20.9	99.8811	20.906	0.8
AES Ust-Kamenogorsk HS OJSC	UKTCb1	24.10.03	4.2	100.0000	4.249	0.2
VALUT-TRANZIT BANK OJSC	VTBNb1	04.10.01	10.0	100.8169	10.082	0.4
Official list, category "B"	(11)		62.5		61.860	2.4
Ayraumunaigazgeologiya OJSC	AMGGb1	10.07.01	1.0	100.0000	1.000	0.04
BTA Mortgage OJSC	BTAIb1	26.12.03	3.5	100.0000	3.489	0.13
Chimfarm JSC	CHFMb1	31.12.03	10.8	100.0000	10.815	0.42
KAZNEFTEKHIM LLP	KZNHb1	15.10.02	2.1	102.9538	2.197	0.08
JB LARIBA-BANK OJSC	LARIb1	15.08.01	1.1	99.4380	1.076	0.04
UKBF CJSC	UKPFb1	15.11.02	3.5	95.7578	3.341	0.13
VITA OJSC	VITAb3	11.06.02	5.2	96.7653	5.064	0.19
VALUT-TRANZIT-SECURITY LLP	VTSKb2	13.12.03	7.0	100.0000	6.977	0.27
VALUT-TRANZIT TECHNOLOGY OJSC	VTTNb1	10.12.03	7.0	100.0000	6.977	0.27
VALUT-TRANZIT ZOLOTO OJSC	VTZLb1	18.12.03	17.4	99.4167	17.341	0.67
YASSY OJSC	YASYb1	25.07.03	3.8	93.4400	3.586	0.14
Total on bonds:	(68)		2,541.9		2,602.261	100.0

Tab. 14. Official list of the KASE securities (shares) as of January 01, 2004

Issuer	Trade code	Securities	Included in lists	Last price or face value	m KZT	Capitalization m USD
Official list, category "A"	(33)				293,456.6	2,047.4
Almaty Kus OJSC	ALKS	C	03.04.00	14.80	1,703.4	11.9
	ALKSp	P	03.04.00	10.00		
	ALKSp3	P	24.07.01	10.00		
CNPC-Aktobemunaigas OJSC	AMGZ	C	27.05.03*	5,161.45	46,176.8	322.2
Alliance-Bank OJSC	ASBN	C	09.07.03	10,000.00	4,000.0	27.9
Astana-finance OJSC	ASFI	C	17.01.00	1,000.11	2,074.2	14.5
ATFBank JSC	ATFB	C	24.06.03	1,000.00	6,239.1	43.5
	ATFBp	P	11.06.01	999.00		
	ATFBp8	P	24.06.03	1,000.00		
Bank TuranAlem JSC	BTAS	C	09.09.99	14,548.00	18,723.6	130.6
Bank CenterCredit OJSC	CCBN	C	28.06.99	200.00	3,464.3	24.2
BANK CASPIAN JSC	CSBN	C	01.07.02	171.00	1,082.6	7.6
	CSBNp	P	01.07.02	171.00		
CHARALTYN JSC	HRLT	C	26.11.03	–		x
Halyk savings bank of Kazakhstan JSC	HSBK	C	29.07.98	120.00	12,942.2	90.3
	HSBKp	P	26.04.02	167.20		
	HSBKp7	P	30.09.02	152.10		
Kazkommertsbank JSC	KKGB	C	16.10.97	96.80	34,251.4	239.0
	KKGBp	P	28.12.01	103.49		
Corporation Kazakhmys JSC	KZMS	C	13.05.98	4,200.00	103,141.6	719.6
Kazakhtelecom	KZTK	C	16.10.97	3,566.88	39,554.1	276.0
	KZTKp	P	16.10.97	1,472.11		
NURBANK OJSC	NRBNp6	P	17.07.03	10,000.00	400.0	2.8
Sokolovsko-Sarbayskoye ore mining and processing amalgamation JSC	SSGP	C	06.12.99	1,000.00	5,850.0	40.8
TEMIRBANK OJSC	TEBN	C	08.10.98	1,015.00	1,420.9	9.9
	TEBNp	P	08.10.98	1,000.00		
Tsesnabank OJSC	TSBN	C	24.06.03	1,000.00	855.0	6.0
	TSBNp	P	24.06.03	1,000.00		
TEXAKABANK OJSC	TXBN	C	07.03.03	1,000.00	973.4	6.8
UKTMC OJSC	UTMK	C	16.10.97	6,145.00	6,291.6	43.9
	UTMKp	P	16.10.97	3,000.00		
VALUT-TRANZIT BANK OJSC	VTBN	C	22.05.00	350.00	4,312.5	30.1
	VTBNp	P	22.05.00	450.00		
Official list, category "B"	(28)				54,053.7	377.1
Accept-Terminal JSC	ACCT	C	13.08.03	1,000.00	111.0	0.8
Aktobemunai-finance OJSC	AKFI	C	01.07.02	100.00	1,298.4	9.1
Aluminium of Kazakhstan JSC	ALKZ	C	16.10.97	98.00	5,512.6	38.5
	ALKZp	P	16.10.97	60.00		
Bukhtarma cement company OJSC	BHCK	C	09.12.03	–		x
Bayan-Sulu OJSC	BSUL	C	12.08.98	100.00	368.8	2.6
Chimfarm JSC	CHFM	C	04.03.03*	820.00	4,231.6	29.5
	CHFMp	P	04.03.03	297.00		
CLAscAS OJSC	CLAS	C	23.09.02	19,250.00	2,703.6	18.9
	CLASp	P	23.09.02	1,000.00		
DANABANK OJSC	DNBN	C	17.10.03	1,000.00	763.0	5.3
Kant OJSC	KANT	C	15.11.02	359.10	2,144.1	15.0
Kazinterbank OJSC	KIBN	C	24.07.03*	100.00	1,000.0	7.0
TNC KAZCHROME OJSC	KZCR	C	16.10.97	1,063.09	7,863.0	54.9
	KZCRp	P	16.10.97	350.00		
PAPF Kazakhstan JSC	KZPF	C	25.12.03	–		x
Mangistaumunaigaz OJSC	MMGZ	C	16.10.97	1,000.00	10,731.2	74.9
	MMGZp	P	16.10.97	850.00		
Neftebank OJSC	NFBN	C	15.04.98	1,500.02	949.0	6.6
Wholesale-retail trade venture JSC	ORPT	C	15.10.03	200.00	6.3	
Insurance company SAYA OJSC	SAYA	C	27.08.01	1,500.00	208.4	1.5
Hurricane Oil Products OJSC	SYRG	C	16.10.97	232.14	14,376.7	100.3
	SYRGp	P	16.10.97	1.00		
VALUT-TRANZIT ZOLOTO OJSC	VTZL	C	19.03.03	206.00	1,636.0	11.4
	VTZLp	P	19.03.03	200.00		
KRTH ZANGAR JSC	ZNGR	C	25.12.02	–		x
	ZNGRp	P	25.12.02	–		x
Zerde OJSC	ZERD	C	07.03.03*	2.00	150.0	1.0
Total on shares:	(61)				347,510.3	2,424.5

C – common share, P – privileged share, prices in tenge per share; dates, since which shares have been included in the official securities list of KASE, are marked with asterisk, before these shares were traded at KASE in "Non-listing securities" sector.

Fig. 9. Capitalization of the shares' market and dynamics of KASE_Shares index in 2003



Tab. 15. Sectoral structure of the official list of KASE (shares at market value)

Industry	2003		2002	
	m USD	%	m USD	%
Mineral resource	897.6	37.0	445.1	33.2
Finance	652.0	26.9	462.9	34.5
Oil complex	497.3	20.5	160.9	12.0
Communication	276.0	11.4	234.9	17.5
Food industry	29.4	1.2	20.0	1.5
Other	72.1	3.0	17.3	1.3
Total	2,424.5	100.0	1,341.0	100.0

Fig. 10. Capitalization of the stock exchange market of corporate bonds in 2003



demand quotations, the dynamics of these quotations as of the price indicator in the medium and long term tendency had an insignificant impact on the capitalization indicator. It is necessary to mention the significant variations of the stock market capitalization in mostly the middle of the year (Fig. 9) because of the unsoundly high prices registered on the direct deals with Zerde OJSC securities. Increase in the listing companies' charter capital had the major impact on the stock market capitalization in 2003.

The sectoral structure of the official KASE stock listing was significantly changed (Tab. 15). In the reporting period the mining complex leaving behind the financial sector was at the first place where Kazakhmys Corporation JSC, Oskemen Titanium-Magnesium Integrated Plant OJSC, CHARALTYN JSC, Sokolovsk-Sarbaisk ore-dressing production association JSC (SSDPA JSC), Aluminium of Kazakhstan JSC and KAZKHROM Transnational Company OJSC were referred to by the Exchange. This happened due to the significant increase in the charter capital of Kazakhmys Corporation JSC and inclusion of SSDPA JSC shares into "A" category KASE official listing. The leading position of the mining complex is in many aspects basic as in the organized market only Kazakhmys Corporation JSC and Oskemen Titanium-Magnesium Integrated Plant OJSC shares were more or less actively traded. There are practically no common shares of other mining companies in circulation and their market valuation is doubtful.

The oil complex which in 2003 was at the third place in regards to the stock market capitalization share. Here CNPC-Aktobemunaigas OJSC, Mangistau-munaigas OJSC and HOP OJSC (Hurricane Oil Products OJSC, currently Petro Kazakhstan Oil Products OJSC) were referred to by the Exchange. In 2003 the capitalization increase was provided here by "A" category listing procedures by the common shares of CNPC-Aktobemunaigas OJSC (which in its turn was caused by the need for selling NGS of this company at KASE). The accuracy of the market valuation of all oil companies without exception is doubtful as their common shares are practically not traded at the Exchange at the regular share quoting by their market-makers.

Bonds market capitalization in the reporting period (Fig. 10) increased from \$1.384 bn U.S. dollars to \$2.602 bn U.S. dollars or by 2.1 times (in 2002 the growth was evaluated as \$642.7 m U.S. dollars or by 2.1 times). As before the official KASE listing extension had the main impact on this indicator. Despite the official securities listing has lost six bonds in the reporting year (five bonds were drawn and one issue of bonds was de-listed), new securities listing procedures compensated these losses over.

The sectoral structure of the official KASE bonds listing in 2003 as opposed to the previous year did not change a lot (Tab. 16). The leadership of the financial sector became more denominated, reflecting the growing competition in the area of the bank services and the need of the banks for extending the long-term funding base.

The comparison of the market²² and face value of the corporate bonds circulating at KASE gives interesting results which illustrate the "overheat" level of the bond market of different sectors.

The difference between these indicators all over the market in 2003 reduced from +2.7% to +2.4%, which is logical if taking into account the extended range of securities offered to investors. Within the sectors judging by this indicator the

Tab. 16. Sectoral structure of the official list of KASE (bonds)

Industry	2003			2002		
	m USD	Market value of debt: stake, %	Difference market / face value*	m USD	Market value of debt: stake, %	Difference market / face value*
Finance	2,071.6	79.6	+2.6%	822.1	67.5	+3.8%
Oil complex	298.4	11.5	+2.8%	259.4	21.3	+0.6%
Communication	57.8	2.2	-0.8%	28.8	2.4	+2.9%
Food industry	45.1	1.7	-0.1%	31.6	2.6	-1.2%
Mineral resource	38.3	1.5	+0.5%	35.3	2.9	-0.7%
Transport	30.3	1.2	+0.9%	30.3	2.5	+1.0%
Other	60.8	2.3	-0.6%	10.4	0.9	+1.1%
Total	2,602.3	100.0	+2.4%	1,217.9	100.0	+2.7%

* difference between market value and face value of debt

²² When reporting on the "net" price in percents of the bonds face value.

bonds of the oil complex enterprises that on average cost 2.8% higher than their face value were the most called-up in the reporting year. Bond market of the bank sector was also characterized by the significant demand due to which these securities by the end of the year were traded 2.6% higher than its face value. In 2002 this sector was the most "overheated" as the spread between the bond market price and the face value reached 3.8% (Tab. 16) by the end of the year.

CORPORATE SECURITIES TRADES

In 2003 NGS stock market maintained the high turnover rate of growth. For the first time in the history of KASE the volume of operations with shares and corporate bonds exceeded the equivalent of one bn U.S. dollars. The total volume of deals with NGS is valued at KZT 152.7 bn which equals \$1,025.2 m US dollars. As opposed to 2002 the turnover increased by KZT 59.5 bn (\$421.6 m US dollars) or by 63.8% (\$69.8%). In 2002 the total volume of NGS deals at KASE increased by KZT 46.5 bn (\$287.8 m), however the rate of growth was higher - 99.4% in tenge and 91.2% in the US dollars. The detailed data on the volume and structure of turnover is presented in Tab. 17.

Primary Market

KASE legal regulatory framework that regulates the procedure for carrying out NGS primary placing on the Exchange did not change in 2003.

The notable particularity of the year in this market segment was the change of the reduction tendency of the share of primary placement turnover within the general NGS turnover at KASE. In 2001 this indicator was 14.8%, in 2002 - 5.5%, in 2003 - 9.4%.

The total of 25 effective primary placements and further placement of the 11 corporate bonds and 2 preferred shares were carried out at KASE in 2003. Placements were carried out in a form of the specialized trades (17 trades on the placement of 10 securities were carried out within a year) satisfying the competitive applications on the submitted or cut-off price and also by the open trades method (8 trade days on the placement of five securities). In 2003 selling their securities in KASE primary market the issuers managed to attract KZT 14,138.9 m which according to the current exchange rates effective for the placement dates equaled \$96,350.9 th. US dollars. The total 96 deals were registered by KASE trade system in this market sector.

Judging by the data in Tab. 18, the main participants of the stock primary placements were the subjects of the pension market despite the fact that the legisla-

Tab. 17. Volume of CS trades at KASE and sector structure of turnover

Month	Primary market		Purchase and sale		Sector of exchange's CS market		TOTAL	
	th. USD	m KZT	th. USD	m KZT	th. USD	m KZT	th. USD	m KZT
January	2,319.4	359.6	76,179.6	11,823.0	-	-	78,499.0	12,182.6
February	85.6	13.2	27,782.5	4,265.3	-	-	27,868.0	4,278.5
March	1,331.1	201.6	40,293.8	6,107.9	-	-	41,624.8	6,309.5
Q1	3,736.1	574.3	144,255.8	22,196.2	0	0	147,991.9	22,770.6
April	-	-	82,734.4	12,573.6	-	-	82,734.4	12,573.6
May	9,156.0	1,380.7	38,928.1	5,874.0	150,161.5	22,612.8	198,245.7	29,867.5
June	6,416.5	951.6	39,453.3	5,868.8	-	-	45,869.8	6,820.4
Q2	15,572.5	2,332.3	161,115.9	24,316.4	150,161.5	22,612.8	326,849.9	49,261.6
July	-	-	40,171.6	5,900.6	-	-	40,171.6	5,900.6
August	7,174.1	1,056.7	78,470.8	11,536.1	-	-	85,644.9	12,592.8
September	1,541.2	228.7	56,573.5	8,398.4	-	-	58,114.7	8,627.1
Q3	8,715.3	1,285.4	175,215.9	25,835.1	0	0	183,931.2	27,120.6
October	-	-	54,494.4	8,052.2	-	-	54,494.4	8,052.2
November	11,822.7	1,740.0	93,509.6	13,736.2	-	-	105,332.3	15,476.2
December	56,504.3	8,206.8	150,068.4	21,806.9	-	-	206,572.8	30,013.7
Q4	68,327.0	9,946.8	298,072.5	43,595.4	0	0	366,399.5	53,542.1
TOTAL 2003	96,350.9	14,138.9	778,660.1	115,943.1	150,161.5	22,612.8	1,025,172.5	152,694.8
Structure	9.4%		76.0%		14.6%		100.0%	
Reference, year 2002:								
TOTAL	33,287.0	5,091.5	370,324.7	56,988.5	199,979.0	31,148.7	603,590.7	93,228.6
Structure	5.5%		61.4%		33.1%		100.0%	
Trend 2003 to 2002:								
in money	+63,063.9	+9,047.4	+408,335.4	+58,954.7	-49,817.5	-8,535.9	+421,581.8	+59,466.2
percentage	+189.5%	+177.7%	+110.3%	+103.5%	-24.9%	-27.4%	+69.8%	+63.8%

tion does not prohibit purchasing shares and bonds at their primary placement at the expense of pension assets outside the KASE. The data of the same table confirms that the share of bonds placed in the open market in 2003 was quite high and in the previous two years the issuers' liabilities were underwritten.

In 2003 the most active participant of NGS primary market at KASE judging by the volume of the securities purchased at auctions was Fondovy service JSC. Its share is 15.9% of the purchased shares and bonds cost. The second best is OCIMPA Zhetysu JSC (13.9%), the third is RG Securities LLP (12.5%).

Secondary market

In 2003 this segment of the stock market was represented by the purchase-and-sale of shares and corporate bonds sector within the secondary circulation framework, as well as being represented by the sale of the State Owned Shares sector. As Tab. 17 shows, the market shares controlled by these sectors changed significantly though not fundamentally in comparison with 2002.

As before, NGS were traded at KASE on all working days between 11:30 and 17:00 ALT, in one single session. Sales of SS were performed by authorized brokers-dealers in the same time period, using KASE principal trading method (open trade method) that had been slightly modified with regard to the sales terms for any one specific block of shares. Essentially these particulars referred to settlements, paying guarantee fees, and the procedure for submitting an application. Changes to KASE regulatory structure that regulates this stock market sector were not significant in 2003 and did not influence much the business environment.

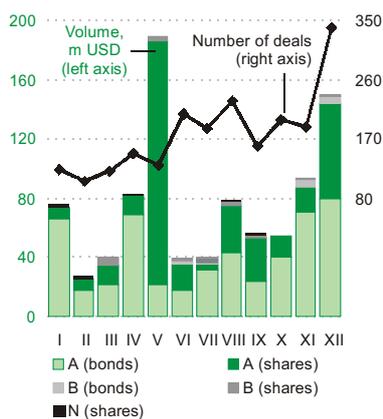
Classification of the volume of NGS purchase and sale deals according to the months in 2003 was extremely uneven (Fig. 11) and depended on different factors. Most of the activities had place in the following months:

- ✦ January (as a result of redistributing funds after the sale of Kazakhmys Corporation OJSC SS, reversal of the global price tendency in the internal exchange market to the advantage of tenge, number of big deals with the international bonds of the first issue of KazTransOil CJSC and the first issue of TuranAlem Finance B.V.)
- ✦ April (thanks to the good placement of the international bonds of Kazkomerts International B.V. in the world market and restructuring of the investors' portfolios in accordance with these securities)
- ✦ May (thanks to the sale of SS of CNPC-Aktobemunaigas OJSC only)
- ✦ June (by the number of deals due to the implementation of the market evaluation of APF portfolios securities)
- ✦ August (thanks to only two big direct deals with the shares of Kazakhmyz Corporation OJSC)
- ✦ November and December (as a result of the traditional growth of volume of deals in the end of the year and appearance of the big volume of new corporate bonds in the market)

Tab. 18. Stakes of participation of main categories of investors in CS purchase at KASE at primary floatations in 2003

Security code	Sum of deals, m KZT	Stake of primary market of KASE, %	% of bond issue volume	Stake of participation, % of purchasing volume			
				STB	Brokers-dealers	Clients of brokers-dealers	OCIMPA out of proceeds of PA
EUBNb1	721.8	5.1	50.1	–	0.2	–	99.8
HSBkb3	951.6	6.7	21.1	31.6	–	40.0	28.4
HSBKp7	319.6	2.3	X	–	–	–	100.0
INCAb1	4,627.7	32.7	100.0	10.7	–	0.5	88.9
KZAPb1	201.6	1.4	8.7	50.0	–	–	50.0
KZIKb2	501.8	3.5	16.7	100.0	–	–	–
KZIKb3	2,767.7	19.6	55.3	46.5	–	15.1	38.3
KZPSb1	1,380.7	9.8	99.6	–	3.8	22.4	73.8
KZTCb1	1,019.9	7.2	35.7	4.7	–	13.5	81.8
LARlb1	40.0	0.3	25.0	–	–	100.0	–
NRBNb2	783.7	5.5	19.4	19.3	0.4	–	80.3
TEBNb3	13.2	0.1	0.6	–	73.5	–	26.5
VTBNp	809.7	5.7	X	–	–	100.0	–
Total	14,138.9	100.0		20.4	0.5	15.0	64.2

Fig. 11. Market activity and structure of CS turnover in the purchase-and-sale sector in 2003 including SBS



The least active month of the year was February when the professional participants of the market could not believe into the global tendency reversal in the internal U.S. dollar market and developed the wait-and-see attitude which later on turned out to be destructive for APF pension assets profitability.

