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The shortenings and abbreviations used

\$	US dollar
ALT	Almaty time (GMT + 06:00)
APF	Accumulation pension funds
bn	billion
CD	Central Securities Depository Closed joint-stock company
CJSC	Closed joint-stock company
CS	corporate securities
EUR	Euro
Fig.	figure
FSA	The Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations
GAAP	Generally Accepted Accounting Principles
GDP	Gross domestic product of the Republic of Kazakhstan
Government	Government of the Republic of Kazakhstan
GS	Government securities
IAS	International Accounting Standards
IFO	International Financial Organizations
ISIN	International Securities Identification Number
JSC	joint-stock company
KASE	Kazakhstan Stock Exchange (Kazakhstan Stock Exchange Closed Joint-Stock Company during 2003; Kazakhstan Stock Exchange Joint-Stock Company as of 07 January 2004)
KDR	Kazakhstan depository receipts
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
MCI	Monthly calculation index for calculating pensions, benefits and other social payments, and also for using punitive measures, taxes and other payments in compliance with the legislation of the Republic of Kazakhstan. The size of this index is determined by laws of the Republic of Kazakhstan on the republican budget for corresponding years
MEIKAM	Inflation indexed treasury bills of the Ministry of Finance of the Republic of Kazakhstan (Kazakh abbreviation)
MF	Ministry of Finance of the Republic of Kazakhstan
Ministry of Finance	Ministry of Finance of the Republic of Kazakhstan
National Bank	National Bank of the Republic of Kazakhstan
NBK	National Bank of the Republic of Kazakhstan
NIN	National identification number assigned to securities in accordance with the legislation of the Republic of Kazakhstan
OJSC	open joint-stock company
PA	Pension assets
PAMO	Pension asset managing organization
REER	Real effective exchange rate
RSE	Republican state enterprise
RUB	Russian ruble
SAPF	State Accumulation Pension Fund Closed joint-stock company
SB	Subsidiary bank
SBS	state block of shares
SPT	settlement term, when liabilities on a deal are fulfilled one business day after the deal was concluded (from English "spot")
SPV	Special Purpose Vehicle (a legal entity, non-resident of the Republic of Kazakhstan, issuer of international bonds. The sole founder (participant, shareholder) of SPV is a legal entity, resident of the Republic of Kazakhstan, acting as a guarantor with regard to obligations related to SPV's bonds)
STB	Secondary bank
Stock-exchange	Joint-Stock Company Kazakhstan Stock Exchange (before 07 January 2004 – Closed Joint-Stock Company Kazakhstan Stock Exchange)
Tab.	table
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 of the stock exchange
URR	Unified Repo Rate
USA	United States of America
USD	US dollar
MAOKO	Special compensation treasury bonds of the Ministry of Finance of the Republic of Kazakhstan (Kazakh abbreviation)
MEAKAM	Special 10 year treasury bills of the Ministry of Finance of the Republic of Kazakhstan (Kazakh abbreviation)
MEKAM	Treasury bills of the Ministry of Finance of the Republic of Kazakhstan usually applied to all securities irrespective of maturity (Kazakh abbreviation)

MEKKAM	Short-term (within 1 year) treasury bills of the Ministry of Finance (Kazakh abbreviation)
MEOKAM	Midterm (1 to 10 years) treasury bills of the Ministry of Finance of the Republic of Kazakhstan (Kazakh abbreviation)
th.	thousand

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

Fragment of the picture of V. Lyui Ko "The Dragon of the River's Day" was used in the design of this document's cover.

AUTHORIZED CAPITAL AND SHAREHOLDERS

To January 01, 2005, the KASE authorized capital summarized as KZT 102,678,800.

In total, KASE issued 300 common shares with a face value (placement price) of KZT 366,710 each; the number of KASE shares which have been placed to January 01, 2005, added up to 280.

Tab. 1. List of KASE shareholders as of January 01, 2005

Full name of KASE shareholders / number of shares	Stake in total number of shares, %
1 National Bank of the Republic of Kazakhstan / 54	19,29
2 BANK CASPIAN joint-stock company / 19	6,79
3 KAZAKHSTAN-ZIRAAT INTERNATIONAL BANK closed joint-stock company / 18	6,43
4 Subsidiary joint-stock bank ABN AMRO BANK KAZAKHSTAN closed joint-stock company / 9	3,21
5 International bank Alma-Ata joint-stock company / 8	2,86
6 Halyk savings bank of Kazakhstan joint-stock company / 7	2,50
7 NEFTEBANK open joint-stock company / 7	2,50
8 Nauryz Bank Kazakhstan joint-stock company / 6	2,14
9 Kazkommertsbank joint-stock company / 6	2,14
10 Bank TuranAlem joint-stock company / 6	2,14
11 Bank CenterCredit joint-stock company / 6	2,14
12 ATFBank joint-stock company / 6	2,14
13 AIM joint-stock company / 6	2,14
14 DB SECURITIES (KAZAKHSTAN) open joint-stock company / 6	2,14
15 Kazkommerts Securities open joint-stock company / 6	2,14
16 CITIBANK KAZAKHSTAN closed joint-stock company / 6	2,14
17 Fondoviy service joint-stock company / 6	2,14
18 Demir Bank Kazakhstan open joint-stock company / 6	2,14
19 RG Securities joint-stock company / 6	2,14
20 TuranAlem Securities joint-stock company / 6	2,14
21 VISOR Investment Solutions limited liability partnership / 6	2,14
22 Tau Securities limited liability partnership / 6	2,14
23 Alliance Bank joint-stock company / 6	2,14
24 Nurbank joint-stock company / 6	2,14
25 Nauryz Securities Kazakhstan limited liability partnership / 6	2,14
26 Development Bank of Kazakhstan joint-stock company / 6	2,14
27 Subsidiary Bank HSBC Bank Kazakhstan joint-stock company / 6	2,14
28 Tsesnabank joint-stock company / 6	2,14
29 Accumulative pension fund of Halyk Bank of Kazakhstan joint-stock company / 6	2,14
30 Financial company REAL-INVEST.kz joint-stock company / 6	2,14
31 Kazkommerts Invest joint-stock company / 6	2,14
32 Centras Securities joint-stock company / 6	2,14
33 SENIM-BANK joint-stock company / 2	0,71
34 Kazakhstan financial company open joint-stock company / 1	0,36
35 FINANCIAL COMPANY GREENWICH CAPITAL MANAGEMENT open joint-stock company / 1	0,36
36 CAIFC Company closed joint-stock company / 1	0,36
37 GLOBAL SECURITIES (KAZAKHSTAN) closed joint-stock company / 1	0,36
38 RBNT SECURITIES closed joint-stock company / 1	0,36
39 KIB ASSET MANAGEMENT joint-stock company / 1	0,36
Total¹	100.00

¹ By January 01, 2005 39 shareholders of KASE were officially registered. During 2004 the following companies bought the shares of the Exchange: Tsesnabank JSC - 6 shares, Cumulative Pension Fund of Halyk Bank of Kazakhstan JSC - 6 shares, DB Securities (Kazakhstan) OJSC - 5 shares, Kazkommerts Invest JSC - 6 shares, Centras Securities JSC - 6 shares, Financial Company Real Invest.kz JSC - 5 shares.

KASE MEMBERS

Tab. 2. Change by categories of KASE members in 2004

Mem-ship category	As of Jan 1, 04	As of Jan 1, 05
"B"	28	29
"C"	5	5
"K"	50	56
"P"	45	53
"H"	21	26
TOTAL	56	61

"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"

Into KASE membership was **admitted**: Development Bank of Kazakhstan JSC (14.06.04).

Category "K"

Into KASE membership were **admitted**: Financial Company REAL-INVEST.kz JSC (06.02.04), Kazkommerts Invest JSC (09.04.04), Pension Asset Managing Organization Bailyk Asset Management JSC (previously named Pension Asset Managing Company BESTINVEST CJSC) (06.05.04), Valut-Transit-Bank JSC (14.06.04), Centras Securities JSC (05.07.04), Pension Asset Managing Organization Premier Asset Management JSC (24.09.04), Financial Company Alliance Capital JSC (14.12.04), Halyk Securities JSC (14.12.04).

KASE memberships were **removed** from: FUTURE CAPITAL LLP (10.03.04), Pension Asset Managing Company Ak Niet CJSC (this category 10.09.04).

Category "P"

Into KASE membership were **admitted**: Financial Company REAL-INVEST.kz JSC (06.02.04), Kazkommerts Invest JSC (09.04.04), Pension Asset Managing Organization Bailyk Asset Management JSC (previously named Pension Asset Managing Company BESTINVEST CJSC) (06.05.04), Valut-Transit-Bank JSC (14.06.04), Centras Securities JSC (05.07.04), Pension Asset Manager Premier Asset Management JSC (24.09.04), National Bank of the Republic of Kazakhstan (20.10.04), Kazpost JSC (20.10.04), Financial Company Alliance Capital JSC (14.12.04), Halyk Securities JSC (14.12.04).

KASE memberships were **removed** from: FUTURE CAPITAL LLP (10.03.04), Pension Asset Managing Company Ak Niet CJSC (10.09.04).

Category "H"

Into KASE membership were **admitted**: Financial Company REAL-INVEST.kz JSC (06.02.04), Kazkommerts Invest JSC (09.04.04), Centras Securities JSC (05.07.04), Kazpost JSC (20.10.04), Financial Company Alliance Capital JSC (14.12.04), Halyk Securities JSC (14.12.04).

KASE memberships were **removed** from: FUTURE CAPITAL LLP (10.03.04).

Tab. 3. List of KASE members as of January 01, 2005

	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	SB HSBC Bank Kazakhstan JSC	EPP		✓	✓	
5	International bank Alma-Ata JSC	EPP		✓		
6	Development Bank of Kazakhstan JSC	EPP		✓	✓	
7	ALASH-BANK CJSC	✓				
8	Demir Bank Kazakhstan OJSC	EPP		✓	✓	
9	SB Bank of China in Kazakhstan CJSC	✓				
10	Valut-Tranzit-Bank JSC	EPP		✓	✓	
11	CITIBANK KAZAKHSTAN CJSC	EPP		✓		
12	Nurbank JSC	EPP		✓	✓	
13	Nauryz Bank Kazakhstan JSC	✓				
14	Kazkommertsbank JSC	EPP		✓	✓	
15	KAZAKHSTAN-ZIRAAT INTERNATIONAL BANK CJSC	✓		✓	✓	
16	TEXAKABANK JSC	EPP		✓	✓	
17	Alliance Bank JSC	EPP		✓	✓	
18	Halyk savings bank of Kazakhstan JSC	EPP	CKE	✓	✓	
19	Temirbank JSC	EPP		✓	✓	
20	Bank CenterCredit JSC	EPP		✓	✓	
21	Tsesnabank JSC	EPP		✓	✓	
22	NEFTEBANK OJSC	✓				
23	Subsidiary joint-stock bank ABN AMRO BANK KAZAKHSTAN CJSC	EPP		✓	✓	
24	Eximbank Kazakhstan JSC	✓		✓		
25	SENIM-BANK JSC	✓		✓	✓	
26	SB Alfa-Bank OJSC	EPP		✓	✓	
27	Eurasian Bank JSC	EPP		✓	✓	
28	ATFBank JSC	EPP		✓	✓	
29	JB LARIBA-BANK JSC	EPP		✓	✓	
30	DB SECURITIES (KAZAKHSTAN) OJSC			✓	✓	✓
31	Kazkommerts Securities OJSC			✓	✓	✓
32	CAIFC Company CJSC			✓	✓	✓
33	Tau Securities LLP			✓	✓	✓
34	KG Securities JSC			✓	✓	✓
35	Kazakhstan financial company OJSC			✓	✓	✓
36	Centras Securities JSC			✓	✓	✓
37	FINANCIAL COMPANY GREENWICH CAPITAL MANAGEMENT OJSC			✓	✓	✓
38	Nauryz Securities Kazakhstan LLP			✓	✓	✓
39	VISOR Investment Solutions LLP			✓	✓	✓
40	AIM JSC			✓	✓	✓
41	RSE Information-stocking center					✓
42	MONEY EXPERTS JSC			✓	✓	✓
43	Financial company REAL-INVEST.kz JSC			✓	✓	✓
44	General Asset management JSC		CTE ⁴	✓	✓	✓
45	Kazkommerts Invest JSC			✓	✓	✓
46	RBNT SECURITIES CJSC			✓	✓	✓
47	GLOBAL SECURITIES (KAZAKHSTAN) CJSC			✓	✓	✓
48	KIB ASSET MANAGEMENT JSC			✓	✓	✓
49	Financial company Alliance Capital JSC			✓	✓	✓
50	Organization conducting investment management of pension assets Bailyk asset management JSC			✓	✓	
51	RG Securities JSC		CTE	✓	✓	✓
52	Fondoviy service JSC			✓	✓	✓
53	Halyk Securities JSC			✓	✓	✓
54	Organization conducting investment management of pension assets Premier Asset Management JSC			✓	✓	
55	TuranAlem Securities JSC		CTE	✓	✓	✓
56	Accumulative pension fund of Halyk Bank of Kazakhstan JSC			✓	✓	
57	Organization conducting investment management of pension assets Zhetysu JSC			✓	✓	
58	Organization conducting investment management of pension assets ABN AMRO Asset Management JSC			✓	✓	
59	State accumulative pension fund JSC			✓	✓	
60	Kazpost JSC			✓	✓	✓
61	Central Asian Trust Company JSC			✓	✓	✓
Total		29	6	42	33	20

² Participants of Early Payment Processing - settlements in the immediate delivery mode.