The structure of NGS secondary market turnover if compared to 2002 has significantly changed (Fig. 12). The most notable is the decrease of the turnover of shares of "A" category official KASE listing. This happened because two SS of Kazakhmys Corporation²³ were sold at KASE (December 27) in 2002. As the shares of this company were included into the official "A" category KASE listing, the closed deals had significantly increased the share of this category stock turnover within general NGS stock turnover in 2002. In the reporting period there were no big sales of the state property and respectively the stock share traded within "A" category listings reduced.

The second particularity of the year is the growth of stock turnover share in "Non-listed securities" sector from 0.8% in 2002 to 17.1% in the reporting year. Mainly the common shares related deals were closed:

- ✦ Almaty Kus OJSC shares of the second issue, placed privately (3 deals for the amount of \$2,691 m U.S. dollars which is 31.2% of the total volume of deals with the non-listed shares on KASE in 2003)
- ✦ Voskhod OJSC (1 deal for the amount of \$2.042 m U.S. dollars, 23.7% of turnover)
- ✦ Rakhat OJSC (7 deals for the amount of \$1.945 m U.S. dollars, 22.6% of turnover)
- ✦ Kaztorgtekhnik OJSC (14 deals for the amount of \$1.716 m U.S. dollars, 22.6% of turnover)

The nature of these deals and the reasons that made the brokers-dealers carry out such active operations with the non-listed securities are unknown to KASE.

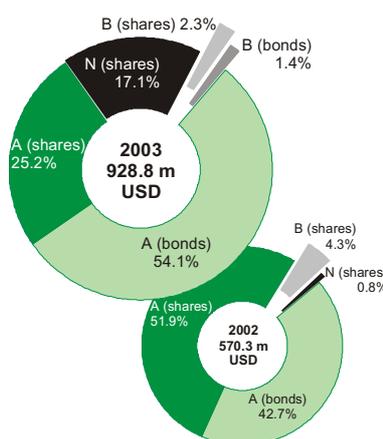
On the whole NGS stock market in 2003 maintained its orientation to the work with the instruments of the highest investment quality that particularly related to the bonds of "A" category official listing that were characterized by the highest level of liquidity.

In 2003 in NGS stock secondary market the deals were closed in total with 107 (in 2002 - 100) different instruments, including 23 (48) shares and 54 (33) bonds of "A" category of official listing, 11 (12) shares and 5 (2) bonds of "B" category of official listing, 14 (14) non-listed shares and 4 (17) SS.

In the reporting year 2,139 (1,302 in 2002) deals²⁴ with 14,315,555,724 (157,063,221) securities were registered in NGS secondary market by KASE trade system. Out of 251 (251) auctions carried out, 249 (231) were effective. The volume of the effective auctions per day varied from \$6.82 (in 2002 - \$1,750.20) or from KZT 267.8 th. to \$150.8 m U.S. dollars (\$211.6 m) or KZT 22,706.6 m (32,968.3 m) and was valued on the average per year at \$3,730.2 th. (\$2,479.6 th.) or KZT 556.4 m (383.2 m). The average value of the monthly turnover is \$77.4 m (\$47.5 m) or KZT 11.5 bn (7.3 bn). The monthly and quarterly data is presented in Tab. 17.

The negative tendency of the year was the continuous growth of the share of direct deals with NGS, closed on the Exchange (Fig. 5). According to the results of 2001, 8.8% of all deals of the sector or 26.5% of operations carried out were the direct deals, in 2002 the corresponding indicators were 12.1% or 23.7% and in 2003 - 41.1% and 39.9% accordingly. The results of the polling of traders showed that in most cases especially when related to the shares, it is more beneficial for the participants of auctions to close the direct deals as the latter meets the interests of KASE members and their clients. The attempt of KASE to reduce the share of the non-market deals by way of canceling from November 11, 2003 the privileges on the fee payment for the market-makers and NGS specialists (see above), did not change a lot. The practice showed that any administrative measures applied to the initiators of the direct deals are not effective. The Kazakhstani NGS market is not yet mature enough to objectively form the prices of the majority of the instruments traded in it.

Fig. 12. Distribution of deals' volume on secondary market by type of security and listing category (including SBS)



²³ The total amount of the net sales equaled \$199.1 million U.S. dollars.

²⁴ Only those transactions are considered on which all the estimations are made. As opposed to the report of 2002 the data is given with the SS consideration.

Tab. 19. Characteristics of the ten most traded shares in purchase-and-sale sector of KASE in 2003

Code	Brief name of the issuer	Type	Admission	Deals volume, th. USD	Number of deals	Prices, KZT per share			Change of price, % APR	Stake of share market, %
						min	max	last		
KZMS	Corporation Kazakhmys JSC	C	A	87,248.0	96	1,970.00	12,717.98	4,200.00	-58.0	33.1
CCBN	Bank CenterCredit OJSC	C	A	65,877.4	161	170.00	238.53	200.00	-0.4	25.0
VTBN	VALUT-TRANZIT BANK OJSC	C	A	20,004.9	122	200.00	479.00	350.00	0	7.6
VTBNp	VALUT-TRANZIT BANK OJSC	P	A	19,824.4	106	237.72	460.00	450.00	+12.4	7.5
TEBN	Temirbank JSC	C	A	15,381.7	191	600.00	2,000.00	1,015.00	+1.5	5.8
ALKS	Almaty Kus OJSC	C	A	10,777.7	73	10.00	15.00	14.80	-42.8	4.1
ZERD	Zerde OJSC	C	B	7,984.7	81	1.00	3,000.00	2.00	-	3.0
CHFM	Chimfarm JSC"	C	B	5,681.4	6	12.70	820.00	820.00	+806.1	2.2
BTAS	Bank TuranAlem JSC	C	A	4,886.1	13	14,152.50	20,432.25	14,548.00	+3.4	1.9
CSBN	BANK CASPIAN JSC	C	A	3,514.0	20	170.00	697.00	171.00	+22.1	1.3
TOTAL				241,180.1	869					91.6

C – common shares, P – privileged shares; price change has been calculated in tenge equivalent; "-" - authentic price as of the beginning of the period is absent; price changes registered on direct deals only are colored

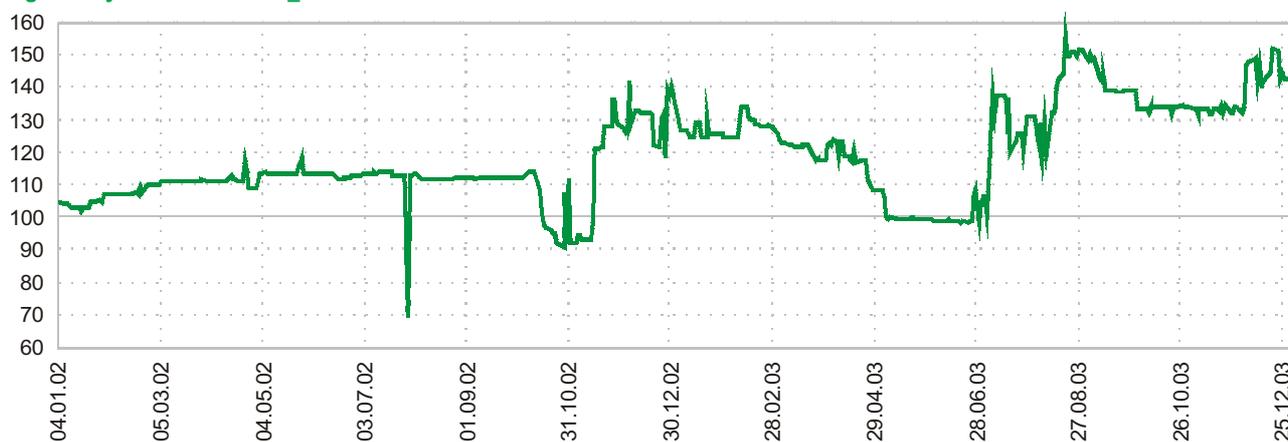
The total of those who participated in closing NGS purchase and sale deals at KASE in the reporting year was 36 (31)²⁵ "P" and "H" categories members of the Exchange: 18 (17) broker-dealer companies, 13 (11) second-tier banks, 4 (3) pension market subjects and Kazakhstan Development Bank CJSC. The share of banks and their clients was 13.8% (12.4%) of the sector gross turnover, broker-dealer companies and their clients - 80.8% (76.3%), OCIMPA - 5.4% (11.3%). The most active trader was controlling 22.5% (30.8%) of the total volume of deals, two - 34.1% (39.2%), three - 44.3% (46.8%), five - 62.0% (59.7%). TuranAlemSecurities JSC is acknowledged as the most active participant of the sector in 2003, the second best is KIB ASSET MANAGEMENT Ltd JSC (11.6% of the gross turnover), the third is RG Securities LLP (10.2%).

Shares purchase-and-sale sector

The amount of transactions in shares grew by \$137.7 m (in 2.10 times) or by 19.8 bn tenge (in 2.03 times) up to \$263.2 m (39,1 bn tenge) for the year 2003. The number of transactions increased from 578 to 1,053. Besides, the number of denominations of shares involved in transactions had reduced from 48 to 46 as opposed to the year 2002. There have been no qualitative changes within the sector. In analogy with previous period, the developing share prices did not reflect issuers' financial condition, their successes or failures and in the best case scenario reacted to the change in the book value of a share that occurred due to increasing authorized capital. Indeed, dynamics of prices was overwhelmingly formed for the account of interest of shareholders that used shares as a collateral instrument or an object of mutual settlement.

The equities of Kazakhmys Corporation OJSC, mostly actively traded on the exchange floor were assumingly the only exception in 2003. The behavior of their quotes and (and, as a result, the behavior of their prices) in the majority of the cases greatly affected KASE Shares dynamics (Fig. 13) that like it was back in 2002 year was calculated not based on the prices of transactions, but based on the best quotations of demand with the market capitalizations of share issuers taken into account. Significant drop in KZMS course in mid 2003 was caused by

Fig. 13. Dynamics of KASE_Shares index in 2002 and 2003



²⁵ The corresponding indicator of the year 2002 is given in brackets.

Fig. 14. Structure of financial instruments of the bond's official listing of KASE as of January 01, 2004

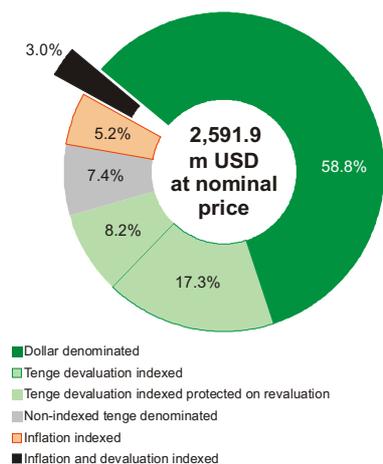


Fig. 15. Dynamics of the "net" (KASE_BC) and the "gross" (KASE_BP) prices of bonds in 2003 (in % of nominal value)

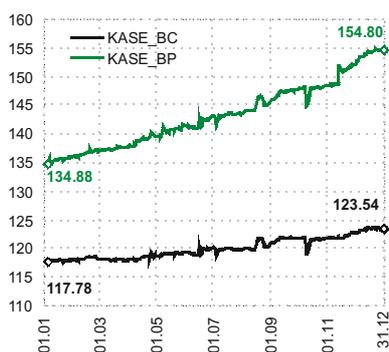
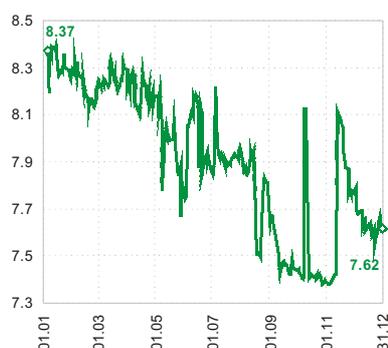


Fig. 16. Dynamics of corporate bonds yield index KASE_BY in 2003 (% APR)



the increase of the stated authorized capital of the company from 2,946.9 to 14,734.5 m tenge under invariable quantity of the shares in circulation.

The table of favorites of the share market (Tab. 19) lists the annual changes of prices for the instruments mostly traded in this sector. The listed data demonstrates that the alterations had borne a differently directed character and in the number of cases had reached very high values due to non-market nature of transactions that were carried out at the Exchange.

Bonds purchase-and-sale sector

This sector traditionally looked more vibrant and more marketable. Relative to the previous year, the number of transactions in 2003 has grown in this sector by 1.5 times up to up to 1,082.

The volume of operations had increased by \$270.6 bn (in 2.11 times) or by 39.2 bn tenge (in 2.04 times) up to \$515.4 m or 76.9 bn tenge. The number of denominations of the bonds involved in transacting achieved the number of 57, while in 2002 this indicator did not exceed 35.

The main trend of the reporting year was fortification of tenge versus US dollar and it produced a decisive impact on the corporate bond market. Taking into account that the prevailing mass of debts being traded at KASE was presented by dollar-denominated securities or securities denominated in tenge indexed according to the level of devaluation (Fig. 14), this tendency placed investors in stiff conditions. Steady growth of the price of the corporate debt circulated in the market in percentage terms to the par value (Fig. 15) due to relative deficiency of investment objects almost did not compensate for the losses incurred though a drop in the dollar rate of exchange. As a result, the factual increase of the gross price in tenge of an average currency bond during the year just totaled 5.5% (19.5% in 2002), judging by the behavior of the KASE_BP index. If we should add a need for regular fixation of profits by way of selling the bonds at a price in excess of a sales price, as well as the transition of Kazakhstani accumulation pension funds in 2003 to the market valuation of securities in their portfolios, it gets clear that it was difficult to sell even these 5.5% in the market. For this reason, the factual change in the gross price indicated in Tab. 20 was often negative even with regard to securities mostly traded at KASE. Debt instruments indexed according to the inflation, as well as non-indexed tenge-nominated securities that recently emerged in the market enabled to achieve better results.

Notwithstanding the difficulties, investors experienced in 2003 in their dealing with corporate bonds, the sector was far from a crisis condition. Debt securities with guaranteed income were in high demand. This enabled their issuers to be bearish under initial offer and resulted in gradual drop in the yield for their purchaser and the growth of prices in secondary market. (Fig. 16²⁶).

State block of shares trade sector

During the year 2003 the Ministry of Finance sold at KASE through its authorized broker-dealer in the person of KIB ASSET MANAGEMENT Ltd. LLP only one state block of shares of SNPS-Aktobemunaigaz OJSC. This block of shares consisted of 2,484,653 common shares of the company (25,12% of total issued shares under the issuer's authorized capital amounting to 14,835,637,500 tenge).

For the purpose of sale the block of shares was divided in the following lots:

- ⊕ Blocking minority ownership consisting of 2,236,619 common registered stock (22.61% of total issued shares of SNPS-Aktobemunaigaz OJSC or 25.5% of total common shares + one share, the trading code NZ_AMGZ_22.61), was offered for sale as one indivisible lot on May 28, 2003
- ⊕ A block consisting of 98 904 common registered stock (1.00% of total quantity of issued stock or 1.11% of the total number of common shares, the trading code is NZ_AMGZ_1/1), was offered for sale as one indivisible lot only upon conclusion of a transaction in NZ_AMGZ_22.61 State block of shares
- ⊕ A block of shares consisting of 98,904 common registered stock (1.00% of total shares issued or 1.11% of total common shares, with the trading code

²⁶ The local "disturbances" of KASE_BY index reflected on the graph are caused in general by the particularities of this index calculation under the conditions of the non-liquid market.

Tab. 20. Characteristics of the ten most traded bonds in purchase-and-sale sector of KASE in 2003

Code	Brief name of the issuer	Type	Deals volume, th. USD	Number of deals	Yield to maturity for purchaser, % APR			Change of gross price, % APR	Stake of bond market, %
					min	max	% APR		
BTASb3	Bank TuranAlem JSC	B	43,371.1	20	7.41	8.01	7.41	+39.6	8.4
KZTOe1	KazTransOil CJSC	E	38,388.9	58	7.51	7.51	5.50	-8.3	7.4
BTASe2	TuranAlem Finance B.V.	E	36,044.8	18	6.78	8.30	6.78	-4.6	7.0
ASFb2	Astana-finance OJSC	B	31,727.5	97	6.87	11.50	9.50	+3.7	6.2
KKGBe3	Kazkommerts International B.V.	B	26,328.6	29	5.90	8.13	5.90	-2.6	5.1
KZIKb2	Kazakhstan Mortgage Company CJSC	B	26,248.0	38	4.99	7.70	6.75	+24.1	5.1
BTASe1	TuranAlem Finance B.V.	E	23,683.5	24	3.58	7.74	4.41	-14.3	4.6
BRKZb1	Development Bank of Kazakhstan JSC	B	23,591.7	34	6.00	9.00	7.00	-5.7	4.6
VTBNb1	VALUT-TRANZIT BANK OJSC	B	23,173.2	53	7.91	11.50	9.64	-8.0	4.5
KKGBb2	Kazkommertsbank JSC	B	19,211.4	26	7.46	9.00	7.50	+1.4	3.7
TOTAL			291,768.7	397					56.6

B – domestic bonds, **E** – international bonds; yield to maturity is shown as % per annum on semi-annual basis; change of "dirty" price – in tenge at the current rates; change of prices of bonds traded for not full year is marked with clarendon; dollar bonds or indexed on tenge devaluation level – with colour; all securities – official list of KASE of "A" category.

NZ_AMGZ_1/2) was offered for sale as one indivisible lot only upon conclusion of a transaction in NZ_AMGZ_22.61 State Block of Shares.

- ⊕ A state block of shares consisting of 50,226 common registered stock (0.51% of total shares issued or 0.56% of total common shares, attached with the trading code NZ_AMGZ_0.51) was offered for sale as one indivisible lot only upon the conclusion of a transaction in the State Block of Shares NZ_AMGZ_22.61.

The trades that were held on May 28, 2003 were not very productive and only on May 29th, 2003 all four lots were sold. The Blocking minority ownership NZ_AMGZ_22.61 was purchased at 20,353,232,900.00 tenge or \$135,156,603.36 according to the current rate of exchange of tenge to dollar that was fixed at KASE during the morning session (150.59 tenge for a dollar). This corresponds to the price of 9,100.00 tenge per share (\$60.43). Three other blocks of shares were purchased at 9,110.00 tenge per share (\$60.50). The amount of transactions in selling of the entire State Block of Shares of SNPS-Aktobemunaigas OJSC on 29 May, 2003 totaled at KASE 22,612,822,640.00 tenge or a dollar equivalent of \$150,161,515.64 according to the then valid stock exchange quotation. Judging by the bids submitted, the trades were participated by three members of KASE, including the authorized seller indicated above and two purchasers. The day before, four members of KASE entered the guarantee deposits for buyers.