³ Clearing member on futures contracts.

⁴ Trade member on futures contracts.

THE KAZAKHSTAN STOCK MARKET IN 2004

Fig. 1. Dynamics of the turnover structure and volume of Kazakhstan's stock exchange market over the last 12 years (USD bn)

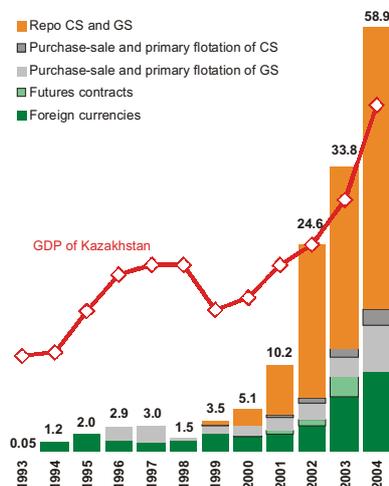
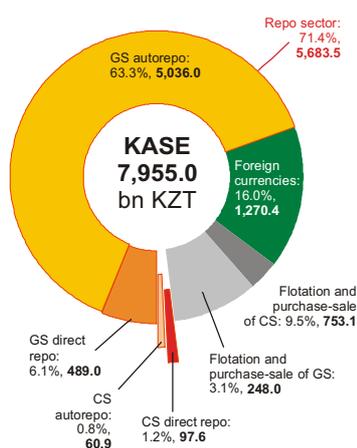


Fig. 2. Volume and structure of Kazakhstan's stock exchange market in 2004 (KZT bn)



During 2004 KASE conducted trades with foreign currencies, GS of the Republic of Kazakhstan (including the securities of local executive bodies which will be called below "municipal" for short), CS of Kazakhstan issuers (including SBS and bonds of SPV), IFO bonds, futures contracts, and promissory notes. With regard to 2003 we can see two new sectors: the foreign GS trading sector and the CS trading sector of foreign issues. The initial placements of corporate securities, common and preferred stocks of listed companies were carried on KASE. Throughout the year two repo sectors worked on KASE, their activity was focused on GS and CS. In the so-called automatic repo sector, trades by financial resources were conducted using the general exchange's method that is called "open trade". Moreover, the stock market's participants had the opportunity to put into practice "direct" trading with repo transactions (i.e. by closing direct deals).

As before in the whole reporting year KASE regularly calculated the indicators for the Kazakhstan interbank deposits market - KIBOR, KIBID and KIMEAN for various deposit terms - upon the instruction of market participants and based on their quotations. The stock market climate was daily characterized by the 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 stock market in 2004 was first and foremost characterized by the volume of trade. The exchange turnover reached an equivalent of USD 58.9 bn (or KZT 7,955.0 bn) came up to 143.5% of Kazakhstan's GDP, which with accordance of the Agency on Statistics of the Republic of Kazakhstan data summarized as KZT 5,542.5 bn in 2004. This is the KASE historical record. In the previous reporting year, the exchange turnover of KASE was not exceeding 113.6% of GDP, in 2002 - 101.2% of GDP.

As is obvious from Tab. 4, the growth of the exchange turnover in 2004 was mainly come from repo transactions. This, as the previous three years, has arise from the continued expansion of financial resources, which, in its turn, ensured inflow of foreign currency into the domestic market as a result of export operations of Kazakh enterprises and the growth of foreign borrowing by Kazakhstan residents. Unfortunately, the deficit of securities, that could absorb the surplus of liquidity in Kazakhstan's financial market, keep on be felt in the reporting year. Such is indeed the overpowering volume of stock exchange operations were conducted with help of money market tools. However, it is necessary mention that the increment of CS turnover (in percentage) was comparable with the increment of repo operations and the increase of GS turnover had taken place with more up-tempo.

Remarkable feature of the reporting year became the high speed of growth of KASE turnover (Tab. 4, Fig. 1). If in 2003 the index of stock exchange turnover was 33% compared to 2002 with amount of KZT and in the reporting year it was 58%. And the index with amount of USD terms estimated changes were 37% and 74% pro tanto.

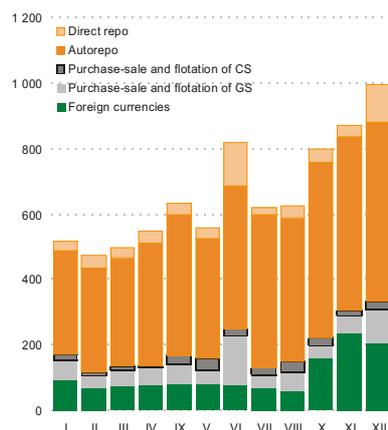
In the reporting year as compared to 2003 the structure of KASE turnover did not undergo fundamental changes (Tab. 4, Fig. 2).

On a month slot the dynamics of the transactions' volume on KASE looked perfectly traditional (Fig. 3). The most active was fourth quarter of the reporting year when foreign currency inflows whirl upward. On the one hand it came to ade-

Tab. 4. Comparative data on the turnover on KASE and its structure in 2003 and 2004

Market sector	bn KZT						m USD					
	2003		2004		Trend		2003		2004		Trend	
	Volume	%Volume	Volume	%	Volume	%	Volume	%	Volume	%	Volume	%
Foreign currencies sector	954.0	18.9	1,270.4	16.0	+316.4	+33.2	6,413.4	19.0	9,449.5	16.1	+3,036.0	+47.3
GS sector	354.0	7.0	753.1	9.5	+399.1	+112.8	2,378.0	7.0	5,558.6	9.4	+3,180.6	+133.8
CS sector	152.7	3.0	248.0	3.1	+95.3	+62.4	1,025.2	3.0	1,830.0	3.1	+804.8	+78.5
Repo sector (GS and CS)	3,208.9	63.7	5,683.5	71.4	+2,474.6	+77.1	21,523.6	63.7	42,012.0	71.4	+20,488.3	+95.2
Futures contract sector	365.1	7.3	0.020	0.0003	-365.1	-100.0	2,458.7	7.3	0.10	0.0002	-2,458.6	-100.0
IFO bond sector	-	-	0.038	0.0005	+0.04	+100.0	-	-	0.30	0.0005	+0.3	+100.0
Promissory note sector	0.0150	0.0003	-	-	-0.015	-100.0	0.0960	0.0003	-	-	-0.096	-100.0
TOTAL	5,034.7	100.0	7,955.0	100.0	+2,920.3	+58.0	33,799.1	100.0	58,850.5	100.0	+25,051.4	+74.1

Fig. 3. Dynamics of the turnover structure and volume of the stock exchange market in 2004 (KZT bn)



quate accretion of KASE biddings with USD and, on the other hand, as a sequel it came to the growth of repo operations' volume and latent repo transactions with the GS.

The most active participants on the stock market of Kazakhstan in 2004 were recognized:

- 1) Bank TuranAlem JSC - 16,57% from the volume of the all operations conducted on KASE, a leader of the GS trading and repo operations' sectors; a leading operator of the futures contracts sector; a KASE market-maker of USD and Russian ruble.
- 2) Kazkommertsbank JSC - 7,13% of the KASE turnover
- 3) ATF Bank JSC - 4,78% of the KASE turnover
- 4) Eurasian Bank JSC - 4,75% of the KASE turnover
- 5) Alliance Bank JSC - 4,70% of the KASE turnover

In 2004 TuranAlem Securities JSC retained the leading positions with the volume of CS sales and as the leader among financial consultants of Issues that put the largest securities issues on KASE. We must note General Asset Management JSC as company which came out leader among broker-dealer companies.

Tab. 5. Detailed structure of the KASE turnover in 2004 (m USD, %)

Segment of stock market	Total structure		Sector structure segment	Sector structure		Instrumental structure		
	volume	stake		volume	stake	instrument	volume	stake
Corporate securities (CS)	1,830.0	3.1	floatations	156.3	0.3	shares	24.1	0.04
			SBS	10.4	0.0	bonds	132.2	0.22
			purchase-sale	1,663.3	2.8	shares	10.4	0.02
Government securities (GS)	5,558.6	9.4	purchase-sale	5,558.6	9.4	shares	942.3	1.60
						bonds	721.0	1.2
						eurobonds	122.6	0.2
						NB notes	3,853.5	6.5
						MEKKAM	176.2	0.3
						MEOKAM	1,352.2	2.3
Futures contracts	0.145	0.0002	purchase-sale	0.145	0.0002	MEIKAM	12.0	0.02
						municipal bonds	42.1	0.07
						futures for €1 000	0.145	0.0002
Foreign currencies	9,449.5	16.1	purchase-sale	9,449.5	16.1	EUR	129.0	0.219
						RUB	4.1	0.007
						USD	9,316.4	15.8
Repo	42,012.0	71.4	automated repo	37,668.6	64.0	GS	37,216.8	63.2
						CS	451.8	0.8
			"direct" repo	4,343.4	7.4	GS	3,620.7	6.2
						CS	722.7	1.2
IPO bond	0.274	0.0005	purchase-sale	0.274	0.0005	IBRDD120405	0.274	0.0005
TOTAL	58,850.5	100.0		58,850.5	100.0		58,850.5	100.0

THE CORPORATE SECURITIES MARKET

In 2004 the Kazakhstan CS market continued to develop in the view of tendencies of former three years and did not change its key features. As before the main driving force of the market was the steady growth of the assets of leading institutional investors - STB and APF and also the expansion of the money supply.

The most important event of the year became accepting a new version of the Law of the Republic of Kazakhstan "About Investment Funds". Professional participants pin their hopes on this law to have a strong impact on the stock market development in the country. During the reporting period accepting of this law had not actual influence upon the stock market because only two unit investment trusts were registered in Kazakhstan to the end of 2004 that were: Compass Portfolio Investments and Compass Direct Investments. These both funds are private and belong to Risk-Investments Funds' class; of course they have had no time to show their worth during the reporting year. Investment funds did start registration mainly in 2005, and with KASE opinion it must bring the results also to the mid of 2006.

Another remarkable event of the 2004 was the ratification of The Development Program of the Securities Market of the Republic of Kazakhstan in 2005 - 2007 approved by the Resolution of the Government of the Republic of Kazakhstan № 1385 as of December 24, 2004. This document included a lot of clauses which must noticeably promote development of this economical sector. The most significant initiative of the Program was to transfer of SBS of Kazakhstan companies and their subsidiaries under administration of a new established state holding. Subsequently, some of this SBS will be sold via the formal stock exchange. As contemplated of the Program's authors which were the Ministry of Economy and Budget Planning of the Republic of Kazakhstan and Agency of regulation and supervision under financial markets and financial organizations of Republic of Kazakhstan, free float of shares of first-class issuers will become available on the market and the institute of independent directors of national companies will appear, which, in its turn, will improve the quality of their corporate governance.

Among other events of 2004 capable of a positive affect on the stock market development of Kazakhstan is:

- ✦ The IV Congress of Kazakhstan's Financiers (November 15, 2004 Almaty). Speaking at the Congress, President Nazarbayev made it clear that the development of the stock market in the country is under his personal control and is one of the priority lines of economic development of the country
- ✦ The Development Program of the Securities Market of the Republic of Kazakhstan 2005 - 2007 approved by the Resolution of the Government of the Republic of Kazakhstan № 1385, December 24, 2004
- ✦ All coordinated actions of the Government continues to create a regional financial center in Almaty

The richness of the reporting year of the above shown events was its special feature and illustrates the grown attention of the country's governing body to the problems of the stock market. This circumstance makes one hope of acceleration in the rates of Kazakhstan stock and bond market development and upsurge it to the new qualitative level about mid of 2006.

Judge by the reports' filed, entered KASE, of securities issuers demonstrate that for most of them the year 2004 was as successful as the two previous years that was reflected in the appreciations of Kazakhstan issuers by leading rating agencies; not one of which reduced their corresponding ratings during 2004. Existing ratings were either confirmed or upgraded. Same was true about forecasts. Furthermore, in 2004 some of Kazakhstan's companies had got ratings' appreciations from the leading Agencies for the first time.

The rate of numerical growth of Kazakhstan market of CS, judging by immediate KASE constituents⁵, continued to slow down during the reporting year (Tab. 6). As in 2003, this was conditioned by the volume of the market which had being increased rapidly in monetary terms and was not able to keep the

⁵ Unfortunately, the data on OTC market of national securities in 2004 were not published, which makes impossible the comparison with a stock market in the present report.

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

Year	Turnover, m USD		Trend to previous	
	m USD	m USD	m USD	%
1997	2.3	x	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	
2004	1,830.0	+804.8	+78.5	

Fig. 4. Comparison of trade volumes of stocks and corporate bonds on KASE

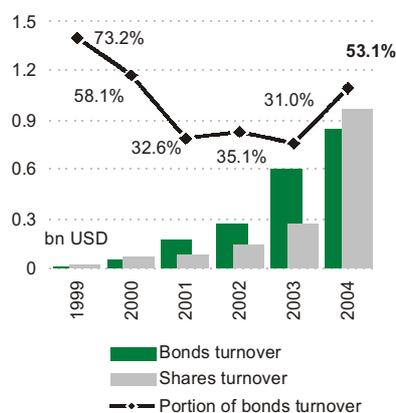
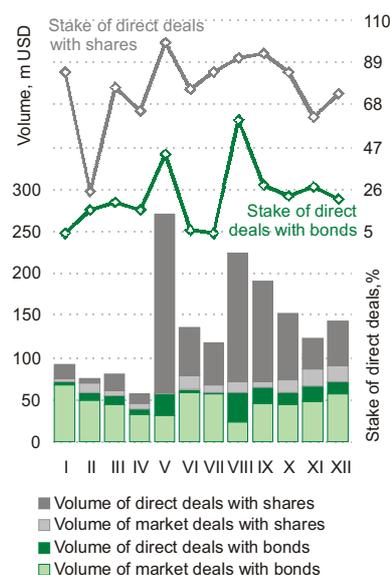


Fig. 5. Volumes (left) and shares (right) of various types of CS transactions in the trade sector in 2004



previous rate of growth in percentage terms. In 2004 the growth of stock's bargains volume with CS in monetary terms was the up-to-date record for the Kazakhstan Newest History.

The special feature of the reporting year became the high record of CS stock's turnover on KASE and, especially, it's preroll regarding corporate bonds' market (Fig. 4). First from Kazakhstan's "bonds' boom", shares' tools successfully competed with debt's tools by volumes of bargains on KASE ring.

Not lowered of the concernment of the fact which illustrate evolution of Kazakhstan stock market to the right direction, should hope, it had to recognize that 2004 became a recurrent year of might-have-been hopes. As before, the country has no developed market of shares. It is remaining narrow and "schematic"⁶. As before derivable prices have not reflected neither economic development of the country or sectors of the economy or progress/failure of issuers. Precedents of truly market of debt's tools are rather exception than the rule. Prima facie evidence of that is the growth of the volume and part of non-market (direct) stock deals with shares in 2004. While in 2003 the deals comprised 75.6% of KASE shares' turnover (USD 199.1 m) amounted as 85,9% (USD 809.5 m, Fig. 5) during the reporting period.

THE KASE TRADE LISTS

From January 01, 2004 gave effect to the Rules of Admittance of Securities to the Non-Listing Securities Sector, concerted with the National Bank, December 18, 2003, and approved by the Exchange Council, December 23, 2003. Main difference of new Rules from the previous and analogous by means of interior of KASE document "Procedure for Admittance of Securities to Non-Listing Securities sector" (approved by Resolution of National Securities Commissions' Directorate, № 100) June 26, 1998, consist in refusal from subdividing the list "The Non-listing securities" in two levels of admittance as it applied last five years.

The levels of admittance CS into sector of The Non-listing securities were put in use by KASE in 1998. In order for securities to be admitted to the first level of KASE circulation, the initiator of the admittance was bound to submit at least minimum financial and other information about the given securities' issuer. That for admittance of securities to the second level, a set of documents that confirm legitimacy of the securities was sufficient.

The five years practice of such access revealed inexpediency of CS list's dividing in two levels because insertion in first level occurred extremely seldom, and last three years KASE did not receive any orders fitted that levels. As a result since January 01, 2004, Kazakhstan Stock Exchange refused to divide the CS list into two levels and put the clause where an initiator of admittance of securities in this sector must provide proof the fact of existence of those securities as the objects of the civil rights and ability of their free floatation in the Republic of Kazakhstan. At the same time, requirements of the documents' composition of to be filed with KASE were simplified to compare with previously used.

Additional new clause was incorporated into the Rules of Admittance of Securities to the Non-Listing Securities Sector. According to this clause, the lack of deals with non-listing securities for a calendar quarter should pass its in delisting of such securities without resolution of the KASE Board. Owing to the clause to the beginning of January, 2004 the Non-listing securities sector cardinally rid of non-liquid tools, and the trading system is no clutter up by nobody needed securities.

So to the beginning of 2005, four CS listings admitted on KASE market exist:

- ◆ the official securities listing, category "A"
- ◆ the official securities listing, category "B"
- ◆ the "Non-listing securities" sector
- ◆ the State Block of Shares listing

⁶ The market where sale or purchase of shares is not the final aim of its participants, but helps to embody different financial schemes, including those aimed at tax optimization.

Each of the first three sectors has been divided into shares and bond sectors at that inside all Sectors both securities of Kazakhstan residents and securities of foreign issuers could be used.

Listing requirements

Before April, 2004, requirements for CS of KASE official lists and for their issuers were exclusively determined by KASE internal regulations (from 1997 to February, 2002 - by Regulation about Securities Listing; from March 01, 2002 - Securities Listing Rules, and, from July 07, 2003, Listings Requirements of Foreign Securities and Kazakhstan Depository Receipts).

From April 29, 2004, in addition to the above mentioned internal documents, a special normative act was adopted - the Resolution of the FSA Board № 63 "About Requirements for Issuers and Their Securities admitted in circulation on the Stock Exchange and for Specific Categories of the Stock Exchange Listing" dated March 15, 2004 (referred to in this section as Resolution). This document was drafted in accordance with the law of the Republic of Kazakhstan "About Securities Market".

With regard to foreign securities and KDR, the listing rules contained in the Resolution do not differ from the respective internal document of KASE (Listings Requirements of Foreign Securities and Kazakhstan Depository Receipts).

At the same time, listing requirements for Kazakhstan CS and for their issuers fixed by the Resolution in some respect have differences from KASE listing requirements. Both documents fixed similar requirements with regard to: the issuer's period of existence and form of incorporation (except for RSE inclusion of their bonds in the official list of category "A"), audit, presence of a market-maker, absence of overdue obligations and norms infringing or limiting rights of security holders to transfer or dispose of their securities. At the same time, requirements of the issuer's financials fixed in the Resolution essentially differ from KASE requirements and do not tolerate for any exceptions.

Firstly, according to the Resolution, the issuer's compliance with requirements for the size of equity, size of assets (for banks and mortgage bond issuers), and sales volume due to general activity (for other organizations) must be controlled by audit financial reports of the issuer⁷.

Secondly, the above mentioned indicators "link" inside the Resolution to the periodically changing MCI.

Thirdly, the Resolution fixed listing requirements for fiscal indexes of issuers admitted in the official listing category following the top category are more rigid than those fixed in KASE Listing Rules with regard to the category "B".

In accordance with the Resolution, for CS inclusion into the official KASE list of the top category (category "A" of the official listing) and circulate inside it, the issuer's principal must not be less 1,200,000 size of MCI and not less than the issuer's authorized capital, the issuer's assets must not be less than 5,000,000 size of MCI; sales volume of principal operations upon the last fiscal year - not less 1,200,000 size of MCI. For inclusion into the official KASE list following the top category (category "B" of KASE official listing) and circulate inside it, the issuer's principal must not be less 300,000 size of MCI and may not be less than the issuer's authorized capital; the issuer's assets must not be less than 1,000,000 size of MCI; volume of sales of principal operations upon the previous fiscal year - not less 300,000 size of MCI.

Besides the Resolution had been fixed the requirement regarding the availability of disposable income of securities' issuers for inclusion into the official KASE list following the list of top category and circulate inside it. KASE Listing Rules do not fix the same clause in regard to companies listed or applying for listing into the category "B".

The Resolution also vested right allowing the stock exchange to establish additional listing requirements. In general, requirements fixed by Resolution prevail over competent requirements of KASE Listing Rules.

⁷ In accordance with the Listing Regulations an audit report should confirm only net profit of an issuer.

During 2004, KASE Listing Rules were altered and amended five times. The most essential amendments had been issuable with audit of listing companies and those applying for listing.

First from March 26, 2004, the schedule of auditors' companies are eligible for to audit of Kazakhstan's organizations whose CS are listed or subject to include into the official listing of category "A", the complement to traditional "Big quadruple" it was amplified by auditor's organizations which meet criteria of the World Bank for a purpose of audit of projects financed by the World Bank's loans or grants and embodied in Republic of Kazakhstan. KASE makes verification of audit's companies meet the above criteria on the basis of information received from the World Bank and the Chamber of Auditors of the Republic of Kazakhstan.

Second above amendments of the Listing Rules have been qualified the format of audited financial statement referable to KASE for category "B" listing. Also conditions were defined for incorporating CS into the official list of category "B" during first quarter of the current year. These amendments are on all fours with its content to clauses applicable to category "A" listing of CS.

Third the Listing Committee was granted authorization to take final decision of accepting auditor's report in the case if that report has no univocal correspondence to the fact of the issuer's accountability confirmation by Audit Company.