GOVERNMENTAL SECURITIES MARKET

Fig. 17. Dynamics of Kazakhstan's debt issued in the form of GS for last 9 years

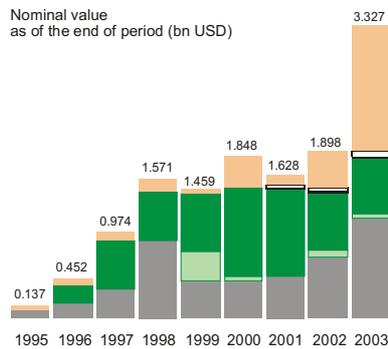
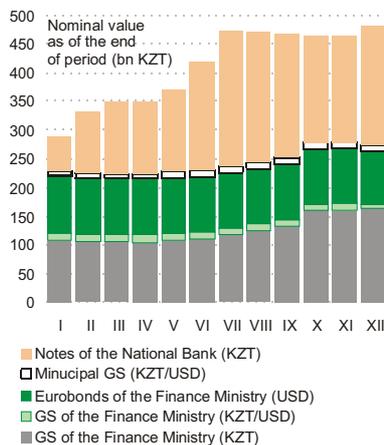


Fig. 18. Dynamics of capitalization and instrumental composition of the GS market in 2003



The reporting year in the Kazakhstani GS market significantly distinguished from the previous three years. As it was back in 2002, the state budget's needs for raised funds were low. Business climate in the world markets of raw materials was favorable for Kazakhstan and provided for required revenues for the treasury.

However, the Government and the National Bank in 2003 were faced with another problem that was excessive tenge liquidity in the financial market. During the reporting period the republic was confronted particularly acutely with this problem that had existed in 2002. The arrival of large volumes of foreign currencies in the domestic market led to the necessity of its buying-up by the National Bank of the Republic of Kazakhstan to maintain a balanced real rate of exchange of tenge versus the currencies of the countries - the Kazakhstan's major trading counterparts, as well as the exchange rate versus the US dollar. The real sector of economy could not effectively absorb the tenge that were placed in circulation in such manner.

Under the existing situation the National Bank was compelled to abruptly expand its issuing activities to reduce inflation risks and provide national institutional investors with the objects of discretionary money investments. The volume of NBK's issued notes had been growing from January till July in arithmetic progression (Fig. 18). At inception of August, 2003 a unique situation had developed in Kazakhstan when the half of the state debt that was issued in the form of GS was presented by the outstanding NBK notes.

The actions of the National Bank were also accounted for the fact that beginning from December 2002 the Ministry of Finance had not been placing in circulation any new bonds at all and only had been repaying securities that were issued by it earlier. The Ministry of Finance joined the process of sterilizing of the market of discretionary tenge only in late April 2003. This was preceded with the series of addresses by Mr. Zeinulla Kakimzhanov, the Minister of Finance who believed that it would have been reasonable to preserve the budget deficiency in 2003 at the time of its revision. The latter thing enabled the Ministry of Finance to enter the securities market and to support the investors. Besides, issuing new MEKAM would have greatly supported NBK in terms of monetary regulation and would have promoted to inflation reduction.

The Ministry of Finance's entry to the stock market with the new borrowing volumes enabled the National Bank to stabilize the volume of its debt in the third quarter 2003 and even decrease this debt in the fourth quarter (Fig. 18). It is notable that the MEAKAM early repayment undertaken by the Ministry of Finance at the end of the year to implement the expenditure budget and to restructure debt was preceded with a series of new MEOKAM issues being adequate in their size to MEAKAM early repayment volume. Doing so, the Ministry of Finance vividly demonstrated the interest in any further development of the stock market of Kazakhstan and its support and the credit and monetary policy pursued by the National Bank.

The events that had taken place in 2003 witnessed to the fact that the significant growth of Kazakhstani sovereign debt issued in the form of GS in the reporting period was conditioned not by the requirements of the republican budget, but by the need for immobilization of redundant tenge liquidity in the market and for backing of domestic institutional investors.

The GS Kazakhstani market's capitalization calculated as aggregate par value of bonds in circulation, including national GS, municipal bonds and international securities of the Republic of Kazakhstan, in tenge terms has grown by 62.4% or the dollar equivalent of 184.4 bn at the current exchange rates - by 75.3% or \$1,428.4 m. While over the year tenge became stronger versus dollar in nominal terms by 8.03%, growth of the dollar equivalent debt looks very impressive (Fig. 17). As it is seen from the chart, the debt primarily rose owing to NBK notes.

The Ministry of Finance's debt structure in 2003 did not undergo any principal changes (Tab. 21). The Government followed the scheduled strategy of abandonment of external borrowings and utilized potential of the internal market in which one could borrow at lesser rates for a long period of time. Therefore the debt structure changed in the direction of decrease of the share of Eurobonds

Tab. 21. Dynamics of debt structure of MF (bn KZT, unless otherwise specified)

Type of GS	As of Jan 01, 03		As of Jan 01, 04		sum	Trend %
	sum	stake, %	sum	stake, %		
MEKKAM	2.643	1.2	5.481	2.1	+2.838	+107.4
MAOKO*	12.489	5.6	7.070	2.7	-5.419	-43.4
MEOKAM	68.827	31.0	151.744	57.6	+82.917	+120.5
MEIKAM**	7.863	3.5	5.631	2.1	-2.232	-28.4
MEAKAM	29.255	13.2	0	0	-29.255	-100.0
Total internal debt	121.077	54.5	169.926	64.4	+48.849	+40.3
weighted-average term, days	982		1,139		+158	+16.1
Eurobonds (external debt)	101.140	45.5	93.743	35.6	-7.397	-7.3
TOTAL	222.217	100.0	263.669	100.0	+41.452	+18.7

* debt indexed on devaluation of KZT to USD

** debt indexed on inflation

in its volume under concurrent increase of the MEOKAM. At the time, the weighted average term of the internal debt had noticeably grown because the Ministry of Finance in the second half of the year practiced the placement of bonds with the longest duration in the bond issuance entire history.

PRIMARY MARKET

The GS marketing methodology in 2003 did not suffer any changes. As it was earlier, initial offer of the Ministry of Finance' and the National Bank's securities took place in indirect auctions carried out by the National Bank with the mediation of primary dealers of the Ministry of Finance and NBK's primary agents. The initial offer of municipal bonds took place via KASE. As it was earlier, the securities of local executive bodies underwent the procedure for admittance to trades on the Exchange that was largely similar to the NGS listing procedure.

It is worth mentioning of the changes in this market segment's regulatory framework in 2003.

The changes and additions to the Rules of Issuance, Placement, Circulation and Repayment of short-term notes of the National Bank of the Republic of Kazakhstan, approved by NBK Board Resolution #109, dated April 10, 2003, were enacted as of May 31, 2003. According to these changes and additions, the restriction of the maximum NBK notes circulation term (91) was lifted. As a result, the National Bank got an opportunity to manage its debt more effectively and promptly respond to any changes in the market environment, as well as to significantly expand the volume of the borrowings for the account of "longer" securities issues. Taking into account the above changes in the structure of state debt issued in the form of GS, enactment of these changes provided the strongest influence on the conditions of the market in 2003.

The new Rules of Engaging in Pension Asset Investment Management Activities were put into force in Kazakhstan on September 25, 2003. These Rules were approved by NBK Board Resolution #264, dated July 29, 2003. The Rules practically did not change the PA limits of investing in financial instruments. They however contained some principal innovations that produced an indirect influence on Kazakhstani GS market's environment. On the one hand, SAPF was equaled from the standpoint of its investment opportunities to another Organizations Engaging in the Investment Management of Pension Assets (OEIMPA) and obtained the possibility of acquisition of non-governmental securities. This potentially worked in the direction of decline of demand for GS of the Ministry of Finance and the National Bank on behalf of the largest pension fund in Kazakhstan, but however produced minimum influence on the market. On the other hand, the said resolution instructed the OEIMPA to sell bonds present in their investment portfolios and issued by SPV within the term of six months. Whereas, such bonds enjoyed great demand of Accumulation Pension Funds, the ban on their acquisition for the account of PA and the requirement to sell already purchased bonds via SPV resulted in the growth of demand for domestic GS of the Ministry of Finance and NBK in 2003.

MEAKAM early repayment undertaken by the Ministry of Finance to restructure debt and implement the expenditure budget should be mentioned among the most noticeable events in 2003 in this segment of the market. In the reporting period MEAKAM were repaid three times: on October 31 - 5,000,000 bonds and on November 28 - 10,000,000 bonds contained in the NBK portfolio were sold at a par value, and 14,254,758 securities were redeemed by the Ministry of Fi-

nance from other investors on December 25 at the then current market price determined at the level of 113.4903% of the par value. Up to 2003 MEAKAM were early repaid once - on December 25, 2002 (5,186,367 bonds from the NBK portfolio at a par value). Repayment of MEAKAM being in the NBK's ownership did not have any effect on the market. However, an attempt of the Ministry of Finance to redeem MEAKAM balance that was owned by other investors, at a par value on December 23, 2003 caused a strong objection of the stock market professional participants. The Government was forced to acknowledge the justice of their requirements that were state in their collective address and to redeem MEAKAM on December 25 at the current market price. As a result of the said early repayments, by the end of 2003 MEAKAM were withdrawn out of circulation. Within the context of this report the described events deserves attention owing to a rapid increase (almost one level higher) in MEAKAM turnover in the secondary market during the second decade of December, since the repayment of these bonds was easily prognosticated based on the budget situation, and the rules of MEAKAM issue, trading and repayment provided for a procedure for early repayment only at the face value.

The main parameters of primary market of GS of the Ministry of Finance and the National Bank²⁷ in 2003 are listed in Tab. 22. From this table it is seen that the issuing activity of GS issuers has rapidly expanded under the influence of the factors described above. This was achieved by way of increasing of the volumes of each issue, since the number of issues in 2003 went down by 14%, and their volume grew by 166%. This, in its own turn, became possible owing to the growth of demand for GS. During separate placements of its notes, the National Bank raised over 20 bn tenge. The average volume of one placed issue of notes in 2003 reached 5,014.1 m tenge, MEOKAM (the main borrowing instrument of the Ministry of Finance) - 3,027.5 m tenge. For the year 2002, the corresponding indicators were 1,585.3 m and 1,258.3 m tenge. The data provided illustrates the volume of demand that formed the business climate of the primary market, even irregardless of the fact that the real yield of securities that were sold at auctions was negative in the reporting period compared to current inflation rates²⁸.

The Ministry of Finance had completed its work during the reporting year in GS primary market (including Eurobonds) with a positive net-borrowing balance in the amount of 25,965.3 m tenge. Besides, 105,113.4 m tenge were actually allocated to the budget and 79,148.1 m tenge were withdrawn from it for the purposes of GS repayment and the payment of interest on them²⁹. In 2002 the balance was negative in the amount of 41,751.6 m tenge under the volume of budget revenue in the amount of 51,766.5 m tenge and the withdrawal volume in the amount of 93,518.0 m tenge³⁰. The tendency of extension of the debt issued for the account of the issue of MEOKAM with longer maturities that was characteristic of 2002 had more significant development in the reporting period. Having renounced from issuing of MEIKAM indexed to inflation, the Ministry of Finance had successfully tested demand for MEOKAM with a maturity of 6 up to 10 years. Earlier, these attempts aimed at the placement of such securities in the Kazakhstani market were without any success.

The National Bank completed its work in GS primary market in 2003 with a positive net borrowing balance in the amount of 127,245.4 m tenge. Besides, the volume of issues relative to amounts raised reached 61,325.7 m tenge and the volume of note repayment reached 485,780.3 m tenge. Corresponding figures of 2002 - 45,952.1, 208,267.0 and 162,314.9 m tenge. The weighted average term of circulation of issued notes has grown from 78 days in 2002 up to 155 days in 2003.

As it is from Tab. 22, the systematic domination of demand for GS over their supply in primary market resulted in the further decrease of the yield of issued bonds. Besides, as it was back in 2002, the market participants could not influence their issuers by the parameters of their demand for the purpose of bull transactions. If these parameters did not coincide with expectations of MF and

²⁷ A separate section in the report is devoted to the municipal bonds.

²⁸ According to the data of the Republic of Kazakhstan Agency on Statistics, the rate of inflation in 2003 was 6.8%.

²⁹ Here and further according to the corresponding indicators of the amount of balance - IRBIS evaluation which is made in relation to the foreign exchange bonds in accordance with the official rate of tenge to the U.S. dollar, effective for the date of the payments.

³⁰ The corresponding data published in the KASE report 2002 is corrected for the amount of the MEAKAM advanced repayment.

Tab. 22. Major parameters of the primary GS market in 2002 – 2003

Type of GS	2002				2003			
	number of issues	volume of issues		yield, % APR	number of issues	volume of issues		yield, % APR
		bn KZT	% of grand total			bn KZT	% of grand total	
MEKKAM-03	3	0.317	0.1	5.20	1	1.930	0.3	5.86
MEKKAM-06	4	1.041	0.4	5.52	2	6.460	0.9	5.82
MEKKAM-09	2	0.623	0.2	6.18	–	–	–	–
MEKKAM-12	4	2.020	0.7	6.78	–	–	–	–
MEKKAM	13	4.002	1.5		3	8.390	1.1	
MEOKAM-24	8	12.590	4.6	8.19	5	10.100	1.4	5.80
MEOKAM-36	13	19.434	7.1	7.40	6	22.500	3.1	6.10
MEOKAM-48	9	7.857	2.9	8.00	–	–	–	–
MEOKAM-60	4	2.902	1.1	8.20	10	39.250	5.4	6.09
MEOKAM-72	–	–	–	–	2	9.780	1.3	6.10
MEOKAM-84	–	–	–	–	3	10.810	1.5	6.10
MEOKAM-96	–	–	–	–	1	0.560	0.1	6.20
MEOKAM-108	–	–	–	–	2	0.740	0.1	6.30
MEOKAM-120	–	–	–	–	3	3.140	0.4	6.40
MEOKAM	34	42.783	15.5		32	96.880	13.2	
MEIKAM-18	1	1.972	0.7	3.90	–	–	–	–
MEIKAM-24	2	2.524	–	3.85	–	–	–	–
MEIKAM-36	1	0.643	0.2	4.00	–	–	–	–
MEIKAM	4	5.139	1.9					
MAOKO-12	1	4.861	1.8	6.78	–	–	–	–
MAOKO-24	1	2.487	0.9	8.19	–	–	–	–
MAOKO-36	1	5.141	1.9	7.40	–	–	–	–
MAOKO	3	12.489	4.5					
Total MF	54	64.413	23.4		35	105.270	14.4	
Notes of NBK	133	210.841	76.6	5.87	125	626.758	85.6	5.07
Total NBK	133	210.841	76.6		125	626.758	85.6	
GRAND TOTAL	187	275.255	100.0		160	732.028	100.0	

Weighted-average yield at the last in the period auction is shown: on notes - effective, on MEKKAM - nominal, on coupon bonds – nominal (on semi-annual basis), on MEIKAM – on fixed rate disregarding inflation.

NBK, the issuers renounced from placement or reached a desirable yield through stiff cutoff. In other words, GS primary market in 2003 continued to resemble a peculiar "deposit shop", in which market professional participants applied for money placement at the yield that has been preliminarily known. Nevertheless, the level of the bonds yield that has shaped in primary market in many aspects predetermined prices in secondary market and served as a benchmark for them. If for a number of reasons GS yield by the day of their maturity for a buyer in secondary market became less than it was in auctions, demand in primary market would grow and demand in the secondary market would fall.

SECONDARY MARKET

In the reporting period the turnover of Kazakhstani market of purchase and sale of GS issued by the Ministry of Finance and the National Bank continued to grow at high rates. It was achieved mainly due to the growth of the assets of main institutional investors of the republic. The volume of exchange and over-the-counter operations in GS purchase-and-sale operations according to the data of Central Depository and KASE in 2003 reached 700,7 bn tenge and grew re-lative to 2002 by 186.9 bn tenge or 36.4%³¹. GS market's capitalization grew over the year by approximately the same number (184.7 bn tenge) or 36.4%. However, comparing charts on Figs. 18 and 19 does not allow to consider the capitalization growth as the main reason for the increase of the secondary market turnover. September and December are distinguished among the months of the year for the volume of their operations (Fig. 19). It is exactly these months that provided for main turnover increment in 2003. In this case and in the others, the overwhelming volume of transactions was carried out in MEAKAM. Activating the trade in these securities in December (and partially in November) was caused through MF's plans to repay these bonds before maturity. However, the reasons for animation of MEAKAM over-the-counter market in September re-main to be mystery for all KASE analysts. The results of the completed analysis let us to assume that the market was affected by the local factors related to behavior and interests of one or two major banks. At the same time, one can not deny the

³¹ The growth of the market turnover in 2002 as to 2001 was valued at KZT 174,4 bn or 51.4%.

Fig. 19. Volume of GS purchase-sale deals, primary market and stake of the stock market turnover in 2003

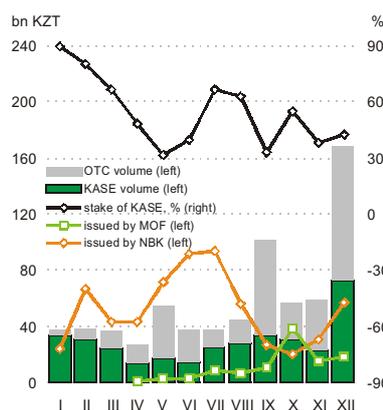
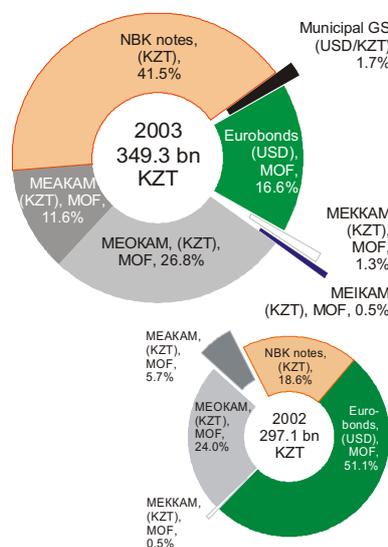


Fig. 20. Structure of GS turnover in the purchase-and-sale sector



Tab. 23. Volume of trades in GS at KASE in purchase-and-sale sector and stake of the stock market

	Num- ber of deals	Volume, m USD	Volume, bn KZT	Stake of KASE, %
I	228	218.5	33.929	90.1
II	302	200.9	30.797	80.4
III	289	160.8	24.353	66.6
Q1	819	580.2	89.079	79.2
IV	268	87.8	13.344	49.0
V	259	114.5	17.266	31.8
VI	235	100.0	14.879	39.9
Q2	762	302.2	45.489	38.3
VII	316	174.0	25.556	67.0
VIII	296	192.7	28.302	63.4
IX	278	231.8	34.332	33.7
Q3	890	598.6	88.190	47.8
X	271	211.8	31.362	55.3
XI	226	155.7	22.849	38.4
XII	322	498.2	72.318	42.9
Q4	819	865.7	126.529	44.4
TOTAL				
2003	3,290	2,346.7	349.288	49.8
Reference:				
TOTAL				
2002	3,564	1,929.7	297.076	57.8
Trend:	-274	+417.0	+52.2	-8.0
%	-7.7	+21.6	+17.6	

influence of the change in the volume of debt in circulation. The growth of the issuing activities of the Ministry of Finance in September-October 2003 caused noticeable restructuring of the portfolios of institutional investors of Kazakhstan and promoted to the increase of GS Exchange circulation.

As it is seen from the chart (Fig. 19), during 2003 a gradual drop of the share of the Exchange in Kazakhstani GS purchase-and-sale market was being observed. This tendency has been traced during the last three years (in 2003 the share of exchange operations amounted to 49.8%, in 2002 - 57.8%, in 2001 - 64.8%) irrespective of the fact that KASE does not charge any commission to GS trades participants.