The interim KASE document "Listing Requirements for Foreign Securities and Kazakhstan Depository Receipts" was modified twice in 2004. In accordance with the first set of amendments, the KASE listing requirements of presence net produce for foreign companies whose securities are listed in category "B" have been come under the Resolution. If before their net produce deficiency was ad-

Tab. 7. Listing requirements of KASE to Kazakhstan share and bond issuers⁸

Qualifying standards	By the end of 2004
Official list, category "A"	
Legal-organizational form	joint-stock company
Existence term	not less than three years ⁹
Presence of the net income	for the last year or on any two of the last three years
Debt on securities in circulation or other obligations	to be absent
Presence of market-maker on shares/bonds	necessarily
Audit	annually by an audit organization, complying with criteria of the World Bank, which are established for audit organizations to audit projects, realized in the Republic of Kazakhstan due to credits or grants of the World Bank ¹⁰
During listing of shares – number of announced shares	common – not less than 100,000 units, priviledged – not less than 10,000 units
During listing of bonds – minimum volume of bonds issue	not less than KZT 300.0 m. and 20.0 th. bonds
Shareholders equity	not less than 1,200,000 MCI and cannot be less than authorized capital ¹¹
Size of assets (banks and organizations, issuing mortgage bonds)	not less than 5,000,000 MCI
Sales volume in a year (except banks and organizations, issuing mortgage bonds)	not less than 1,200,000 MCI
Official list, category "B"	
Legal-organizational form	during listing of shares – joint-stock company, during listing of bonds – is not to be ascertained
Existence term	not less than one year
Presence of the net income	for the last year or on any two of the last three years
Audit	annually by any auditor
During listing of shares – number of announced shares	common – not less than 100,000 units, priviledged – not less than 10,000 units
During listing of bonds – minimum volume of bonds issue	not less than KZT 50.0 m. and 3 000 bonds
Shareholders equity	not less than 300,000 MCI and cannot be less than authorized capital
Size of assets (banks and organizations, issuing mortgage bonds)	not less than 1,000,000 MCI
Sales volume in a year (except banks and organizations, issuing mortgage bonds)	not less than 300,000 MCI

⁸ In accordance with the Decree, and excluding requirements to the volume of issued shares and minimal volume of the bonds issue.

⁹ A set-off of the entity's (entities') term of existence can me made, when the issuer was created in the result of its (their) restructuring. For issuers, where the state is a single shareholder, can be set a shorter term of existence.

¹⁰ Auditors from the Big Four and LLP BDO Kazakhstanaudit comply with the World Bank criteria.

¹¹ The amount of MCI (minimum calculation index) set by legislation on state budget for 2004 equaled to KZT 919, for 2005 - KZT 971.

mitted for three fiscal years in consecutively, in accordance with first new amendments the period was reduced to one year. In accordance with the second set of amendments were qualified that the information schedule which must be submitted by listing companies or candidate's companies defining individually follow not only legal peculiarities but with practice of information disclosure by issues aimed to investors (implying that foreign issuers use the Internet access as main channel of information disclosure about themselves and their activities).

To the end of 2004 the KASE qualifying listing standards for residents of the Republic of Kazakhstan effective are shown in Tab. 7, for foreign securities and KDR - Tab. 8.

Requirements for market-makers

As before, two variants of market-makers operated on KASE during the reporting year: proper market-makers and securities specialists. The latter is represented as market-makers that are confronted more rigorous standards regarding spreads between obligatory quotations.

Activities, rights and obligations of market-makers with CS were regulated by the two internal KASE documents which did not undergo fundamental changes in the reporting year (all amendments concerned exceptional wording revision):

- ✦ Rules of Market-Makers Activities
- ✦ Specification of the Status of a Market-Makers of KASE Members in Categories "P" and "H" (Attachment 1 to the Rules of Market-Makers Activities)

Essence of these documents come to minimum liquidity for CS included to KASE official list of category "A" binding and continuous quotation by market-makers their sales and purchase under the conditions which validly specified above mentioned documents.

The Structure of Trade Lists

Securities

To January 01, 2005, the KASE trade lists consisted of 176 securities of 80 issuers. The number of securities decreased by 2,2% (in 2003 by 45, 2% increase), the number of issuers decreased by 24,5% (by 34,2% increase in 2003). More detailed information about the dynamics of structure of the trade

Tab. 8. Listing requirements of KASE to shares and bonds of foreign issuers, including those, which are assets of KDR¹²

Qualifying standards	By the end of 2004
Official list, category "A"	
Legal-organizational form	during listing of shares – providing free circulation of shares, during listing of bonds – is not to be ascertained
Issuer's existence term	not less than three years
Shareholders equity	not less than USD 100 m. or equivalent of this sum
Presence of the net income	during listing – for each year of the last three years, during circulation – annually ¹³
Accounting standards	IAS or GAAP
Audit	annually by an auditor of "Big Four"
During listing of shares – issuer's long term credit rating in foreign currency, during listing of bonds – bonds' rating	not lower than "A" on Standard & Poor's and Fitch or "A2" on Moody's
Overdue debt on securities in circulation or other obligations	to be absent
Presence of market-maker on shares/bonds on KASE	necessarily
Official list, category "B"	
Legal-organizational form	during listing of shares – providing free circulation of shares, during listing of bonds – is not to be ascertained
Issuer's existence term	not less than three years
Shareholders equity	not less than USD 100 m. or equivalent of this sum
Presence of the net income	during listing – for the last year, during circulation – annually ¹³
Accounting standards	IAS or GAAP
Audit	annually by an auditor of "Big Four"
During listing of shares – issuer's long term credit rating in foreign currency, during listing of bonds – bonds' rating	not lower than "B" on Standard & Poor's and Fitch or "B2" on Moody's
Overdue debt on securities in circulation or other obligations	to be absent
Presence of market-maker on shares/bonds on KASE	necessarily

¹² In accordance with the Decree.

¹³ The absence of net income, not exceeding one financial year, is admitted during circulation.

Tab. 9. Dynamics of KASE listing structure in 2004

Category of admission	As of Jan 1, 04		As of Jan 1, 05	
	securities	issuers	securities	issuers
A	90	40	132	49
B	39	29	42	32
A+B	129	68	174	79
N	51	43	2	2
TOTAL	180	106	176	80

A official list, category "A"
B official list, category "B"
A+B official list
N "Non-listing securities" sector

registers, without taking SBS into consideration, shown in Tab. 9 and Fig. 6 and 7. As was marked above, the negative dynamics of KASE trade registers in 2004 was generated by the "data scrubbing" of sector "Non-Listing Securities" ex post facto consummation of "Rules of Securities Admittance" into Non-Listing Securities Sector circulation. Subject of this "data scrubbing" became 45 shares of 38 issuers. Taken into consideration this circs, below given results of analysis of dynamics concerning only KASE official securities' list as the tools of this list comprise 99.9% of the CS turnover of KASE in 2004.

The dynamic of KASE official list have kept the basic tendency of the previous three years: widening number of financial tools accepted to KASE auctions occurred of the main account of the securities listing into the category "A". The result of the reporting year was KASE official list increased by 45 new denominations of securities but for all that increased by 42 tools into the category "A" and only by 3 into the category "B". The same tendency kept to the issuers whose securities accepted to KASE auctions in the scope of official list. Their quantity increased by 9 into the category "A" and by 3 into the category "B" and by 11 according to all available official data¹⁴.

The tools' structure analysis results of KASE official list shows that the list of category "A" had been growing for the account of included bonds (31 out of 42 new denominations of securities). This time shares played a subordinate role. The situation with category "B" was different. Here the number of shares increased by 6 denominations, while the number of bond decreased by 3 denominations at the cost of its issues' redemption and securities upgrade into category "A".

Above shown observations let made next resume.

Aspiration of Issuers upgrade their securities into the category "A" of KASE official list was expressed by willingness to get access to institutional investors' assets (extensively - to PA of APF), which, in the reporting year, could be enlisted with more favorable terms because of slump in interest rates and extend the dates of maturity (Fig. 8). For the sake of the target, Issuers were ready to incur costs following with listing process into the KASE top category and to do listing requirements, the most rigorous for the "A" category. First of all it concerns bonds and privileged banks' shares (JSC Bank TuranAlem). At the same time, Issuers preferred to offer Debt Instruments in order to attract investors, whose yield somehow or other depended from the inflation rate inside Kazakhstan, KZT nonindexing securities and bonds, indexed from the devaluation of KZT against USD but which yields was protected against KZT revaluation. It is explained by unswerving strengthening of KZT against USD in the reporting year¹⁵.

Another motivation to insert bonds into KASE official list of the category "A" appear satisfaction of formal standards via listing procedure of international securities in the native land of Issuer. Virtually all international bonds of Kazakhstan's issuers included into the KASE official list in 2004 got under the motivation as neither for Issuers nor for their guarantors not brought subsidiary income. In the view of KZT strengthening against USD these securities were not practically in requisition into the interim market and liquidity of it was lacking.

The situation with shares of KASE official list in the category "A" is more complicate. Trades, in a half of the stocks tools included in KASE list of given category, have not been opened not only of the end of the reporting period but now of the time of writing of this report. It allowed supposing that the Issuers' interest to the listing procedure of category "A" differ from the access to assets of APF and STB. The most probable is in expectation of auction of the Issuers' SBS in the open market by Ministry of Finance. But must not be ruled out and other motives.

The motifs of inserting securities in into KASE official list of category "B" in comparison to 2003 not changed. It was shown above that KASE official list of this category solely expanded owing to shares. As before, there are impressive facts to think in most cases shares were taken into this part of the KASE official list in order to post-processing in tax optimization charts¹⁶. These securities are in

Fig. 6. The number of CS admitted to trades in 2004 (end of the period)

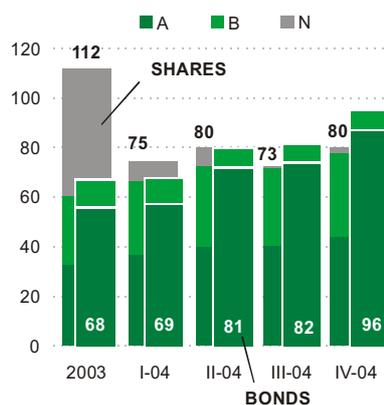
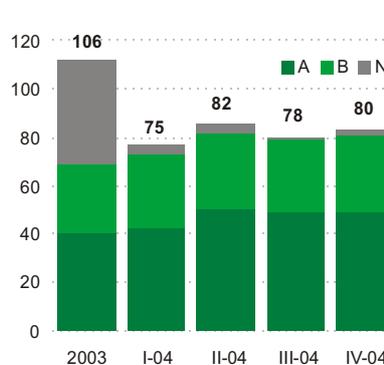


Fig. 7. The number of issuers whose securities were admitted to CS trades in 2004 (end of the period)

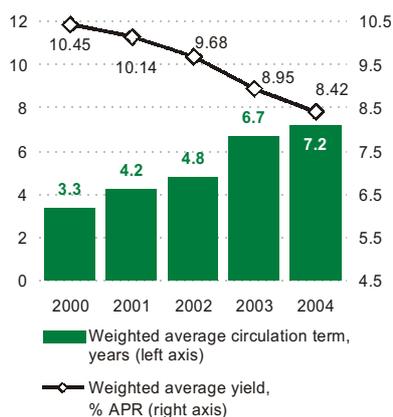


¹⁴ Arithmetic discrepancies are explained by the fact that securities of the same issuer can be included in different categories of official KASE listing.

¹⁵ 9.30% in nominal terms on average weighted exchange rate.

¹⁶ Preferential tax regulations relating securities, included in the official KASE listing, had been set by the Tax Code from January 01, 2002.

Fig. 8. Changes in maturities and yields of corporate bonds traded on KASE in 2000-2004



high requisition within sharply restricted circle of investors and are traded frequently by method of direct transactions with prices fluctuating with inexplicably wide from the market's point of view scope. Taking into account that costs of the securities listing in category "B" are greatly lower than in category "A" as listing standards, the described actions of the issuers seem to be justified.

It should be marked that in 2002-2003 the contemplate tendency of expansion of KASE official list of category "B" by shares had not got pronounced development in the reporting period. The speed of expansion of this category list sharply decreased. First of all, the fact obliged to amendments into Bank legislation: since January 01, 2004 came into force amendments and addenda into the law of the Republic of Kazakhstan "About Banks and Banking Activities in the Republic of Kazakhstan" in conformity with these amendments, STB forfeit its rights to purchase any listing CS. Since the date STB has a right to purchase the only shares and bonds "inserted in the top listing category of a stock exchange operating on the territory of the Republic of Kazakhstan". As applied to existing practice, it means that from the beginning of 2004, CS inserted in category "B" of KASE official list became inaccessible for STB that, most likely and were the principal initiators of such securities put into circulation on KASE. Moreover might suppose that slowing down of growth of the number of new listings in category "B" casus belli FSA against deals which brokers made on the stock exchange but with not market's prices. April 13, 2004, FSA came into force a resolution of FSA Board № 80 "On the Approval of Rules of validation of Securities Deals made with the Purpose of Price Manipulation" dated March 15, 2004. Approved by the resolution these rules much reduced possibilities of small volume of shares and bonds usage inserted into KASE official list, in tax optimization charts because inter-payments and "hidden" repo operations had to be made with shares' prices coming to the market ones.

Aforesaid must not be ruled out issuers' positive motivation for move CS into the category "B" of KASE official list. For instance, some issuers were considering the listing of their shares in "B" category as "underachieving" to category "A" to the defined indicators, as a prelisting of a sort, where the issuer has an opportunity to display himself publicly and attract potential investors.

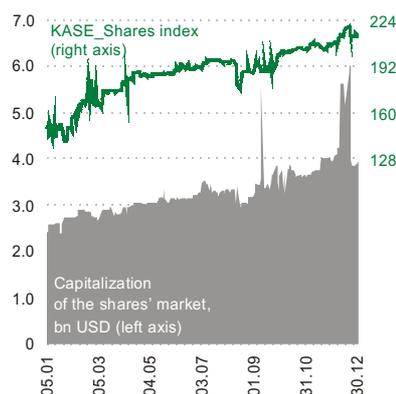
In this chapter's context, it is necessary to mention an occurrence which had not factual affected to the market but was important as a precedent. October 20, 2004, for the first of KASE history, the KASE Exchange Council have taken a decision to incorporate foreign issuer's securities - common shares of Petro Kazakhstan Inc. (Alberta, Calgary, Canada) into category "B". This resolution, came in force October 29 of reporting year, was accepted on the basis of two internal documents of KASE - Listing Rules and Listing Standards for Foreign Securities and Kazakhstan Depository Receipts. TuranAlem Securities JSC stand in as a financial consultant responsible for bringing shares of PetroKazakhstan, Inc. into the organized market and also assumed functions as its market-maker. Trade in CA_PKZ_ was opened on KASE since December 27, 2004 but no one deal has been arranged with those shares during the reporting period.

Capitalization

In 2004 the procedure of calculating the capitalization of the stock exchange market of CS did not change as compared to 2003. As before, for definition of capitalization of this market segment was taken into consideration the basis of the last market shares' prices within the KASE official list and the number of current shares with notarization by vidimus of securities holders' registers or (when vidimus is not available) by allotment certificates. Failing market prices (it means deals' absence) the reckoning of shares was made with nominal value use. However, the notion of nominal share's value as applied to the secondary securities' market was ruled out from the new law "About Joint-Stock Companies". So the new stock issues registered after that law had come into force, were associated with the agreed prices which have been defined according to the Directors' boards of JSC opinions and had to confirm in the process of the placement on the market. Taking into consideration this circumstance, in the reporting year, as in the previous, deals' absence with the shares of the official list on the Stock Exchange Market issued under the new legal field, KASE accepted prices of such shares equal zero and in fact made no reckoning of the stock market capitalization.

The bond market capitalization, as previous, was reflected current value of corporate debt certified by bonds included in the KASE official list. In case of deals'

Fig. 9. Stock market capitalization and KASE_Shares index dynamics in 2004



absence with any bonds in reckoning of shares' capitalization was made with nominal value.

And one and other indicators of capitalization had being expressed in USD terms kept books prices with current KZT/USD exchange rate.

Capitalization of the stock market in 2004 grew 62.5% up in USD terms, from USD 2.425 bn to USD 3.941 bn (in 2003, this indicator of capitalization grew 80.9% up). In KZT terms, the indicator grew 47.4% up from KZT 347.5 bn in the yearly 2004 to KZT 512.3 bn in the end of the year.

The main factors had effect in the reporting year to capitalization of the stock exchange market of equity tools were:

- ◆ trade listing dynamics (it means the result of new shares listing and delisting of previously listed shares on KASE)
- ◆ alteration of paid-in authorized capital of listing companies
- ◆ receiving on KASE of market valuation of shares which had not value in the beginning of the year
- ◆ registration of stock issues which had not received market evaluation on KASE in 2004

The results of traced research show that the third factor had the greatest and positive effect to capitalization of the stock market in the reporting year - alteration of current prices of shares. The weight of the given factor is approximately 72%. This part of the factor makes up about KZT 118 bn price appreciation of the market. Here the ordinary shares had come forward as top leaders (in the order of concernment lessening). Kazakhtelecom JSC, CNPC-Aktobemunaigaz OJSC, Kazkommertsbank JSC, and Halyk saving bank of Kazakhstan JSC. Considerable impact of the factor corroborated by high correlation of capitalization indicator with behavior of KASE_Shares index (Fig. 9) which is computed with the best market-maker's quotation of rate. In compliance with KASE expert opinion evidence, the results of traced research confirmed the hypothesis of sizeable growth potential of the rate of the majority of domestic shares essentially unappreciated into the quotations of market-makers.

The second concernment factor weighing 23% (about KZT 38 bn price appreciation of the market) appears alteration of paid-in authorized capital of listing companies. Here Kazakhstan's banks - Bank TuranAlem JSC and Kazkommertsbank JSC have been in the lead with confidence in absolute money terms; ATF Bank JSC has played over a bit in attitude to Ust-Kamengorsk Titanium-Magnesium industrial complex JSC with this indicator.

Remarkable feature of the reporting year marked low influence to the resulting alteration of capitalization of the market's shares of first factor - the trade listing dynamics. It is paradoxically but slump in lump sum of market capitalization by KZT 103.1 bn (USD 719.6 m) caused by the delisting of the ordinary shares of Kazakhmys JSC made KASE in 2004 because of transformation of the JSC into an LLP but was entirely compensated for by inclusion into the KASE official lists of the ordinary shares of mediator S.A.S. JSC. That later obtained its market value and increase by KZT 76.5 bn (USD 588.7 m) lump sum of market capitalization. The listing of the ordinary stock of Kazzink JSC and of the preferred stock of Bank TuranAlem JSC also contributed significantly.

Once again the industry structure of the KASE official stocks list underwent notable changes (Tab. 10). During the reporting period financial sector came to first place and increased the lump sum of its capitalization more than twice.

In spite of the delisting of stocks of PetroKazakhstanOil Products OJSC, industrial complex, where the stock exchange ascribe to "Exploration Extraction Kaz-MunaiGaz JSC, Pavlodar Oil and Chemical Plant CJSC, PetroKazakhstan Inc., Ai-Dan Munai JSC, CNPC-Aktobemunaigaz OJSC, Mangystaumunaigaz JSC, also displayed good growth (42%). It all allows it taking second place. It should be marked the considerable potential of the given industrial complex as only two last of the six above enumerated companies have had market appreciation on KASE to the year-end. The deals with shares of the other four companies have not been made on KASE because three of them had no officially opened auctions for and the market-maker of forth - PetroKazakhstan Inc. - put forward unreal prices. As a result, now these companies had zero market value on KASE. About high potential of the oil industrial complex testified the fact if in the

Tab. 10. Sectoral structure of the official list of KASE (shares at market value)

Industry	2004		2003	
	m USD	%	m USD	%
Finance	1,311.3	33.3	652.0	26.9
Oil complex	708.4	18.0	497.3	20.5
Communication	585.3	14.9	276.0	11.4
Mineral resource	571.2	14.5	897.6	37.0
Food industry	38.1	1.0	29.4	1.2
Other	726.4	18.4	72.1	3.0
Total	3,940.7	100.0	2,424.5	100.0

reporting year on KASE was made one deal with PetroKazakhstan's shares (on the basis of the market-maker's quotes), the oil sector capitalization would increase by USD 2,974 m at once and make the lump sum of KASE stock market capitalization 75.5% up.

The telecommunication sector draws attention where at the year-end have been signed up shares of KazTransCom JSC and Kazakhtelecom JSC. Also in the reporting year the sector demonstrated a record growth (112%) exceptionally owing to the increased value of the ordinary and preferred stocks of Kazakhtelecom JSC. This made the company the third largest in terms of capitalization with a great potential due to the lack of market value of KazTransCom JSC stocks (trades in these stocks were never officially opened on KASE).

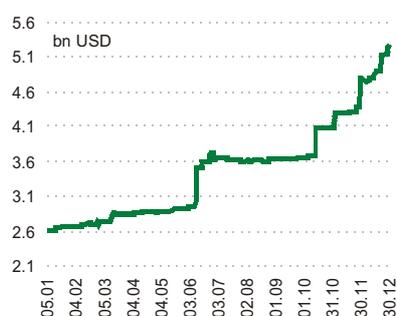
The reporting year was unsuccessful for the mining sector where to January 01, 2005 were included Kazzink JSC, Sokolovsko-Sarbaiskoye Mining and Concentrating Company JSC, Ust-Kamenogorsk Titanium and Magnesium Plant JSC, CHARALTYN JSC, Aluminum of Kazakhstan JSC, TNK Kazkhrom JSC, and MINERAL JSC. The delisting of Corporation Kazakhmys JSC stock resulted in a significant reduction of the mining sector capitalization and thrown this sector off to the fourth place in 2004.

The shown industrial structure of the KASE stock market has been formed to the reporting year-end not occasionally and emphasized the main peculiarity of the market, i.e. almost total lack of liquidity. In view of inaccessibility of shares of the majority of large companies of the real economic sector there is no objective market evaluation of those companies on the local market. Their shares tools present on KASE only notionally. As a rule, trades in stocks are officially opened in a few months after their inclusion into the KASE official list, and market-makers do their best (or it appears so from the KASE point of view) not to sell the securities even within limits of obligatory quotations. The situation looked better with stocks of STB operating in a tough competitive environment and has been to augment their capital for account of the stock floatation. For this reason, the level of capitalization of the banking sector is the highest on KASE.

Capitalization of the bond market on KASE increased USD 2.674 bn up to USD 5,276 bn, or in 2.1 times in the reporting year (the 2003 growth was appreciated as USD 1.315 bn, or in 2.1 times) (Fig. 10). The growth in KZT terms is appreciated at 83, 9% - from KZT 373.0 bn in the beginning of the year to KZT 685.9 bn to the end of the year. As before the expert influence on given indicator was the expansion of the KASE official list. In spite of the KASE list lost nine bond titles (due to acquittance) in 2004, the new securities listing was compensated with surplus their negative profit. Alteration of capitalization of the given market segment as a result of price dynamics and of partial anticipation of bonds payment was negligible.