Reduction of the Exchange share in this sector of the market is mainly accounted for more active involvement of governmental bonds in the banks' financial schemes since GS operations are not taxable. As a rule, transactions like these are conducted over-the-counter. Besides, as it has been stated above, the market was considerably influenced by MEAKAM early repayment in 2003. The majority of transactions with them have been concluded in the over-the-counter market. One should also take into account that the list of Primary Dealers of the Ministry of Finance and Primary Agents of NBK is presented by banks overwhelmingly. It is exactly them who purchase bonds in the primary market upon preferential conditions, and then resell them to other investors, including over-the-counter sales.

Exchange Secondary Market

The reporting year has confirmed that this sector of market has been complete in terms of the normative basis, infrastructure and calculation component. Therefore, there was no necessity to change anything here. Honoring the desires of the participants of the exchange market, KASE at the end of 2002 had experimented with the lot sizes when trading the most convenient minimal size. The experiment was finished on December 31, 2002. Based on their results, the size of a lot while trading GS remained practically the same: 100 thousand tenge for internal bonds (above 100,000 tenge is proportionate to 10,000 tenge or the par value of one bond) and to \$1,000 US dollars for international bonds of the Republic of Kazakhstan.

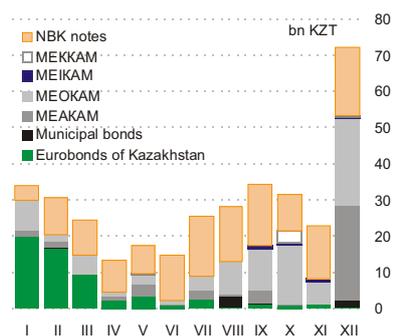
It is worth mentioning that the new internal document of the Exchange "The Rules of Admittance of Foreign Governmental Securities to Circulation". The document represents an Attachment to the Rules of Exchange Securities Trading and it was agreed upon with NBK on 29th July, 2003. According to these Rules, the admittance of foreign GS to trading at KASE will be carried out by passing a decision by its Board based on a number of documents proving the legitimacy of these securities, and upon availability of an application from KASE "P" category member for conferral on him/her of a market-maker status on securities being admitted. Irrespective of the enforcement of the said Rules, foreign GS did not emerge on KASE floor in 2003.

In all, in 2003 there were 251 sessions that were conducted at KASE with regard to GS purchase and sale. The trading took place from 11:30 until 18:00 ALT and all auctions with no exception were held with successful results. KASE trading system in this sector registered 3,290 (in 2002 - 3,564) transactions³² with 1,959,676,349 (1,444,247,693) bonds. The volume of auctions for one day had varied from 21.2 m tenge or \$143.3 th. (29.5 m tenge or \$194.0 th.) up to 13.6 bn tenge or \$87.7 m (20.4 bn tenge or \$131.2 m and amounted on average during the year to 1.4 bn tenge or \$9.3 m (1.2 bn tenge or \$7.7 m). The average value of a monthly turnover - 29.1 bn tenge or \$195.6 m (24.8 bn tenge or \$160.8 m). Consolidated information concerning turnover within the sector is shown in Tab. 23.

The instrumental structure of the sector's turnover in 2003 as opposed to that in 2002 had suffered some cardinal changes (Fig. 20). It was accounted for the action of two factors. The first factor concerns with the principal change of the debt in circulation. A significant growth of the share of NBK's notes and MEOKAM (Fig. 17) was reflected in the structure of turnover at the secondary exchange market, in which these bonds became most tradable. The action of the second factor which was the strengthening of tenge versus US dollar resulted

³² Only those transactions are considered on which all the estimations are made; the previous year data is given in brackets.

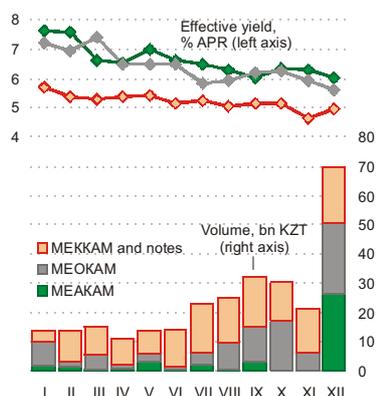
Fig. 21. Dynamics of turnover structure and volume of GS purchase-sale deals at KASE in 2003



in 2003 in the rapid narrowing of the Kazakhstani secondary market of sovereign Eurobonds, which over several previous years were the most demanded financial instruments in the market. Eurobonds could retain their leadership only in January and February 2003 (Fig. 21). Consequently, when the participants gave up their hopes for any change in the dollar exchange rate trend, the share of international securities of the Republic of Kazakhstan in the secondary market had fallen down a minimum. Selling such securities at their current prices became unprofitable.

One can not say anything interesting regarding GS yield to maturity dynamics for a buyer in the secondary market in 2003. In the event of internal securities (Fig. 22) it mainly was determined by the prices of the primary market, in which the demand commonly exceeded supply and the initiative of yield formation fully belonged to issuers. NBK and MF without any resistance on behalf of investors put into practice the program of gradual reduction of interest rates on their securities. MEAKAM that were not put to initial offers could not avoid this program either. High coupon rate of these bonds and steadily contracting volume in circulation predetermined the MEAKAM "overheating" and, as a result, the drop in their profitability in the secondary market for the buyers within the framework of the general trend.

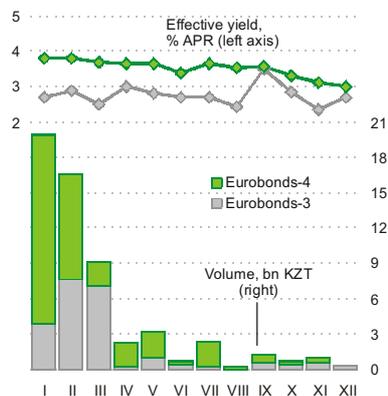
Fig. 22. Domestic GS: weighted average yield and volume of purchase-sale deals at KASE in 2003



Due to extreme narrowness of secondary market of international bonds and due to active dynamics of US dollar versus tenge rate of exchange, the volatility of prices for these securities in 2003 has grown significantly. However, it was almost unnoticeable in average monthly terms (Fig. 23). Here, the yield mainly repeated the movements of the world market of Kazakhstani Eurobonds and partially US treasuries. As one could expect, the yield of Kazakhstan's international bonds with their repayment in 2007 (XS0111078183) had a more quiet behavior by tracing down the common trend of gradual decrease of interest rates in the Kazakhstani market. The prices for euro notes XS0102764031 with their repayment in 2004 were more "jumpy", especially before the payment of an autumn coupon. Based on the year results, their profitability virtually did not change for a buyer.

The GS exchange market in 2003 was as previously mainly controlled by second tier banks³³. 62% of gross turnover (59% in 2002) fell on the share of these KASE members. Broker-dealer companies exerted considerable pressure on subjects of pension market by occupying the second place (19% of gross turnover, 6,7% - in 2002). Two OEIMPA (PAMC Zhetysu JSC, PAMC ABN AMRO Asset Management CJSC) and two APFs (APF of the Narodny Bank of Kazakhstan JSC, SAPF) - KASE members under "K" category in 2003, within the reporting period controlled just 18% of GS gross turnover (33% - in 2002). The other participants had a share of 0,8%. The changes listed should hardly be considered to be principal, because several broker-dealer companies that are lacking KASE membership execute at KASE the bids of pension market subjects. However, the possibility to invest SAPF's assets in NGS that became available in 2003 has had a corresponding influence on the behavior of this largest fund on the Exchange floor. If in the year 2002 SAPF controlled 10.6% of gross turnover of the Exchange GS purchase-and-sale sector, then in the period analyzed only 5.4%.

Fig. 23. Eurobonds of Kazakhstan: weighted average yield and volume of purchase-sale deals at KASE in 2003



In all, 38 members of the Exchange in "K" category (30 - in 2002) participated in the conclusion of transactions in GS purchase-and-sale sector at KASE in 2003. The degree of monopolization of the sector in 2003 is characterized with the following data. The share of the most active participants in auctions was 23.3% (22.0%)³⁴ of gross turnover, the share of two participants was 33.0% (38.2%), the share of three - 40.1% (50.0%), the share of five - 50.8% (66.0%).

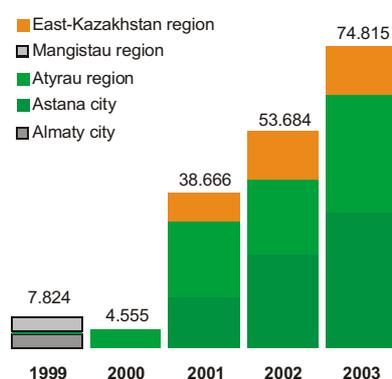
Bank TuranAlem JSC was recognized as the most active participant of GS trades in the purchase-and-sale sector (23,3% of total transactions) based on the annual results. The second place belongs to ATFBank JSC (9,7%), the third place - to RG Securities LLP (7,1%).

³³ In this case we talk about the trade participants - KASE members, not about the actual investors, whose applications were carried out by the exchange trade participants.

³⁴ The corresponding previous year indicator is given in brackets.

MUNICIPAL BOND MARKET

Fig. 24. Dynamics of capitalization and structure of Kazakhstan municipal bonds market (bn USD as of the end of period)



Tab. 24. Change of parameters of Kazakhstan market of municipal bonds (for the end of the period)

Year	WA term, years	Floatation price, % APR
1999	1.0	13.76
2000	1.0	10.99
2001	2.7	8.83
2002	3.1	8.70
2003	4.0	8.62

The Kazakhstani market of municipal bonds enjoying the status of GS continued to develop in 2003 within the framework of the trends that were demonstrating themselves during previous two years. As it was back in 2002, the volume of debt in circulation grew in the reporting period in 1.4 times (Fig. 24). The weighted average term of circulation of municipal bonds continued to increase and the borrowing value - to fall down (Tab. 24). Taking into account significant fortification of tenge versus US dollar, the latter circumstance appears to be most positive for municipal bond issuers. During the reporting period securities of two new issues underwent the procedure for admittance to the trading at KASE. This is twice as less than it was in 2002. However, the volume of the placed bonds exceeded a corresponding indicator in 2002. The repayment of earlier issued municipal bonds was carried out in strict accordance with the debt servicing chart.

The creditworthiness of Kazakhstani local executive bodies in 2003 was not left without any attention of the leading rating agencies. On February 28, Moody's Investors Service raised the long-term rating of the Akimat (city administration) of the city of Astana from "Ba3" to "Ba1", of the Atyrau region - from "Ba3" to "Ba2". The estimate of these ratings was confirmed as "stable" on November 15, 2003. The long-term credit ratings in local and foreign currencies of the local executive body of the city of Almaty that repaid its bonds issued just once in 2000 were raised by Fitch Ratings on June 26, 2003 from "BB-" to "BB" under preservation of the "positive" forecast. The short-term rating of the southern capital of Kazakhstan in a foreign currency was confirmed at the level of "B". The Mangistau region which in analogy with the city of Almaty had not accessed the internal debt market since 1999 had a less favorable scenario. On November 27, the Fitch Ratings agency confirmed the long-term rating of the region in a foreign and local currency at the level of "BB-" and the short-term rating at the level of "B", revising the rating forecast from "stable" to "positive". The rating agency included the region in the list of applicants for the raise in the rating back in 2002 hoping for decentralization of the budget system of Kazakhstan, but however gave up on waiting for the revision of legislation.

Judging by all facts, the attitude of the Government of the Republic of Kazakhstan towards municipal borrowings in 2003 has changed a little and can be characterized as reserved. Only seasoned issuers who had positive credit histories accessed the market with new issues of municipal bonds. However, only the financial consultant of the Atyrau region on securities of the fourth issue could obtain NBK permission for the purchase of issued bonds for the account of APF pension assets³⁵.

According to reports from mass media, in October 2003 the Akimat of the city of Almaty sent an inquiry to the Ministry of Finance of Kazakhstan to obtain permission for the issuance of municipal bonds in the amount of \$20 m. It was planned to raise these funds to implement the city's urban construction program with the use of the mortgage lending system. The destiny of this inquiry is still not clear and the Akimat did not submit any documents to KASE.

From the same sources it is known that the Akimat of the West-Kazakhstani region had an intent to issue its debt obligations for the amount of 1,364 bn tenge in May-June of 2003 under the borrowing term of 3 years and the interest rate of 8% per annum. It was planned to allocate the funds raised for the construction of a gas-turbine station, the repair of roads and agricultural machinery, the development of water supply and of small and medium businesses. The destiny of this project is not clear so far.

Primary Market

In accordance with current legislation, all initial offers of municipal bonds in Kazakhstan have been carried out at KASE. In addition, the bonds were exposed to admittance procedure that in many ways was similar to the procedure of corporate securities listing procedure. The regulatory framework of KASE regulating this segment of the market remained unchanged in 2003.

³⁵ As for the municipal bonds issued in 2002 no such permissions were issued.

Tab. 25. Major parameters of municipal bonds, which have passed admission procedure for circulation at KASE in 2003

	Atyrau oblast	Astana
Akimat-issuer	4	6
Ordinal # of the issue	4	6
NIN	KZE4KY050046	KZZ4KY040062
Trade code	ART060.004	AST048.006
Face value	100 tenge	100 tenge
Circulation start	May 15, 2003	June 26, 2003
Maturity date	May 13, 2008	June 24, 2007
Circulation term	5 years	4 years
Bonds floated	33,930,000	12,999,783
Volume of borrowing, KZT	3,391,964,633.39	1,299,883,028.02
Issue volume, USD*	22,438,163.35	8,756,228.67
Coupon, % APR	8.50	8.50
WA yield during floatation, % APR	8.50	8.50
Financial consultant	TuranAlem Securities LLP	Fondoviy service JSC

* Issue volume in USD is shown at the rates effective on borrowing dates. All bonds are indexed on changing of the rate of KZT against USD, they have semi-annual coupon and settlement basis "actual/365".

As it was commented above, the municipal bonds of two issues were admitted to trading at KASE in 2003. These issues were the sixth issue of the city of Astana (KZZ4KY040062) and the fourth issue of the Atyrau region (KZE4KY050046). The characteristics of these securities are stated in Tab. 25.

The methodology of the initial offer of municipal bonds did not undergo any changes relative to 2002. The issuers used the first specialized auctions to determine the interest rate on bonds, placing securities at their face value. Further on, the bonds would be additionally placed to reach the scheduled volume of specialized exchange auctions at a price with the premium or discount. The Akimat in order to place the scheduled amount of the sixth issue of the city of Astana had to carry out two auctions. The Akimat of the Atyrau region placed its bonds of the fourth issue in three auctions. The first attempt was unsuccessful due to the low volume of supply. As a result, the issuer placed the bonds for the amount of 3,393.00 m tenge under the registered volume of the issue in the amount of 3,400.0 m tenge. In all, the local executive bodies raised 4.7 bn tenge or their equivalent of 31.2 m USD at KASE in 2003 by placing at the official tenge versus dollar rate of exchange that was valid until the commencement of the circulation date. This amounts to 25% of total volume of the initial securities offers that had been made at KASE during the reporting year. In the year 2002, the corresponding indicator amounted to 39% and the volume of raised funds did not exceed 3.3 bn tenge or \$21.3 m.

The Kazakhstani banks (second-tier banks and The Bank of Development of Kazakhstan JSC) acted as the main buyers of municipal bonds under initial offers in 2003. Besides, judging by buyers' depo accounts, the banks' clients and broker-dealer companies participated in the placement (Tab. 26). It is remarkable that these bonds were not purchased for the account of APF PA, though permission for this type of investment for ART060.004 had been granted.

TuranAlem Securities JSC was recognized as the leading financial consultant that had provided for the placement of the largest municipal debt volume via KASE in 2003.

Secondary Market

In the reporting period, the Kazakhstani secondary market of municipal debt issued in the form of bonds considerably differed from the 2002 market. According to the data of the CD in 2003, total 35 purchase-and-sale transactions for the total amount of 8,932.9 m tenge (40 transactions in 2002, 20,037.7 m tenge) were registered here. These include 27 transactions (3) for the amount of 5,811.9 m tenge (85.3 m tenge) were conducted at KASE. In such a manner, the share of the exchange turnover in this market sector increased from 0.4% up to 65.1%. In 2003, transactions were conducted in all bonds in circulation with no exception, including the conduct of transactions via KASE on eight of nine available issues. Such wide specter of the instruments traded in this sector was earlier uncharacteristic of Kazakhstan. Usually, bonds of two-four issues would be involved in trading. Moreover, the turnover ratio was as a rule

Tab. 26. Participation of main categories of investors in the primary market of municipal bonds in 2003 (% of investments volume)

Tra- de code	STB	STB clients	Bro- kers- dealers
ART060.004	99.9	-	0.1
AST048.006	54.6	45.4	-
TOTAL	87.4	12.6	0.1

above two. In the reporting year, the expanding of the specter of the traded instruments resulted in a sharp reduction of the turnover ratio for bonds of all issues (Tab. 27).

On the whole, the described segment of the market still did not leave any impression as an advanced segment. On the one hand, it was stipulated by an insignificant capitalization level, on the other hand - by relatively high risks pertinent to municipal bonds, and lastly it was stipulated by very low participation of the OEIMPA. According to NBK data, the volume of investments of APF PA in the bonds of local executive authorities in 2003 has fallen from 1,228.5 m up to 769.5 m tenge and the share of these securities in APFs' investment portfolios has fallen from 0.46% to 0.21%. In the secondary exchange market, the share of PA involvement in transactions did not exceed 1.1% of gross turnover of municipal bonds. It were the banks that mostly formed the market environment here (49.5%), broker-dealer companies and their clients (32.7%), partially - clients of the banks (16.6%). KASE analysts first and foremost connect the expansion of the specter of traded instruments and the growth of the share of the exchange turnover in 2003 with significant fortification of tenge versus US dollar. While, all municipal bonds without any exception were indexed according to the change in the rate of exchange of tenge to US dollar, the fall of the American currency's rate of exchange had resulted in the need for involvement of all active securities issues in transactions. Moreover, the over-the-counter market was apparently insufficient. Stakeholders interested in transactions were compelled to access the open organized market to deal at KASE with market-makers³⁶ of municipal bonds.

The results of reviewing operations conducted in 2003 do not allow highlighting the criteria by which the market participants were guided, giving preference to exchange transactions. It should be also noted that all transactions in municipal bonds were conducted during the second half of the year at KASE and the securities' yield to maturity for buyers was higher at the exchange than it was in the over-the-counter market (Tab. 27).

Based on the annual results, Bank TuranAlem JSC was the most active participant of municipal bonds trades at KASE in the purchase-and-sale sector (49.8% of total gross turnover of transactions). In the second place is General Asset management LLP (25.7%), in the third place is The Narodny Savings Bank of Kazakhstan JSC (6.5%).

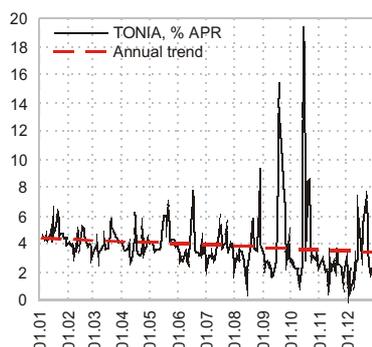
Tab. 27. Structure of the turnover of the secondary market of municipal bonds in 2003

Code of bond at KASE	Debt parameters		at KASE		Over the counter		TOTAL volume, m KZT	Stake of KASE, %	Turnover rate
	issue volume, m KZT	maturity date	volume of deals, m KZT	WA yield, % APR	volume of deals, m KZT	WA yield, % APR			
ARU060.003	869.5	24.09.06	1,777.5	7.30	518.4	6.48	2,295.9	77.4	2.64
VKU036.002	695.0	08.08.05	1,483.4	6.26	745.7	5.43	2,229.1	66.5	3.21
ARU024.002	1,879.9	25.09.03	0	—	1,428.4	0.56	1,428.4	0	0.76
VKU036.001	1,053.0	18.06.04	914.8	5.38	318.4	3.57	1,233.3	74.2	1.17
ART060.004	3,393.0	13.05.08	871.0	8.95	0	—	871.0	100.0	0.26
AST048.006	1,300.0	24.06.07	626.5	8.40	0	—	626.5	100.0	0.48
ASU036.003	1,000.0	25.12.04	109.1	6.35	110.0	5.62	219.1	49.8	0.22
AST048.005	967.0	09.10.06	19.8	6.70	0	—	19.8	100.0	0.02
AST036.004	1,633.0	09.10.05	9.8	6.30	0	—	9.8	100.0	0.01
TOTAL	12,790.4		5,811.9	7.08	3,121.0	3.19	8,932.9	65.1	0.70

³⁶ The availability of the market-maker is the obligatory condition for the admission of the municipal bonds to the circulation at KASE.