The industrial structure of the KASE official bonds' list in 2004 was not principal changed concerning previous year (Tab. 11). As before the general tendency here appears well-defined leadership of financial sector. The tendency reflects growing competition within the banking sector service and high needs of STB to expand funded base (taking into consideration of with defined circumstances inpayments from bond floatation are accounted as equity capital). However, the comparison of the market¹⁷ and par value of corporate bonds circulated within the KASE in generalized expression testify that investors have most interest to debt obligations of oil companies. Just those securities traded on KASE in the

Fig. 10. Capitalization of the stock exchange corporate bond market in 2004



Tab. 11. Sectoral structure of the official list of KASE (bonds)

Industry	2004			2003		
	Market value of debt m USD	Market stake, %	Difference market / face value*	Market value of debt m USD	Market stake, %	Difference market / face value*
Finance	4,751.1	90.1	+3.2%	2,071.6	79.6	+2.6%
Oil complex	249.2	4.7	+5.4%	298.4	11.5	+2.8%
Communication	37.6	0.7	+0.3%	57.8	2.2	-0.8%
Mineral resource	66.4	1.3	+1.4%	38.3	1.5	+0.5%
Food industry	50.6	1.0	+2.0%	45.1	1.7	-0.1%
Transport	-	-	-	30.3	1.2	+0.9%
Other	120.9	2.3	+2.9%	60.8	2.3	-0.6%
Total	5,275.8	100.0	+3.2%	2,602.3	100.0	+2.4%

* difference between market value and face value of debt

¹⁷ On recording by 'net' price denominated in percent of the bond nominal value.

reporting year with the highest premium and exact its deficit became aware more sharp.

CORPORATE SECURITIES TRADES

In 2004 the stock exchange turnover of CS continued to grow at a high rate. Total volume of deals with stocks and corporate bonds reached KZT 248.0 bn, or USD 1,830.0 m. Concerning 2003, the turnover increased KZT 95.3 bn (USD 804.8 m) up or 62.4% (78,5% in USD terms). In 2003 lump sum of KASE deals with CS increased KZT 59.5 bn up (USD 421.6 m), yet the speed of growth as whole has been higher - 63.8% in KZT terms and 69.8% in USD terms. Detail data of volume and structure of stock rotation is shown in Tab.12.

The Primary Market

The KASE normative base regulating realization of CS placement on the stock exchange did not change in 2004.

The percentage of the placements in sum total of CS stock rotation on KASE in the reporting year slightly decreased. In 2001 this indicator averaged 14.8%, in 2002 - 5.5%, in 2003 - 9.4%, in 2004 - 8.5%. This implies that the stock exchange managed to keep its position on this market. So, carrying out public placements of securities in Kazakhstan are still an exception rather than the rule. It mainly bound up to the existing traditions according to which goal-oriented placements with subscriptions turn out for issuers and underwriters more effective than public.

Altogether in 2004, 48 (25)¹⁸ actual primary and additional corporate bonds placements of thirteen titles and shares of two titles were made on KASE up. The placements were carried out by dint of specialized holding auctions in satisfaction of vie proposals at the bid prices or at cut-off prices and also by open trade method. In the course of the year 13 (17) specialized securities auctions of 8 titles were made and by open trade method 36 (8) trade sessions of securities placements of 9 titles were worked off. Having sold their shares and bonds on the KASE primary market, issuers managed to win over KZT 21,138.1 bn (14,138.9 bn) what with current rate equal USD 156.3 m (USD 96.4 m) at the closed dates of the placement. In total, in this market sector 119 (96) deals were registered by the KASE trading network.

Tab. 12. Volume of CS trades on KASE and sector structure of turnover

Month	Primary market		Purchase-sale		SBS sector		TOTAL	
	th. USD	m KZT	th. USD	m KZT	th. USD	m KZT	th. USD	m KZT
January	27,029.0	3,779.7	91,752.9	12,925.4	9,451.2	1,318.1	128,233.1	18,023.1
February	–	–	74,581.9	10,383.7	–	–	74,581.9	10,383.7
March	13,524.0	1,877.7	81,375.7	11,310.5	–	–	94,899.7	13,188.2
Q1	40,553.0	5,657.3	247,710.5	34,619.6	9,451.2	1,318.1	297,714.8	41,595.1
April	5,250.8	726.1	57,351.4	7,924.9	–	–	62,602.2	8,651.0
May	5,617.7	766.4	270,142.4	36,893.1	–	–	275,760.1	37,659.4
June	4,500.7	613.9	136,169.5	18,565.2	–	–	140,670.2	19,179.1
Q2	15,369.3	2,106.4	463,663.3	63,383.1	–	–	479,032.5	65,489.5
July	35,580.9	4,823.7	118,177.1	16,033.6	–	–	153,758.0	20,857.3
August	10,559.7	1,439.8	223,500.4	30,447.4	–	–	234,060.1	31,887.2
September	9,570.2	1,290.8	191,580.8	25,925.0	–	–	201,151.0	27,215.9
Q3	55,710.8	7,554.3	533,258.2	72,406.0	0	0	588,969.0	79,960.3
October	6,680.6	883.0	152,484.9	20,321.2	–	–	159,165.6	21,204.2
November	3,216.2	418.5	122,648.4	16,017.0	–	–	125,864.5	16,435.5
December	34,750.9	4,518.6	143,543.0	18,665.8	956.5	124.4	179,250.4	23,308.8
Q4	44,647.7	5,820.1	418,676.3	55,004.0	956.5	124.4	464,280.4	60,948.4
TOTAL 2004	156,280.7	21,138.1	1,663,308.3	225,412.8	10,407.7	1,442.5	1,829,996.7	247,993.3
Structure	8.5%		90.9%		0.6%		100.0%	
Reference, year 2003								
TOTAL	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%	
Trend 2004 to 2003:								
in money	+59,929.8	+6,999.2	+884,648.2	+109,469.6	-139,753.8	-21,170.4	+804,824.2	+95,298.5
percentage	+62.2%	+49.5%	+113.6%	+94.4%	-93.1%	-93.6%	+78.5%	+62.4%

¹⁸ Corresponding data of the year 2003 is given in this paragraph in brackets.

Tab. 13. Stakes of participation of main categories of investors in CS purchase on KASE at floatations in 2004

Security code	Sum of deals, m KZT	Stake of primary market of KASE, %	Percent of bond issue volume	Stake of participation, % of purchasing volume			
				STB	Brokers-dealers	Clients of brokers-dealers	OCIMPA out of proceeds of PA
ASBNb3	501.1	2.4	16.5	–	100.0	–	–
BTAIb2	150.0	0.7	10.0	–	–	–	100.0
EUBNb2	3,002.0	14.2	100.0	–	–	99.9	0.1
HSBKb4	665.8	3.1	13.0	–	–	1.0	99.0
HSBKb5	980.2	4.6	20.5	–	–	–	100.0
KARMB2	2,728.1	12.9	25.0	15.3	1.8	–	82.9
KKGBb3	152.0	0.7	2.0	100.0	–	–	–
KZIKb3	861.5	4.1	19.2	23.1	–	5.8	71.1
KZIKb4	1,818.3	8.6	40.0	8.7	–	28.5	62.8
KZIKb5	1,917.3	9.1	37.2	58.7	–	–	41.3
KZIKb6	1,008.9	4.8	20.0	–	–	5.7	94.3
KZIKb7	1,015.6	4.8	20.0	20.0	–	5.0	75.1
PRKRb1	3,038.2	14.4	100.0	–	–	38.2	61.8
VTBN	2,421.2	11.5	X	–	16.5	83.5	–
VTBNp	877.8	4.2	X	–	3.5	96.5	–
Total	21,138.1	100.0	23.0	10.7	2.6	22.9	48.2

Judging with shown in Tab. 13 data, institutions of the pension market remained in the ranks of the principal participants of the CS placements on KASE, although concerning 2003 its share in the lump sum of CS placements decreased along with the decreased share of STB against a background of increase of brokers-dealers and their clients share fraction.

In 2004 the fraction of bonds placed on the open bonds market did not exceed 23.0% of total volume of the registered bond issues; as in the previous reporting period it was amounted as 35.7%.

The most active participant of the CS primary market on KASE in 2004, judging on the lump sum of securities purchased via specialized and open securities auctions, was Central Asian Trust Company JSC. Its share fraction belong 18.5% the lump sum of purchased shares and bonds. On second place came KG Securities JSC (16.9%), on third - Accumulation Pension Fund of Halyk saving bank of Kazakhstan JSC (13.1%). Altogether 18 members of "P" KASE category had worked as buyers who acted on behalf of their own and their clients' names.

The Secondary Market

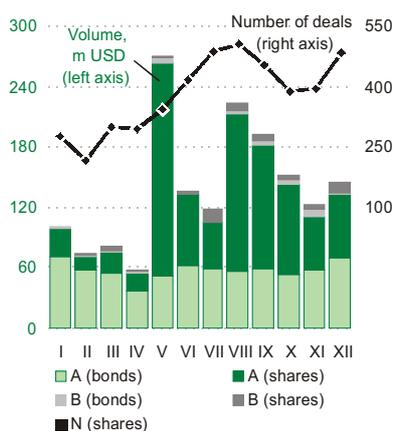
It is impossible to say "principal" about alteration of KASE normative base regulating given sector of stock exchange. So they had no material effect upon the market conditions. The following amendments should be mentioned.

By the Resolution of the KASE Exchange Council dated February 06, 2004 was introduced a provision in accordance with securities trades within the KASE official list should be open not earlier the next working day when the issuer and the market-maker of that securities have filed their applications. The resolution caused by above applications for opening of securities trades has often come to the closing work time of stock exchange. As a result, KASE employees had no enough time to complete all necessary procedures before close trade sessions, and market-makers had no time to prepare themselves for their duties with quoting of securities in the trading system.

February 13, 2004, amendments have been applied into the KASE internal document "Stock exchange dues and fees on the securities market" as on its determined that dues and fees of foreign CS should be in the same terms and equal with CS Kazakhstan's charged for trades (0.05% of the traded amount chargeable to each party).

August 01, 2004, KASE applied in force a new document "Regulation on Membership and Stock Exchange Dues and Fees" which represents a result of unification of two former effective documents: "Stock Exchange Dues and Fees on the Securities Market" and "Stock Exchange Dues and Fees on the Foreign Currency Market" were declared invalid. Here with regard to the CS market the most recent innovation appeared a 20% reduction of the fee imposed on "market-driven" transactions (concluded made by any open trade methods). So the stock exchange again tried to create stimulus for reduction of the share of "di-

Fig. 11. The market activity and CS turnover structure in the trade sector including SBS in 2004



rect" deals with stocks and bonds. Alas this action had no any notable effect.

In 2004, the secondary CS market as before was represented by purchase and sale sector of the shares and corporate bond in the scope of secondary circulation and by the SBS trade sector. As Tab. 12 shows, that the shares of controlled above sectors were changed but not principal compared to 2003. The main impact was made by a sharp slump of deals' volume of SBS sector to provoke deformation of the turnover structure.

As before, CS auctions were made on KASE on working days between 11:30 and 17:00 ALT in the scope of the only session. Authorized broker-dealers fulfilled sales of SBS within the same time period, using the KASE principal trade method which slightly modified under particular blocks of stocks. Modifications concerned settlements, depositing guarantee fees, and the procedure for submitting orders.

Distribution of volume of monthly CS purchase and sale deals volumes were non-uniformly in 2004 (Fig. 11) and depend from different factors. The most active, in terms of trade volumes, were the following months:

- ✦ May (four large-scale deals with ordinary shares of Corporation Kazakhmys JSC that permissive propose considerable alteration of the shareholder's list of this copper giant, and concomitant of the money repartition on the market as a result of above event; as a result of sharp decline of GS placements investor assets' outflow from the GS market into the CS market and deterioration of their liquidity on the secondary market; the yield trend of Kazakhstan's corporate bonds reaching its turning point following the assignment to Kazakhstan of an investment quality rating by the most conservative rating agency Standard & Poor's)
- ✦ August (owing to two large-scale deals with ordinary shares of Corporation Kazakhmys JSC which probably had link with alteration of shareholder's list under getting of the market information on purpose of transformation of Corporation Kazakhmys JSC into a limited liability partnership)
- ✦ September (as a result of four "direct" deals with ordinary shares of Halyk saving bank of Kazakhstan JSC. Two of that made with aim of attaching more high prices, perhaps in anticipation of an announced auction of the placement of bank's new ordinary shares of its eighth issue)

As it is seen from the above mentioned chart, later May activity of the CS stock exchange market visibly increased, in general for stock trade of the "A" official listing. Above shown that trade with securities of Corporation Kazakhmys JSC was playing an important role here. Liquidity of the tool to a large extent supported activity of trade in CS on KASE. And the resume of the reporting year was the tool's share of the CS turnover on the secondary market had 19.2% and 33.9% on secondary purchase and sale shares' deals market.