THE REPO MARKET

Fig. 25. Dynamics of TONIA index in 2003



This sector continued to lead in the financial sector of Kazakhstan in 2003 in terms of the volume of financial transactions, and continued to remain as it was before, on the one hand, the main source of "short-term money" for various financial institutions, and on the other hand - the object of regulation of monetary circulation on behalf of the National Bank. Being relatively young, the repo sector in the reporting period continued to develop in the light of the changing attitude of the central bank of the country to it, and improvement of the legal regulatory framework that regulates the repo exchange market's activities.

The National Bank's strategic approach to the repo market did not change in 2003. As it was before, the National Bank established a monthly so-called unified rate on repo transactions (URR) that at the beginning of 2003 was 5.5% per annum +/- 100 basis points.

This indicative figure changed three times. Beginning from June 01, the URR was reduced down to 5.0% per annum +/- 100 basis points, from August 01 - down to 4.75% per annum +/- 100 basis points, from September 01 - down to 4.50% per annum +/- 150 basis points. KASE analysts are inclined to consider decrease of URR by the National Bank in 2003 as the integral part of the rate gradual reduction program that is carried out by the National Bank in the financial market of the republic for the purpose of development of the real sector of the economy. On the other hand, this decrease on the whole reflected the trend for real rates on one-day automatic repo transactions that was forming during the year (Fig. 25).

Throughout the entire reporting period NBK published on a daily basis the levels of its indicative quotations with regard to raising and placing money in the repo market for the terms of "overnight", one and two weeks. However, the real rates at which the National Bank has operated in the exchange repo market were as a rule quite different from announced levels. This happened for the reason of ever changing the repo market conditions to which NBK was compelled to respond very promptly, and sometime this happened due to the lack in NBK's portfolio of securities used as the objects of direct repo operations (as it was already stated in this report, the Ministry of Finance in 2003 fully repaid MEAKAM - the bonds that were mostly often used by NBK as collateral when opening direct repo operations).

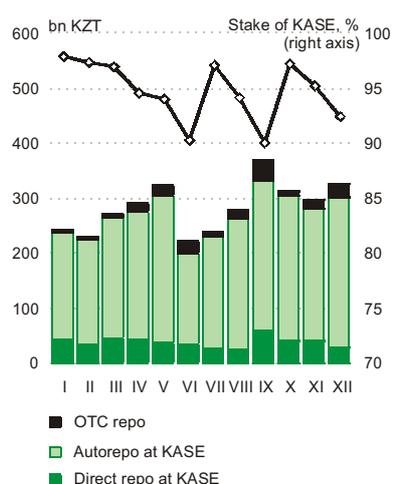
The most significant event in 2003 in this sector of the financial market became NBK's refusal in mid September to place money at KASE, irrespective of the level of rates developing in this sector of the market. This resulted in the fact that the "overnight" rates reached 30,0% per annum in case of separate exchange transactions in the automated repo market in the fall 2003, while the weighted average daily value of the TONIA³⁷ index was 19.5% per annum (Fig. 25), i.e. the highest values throughout the history of operation of KASE's automated repo market. NBK did not comment its refusal. But it was obvious that this step was taken to minimize the inflationary risks that have escalated in Kazakhstan in the second half of 2003. Depriving the banks of a cheap source of the shortest-term money substantially lowered the speculative potential of the US dollar and restricted the feasibility of the growth of its rate of exchange versus tenge to speculative demand.

On the whole, in the Kazakhstani financial market securities repo operations were conducted at KASE and in over-the-counter market.

As it was before, in the reporting year there were two sectors operating at KASE: so-called "direct" repo sector, in which transactions are concluded by trades participants by preliminary agreement of the parameters of a transaction and subsequent transaction conclusion through KASE, and the automated repo sector, in which money lots are put up on open trades and the yield rates of the repo operations are used as bid and offer prices. GS and NGS may be used at KASE as the objects of repo transactions. When traded in the automated repo sector, securities that are used as the object of repo are valued by KASE system automatically, based on the results of market evaluation in accordance with the methods applied at KASE. Repo operations in the automated repo sector have standard deadlines for 1, 2, 3, 7, 14 and 28 days. For repo operations in NGS

³⁷ Tenge OverNight Index Average - weighted average "overnight" repo rate developing in the Exchange's automatic repo market.

Fig. 26. Volume of repo market, turnover structure and stake of KASE in 2003



such standard deadlines accept some deviations from the stated values. In the "direct" repo sector, the repo operations could be conducted with any deadlines.

Outside the exchange, repo operations in NGS were conducted by the participants in the previous mode by way of conclusion of direct transactions through Primary Dealers of the Ministry of Finance and NBK Primary Agents with the registration of these transactions with the CSD. The operations of such kind were declared by the parties to transactions and were registered by the CSD as repo operations, collateral operations (transactions concerning a pledge and its repayment) and mortgage operations (transactions in opening and closing mortgage).

According to the data that is available at KASE, total volume of the Kazakhstani repo market in 2003 reached 3,392.9 bn tenge³⁸ and increased compared to 2002 in 1.15 times. Due to the fact that accurate information on NGS repo over-the-counter market is apparently unavailable in Kazakhstan, the volume of these transactions is not included in the said indicators.

The share of the exchange turnover in the repo market in 2003 significantly decreased as compared to the previous reporting year - from 95.1% to 94.6% - and varied in separate months from 90.1% to 97.9% (Fig. 26, Tab. 28). There have not been singled out any regular patterns in the behavior of the share of the exchange turnover.

Such a high share of exchange operations let us to make a bold interpolation of the environment of the organized repo market to the entire Kazakhstani market and to claim that it did not undergo any serious changes as compared to that in 2002 and was mainly formed for the account of discretionary money in the financial market. As it was back in 2002, the monthly dynamics of the repo volume at KASE depended upon numerous factors (events in the currency market, repayment of large GS issues, regulatory actions of the National Bank and on other factors). However, the quantity of discretionary money of trades participants and their clients remained to be a decisive factor. The fall in price of the "shortest" money as the most demanded in the majority of the cases resulted in the growth of the repo market volume (Fig. 26). But this regularity manifested it-

Tab. 28. Volume and sectoral structure of the repo market's turnover at KASE in 2003, stake of the stock market

Month	Volume of opening and closing deals, bn KZT (unless otherwise specified)							Stake of the stock market, %	
	gross repo			autorepo			TOTAL		
	in CS	in GS	total	in CS	in GS	total	m USD		
January	3.026	38.753	41.778	0.738	195.1	195.8	1,528.9	237.617	97.9
February	3.989	31.877	35.866	0.742	186.7	187.4	1,456.5	223.314	97.4
March	2.959	32.335	35.294	1.202	164.1	165.3	1,323.9	200.547	96.0
Q1	9.974	102.964	112.938	2.682	545.9	548.5	4,309.2	661.478	97.1
April	10.159	30.147	40.306	1.967	238.5	240.4	1,846.6	280.746	94.6
May	3.125	23.444	26.569	1.630	201.0	202.7	1,518.3	229.242	92.3
June	3.821	19.424	23.245	1.240	237.1	238.3	1,757.0	261.543	92.3
Q2	17.106	73.015	90.121	4.837	676.6	681.4	5,121.9	771.531	93.1
July	2.713	55.098	57.812	1.574	272.0	273.5	2,255.7	331.361	97.9
August	2.810	27.443	30.253	0.773	269.9	270.6	2,050.4	300.892	94.9
September	1.873	43.670	45.543	1.001	216.4	217.4	1,777.6	262.928	87.8
Q3	7.396	126.211	133.607	3.348	758.2	761.6	6,083.7	895.181	93.7
October	1.527	39.964	41.491	2.271	231.0	233.3	1,857.7	274.748	97.0
November	2.502	33.830	36.333	2.214	264.2	266.4	2,058.9	302.736	95.5
December	5.165	35.765	40.930	2.818	259.5	262.3	2,092.2	303.248	92.5
Q4	9.194	109.559	118.753	7.303	754.7	762.0	6,008.8	880.732	94.9
TOTAL 2003	43.669	411.749	455.419	18.170	2,735.3	2,753.5	21,523.6	3,208.922	94.6
Structure	1.36%	12.8%	14.2%	0.57%	85.2%	85.8%		100.0%	
Reference, year 2002:									
TOTAL	24.746	452.018	476.764	0.577	2,332.1	2,332.7	18,274.2	2,809.443	95.4
Structure	0.88%	16.1%	17.0%	0%	83.0%	83.0%		100.0%	
Trend 2003 to 2002:									
in money	+18.9	-40.3	-21.3	+17.6	+403.2	+420.8	+3,249.5	+399.5	
percentage	+76.5%	-8.9%	-4.5%	+3,051.3%	+17.3%	+18.0%	+17.8%	+14.2%	

³⁸ The CSD data in NGS third repo market is used and the complete turnover of the repo market with NGS and GS at KASE.

self less in the reporting year than it was in the previous year since there were more discretionary money in the market. In 2003 one had not even to talk about tenge deficiency in second-tier banks' correspondent accounts in the strict meaning of this word. The increase of the inflow of foreign currency to the internal market of Kazakhstan and buying-up of it by the National Bank provided for an uninterrupted entry in circulation of new tenge amounts.

THE REPO EXCHANGE MARKET

This segment of the market in 2003 was governed by the internal regulations of KASE "The Rules of the Conduct of Repo Operations" and "Specification of the Automated Repo Market" that were enacted on December 24, 2002 and superseded KASE's internal documents of similar designation. The experience in organizing the repo market in 1999-2002 was taken into account and generalized in newly revised version of the Rules and the Specification. Nevertheless, the reporting year demonstrated that the repo exchange market has not been completely formed as far as the regulatory framework is concerned that needed its further development. Modernization of the regulatory framework of the repo market in 2003 was carried out in the three directions:

- ✦ determining optimal lots when trading repo instruments;
- ✦ improving the methodology of market evaluation of securities used as the object of repo;
- ✦ intensifying liability of those involved in repo operations under disruption of repo closing deals.

The work to optimize lots was carried out by KASE back in 2002, when, honoring the wishes of trades participants, KASE held an experiment from October 01 till December 31. In the course of this experiment the size of the lots was changed when trading GS and non-governmental bonds. A decision of the General Meeting of KASE members, dated April 11, 2003, was the outcome of this experiment. According to this decision, the size of a lot was established at the level of 1 m tenge from May 01 of this year, when trading in the automated repo market, in lieu of 5 m tenge that was effective before.

Since March 25, 2003, the new internal document of KASE "Securities Evaluation Methodology" that was approved by decision of the KASE Board as of February 19, 2003. The document sets out the procedure for market evaluation of shares and bonds used as the objects of automated repo operations and the objects of the blocking to secure obligations of trades participants vis-a-vis KASE and for other purposes as stipulated by the internal documents of the exchange. The new methodology comprised KASE's internal regulations that were revised in principle. These regulations were: "The Methodology of Governmental Securities Evaluation", approved by decision of the KASE Risk Committee as of April 17, 2001, and "The Methodology of Non-Governmental Securities Evaluation", approved by the decision of the KASE Risk Committee as of February 28, 2002. From March 12, 2003, KASE launched weekly publication on the front page of its web-site of a file that contains data on the current market evaluation of stocks and bonds that was carried out in compliance with the mentioned methodology. It was conditioned by the fact that the published data could be used by the securities market participants to test their portfolios. It was assumed that the exchange methodology of evaluation could be used a foundation by the National Bank of the Republic of Kazakhstan to carry out market evaluation of the republican APFs' portfolios. This intent was realized through an NBK letter as of May 28, 2003 in which the National Bank recommended APFs and OEIMPAs to evaluate their securities portfolios according to the market value from June 01, 2003. Besides, GS of the Republic of Kazakhstan and NGS of issuers of the Republic of Kazakhstan were recommended to be evaluated on a weekly basis in the manner prescribed in the exchange's securities evaluation methodology. In the reporting period, KASE modified the methodology of market evaluation of stocks and bonds only once after it was put into force: On December 23, 2003, the series of clarifications were introduced to the body of the methodology that concerned with the evaluation treatment.

Studying various precedents of non-execution by the participants of repo closing deals motivated KASE to introduce corresponding changes and additions to the Rules of Carrying Out of Repo Operations at the end of 2003. By decision of the KASE Exchange Board as of December 03, 2003, these Rules were added

Fig. 27. Dynamics of instrumental structure of the automatic repo sector turnover in 2003 (% of repo opening deals volume)

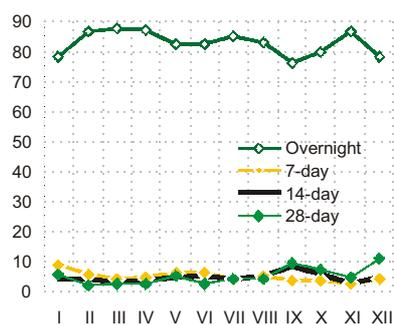
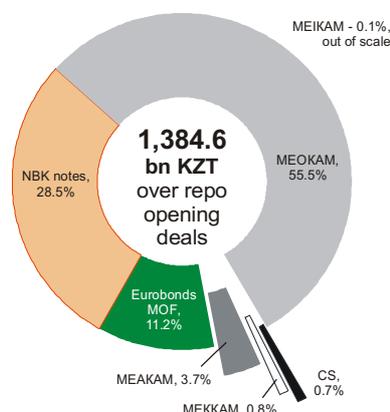


Fig. 28. Underlying instruments of automatic repo operations in 2003



supplements, according to which participants of the exchange market were prohibited from the extension of the term of a repo operation that was carried out using "direct" method should a security used as the object of this repo operation was removed at the time of an operation from the list of securities admitted to be traded at KASE. Due to the decision of the Exchange Council of KASE as of December 30, 2003, there were supplements incorporated in the said Rules that concerned with the toughening of the liability of participants of the repo operations conducted using "direct" method under disruption of a repo closing deal. The new wording of the Rules stipulated that in the event if disruption of a repo closing deal had occurred on an operation that had an object in the form of securities that were exposed within the term of the operation to repo delisting procedure at KASE, a repo seller must pay a forfeit to a repo buyer in the extent of 50% of the amount of terminated repo closing deal. The said additions were agreed upon with NBK on December 31, 2003 and enacted as March 01, 2004.

Notwithstanding the importance the innovations described above, they had a little influence on the repo market environment in 2003.

In all, 251 sessions were conducted at KASE in the repo market in 2003. The trades were held on a daily basis during working days from 11:30 to 18:00 ALT if GS were used the object of repo, and from 11:30 till 17:00 ALT in the event of dealing with NGS. All trades were conducted within KASE trading system. The overwhelming majority of trades participants operated during the trades in remote access mode. During the year, 25,542 (17,521) transactions were concluded³⁹ at KASE with 22,063,055,473 (7,614,645,747) securities for the amount of 3,208.9 (2,809.4) bn tenge or the dollar equivalent of \$21,523.6 (\$18,274.2) m, including:

⊕ in the "direct" repo market

1,954 (1,599) repo opening transactions for the amount of 225.2 (240.5) bn tenge or the dollar equivalent of \$1,510.2 (\$1,563.2) m

1,908 (1,580) repo closing transactions for the amount of 230.2 (236.3) bn tenge or the dollar equivalent \$1,541.0 (\$1,537.1) m

⊕ in the automated repo market

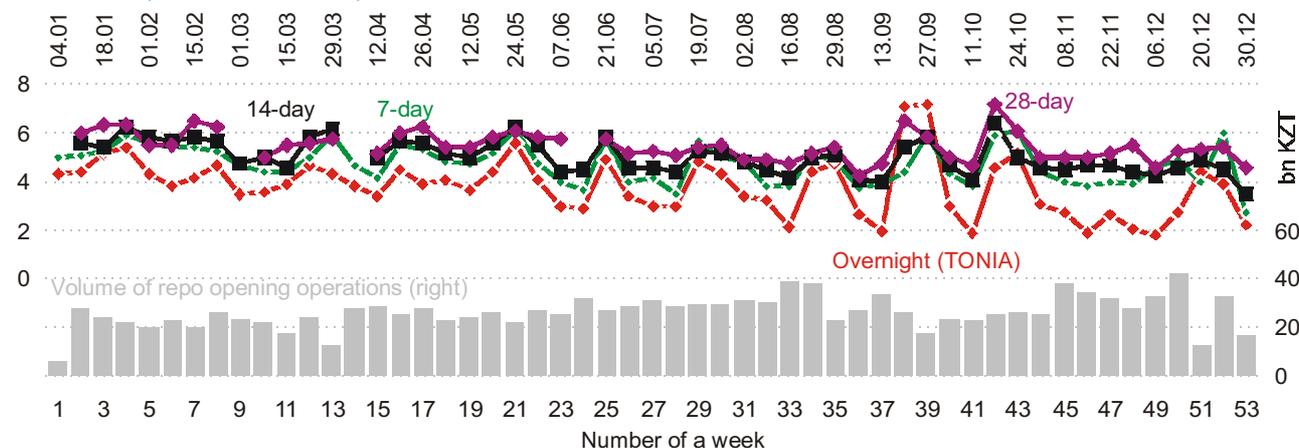
10,884 (7,197) repo opening transactions for the amount of 1,384.6 (1,167.6) bn tenge or the dollar equivalent \$9,289.2 (\$7,595.8) m

10,796 (7,145) repo closing transactions for the amount of 1,368.9 (1,165.1) bn \$9,183.3 (\$7,578.1) m

All year's sessions were effective. The daily volume of trades varied from 5.3 billion tenge (\$37.7 m, March 27) to 21.8 bn tenge (\$148.3 m, November 13) and on average amounted during the year to 12.8 bn tenge (\$85.8 m). The average value of monthly turnover was 267.4 bn tenge or \$1,793.6 m.

On the total, 41 KASE members participated in transacting at the Exchange in 2003 (35 members in 2002)⁴⁰. 84.0% of gross market turnover fell on the banks'

Fig. 29. Dynamics of weekly weighted average rates at the autorepo market in 2003 calculated using most liquid instruments (in % APR, left axis)



³⁹ Only those transactions are considered on which all the estimations are made. The corresponding 2002 indicators are given in brackets in this sentence.

⁴⁰ The indicators given in this paragraph are estimated without consideration of the position of the National Bank.

Fig. 30. Distribution of the volume (bn KZT) and of the number of direct repo operations by maturity

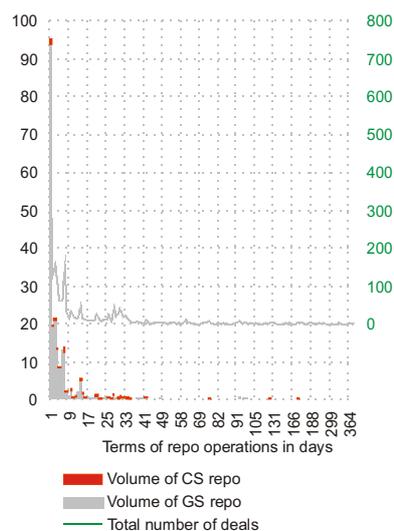


Fig. 31. Underlying instruments of direct repo operations in 2003

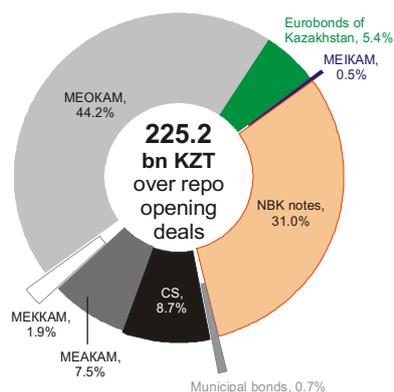
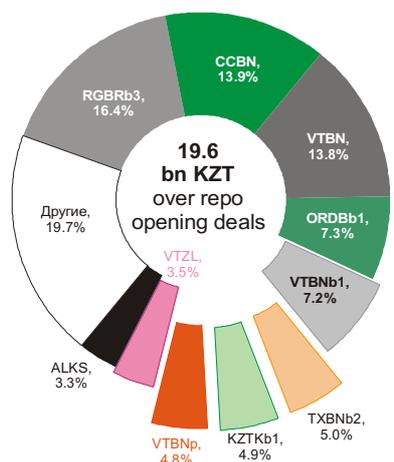


Fig. 32. Underlying instruments in the CS direct repo sector in 2003



share, 8.5% fell on the share of broker-dealer companies, 5.1% - on KASE member organizations of the pension market, and 2.4% fell on the share of other participants.

The degree of the repo market monopolization in 2003 is characterized with the following data. 13.8 (18.2%)⁴¹ of the gross turnover fell on the share of the most active trades participant (excluding the National Bank, 24.6 (32.3)% fell on the share of two participants, 31.9 (39.8)% fell on the share of three participants, 43.9 (51.6)% fell on the share of five participants. In such a manner, the degree of monopolization compared to that in 2002 had noticeably reduced.

BankTuranAlem OJSC was the most active participants of the trades at the Exchange market in 2003 among KASE members (13.8% of the overall amount of transactions). ATFBank OJSC (10.8%) and Nurbank OJSC (7.3%) filled the second and third places.

The Automated Repo Sector

The principle of the work of this sector was stated above. The Tab. 28 illustrates the growth of the volume of transactions in the automated repo sector in 2003 that is ahead of the total repo exchange market. The volume and the share of "direct" repo transactions reduced in the reporting year.

Judging by the data listed in Tab. 29, the market participants mainly preferred to operate in repo "overnight" instruments in the reporting period. The tendency of reduction of this type of the operations in favor of a weekly repo that had demonstrated itself in the first half of 2002 did not develop properly and was not actual throughout the reporting period (Fig. 27).

The trades participants being the objects of repo operations, mainly used GS that constituted the overwhelming portion of the circulated governmental debt: MEOKAM, NBK notes and sovereign Eurobonds of Kazakhstan (Fig. 28). As opposed to 2002, cardinal changes took place here. The MEAKAM share reduced from 45.5% in 2002 to 3.7%. It was accounted for the effect of several factors. Firstly, these bonds had relatively high yield potential what enabled to effectively operate with them in the purchase-and-sale market. Secondly, the National Bank reduced the share of its participation in the repo market in 2003, and it were exactly MEAKAM that became the main object of repo operations with the participation of the National Bank. Thirdly, the Ministry of Finance repaid these bonds ahead of the schedule, beginning from December 25, 2002 and no bonds had been left by the end of the reporting period⁴². KASE analysts connect the fall of the share of Eurobonds of the sovereign debt of Kazakhstan in the automated repo market from 18.7% in 2002 год to 11.2% in the reporting period to the absence of liquidity on this instrument in the purchase-and-sale market that in its own turn was caused by the tenge's fortification versus US dollar. At the same time, the growth of the share of operations with NBK notes (from 2.3% to 28.5%) and MEOKAM (from 30.9% to 55.5%) appears to be obligate in 2003 because it acts up to the change in the structure of the debt circulating in the market.

The active use of NGS as the objects of automated repo operations was the particularity of the reporting period. If back in 2002 transactions were concluded only with five corresponding instruments, then in 2003 the quantity of instruments involved in transactions grew up to 45 (Tab. 29), and the volume of operations increased from 576.6 m tenge up to 18.2 bn tenge (Tab. 28). Such a positive dynamics was associated with the positive experience that had been accumulated by the market in 2002. It was also associated with the commissioning of an improved methodology of market evaluation of NGS used as the objects of automated repo operations.

Dynamics of rates in the automated repo sector (Fig. 29), especially the "overnight" repo (Fig. 25) as the sector that was mostly frequently used by trade participants primarily reflected short-term liquidity issues that were experience from time to time by entities operating in the market. These problems as a rule were caused by the need for effecting budget payments based on the results of the year 2002, as well as the results of the months and quarters of the reporting year. In this aspect the 2003 market was practically identical to the market of the

⁴¹ The corresponding data of 2002 is given in brackets.

⁴² See the section "National securities market. Primary market".

Tab. 29. Instrumental structure of turnover in the automatic repo sector in 2003

Trade code	Weighted average rate, % APR	Volume of opening, bn KZT	Number of deals	Stake of market, %
Subject of repo transactions – GS⁴³				
REPO_KZT_001	3.61	1,146.0	8,147	83.3
REPO_KZT_002	4.41	16.6	164	1.2
REPO_KZT_003	3.88	12.1	136	0.9
REPO_KZT_007	4.80	65.8	761	4.8
REPO_KZT_014	5.09	63.8	680	4.6
REPO_KZT_028	5.59	70.8	693	5.1
Subject of repo transactions – CS⁴⁴				
R_ALKS_007	9.03	0.062	3	0.7
R_ALKS_014	12.50	0.054	1	0.6
R_ALKS_028	6.72	0.173	5	1.8
R_ALKSb2_010	5.00	0.090	1	0.9
R_ASFlb2_001	5.28	0.080	3	0.8
R_ASFlb2_002	5.00	0.020	2	0.2
R_ASFlb2_007	6.78	0.309	13	3.3
R_ASFlb2_021	7.75	0.170	7	1.8
R_ASFlb2_030	8.28	0.067	3	0.7
R_BRKZb1_001	5.00	0.360	1	3.8
R_BRKZb1_014	5.41	0.231	4	2.4
R_CCBN_001	5.43	0.291	10	3.1
R_CCBN_007	7.00	0.270	7	2.8
R_CCBN_030	7.92	0.425	9	4.5
R_CSNB_007	6.50	0.035	1	0.4
R_HSBKb_001	5.00	0.075	1	0.8
R_HSBKb_014	6.50	0.115	2	1.2
R_HSBKb_028	6.95	0.205	3	2.2
R_KZIKb1_001	4.09	0.725	14	7.6
R_KZIKb1_003	5.28	0.170	6	1.8
R_KZIKb1_007	6.35	0.578	18	6.1
R_KZIKb1_014	7.06	0.730	24	7.7
R_KZIKb1_028	7.02	1.188	23	12.5
R_KZTKb1_007	7.00	0.150	1	1.6
R_ORDBb1_001	7.00	0.012	1	0.1
R_ORDBb1_007	6.25	0.040	2	0.4
R_ORDBb1_014	11.09	0.170	6	1.8
R_ORDBb1_028	10.78	0.738	43	7.8
R_TEBN_020	9.00	0.018	1	0.2
R_TEBN_030	10.80	0.133	4	1.4
R_TXBNb1_001	7.10	0.413	10	4.3
R_TXBNb1_007	6.48	0.164	8	1.7
R_TXBNb1_014	6.83	0.464	13	4.9
R_VTBN_001	4.14	0.057	4	0.6
R_VTBN_007	4.50	0.001	1	0.0
R_VTBN_014	8.92	0.078	6	0.8
R_VTBN_028	9.73	0.326	17	3.4
R_VTBNb1_001	3.00	0.001	1	0.0
R_VTBNb1_007	4.75	0.002	2	0.0
R_VTBNb1_014	7.81	0.032	3	0.3
R_VTBNb1_028	7.99	0.141	6	1.5
R_VTBNp_001	7.83	0.060	3	0.6
R_VTBNp_007	7.87	0.004	2	0.0
R_VTBNp_014	7.82	0.033	3	0.3
R_VTBNp_028	8.30	0.044	5	0.5

previous period and the said regularity was manifested more sharply in 2003. The rapid growth of volatility rates in September and October is a particular feature of the year. As it was mentioned above, this was conditioned by the National Bank's refusal to carry out reverse repo operations at KASE from the middle of September.

The banks acting as dealers and brokers were distinguished for most active work within the automated repo sector in 2003. Their share (not including the National Bank) consisted of 80,0% of the market gross turnover. The broker-dealer companies and their clients controlled 7,9% of the turnover, and the entities operating in the pension services market and affiliated with KASE controlled 6,2%.

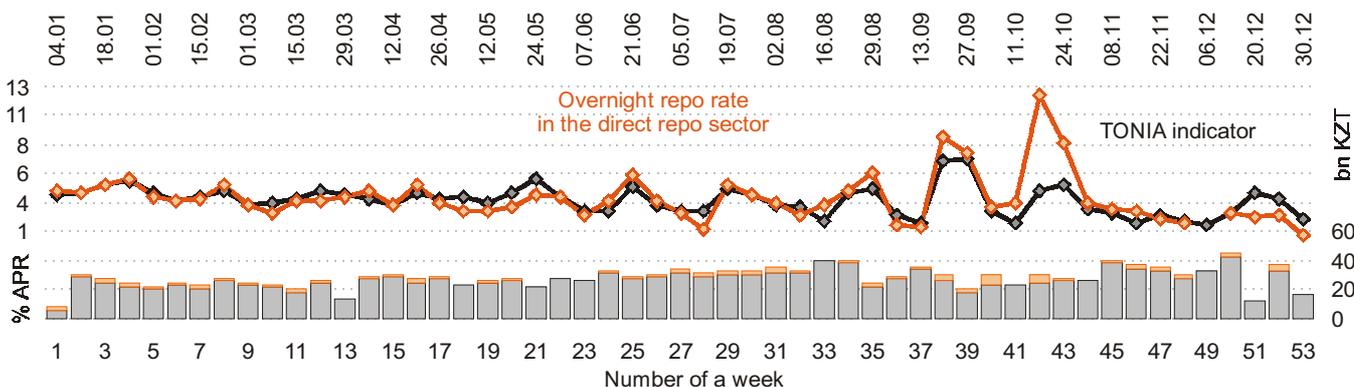
"Direct" Repo Sector

The existence of this sector is stipulated by the desire of the trades participants to conduct repo operations according parameters that have been preliminarily agreed upon without a risk of interception of bids/offers by third parties. Therefore, the bargaining element exists here just partially - in between the parties that are intended to conduct an operation. The further issue is registration of these transactions at the exchange with the use of the service provided by KASE. As opposed to the automated repo sector that was regulated by the National Bank to a significant degree, operations with any yield, with any securities and for any duration may be carried out in the "direct" repo market. The ban on participation of the exchange market of APFs assets is a substantial restriction.

As it was stated above, the operations of the described kind were less popular in the reporting year as compared to 2002 (Tab. 28). The results of a carried out analysis show that the participants used here the "overnight" repo mostly often in analogy with the automated repo sector (Fig. 30). Its share in the reporting year consisted of 42.3% (46.8% in 2002) of total repo opening transactions and 27.9% (35.6%) of the total transactions. In analogy with the automated repo sector, the participants conducted the highest volume of the operations during the term up to 30 days. On the total, the operations were opened for 131 (105) different deadlines with the duration from 1 up to 368 (434) days each during the year in the "direct" repo sector.

The instrumental structure of the turnover within the "direct" repo sector is illustrated on Figs. 31 and 32. This structure was apparently different from the automated repo sector in respect of both set of the instruments and the shares of their participation. A sharp drop in the share of operations in Kazakhstani Eurobonds was noted in the instrumental structure of the "direct" repo market in relation to 2002 (from 45.3% to 5.4%) under the growth of the share of the volume of transactions in NBK notes (from 5.1% to 31.0%), MEAKAM (from 2.7% to 7.5%), and MEOKAM (from 24.5% to 44.2%). The portion of the use of NGS was exposed to little change - from 6.6% in 2002 to 8.7% in 2003. However, the range of corporate securities expanded materially. If in 2002, it were 31 denominations of NGS involved in "direct" repo transactions, then in the reporting period it were 42.

Fig. 33. Dynamics of weekly weighted average overnight repo rates (left) in various stock exchange market sectors and volume of corresponding repo operations over repo opening deals (right) in 2003



⁴³ In the commercial code - repo currency, repo operation term - in days.

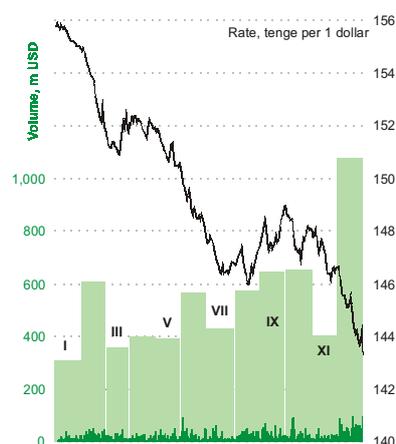
⁴⁴ In the commercial code - security code - the repo operation subject, repo operation term - in days.

The rates at "direct" repo market generally echoed the behavior of automated repo rates, at least, as far as the most popular terms were concerned (Fig. 33). This was also typical for 2002. This is accounted for the fact that the sector's overwhelming turnover volume pertained to "overnight" repo transactions with the use of GS as the object for such transactions. These securities are distinguished for minimal liquidity risks. The participants primarily used NGS when opening long-term repo deals. The rates in these cases were significantly affected by the investment quality of collateral, the degree of its liquidity in the purchase-and-sale sector, and other factors (for instance, the size of a coupon rate in the event of transacting a repo through "a coupon", etc.).

The "direct" repo market was controlled mainly by banks in 2003. The share of these members of KASE that were dealing on their own behalf or on behalf of their clients was represented by 86.9% of gross turnover. Broker-dealer companies controlled 12.7% of the turnover, the rest of the participants had a share of 0.4%.

FOREIGN EXCHANGE MARKET

Fig. 34. Stock exchange market of the US dollar in 2003



The foreign exchange market of Kazakhstan in the reporting year differed, in principal, from year 2002. For the first time in the country's history the national currency of Kazakhstan as per the results of the year significantly strengthened its positions to the US dollar both in the nominal and real terms. The volume of trades in the relevant sector of the stock market reached the equivalent of \$6.4 bn, which exceeded more than twice the high performance results for 2002.

These perceptible changes were due to a number of factors, the main of which is the exclusively favorable business environment of the global commodity markets regarding the main subjects of Kazakhstan export and, primarily, oil. This had a positive impact on the annual balance of the trade Balance Sheet of the republic, which in the reporting year increased up to \$4,573.5 m compared to \$3,219.1 m in 2002⁴⁵. The volume of exports in comparison to 2002 grew by 32.9% up to \$12,900.4 m and the imports increased by 28.3% up to \$8,326.9 m. The structure of exports and imports, practically, did not change: the minerals in 2003 constituted 65% (61%)⁴⁶ of Kazakhstani exports, and 43% (43%) of imports was comprised of machines, equipment, transportation means and devices. According to 2003 results the deficit of the current account payment balance of Kazakhstan according to the National Bank amounted to \$69 m compared to \$868 m in 2002. NBK points out that the main factor, which assured the achievement of the high export level was due to the high prices for the energy carriers. Over 2003 income from oil and gas condensate export exceeded \$7 bn, which is 1.4 times higher than the relevant figure for 2002.

Kazakhstan managed to nail down the positive tendencies in the economy development. The raw material growth perspectives significantly strengthened the position of Kazakhstan on the international capital markets. The value of the external debt for Kazakhstani residents started to fall down. The banks interested in the long-term sources of funding could not but take advantage of it. Besides the fall of the dollar-euro exchange rate and the stable tendency of the devaluation of the US dollar to tenge significantly increased the attractiveness of the US currency external debt for Kazakhstani residents. This factor resulted in the expansive growth of the foreign corporate debt in 2003, which enables to speak of some kind of a "boom". While during the past years the foreign direct investment dominated in the external finance inflows in 2003 the net inflows of loans and credits attracted by non-governmental sector exceeded according to NBK \$2.8 bn. Along with it is necessary to mention the international bond placement for \$950 m by Kazakhstani residents, and also the attraction of the syndicated loans from abroad by domestic banks.

During the reporting years the sale of the governmental assets played a certain role in the foreign exchange inflow increase into the internal market of Kazakhstan. At the beginning of 2003 KASE sale of the governmental block of shares of Kazakhmys Corporation OJSC at the end of 2002 affected significantly the market. The amount of deals carried out within the framework of this sale exceeded \$199 m. Besides, at the end of May 2003 the Ministry of Finance sold at KASE the governmental block of shares of CNPC - Aktobemunaigas OJSC for \$150.2 m.

The described above factors led to exclusively high inflow of US dollars into the internal market of Kazakhstan, which resulted in the strengthening of tenge to dollar both in the nominal and real terms. According to the NBK export foreign exchange revenues accounted for more than 60% of the internal market trades volume. During specific periods this volume reached 80%.

The steadily high global prices for the main items of Kazakhstani export during 2003 enabled Kazakhstan Government and the National Bank to consider seriously the issue of the dedolarization of the economy. The negative effects of the decline in the exchange rate in the internal market for the exporters of Kazakhstan were offset by high prices on the raw materials sold and the cheapening of the dollar-denominated debt. The exporters' losses, in essence, were the losses of the portion of the potential excess profit. At the same time the weakening of the dollar to tenge and euro positively impacted the development of the

⁴⁵ Data provided by the Republic of Kazakhstan Agency on Statistics.

⁴⁶ Here and further in this section the corresponding indicators of 2002 are given in the brackets. Data provided by the Republic of Kazakhstan Agency on Statistics.

domestic import substitution production, especially consumer goods, which are not infrequently produced on the imported equipment and on dollar loans.

Due to this reason the National Bank responded quietly to tenge strengthening and did not interfere into the process, as distinct from the previous years.

One more circumstance exists, which in 2003 induced the National Bank to prefer the decline in the dollar rate in Kazakhstan.

The "Main Directions of the Monetary-Credit Policies for 2003-2005" establishes that the main goal was "keeping the average annual inflation in 2003-2004 within the range of 4-6% and its reduce it in 2005 up to 3-5%". In other words, the main objective was (and it is) the achievement of the forecasted level of inflation. The purchase of dollars by the National Bank in the internal market, which is inevitable with the huge inflow of the American currency into the country⁴⁷, is accompanied by the increase of the money supply, which, in turn, significantly increases the inflation risks. Due to this reason it was more advantageous for NBK to purchase the dollars at the falling price in 2003.

Additionally, the growth of the dollar exchange rate always adds extra inflation risk due to the appreciation of imports. The mind to eliminate this risk component led to stiffening of NBK's position regarding the traders, who tried to turn the market upwards based on the speculative demand at the end of summer and the beginning of autumn (Fig. 34), when the inflow of dollars into Kazakhstan reduced. In order to limit the speculative demand on behalf of the second-tier banks the National Bank starting from the middle of September held up from the placement of tenge at KASE, and Gregory Marchenko, the Head of NBK, expressed his negative attitude towards the currency speculators and having them to understand that NBK will preclude any attempts of artificial dollar rate rise.

This scrupulous attitude of NBK to the speculation issue with regard to dollar in the middle of the year, when the exporters, losing their profits on the decline in dollar rate raised the prices on gasoline on the country's internal market. As a result the National Bank was forced to review upwards the inflation forecasts for 2003, because the current inflation level did not fit in the established limits. Instead of the forecasted 4-6% the factual growth of the consumer prices in Kazakhstan as per the result for the reporting year reached 6,8% (in 2002 - 6.6%).