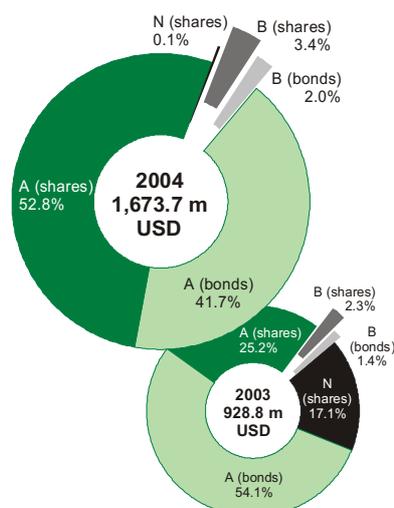
In its turn high investor's interest to shares of Corporation Kazakhmys JSC was caused by the intention of leaders of Corporation Kazakhmys JSC reorganize the company into an LLP was made to the end of the reporting year¹⁹. As a result, Kazakhstan's stock market lost not only almost a billion USD capitalizations of interim shares' market and the tool that had been the most liquid corporate security during last four years.

The least active month of the reporting year in terms of CS trade turned out April closed of the beginning of the year when the market went through the hard time.

Passive beginning of the year is Kazakhstan's security market custom. Less new securities come to the market during this period. As a rule, concluding transactions are not carried out for correcting of financial report prior to close the first calendar quarter. No large-scale transactions which are determinant by local reasons. Rising volume of pension assets investment into foreign securities made surplus of corporate bonds. It is predetermined slump in its quotes in index terms and growth of buyers' yields from first decade of April. Moreover above mentioned "Rules of Acknowledging as Invalid Securities Deals Concluded with a View of Price Manipulation" came in force in April. These rules forced broker-dealers to be more careful with regard to transactions that are not "market-driven" in nature, which had a negative effect the CS

¹⁹ FSA annulled all issues of Corporation Kazakhmys JSC shares by the certificate of December 23, 2004 in connection with its re-registration into LLP.

Fig. 12. Distribution of trade volumes of the secondary stock exchange market according to securities types and listing categories (including SBS)



turnover. A high volatility of the KZT/USD exchange rate in April did not help improve liquidity on the CS market.

To sum up all the above said, the growth of CS turnover on the stock exchange in 2004 was possible due to a growth of trade in stock of the highest investment quality. Increased activity of trade in the stock of Corporation Kazakhmys JSC was the catalyst of this process.

The turnover structure of the CS secondary market significantly changed compared to 2003 (Fig. 12). At the same time, the changes that took place will not appear principal if one considers that the turnover structure in the reporting year was practically identical to that of 2002. An abnormally high volume of trade in stocks within Non-Listing Securities Sector was a specific feature of the year 2003. The reasons for this were discussed in detail in KASE 2003 Annual Report. As a whole, the KASE CS market maintained its tendency toward instruments of the highest investment quality (category "A" of the KASE official listing).

In 2004, transactions with 144 (107)²⁰ various instruments were carried out on KASE secondary CS market, including 51 (23) stock titles and 75 (54) bond titles within Category "A", 16 (11) stock titles and 9 (5) bond titles within Category "B", and 3 (14) non-listing stock titles and 8 (4) SBS.

In the course of the reporting year, 4,555 (2,139) secondary market transactions²¹ with 43,289,790,215 (14,315,555,724) securities were registered in KASE trading. Out of 252 (251) trades, 252 (249) resulted in actual sale of securities. The daily trade volume varied from USD 3.6 th. (USD 6.82 th.) to USD 176.5 m (USD 150.8 m). The daily average trade volume was USD 6.6 m (USD 3.7 m). The average monthly trade volume was USD 139.5 m (USD 77.4 m), or KZT 18.9 bn (KZT 11.5 bn). Monthly and quarterly breakdown is presented in Tab.12.

The growing number of direct transactions with CS represented the negative tendency of the year (Fig. 5). While by the end of 2002 direct transactions comprised 12.1% of all concluded transactions (23.7% of the total number of transactions), in 2003 they reached 41.1% (39.9%), and in 2004 - 58.3% (59.0%). Interviews with traders show that in most cases direct transactions are more profitable for trade participants because such transactions meet interests of KASE members and their clients to a larger degree. This is true about both stocks and bonds. More "market-driven" character of bond trade as shown on the graph is illusory because debt instruments are not traded using Frankfurt auction where bid prices are balanced/crossed during open trades. Transactions with bonds are concluded immediately, allowing brokers to synchronize over telephone their actions in the KASE trading system and conclude direct transactions disguised as "market-driven". Practice shows that any administrative measures taken with regard to initiators of direct transactions are not effective. Kazakhstan's CS market is not prepared for objective pricing of the most tradable instruments. The only thing to do, as FSA tried in the reporting year, was to make prices of direct transactions differ as little from "market-driven" prices as possible.

In whole, 40 (36)²² KASE members in categories "P" and "H" participated in secondary CS trades on KASE in the course of the reporting year: 20 (18) broker-dealer companies, 13 (13) STBs, 6 (4) pension market subjects, and Development Bank of Kazakhstan JSC. The share of banks and their clients comprised 4.58% (13.8%) of the gross secondary market turnover; broker-dealers and their clients - 83.9% (80.8%); PAM - 7.7% (5.4%). The most active trader controlled 27.5% (22.5%) of the total volume of trades; two trades controlled 37.5% (34.1%) of trades; three traders - 45.8% (44.3%); five traders - 60.5% (62.0%). In 2004, TuranAlem Securities JSC was recognized as the most active participant of the sector; KIB ASSET MANAGEMENT Ltd JSC holds the second place (10.0% of the gross turnover) and AIM JSC holds the third place (8.3%).

²⁰ Corresponding data of the year 2003 is given in this and in the next paragraph in brackets.

²¹ Only deals with fulfilled settlements (including deals on purchase and sale of the state block of shares).

²² The corresponding index of the year 2003 is given in brackets.

Tab. 14. Characteristics of the ten most tradable shares in purchase-sale sector of KASE in 2004

Code	Brief name of the issuer	Type	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	318,997.6	182	2,100.00	12,481.00	4,027.78	-4.1	33.9
HSBK	Halyk savings bank of Kazakhstan JSC	C	113,848.2	28	110.00	790.64	320.00	+21,359.2	12.1
CCBN	Bank CenterCredit JSC	C	101,851.6	274	182.67	254.35	189.38	+1.5	10.8
ORDB	Corporation Ordabasy JSC	C	74,211.6	180	1,215.00	3,000.00	1,815.36	-	7.9
VTBN	Valut-Tranzit-Bank JSC	C	64,503.2	350	240.00	432.00	350.99	+0.3	6.8
VTBNp	Valut-Tranzit-Bank JSC	P	33,632.8	297	265.00	31,250.00	330.00	-26.7	3.6
ALKS	Almaty Kus OJSC	C	31,522.8	251	5.00	15.00	12.50	-15.5	3.3
BTAS	Bank TuranAlem JSC	C	17,222.7	39	12,533.00	17,000.00	12,801.00	-12.0	1.8
UTMK	Ust'-Kamenogorsk titanium magnesium combine JSC	C	16,171.4	21	3,142.50	6,285.02	3,583.62	-41.7	1.7
TEBN	Temirbank JSC	C	15,975.7	155	695.00	1,150.00	1,137.00	-9.2	1.7
TOTAL			787,937.8	1,777					83.6

C – common shares, P – privileged shares; change of prices was calculated in tenge equivalent; "-" – valid price as of the period's beginning is absent; changes of prices registered on direct deals only are coloured; all securities – KASE's official "A" listing category.

The Stock Trading Sector

In the course of 2004, volume of stock trading increased by USD 679.1 m (3.6 times), or by KZT 88.4 bn (3.3 times), to the total of USD 942.3 m (KZT 127.5 bn). The number of transactions increased from 1,053 to 2,837. The number of stock titles traded grew from 46 to 54 compared to 2003. The sector did not change in terms of quality. The stock prices, as before, did not reflect the issuers' financial conditions, their successes and failures; at best, the market prices reacted to changes in balance sheet value of stocks following increases in authorized capital of the issuers. In most cases the price dynamics was effected by shareholders using stocks as a collateral or as a settlement instrument.

There is no denying that, compared to 2003, the market progressed in certain respect. There could be seen increasingly more occasions of truly market driven trade in stocks. However, even the market leader - the stock of Corporation Kazakhmys JSC - was mainly used in direct transactions, and its price dynamics did not seem to have economic basis at all times, judging from the market situation and its issuers' financials.

The Table 14 presents the stock market favorites and the annual price changes for the most tradable instruments. It can be seen from the table that prices changed in both directions and sometimes were extremely high due to the non-market nature of the transactions.

The notable feature of the year was the explicit growth of the KASE_Shares index (Fig. 13), which, as in 2003, was calculated not on the basis of transaction prices, but on the basis of the best quotes with account taken of the market capitalization of the stock issuers. This feature was conditioned by the fact that market-makers systematically quoted Kazakhstan's stocks under their value, against which the market, voluntarily or involuntarily, struggles as it develops. In the course of the reporting year the KASE_Shares index grew by 81.3%, from

Fig. 13. The KASE_Shares index dynamics in 2003 and 2004

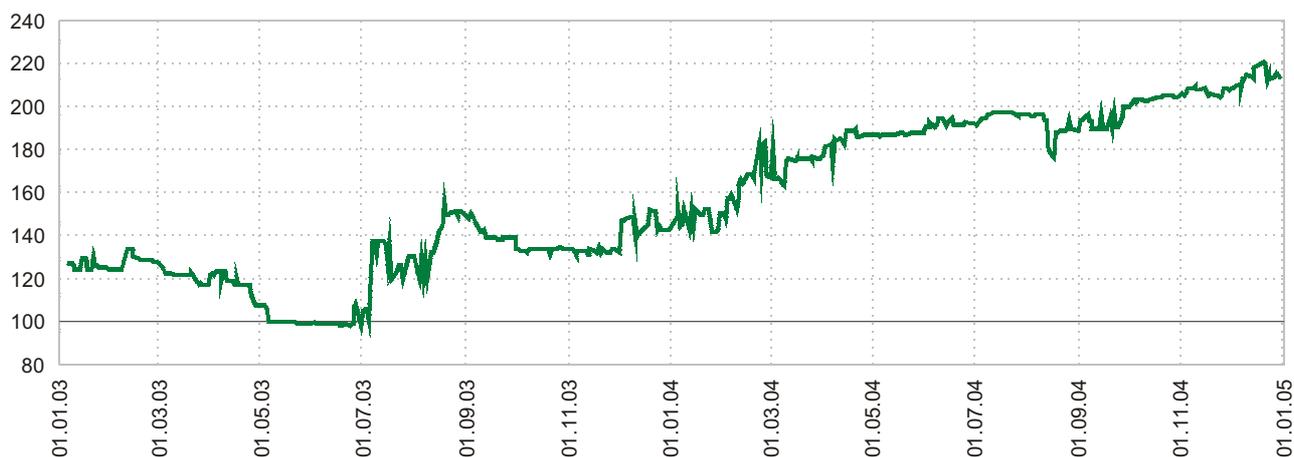


Fig. 14. Instrument structure of the bond turnover in the KASE trade sector in 2004

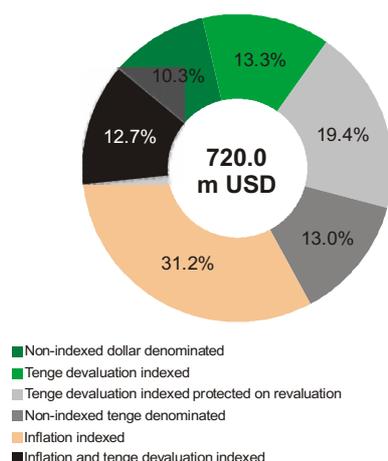
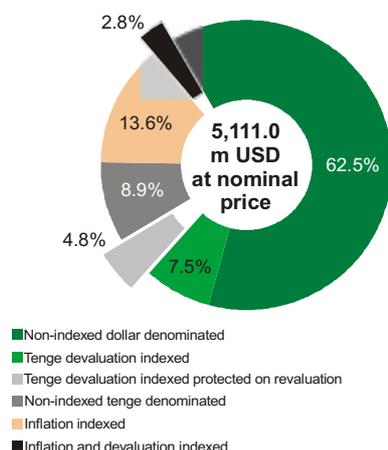


Fig. 15. Instrument structure of the KASE official listing of bonds as of 01.01.05



117.72 to 213.37 (+95.65 points). This growth resulted from the positive annual change in bid prices: KZTK (+107.3%), KZTKp (+82.0%), KKGB (+69.0%), TEBN (+56.8%), BTAS (+28.7%), KKGBp (+27.9%), HSBK (+27.3%), CCBN (+21.3%), ASFI (+10.0%), VTBNp (+5.8%), VTBN (+4.7%)²³. Furthermore, significant contribution to the KASE_Shares dynamics was made by the stocks included in 2004 into the representative list of stocks used for the index calculation. For instance, bid prices for KZZN grew by 32.6% since 01 March, 2004, and bids for KANT grew by 125.0%.