Summing up the above said, it is possible to conclude that in 2003 the situation of the internal currency market of Kazakhstan was formed mainly under the influence of the exogenous factors, which were used by the Government and the National Bank for reaching the goals of economy's dedolarization, which were set forth by the country's President.

Judging by the weighted average rate of KASE main (morning) session the nominal strengthening of tenge to dollar in the reporting period was 8.03%, while in 2002 tenge devaluated to dollar in the nominal terms by 3.26%. In 2003 according to NBK, the tenge strengthened to the main global reserve currency by 12.4%⁴⁸ (in 2002 - by 0.7%). The weighted average Exchange US dollar rate in the reporting years was 148.84 tenge per dollar - on all Exchange sessions for the year. In 2002 the relevant figures amounted to 153.78 and 153.86 tenge per dollar. As of the end of the reporting year the value of the US dollar at KASE was 143.33 tenge, as of 2002 end - 155.85 tenge.

In 2003 tenge against EUR devaluated in the nominal terms according to the weighted average Exchange rate by 14.8% (17.0%). In the real terms the devaluation level to the European currency was according to NBK for the same period by 6.9% (11.7%). In 2003 against the Russian ruble - the third foreign currency traded at KASE tenge devaluated in the nominal terms by 0.09% (in 2002 we observed the strengthening by 2.17%), and in real terms as per the NBK - by 5.4% (6.1%). As of the year end EURO at KASE was worth 178.84 tenge (155.73 tenge as beginning of year), ruble - 4.9000 tenge (4.8954 tenge)⁴⁹.

⁴⁷ According to the NBK data in 2003 they purchased in the internal market approximately \$2.2 billion U.S. dollars.

⁴⁸ Here and further the data on the PЭOK is given in accordance with corresponding NBK publications.

⁴⁹ It is necessary to consider that there was no liquidity in the RUB and EUR stock market in the reporting year and the given indicators of the tenge devaluation or revaluation level to these currencies in the nominal terms should be perceived carefully.

During the reporting year for the first time NBK published the techniques of the computation of the real effective exchange rate to various currency baskets and to USD, EUR и RUB as well. Besides, starting from January 1995, the results of the real exchange rate index were published. These indices characterize the weighted average alteration of tenge exchange rate with regard to the basket of currencies of 24 countries - the main trading partners of Kazakhstan (4 CIS member states and 20 far abroad countries), adjusted for the relative price change. According to this information in 2003 tenge devalued against the currency basket of 24 countries by 2.5% (7.4%), to the basket of 4 CIS countries' currencies (Belarus, Kyrgyzstan, the Russian Federation, and the Ukraine) - by 4.2% (5.1%), to the basket of 20 far abroad countries - by 1.5% (8.8%). This data permits the National Bank to be of the opinion that the weakening of tenge with regard to EURO, the Russian ruble and the currency basket of the countries - the main trading partners of Kazakhstan in 2003 made up for the strengthening of the national currency against the US dollar and did not affect the competitive power of Kazakhstani exporters.

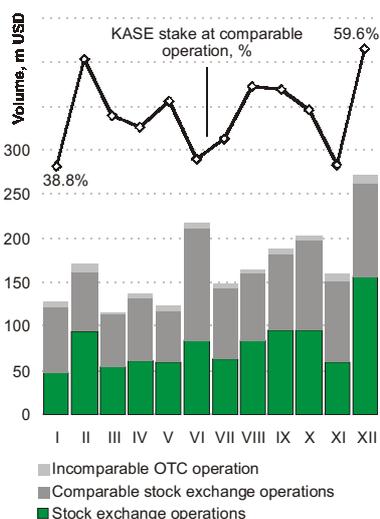
The significant volumes of foreign currency inflows into Kazakhstan enabled the National Bank to significantly increase the gold-value reserves and the National Fund's assets. In 2003 in current prices net gold-value reserves of the National Bank grew from \$3.138 bn up to \$4.959 bn or by 58.0% (25.2%), the assets of the National Bank increased from \$1.915 bn up to \$3.603 bn or by 88.2% (54.6%). The international reserves of the country, in general, as of 2003 year end amounted to \$8,562 bn (\$5.054 bn) and increased during the year by 69.4% (34.8%) or by \$3,508 bn (\$1.305 bn)⁵⁰.

The total volume of the interbank currency market of the country in 2003 is estimated in \$13,701.6 m (\$8,007.8 m), including: at KASE - \$6,413.4 m (\$2,980.7 m), outside the Exchange among the resident banks - \$6,701.2 m (\$4,334.9 m), outside the Exchange with the resident banks of Kazakhstan - \$586.9 m (\$692.2 m). The said values include the net turnover of deals between the resident banks of Kazakhstan (at KASE and outside the Exchange) and the amount of transactions of the purchase and sale of the currency in the operation of Kazakhstani banks with the non-resident banks.

The given data illustrates the interesting peculiarity: the growth of the volume of the foreign trade operations of Kazakhstan practically does not impact the volume of deals of domestic banks with the non-resident banks. It follows that the majority of the foreign exchange transactions attributable to Kazakhstan residents' foreign trade deals is carried out at KASE and outside the Exchange on the country's internal market.

In 2003 the portion of the Exchange turnover of the foreign currency as against to the comparable deals on the market of Kazakhstan varied from 38.8% (January) up to 59.6% (December) and averagely annually totaled to 48.9% (Figure 35). In 2002 this portion did not exceed 41.4%, in 2001 - 33.8%. With the receipt of the said figures it was taken into consideration that only resident banks can carry out deals at KASE. Hence, the comparison of the Exchange turnover is correct only with the volume of OTC deals made among the resident banks. The increase of the portion of the Exchange market for the past years was due to the growth of the dollar supply volume at KASE, on which the market was supported from below by the National Bank. As a result, to trade the USD at the Exchange in the reporting year was more profitable rather than on the OTC market. However, other factors were present here. For example, in January 2003 the main volume of the foreign exchange transactions pertaining to the sale of the governmental block of shares of Kazakhmys Corporation OJSC at KASE at the end of 2002 was realized on the OTC market. As a result the portion of KASE appeared minimal during this month. The same also refers to the sale of the governmental block of shares of the CNPC- Aktobemunaigas OJSC on May 29. On June 5 the volume of USD OTC deals exceeded \$216 m, which adversely affected the portion of the Exchange turnover for the month.

Fig. 35. Sectoral structure of the foreign exchange market and stake of KASE in 2003

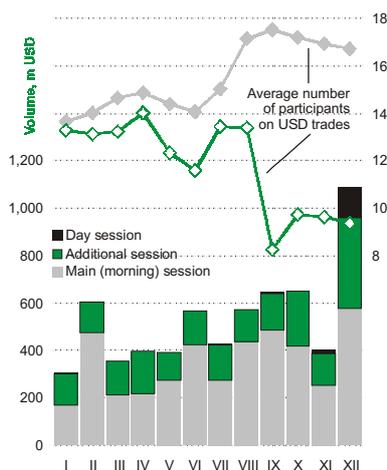


FOREIGN EXCHANGE TRADES

In 2003 USD (with TOD, TOM and SPOT settlements), EUR (TOD) and RUB (TOD) were traded in KASE foreign exchange sector. Three sessions were held

⁵⁰ NBK data.

Fig. 36. Distribution of foreign exchange trades at KASE by trade sessions in 2003



every day- the main (morning) session (10:15 - 11:00 ALT), additional session (11:30 - 15:30 ALT) and afternoon session (14:00 - 18:00 ALT).

Before January 29 the morning session was intended for trading EUR and USD with settlements on TOD basis. At this session the average weighted rates of tenge against said currencies were formed, which were used as the main indicators of the currency stock market. The morning session was the main one with regard to said currencies. After January 29, only USD were traded at the morning session. The additional trades became the main session for EUR, the average weighted rate of which was used in Kazakhstan as the market rate of tenge against Euro. This change was introduced because of absence of deals with EUR at KASE morning sessions since March 2002, while the deals were more often signed during the additional sessions. No other changes occurred in the procedure of foreign exchange trades at KASE in 2003.

During the whole year the additional session appeared to be the main one for RUB as well. Based on its results the average-weighted stock exchange rate of tenge against ruble was determined. In addition, USD were traded at this session with settlement on TOD basis. In this case the closing rate was used as a final price indicator.

The afternoon session was intended for USD trades with settlement on TOM and SPOT basis. Based on the results of these trades, provided that the deals were signed, the Exchange stated the average-weighted rates of tenge against USD with delivery on the following conditions. If there were holidays in the states the currencies of which were traded at KASE, then the trades of these currencies at the main and additional sessions were carried out with settlements on TOM or SPOT basis depending upon the number of days of holidays, while additional and afternoon USD trades were carried out within the frameworks of the unified session from 11:30 a.m. till 18:00 p.m. ALT.

During the whole year two market makers - Bank TuranAlem OJSC (USD, RUB) and Narodny Savings Bank JSC (USD) were operating at KASE's foreign exchange sector. The duties of market makers included the quotation of said currencies at the additional sessions in accordance with KASE internal documents "Specification of the USD Market Maker Status" and "Specification of Russian Federation Ruble Market Maker Status".

All foreign exchange sessions in 2003 were carried out using KASE's electronic trade system by means of open trades. The overwhelming majority of the participants worked in the remote access regime.

Totally, in 2003 the participants quoted the foreign currencies at KASE at 541 sessions⁵¹. 34,224 (20,885) transactions with USD, 26 (12) transactions with EUR and 12 (67) deals with RUB were signed through the trade system. The detailed data concerning the amount of trades are shown in Table 30.

As distinct from 2002 the activity of the USD stock market during the reporting period was affected by a few factors. The positive correlation of the trade amounts with oil prices in the leading world trading floors that was characteristic of 2002 was less pronounced in 2003. At the same time the market was sensitive enough to respond to attraction by Kazakhstani second-tier banks of large USD amounts through placement of the international bonds, money that they received within the frameworks of the syndicated loans, actions related to sales of large Governmental blocks of shares, NBK behavior at the repo market, events in the market of cash foreign currencies and the final yearly turnovers as well as effect of other less important factors.

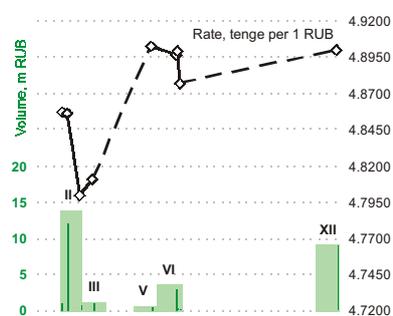
The morning trades were traditionally characterized by the largest amounts of transactions in 2003. However, the trend of increasing the additional trades share in the Foreign Exchange turnover that was noticeable already in 2001, had got further development during the reporting period. In 2003 the additional session accounted for 31.6% of deals with foreign currency in terms of volume signed at KASE, while this percentage was equal to 28.6% in 2002 and 18.9% in 2001. Like in 2002 the results of the additional sessions for USD during the reporting period determined in many ways the average-weighted rate of the morning session of the next day. In this regard the average number of the Category B Exchange members that participated in the additional sessions kept de-

⁵¹ Trades with no quotations and transactions are not considered within this indicator because these sessions are not registered in KASE's archived database.

Tab. 30. Volume of trades in foreign currencies at KASE and structure of turnover in 2003

Month	Volume of trades, th units			Volume of trades, th. KZT	Turnover's equivalent, th. USD	
	USD	EUR	RUB		to 2002	in 2003
January	306,150	420	0	47,622,763.4	+154,835.2	306,601.6
February	606,555	560	13,700	93,183,307.0	+468,117.1	607,592.5
March	356,485	100	1,000	54,038,523.0	+199,899.0	356,623.0
Q1	1,269,190	1,080	14,700	194,844,593.3	+822,851.4	1,270,817.1
April	398,570	15	0	60,584,321.1	+196,348.0	398,586.1
May	393,005	0	500	59,334,807.3	+173,014.9	393,021.3
June	567,235	150	3,500	84,530,688.9	+336,483.0	567,523.1
Q2	1,358,810	165	4,000	204,449,817.2	+705,845.9	1,359,130.5
July	426,945	0	0	62,735,674.2	+194,800.0	426,945.0
August	574,235	0	0	84,272,819.9	+347,642.5	574,235.0
September	642,865	450	0	95,202,647.7	+405,422.9	643,371.9
Q3	1,644,045	450	0	242,211,141.7	+947,865.4	1,644,551.9
October	651,320	450	0	96,356,105.0	+284,910.3	651,849.6
November	404,150	200	0	59,446,318.8	+18,885.5	404,388.5
December	1,077,950	3,600	9,000	156,664,419.4	+652,375.5	1,082,703.8
Q4	2,133,420	4,250	9,000	312,466,843.2	+956,171.3	2,138,941.9
Total in 2003	6,405,465	5,945	27,700	953,972,395.2	+3,432,734.0	6,413,441.4

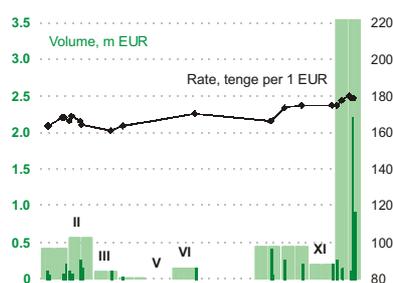
Fig. 37. Stock exchange market of the Russian rouble in 2003



creasing gradually (Fig.36). The turnover settlement structure in the described sector of the stock market did not practically change during the year. In 2003 the deals with settlement on TOD basis accounted for 96.5% (compared to 96.2% in 2002), those with TOM settlements - 3.5% (3.3%), and those with SPOT and SPOT_NEXT settlements - 0.0002% (0.54%). In this case the overwhelming volume of deals with TOM settlements was carried out at KASE during the USA holidays when the banks were unable to make settlements during the day of signing the deals. Based on the annual results it is possible to conclude that Kazakhstani currency stock market in 2003 did not advance in direction towards extending the USD trades with forward settlements.

No noticeable changes have taken place in the currency structure of KASE turnover. When evaluating this structure in USD equivalent in 2003 one can see that USD accounted for 99.88% (99.79%) of the total amount of the exchange deals, EUR accounted for 0.11% (0.09%) and RUB - 0.014% (0.12%). No liquidity still existed in RUB market (Fig. 37) and EUR market (Fig. 38). The turnover currency structure in the interbank OTC market was a bit different from that of KASE. In transactions between the resident banks the USD share was 99.33% (97.89%), that of RUB - 0.24% (0.66%) and EUR - 0.43% (1.45%). In transactions with non-resident banks the deals with USD accounted for 87.73% (94.51%), those with RUB - 10.26% (4.42%) and deals with EUR accounted for 2.01% (1.07%).

Fig. 38. Stock exchange market of the Euro in 2003



In 2003 the share of the most active (according to the volume of deals made) second-tier bank in the foreign exchange trades gross volume on KASE amounted to 14.4% (14.0%). The general monopolization level of this market segment in the reporting year was slightly reduced as four second-tier banks controlled only 45.0% (in 2002 - 45.8%), eight controlled 63.2% (64.9%), eleven controlled 71.7% (73.5%), and fifteen controlled 79.1% (82.0%). During 2003, 27 (29) second-tier banks participated in trades.

According to the results of 2003, the most active participant of foreign exchange trades at KASE among second-tier banks was Bank TuranAlem OJSC (14.4% of the gross turnover in KZT equivalent); then the following two banks: Halyk Saving Bank of Kazakhstan JSC (14.0%), DB ABN AMRO Bank Kazakhstan CJSC (9.1%) and Kazcomertsbank JSC (7.5%).

IFI BONDS MARKET

This sector of the stock market is appeared in 2001 as a result of active efforts by the subjects of the pension market of Kazakhstan on investing their assets in the securities of foreign issuers and successfully operated this year. At that time the APFs of Kazakhstan only started seeking the ways of the direct entry to the international markets. In 2001 they have used the Kazakhstani agents' services to purchase IFI bonds. Later on the situation changed. Growth of professionalism of the pension assets managers and establishing of business contacts with the foreign brokers led to the fact that they stopped purchasing IFI bonds at KASE. There were no deals with these bonds at KASE in the reporting year as well as in the previous year.

The situation was also aggravated by the decision of the KASE Board effective from April 28, 2003 and taken based on the letter of the National Bank of the Republic of Kazakhstan that all of the "K" category KASE members that are the second-tier banks are removed from the list of participants in IFI securities trade at the Exchange. Such participation contradicted the norms of the effective banking legislation of Kazakhstan as the second-tier banks could only close the dealer transactions with IFI bonds and only under the condition of inclusion of these bonds into KASE official listing that implies that IFI bonds have to take the listing procedures. At the same time IFI bonds were never listed before as in accordance with legislation they are subjected to a different procedure- admission to circulation. Thus, the inconsistency of the legislative regulations did not contribute to the extension of IFI bonds market at KASE in 2003. This inconsistency was eliminated by the Republic of Kazakhstan law "On amendments to some legislative acts of the Republic of Kazakhstan on the issues of organization of the unified system of governmental regulation and supervision of the financial market and financial organizations" of July 10, 2003 (effective from January 01, 2004) in accordance with which the second-tier banks obtained the right to close deals with IFI bonds, the list of which is established by the Agency of the Republic of Kazakhstan for the Supervision and Regulation of the Financial Market and Financial Organizations.

In July, 2003 the "Rules of admission of the international financial organizations' securities to circulation" KASE internal document was approved and put into effect. It substituted the internal document of the similar purpose effective since 2001. The new Rules are different from the editorial point of view and contain a more detailed description of the procedure issues. During the reporting year this internal document was amended with changes in relation to the improvement of the list of IFI securities that are admitted to circulation at the Exchange. Such list is formed by KASE based on the banking and other legislation of the Republic of Kazakhstan.

IFI bond trades were carried out at KASE every working day in 2003 by the main Exchange's method from 11:30 to 17:00 ALT. In this sector the securities of the International Bank for Reconstruction and Development (IBRD), International Financial Corporation (IFC_), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IADB), Bank for International Settlements (BIS_), Asian Development Bank (ASDB), African Development

Tab. 31. Major parameters of IFO bonds admitted to circulation at KASE in 2003

Security type	global note	global note	eurobond	debentures ⁵²	global note
Issuer	IBRD	IADB	IBRD	IBRD	ADB
ISIN	XS0092711802	US4581X0AD07	US459056PP62	DE0001282705	US045167BH53
Code of KASE	IBRDU251113	IADBU200912	IBRDU170303	IBRDD120405	ADB_U040912
Issue currency	USD	USD	USD	DEM	USD
Issue volume	500 m	2,000 m	4 m	3 m	500 m
Starting date	November 25, 1998	September 20, 2002	March 17, 1998	April 12, 1995	September 04, 2002
Circulation term	15 years	10 years	5 years	10 years	10 years
Maturity date	November 25, 2013	September 20, 2012	March 17, 2003	April 12, 2005	September 04, 2012
Interest rate⁵³	5.500%	4.375%	5.625%	7.125%	4.500%
Coupon payment	November 25 annually	March 20 and September 20 annually	September 17 and March 17 annually	April 12 annually	March 04 and September 04 annually
Time basis	ISMA-30/360	ISMA-30/360	ISMA-30/360	ISMA-30/360	ISMA-30/360

⁵² Specific debt securities.

⁵³ In the annual interest rates.

Bank (AFDB), European Investment Bank (EIB_), Islamic Development Bank (ISB_) could be admitted to circulation.

Five IFI bonds were admitted to circulation at KASE in 2003, they were quoted by three market-makers: State Accumulative Pension Fund, Bank TuranAlem JSC (before April 28) and Turan-Alem Securities JSC (after November 04). The IFI bonds parameters are given in Tab. 31.

FUTURES MARKET

During the reporting period the futures market development at KASE was mainly characterized by positive tendencies. The market activated significantly. The growth in the volume of transactions within this market sector and in comparison with the previous reporting period reached KZT 235.6 bn (equivalent of \$1,624.9 m) or 181.9% (194.9%). The futures market share within KASE total turnover increased to 7.3% whereas in 2002 it was 3.4%. In 2003 115 transactions for the amount of KZT 365.1 bn (equivalent of \$2,458.7 m) were closed in this sector.

Despite the positive characteristics the futures market is still very narrow, it is characterized by a high volatility level in volumes and open interest, and the market participants virtually do not want to work with the new instruments proposed by KASE.

Unfortunately, the futures market has either remained a "toy" for the traders or has been used for implementation of their financial schemes. Thus, we may positively state that futures contracts were not used as hedging tools in 2003.

No principle changes were observed in the regulatory structure of KASE's futures market in 2003. The list of "C" category Exchange members did not change and the number of positional accounts operated by the trades' participants when closing deals decreased in the reporting period to 7 from 17 in 2002.

There were three types of futures contracts traded at KASE during the year:

- ✦ 6-month futures for \$1,000
- ✦ 6-month futures based on the USD exchange rate to the Euro at the standard base asset of □1,000
- ✦ 6-month futures based on the yield of international securities of the Republic of Kazakhstan (Eurobonds) at the standard \$1,000 base asset of the issued debt of a certain issue in nominal terms

All futures contracts were the contracts without supply. Trades took place at KASE every day on working days between 10:30 and 17:00 ALT.

As before, Bank TuranAlem JSC was the leader of the Exchange's futures market in the reporting year as it closed the overwhelming portion of deals.

For the purpose of popularization of the stock futures market and practical training of the wide range of the parties concerned on how to work in the financial market, KASE organized in the reporting year the practice \$1,000 futures trade for anyone who wishes to do so via Internet. This project is described in more details in "Technologies" section.

Tab. 32. Results of trades in futures contracts for \$1,000 in 2003

Month	Number of deals	Volume, m USD	
		deals	open interest (max)
January	0	0	0
February	1	0.5	0.5
March	3	1.5	1.0
Q1	4	2.0	1.0
April	1	0.005	0.005
May	0	0	0
June	46	1,050.0	150.0
Q2	47	1,050.0	150.0
July	0	0	0
August	16	763.0	129.5
September	20	92.5	18.0
Q3	36	855.5	129.5
October	4	0.020	0.005
November	3	56.0	28.0
December	16	495.1	43.0
Q4	23	551.1	43.0
2003	110	2,458.7	150.0

Futures for \$ 1,000

The given instruments were traded at KASE more actively in the reporting year. They made up 99.999% of the futures market turnover and 110 and 115 closed transactions. The total volume of trade in this type of contracts reached KZT 365.1 bn or the equivalent of \$2,458.7 m U.S. dollars. During the year the maximum volume of open interest in individual contracts varied between \$500.0 th. (February) and \$150.0 m (June). The first six months of the year were not distinctively active. The market activated in June, August and December (Tab. 32). The maximum number and volume of transactions were closed in June. This month the participants have been working with five contracts at a time. On the whole the attempts to interlink the phases of the futures market activities and the behavior of the tenge rate in relation to the U.S. dollar in the spot-market had no success. Each of the above mentioned months was characterized by different tendencies in the base asset market. For instance, in June the tenge rate in relation to the U.S. dollar was growing at the average annual speed, in December - at the highest speed and in August on the contrary the U.S. dollar consolidated its position at KASE. A conclusion can be made that the \$1,000 futures market climate was hardly dependant on the results of the foreign exchange trade at KASE. It is likely that the market participants used the futures contracts as was necessary to arrange offsets or for different purposes that are not traditional.

Futures based on the USD exchange rate to the Euro

Trades involving this type of futures contracts were opened at KASE on November 14, 2001. Since then despite the regular futures quotation, the transactions on them were closed very rarely. In the reporting year the share of this type of contracts was 5 of the 115 contracts, closed in the sector deals and less than 0.01% of its turnover. The September contract (FU_E0309UN, 3 transactions in September) and the October futures contract (FU_E0310UN, one transaction in September and one in October) were brought to the attention of the traders. In 2003, 14 contracts were offered to the market by the Exchange.

It is likely that the market participants found it inappropriate to use this type of contracts for the same purposes as the \$1,000 futures contracts and the attempts to involve the clients into the speculative game had no success due to the high risks.

Futures based on the yield of the international securities of the Republic of Kazakhstan

Trades involving these futures contracts were opened at KASE on October 01, 2002. Since then only 4 deals were registered at KASE - on October 03 and October 24, 2002. In the reporting year this type of contracts were not quoted at KASE which is likely connected with no liquidity position in the base asset market.

PROMISSORY NOTES MARKET

Promissory notes trades opened at KASE on March 04, 2002 and take place on the work days from 11:30 till 17:30 ALT. In 2003 these rules of procedure did not change and the regulatory structure of this market sector was not updated by the Exchange.

In 2003 the Exchange included Almaty Kus OJSC only (on February 26, 2003) into the list of payers on the promissory notes, though it was not the only company that in the reporting year obtained the status of the first-class promissory notes issuer. In December, 2003 Kazkhrom Transnational Company JSC obtained such status in accordance with the Resolution of the Board of the National Bank of Kazakhstan. However, no one submitted any applications at KASE on the inclusion of this company into the list of payers on the promissory notes.

By the end of the year the list of the KASE payers included six companies:

- ✦ Kazakhtelecom OJSC (commercial code - N_KZTK)
- ✦ KAZATOMPROM National Nuclear Company CJSC (N_KATP)
- ✦ Kazakhstan Temir Zholy National Company CJSC (N_TMJL)
- ✦ Kazakhstan Power Network Management Company OJSC (KEGOC, N_KEGC)
- ✦ Sokolovsko-Sarbaiskoye mining production JSC (N_SSGP)
- ✦ Almaty Kus OJSC (N_ALKS)

However, this sector of the stock market in 2003 practically was idle. Within the whole year only 7 transactions on the promissory notes were closed at KASE for the amount of KZT 14,635,999.99. All of the transactions were closed on February 26, 2003 with the participation of two banks and related to Almaty Kus OJSC obligations (Tab. 33).

Kazcomertsbank JSC made an attempt to activate the promissory notes stock market. In December, 2003 it started offering within KASE's trade system the indicative quotations for purchasing the commercial six month promissory notes of the four first-class issuers at once (N_TMJL, N_KATP, N_KZTK and N_KEGC). However, this demand had no supply.

Tab. 33. Results of trades in promissory notes at KASE on February 26, 2003

Trade code	Prom. note's face-value, KZT	Date of prom. note repayment	Price of deal, KZT	Number	Sum of deal, KZT
N_ALKS	5,000,000	May 12, 2003	4,864,583.33	1	4,864,583.33
N_ALKS	3,000,000	April 29, 2003	2,932,833.33	2	5,865,666.66
N_ALKS	1,000,000	April 29, 2003	977,611.11	3	2,932,833.33
N_ALKS	1,000,000	May 12, 2003	972,916.67	1	972,916.67
Sum total				7	14,635,999.99

Tab. 34. Weighted average indicators of interbank deposit market in 2003

Mon- th	Indi- cator	7		14		Mon- th		Two Three mon- ths	
		days	days	days	days	mon- ths	mon- ths	mon- ths	mon- ths
I	KIBOR	7.78	8.78	9.73	10.62	11.40			
	KIBID	3.30	3.98	4.69	5.07	5.66			
	KIMEAN	5.54	6.38	7.21	7.85	8.53			
II	KIBOR	7.68	8.57	9.47	10.40	11.33			
	KIBID	3.14	3.93	4.58	5.17	5.88			
	KIMEAN	5.41	6.25	7.02	7.79	8.61			
III	KIBOR	6.47	7.35	8.20	8.98	9.70			
	KIBID	2.72	3.42	4.01	4.63	5.24			
	KIMEAN	4.59	5.38	6.10	6.80	7.47			
IV	KIBOR	6.77	7.59	8.42	9.12	9.96			
	KIBID	2.74	3.66	4.23	4.89	5.52			
	KIMEAN	4.75	5.62	6.33	7.00	7.74			
V	KIBOR	7.28	8.08	8.83	9.54	10.25			
	KIBID	2.80	3.70	4.55	5.25	5.94			
	KIMEAN	5.04	5.90	6.69	7.40	8.10			
VI	KIBOR	7.50	8.24	8.93	9.59	10.28			
	KIBID	2.78	3.73	4.26	4.90	5.61			
	KIMEAN	5.14	5.99	6.59	7.25	7.94			
VII	KIBOR	6.54	7.37	8.11	8.82	9.55			
	KIBID	2.54	3.48	3.95	4.46	5.29			
	KIMEAN	4.54	5.43	6.03	6.64	7.42			
VIII	KIBOR	7.01	7.71	8.42	9.13	9.88			
	KIBID	2.57	3.40	4.14	4.89	5.62			
	KIMEAN	4.79	5.56	6.28	7.01	7.75			
IX	KIBOR	6.71	7.38	8.04	8.72	9.41			
	KIBID	2.76	3.46	4.17	4.86	5.55			
	KIMEAN	4.74	5.42	6.10	6.79	7.48			
X	KIBOR	7.14	7.94	8.36	8.82	9.36			
	KIBID	2.74	3.68	4.02	4.37	5.06			
	KIMEAN	4.94	5.81	6.19	6.60	7.21			
XI	KIBOR	6.38	7.23	7.63	8.36	9.10			
	KIBID	2.44	3.45	4.00	4.33	5.28			
	KIMEAN	4.41	5.34	5.81	6.35	7.19			
XII	KIBOR	6.03	6.90	7.73	8.50	9.31			
	KIBID	2.08	2.98	3.80	4.43	5.40			
	KIMEAN	4.06	4.95	5.76	6.47	7.36			

INTERBANK DEPOSITS INDICATORS

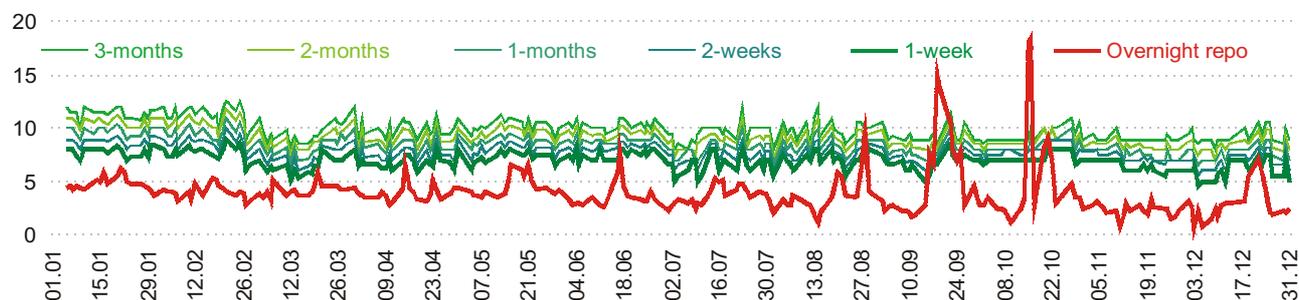
The regulatory structure of this stock market sector did not change a lot. As before, the parties to the Memorandum on the formation of the Kazakhstani interbank deposits market indicator voluntarily offered the indicative KIBOR (the average offering rates), KIBID (average bid rates) and KIMEAN (average difference between the offering and bid rates). These rates fixation took place at KASE every day at 4 p.m. Almaty time.

According to the memorandum's provisions, its participants voluntarily assumed the obligation to fix bid and offering rates daily for all the deposits of different maturities in the KASE trading system as determined by the Exchange's Council. The deposit quotation and indicator calculation procedure was regulated by the internal document of KASE "The inter-bank deposits market indicator formation procedure" that was approved and put into effect by the decision of the KASE Board on July 11, 2000. The representative list of banks, based on whose quotations the indicator was calculated, was determined by the Exchange's Council based on the analysis of the bank's reputation and rate of its activities in the deposits market. Banks were obliged to sign the memorandum in order to be allowed to take part in formation of the indicator. 10 second-tier banks signed the Memorandum at the beginning of 2003.

During 2003 the list of the banks, who signed the Memorandum did not change. However, the number of banks who regularly offered their quotations continued to decrease. In 2002 there were nine such banks and in the reporting period - only four: Bank TuranAlem JSC, ATFBank JSC, Kazkomertsbank JSC, Eurasian Bank JSC. The everyday deposits listing was carried out by three-seven banks, i.e. by four banks on the average (in 2002 - 1-13, i.e. 6 on the average).

The reporting year showed that the banks practically lost the interest to this market sector and the majority of them conducted their obligations in accordance with the Memorandum with no proper responsibility level. This had a negative impact on the correlation of the formed indicator values with the real market rates (Fig. 39) that though staying positive continued to decrease in 2003. Dual correlation coefficient of the "overnight" repo rates (the most representative sampling) and the KIBOR weekly rates in 2000 was 0.7281, in 2001 - 0.6187, in 2002 - 0.3665, in 2003 - 0.2506.

Fig. 39. Dynamics of KIBOR rates and actual rates of overnight repo in 2003 (% APR)



SETTLEMENTS

During the reporting period the KASE settlement procedures were not changed significantly in comparison to 2002.

Separate amendments related to the settlements on the deals with the foreign currencies. In particular, the glossary within the internal KASE document "Rules of carrying out the settlements in accordance with the results of the foreign exchange trade" was amended and based on it the order of determination of the net positions of the foreign exchange trade participants on KASE was concretized. Moreover, payment procedures by the trade participants to the advantage of KASE were described in more details and the terms of the payment in Euro were extended (by the trade participants to KASE advantage - by one hour, by KASE to the advantage of the trade participants - by half an hour).

On November 01, 2003 the KASE Euro correspondent account in Deutsche Bank AG was closed for its rare use and for the purpose of minimization of the KASE correspondent accounts service costs (as the mentioned bank intended to rise from the given date the tariffs on the KASE correspondent account services).

TECHNOLOGIES

Software for the trade system

In 2003 KASE continued to modify the TC software of their own design with the help of which all the Exchange trades are carried out (Fig. 40). The reporting year showed that the use of the own software is optimal under the conditions of the developing market as it provides for the possibility of the flexible on-line TC setting up and modernization to trade new financial instruments considering the trade participants' requests.

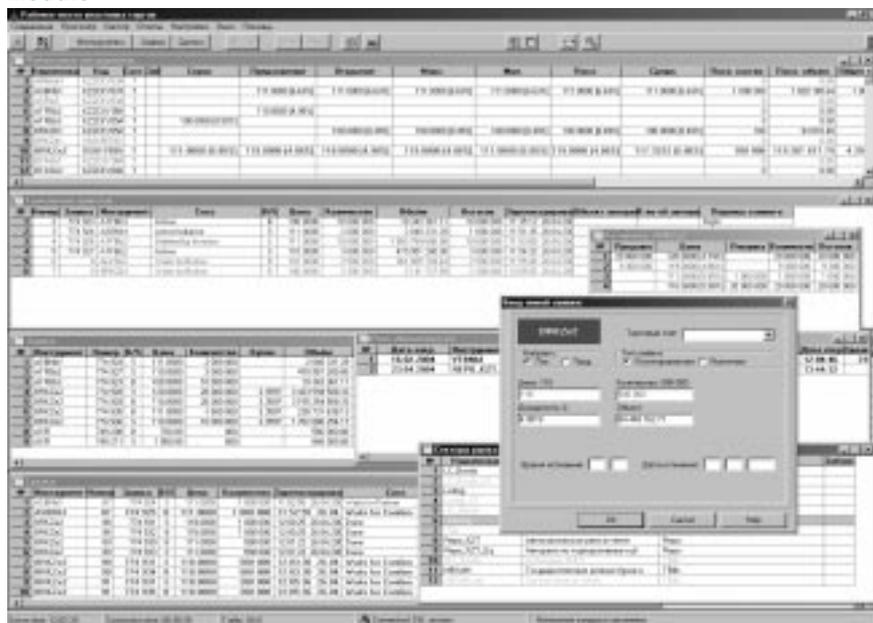
By the end of 2003 the main characteristics of the KASE's program-technical complex were the following. TC ideology is - "customer - server". The TC server part is developed in the C++ language and maintains the Linux and HP-UX operational systems. The customer part is developed in the C++ language within the C++Builder environment for the Win32 platform. The TC software gives an opportunity to take part in the trade in the real time mode, including the TC remote access mode with the use of the protocol for the TCP/IP messaging. To protect the data from the illegal access, the OpenSSL cryptographic libraries are used in the TC. The IBM (NetFinity rule box) servers are used as the main and the reserve trade servers. To maintain and manage the data the SQL server Oracle 9i is used. The KASE trade complex is protected from the temporary power dips by a number of UPS and the fuel oil generator. It is also necessary to mention the special mechanism that provides for the TC integration with the internal information management systems of the Exchange trade participants which is developed and being implemented by KASE's subsidiary company - "eTrade.kz" LLP.

In February, 2003 the new TC version was put into operation where the following was implemented: the program-cryptographic data protection facilities when working with the TC in the remote access mode to authenticate the server and users, traffic inscription (ensures the confidentiality and integrity of the information transferred from the users to the server and backward) and exchange of the electronic versions of documents between KASE and its members using the electronic digital signatures.

At present the special machineries are used for maintaining the TC users' key information - iKey1000 tokens of the Rainbow Technologies company's production that are connected to the USB-ports of the traders' personal computers.

In March, 2003 the TC software was updated for the purpose of automation of the securities evaluation in accordance with the new KASE internal document "Methods of evaluation of securities".

Fig. 40. Client part of the software environment "the Universal Trading Module"



In October KASE changed to the Acrobat Reader format when exchanging the documents electronic versions through the TC which also requested the certain software update.

Practice trades in the futures contracts via Internet

In March, 2003 both KASE and "eTrade.kz" LLP launched the practice project on the organization of the \$1,000 futures trade using KASE's testing equipment and access to the Trade Server via Internet. Any individuals could be the project participants - the Internet users who registered for the participation in this project on the following web-site: www.eTrade.kz.

The practice project worked till October, 2003 and attracted about 200 individuals who received the opportunity to participate in the foreign exchange futures test trade at KASE, free of charge and during the project lifetime. The purpose of this trade was the maximum profit receipt - variable margin. At the end of each month of the practice trades and upon expiration of the monthly practice contract, the Exchange based on the variable margin received by the trade participants determined the winners who were awarded the special premiums.

The project lets KASE test the equipment of the Internet-trading and allowed participants to obtain the skills of the financial instruments trading at KASE via Internet.

Internet-trading system

In October, 2003 "eTrade.kz" LLP launched the "eTrade.kz" project. The main purpose of this project was the organization of the Internet-trading system to carry out the operations with the financial instruments at KASE. Within the framework of this project "eTrade.kz" LLP has developed the separate TC module - mechanism of transfer of the transit orders (MTTO), which was built into the customer TC attachment to let the brokers' customers to look through the Exchange's information and transfer the customer orders to the brokers in the electronic format in the real-time mode. Depending on the system tunings, the broker has an opportunity to satisfy the customer orders manually or automatically. The flow of data that the customers exchange with their brokers is protected by the program-cryptographic means based on the SSL standards.

By the end of the reporting year, three members of the Exchange offered the real Internet-trading services at KASE with the MTTO use:

- ✦ Bank TuranAlem JSC (NGS and the automated repo market instruments)
- ✦ Fund service JSC (NGS)
- ✦ Alliance Bank OJSC (NGS and the automated repo market instruments)

The information on the "eTrade.kz" project and brokers who provide the Internet-trading services with the MTTO use is regularly updated on the web-site www.eTrade.kz.