The Bond Trading Sector

The number of trades in this sector grew more than time and a half compared to 2003 totaling 1,710. The trade volume increased by USD 205.6 m (1.4 times), or by KZT 21.03 bn (1.3 times) totaling USD 721.0 m, or KZT 97.9 bn. The number of bond titles traded reached 83, while in 2003 they did not exceed 57.

In the course of the reporting year, this sector developed along the same lines as before. Investors preferred securities of the highest investment quality, i.e. bonds within category "A" of the KASE official listing (Fig. 12).

The turnover structure, as presented on Fig. 14, did not correspond to the corporate debt structure (Fig. 15). First and foremost, this was due to the KZT strengthening against USD resulting in lower yields of bonds denominated in USD and of those indexed to changes in KZT/USD exchange rate on the secondary market. In 2004, principal investors - APF - preferred not to buy international corporate bonds whose market share reached almost 50% of the total face value of bonds within category "A". Banks and broker-dealer companies used dollar denominated instruments rather rarely, as they tried to gamble with USD/KZT exchange rate volatility. As presented on Fig. 14, the market participants showed more regard for the bonds, whose coupon rate was linked to Kazakhstan's CPI. Non-indexed KZT denominated bonds enjoyed relatively high demand, as well as bonds protected against KZT revaluation (the gray and beige colors on the diagram).

This circumstance explains the structure of the list of the most tradable bonds in KASE trade sector in 2004 (Tab. 15), and the larger price increase of securities whose yield was protected against KZT appreciation.

In 2004, KASE bond market was different from the previous year in terms of pricing. In the reporting year, the deficit of investment instruments was less sharp. There were practically no symptoms of the market overheating in the trade sector, which can be seen from the trade price dynamics. No significant changes in "clean" prices and KASE_BC index, that characterizes them, were recorded in the course of 2004 (Fig. 16). Corporate bond yields in index terms practically did not change (Fig. 17). It became possible due to the increased number of inflation indexed securities within KASE listings²⁴ and to longer maturities of bonds available on the stock exchange (Fig. 8). Average weighted du-

Tab. 15. Characteristics of the ten most tradable bonds in purchase-sale sector of KASE in 2004

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	last		
KARMb2	Karazhanbasmunai OJSC	A	57,456.6	50	7.00	8.61	7.31	+11.4	8.0
BRKZb1	Development Bank of Kazakhstan JSC	A	31,081.7	37	6.01	9.10	8.49	-4.3	4.3
BTASb2	Bank TuranAlem JSC	A	27,279.5	61	7.01	10.00	10.00	-5.8	3.8
KZASb2	KOSTANAI MINERALS JSC	A	25,065.8	54	8.93	9.50	9.25	+1.2	3.5
CSBNb4	BANK CASPIAN JSC	A	23,724.3	18	8.20	8.58	8.50	+8.4	3.3
TXBNb2	TEXAKABANK JSC	A	21,639.8	105	9.35	11.48	9.35	+7.0	3.0
TEBNb3	Temirbank JSC	A	21,541.4	22	8.43	9.00	8.45	+15.2	3.0
RGBRb3	RG Brands JSC	A	21,344.7	96	8.46	10.70	8.46	+16.4	3.0
VTZLb1	Kazyuvelirprom JSC	B	20,569.6	25	7.70	9.50	7.73	+14.6	2.9
CCBNb4	Bank CenterCredit JSC	A	20,173.2	16	7.76	8.26	8.17	-4.5	2.8
TOTAL			269,876.4	484					37.4

Yield to maturity is given as % APR on semi-annual basis; change of "dirty" price – in tenge at current rates; change of prices on bonds traded not full year is marked with semi-bold type; coloured – bonds indexed on tenge devaluation level.

²³ The decoding of share identification codes is presented on the following web-site of the Exchange - http://www.kase.kz/instruments/nzb_code.htm.

²⁴ To be more exact, there are unindexed bonds with a floating coupon rate, amount of which depends on consumer price level in the Republic of Kazakhstan.

Fig. 16. Changes of KASE_BC index and average weighted "clean" prices of corporate bonds in 2004

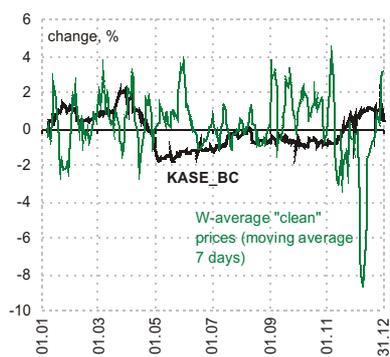


Fig. 17. Changes of corporate bond yield index KASE_BY in 2004 (% annual)



ration of bonds, calculated on the basis of all transactions carried out in KASE trade sector, increased from 1,650 days in 2003 to 1,913 days in 2004.

In May 2004, Standard & Poor's assigned an investment quality rating to Kazakhstan which had the most significant impact on the yield trend. KASE_BY index turned down after a short rally in April (Fig. 17) brought about by a temporary "overstock" of the market. This turning point was to a large extent caused by changes in quotes of international bonds of Kazakhstan's issuers due to an explicit impact of the newly assigned rating.

The State Blocks of Shares Trading Sector

In the course of 2004 the Ministry of Finance sold on KASE SBS of two companies - Ust-Kamenogorsk Titanium and Magnesium Plant OJSC (presently, Ust-Kamenogorsk Titanium and Magnesium Plant JSC) and Alliance Bank JSC. KIB ASSET MANAGEMENT Ltd. and RSE Center for Information and Accounting acted as authorized brokers in the sale of the corresponding blocks.

Before the sale, SBS of Ust-Kamenogorsk Titanium and Magnesium Plant, consisting of 167,260 common shares (15.5% of the total shares actually placed by the time of the auction), was divided into two parts:

- ◆ 107,910 shares (64.5% of the SBS subject to sale, or 10.0% of the total number of shares, trade code NZ_UTMK_10) were put for sale in a single undivided lot on January 26, 2004
- ◆ 59,350 shares (35.5% of the SBS subject to sale, or 5.5% of the total number of shares, trade code NZ_UTMK_5.5) were put for sale on a retail basis (one lot, one share) on January 26, 2004

The lot NZ_UTMK_10 was sold on 26 January for KZT 777,167,820.00, or USD 5,571,095.48 at the current KASE exchange rate (KZT 139.50 per one US dollar), at the price of KZT 7,202.00 per share (USD 51.63). NZ_UTMK_5.5 was sold during the period from 28 to 30 January, 2004. The sum total of the two deals reached KZT 540,916,261.65, or USD 3,880,136.22 at the current exchange rate. Prices varied from KZT 8,251 to KZT 10,200 per share (USD 59.20 - USD 73.17). Four KASE members made their bids for these SBS.

SBS of Alliance Bank JSC was offered for sale in one undivided lot on December 03, 2004. The lot with the trade code NZ_ASBN consisted of 12,955 common shares (1.85% of the total amount of the bank's shares in circulation). During the period from 03 to December 14, trades in this SBS did not result in actual sale; the lot was sold only on December 15, 2004, for KZT 124,368,000.00, or USD 956,456.20 at the current KASE exchange rate (KZT 130.03 per US dollar). The price was KZT 9,600 per share (USD 73.83). All bids were made by the same KASE member.

Fig. 18. Dynamics of Kazakhstan's debt represented by GS over the last 7 years²⁵

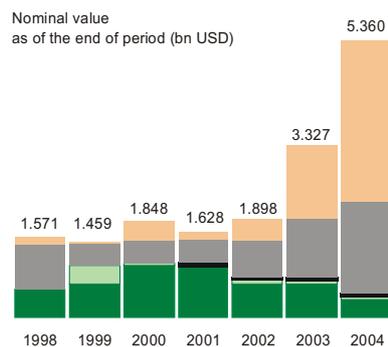
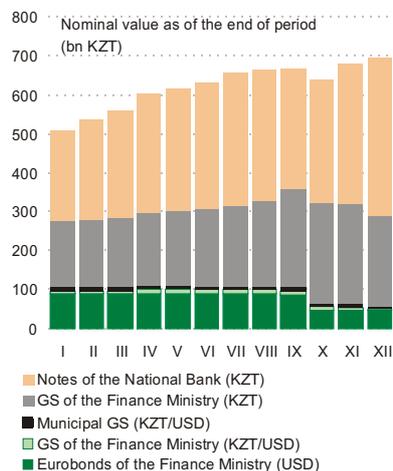


Fig. 19. Changes in the capitalization and instrument structure of the GS market in 2004



THE GOVERNMENT SECURITIES MARKET

Unlike the year 2003, the reporting year was very similar to the previous one in terms of GS market operations. The government's demand for finance was extremely low. The beneficial situation on the world market of primary resources ensured necessary inflows to the state budget. Due to growing hard currency inflows, which the National Bank had to buy up in great volumes, an excessive KZT liquidity continued to cause universal concern. The situation was aggravated by the Ministry of Finance faced with the redemption of a USD 300 m issue of Kazakhstan's international bonds (XS0102764031) in October, 2004; already scarce supply of financial instruments available for institutional investors was reduced even further.

The above described predetermined, on one hand, the domestic GS market situation in 2004, and, on the other, GS issuers' - the Ministry of Finance and the National Bank - market behavior.

The main features of the GS market in 2004 were as follows:

- ⊕ increased government securities issuance (i.e. GS market capitalization, Fig. 18 and 19) was caused not by the state budget needs, but by the necessity to sterilize excessive money supply and to make new financial instruments available for institutional investors that suffered from the lack of investment opportunities
- ⊕ the government financed its foreign debt using domestic KZT borrowing rather than new foreign borrowing; private industry is recommended the same course of action²⁶
- ⊕ further transformation of the structure of the state debt represented by GS with an increase in the share of KZT denominated domestic bonds (Fig. 18 and 19)
- ⊕ invariably high demand from Kazakhstan residents for GS, resulting in declining yields

The National Bank's strategy with regard to the GS primary market did not change compared to 2003. In its fight against inflation related risks, central bank had to increase the volume of short-term notes in circulation²⁷. In the reporting year, the volume of short-term notes in circulation increased in nominal terms from KZT 205.7 bn to KZT 407.7 bn (USD 1,426.2 m to USD 3,135.9 m), or 1.98 (2.20) times. By issuing short-term notes, not only NBK compensated for a slow down in the issuing activity of the Ministry of Finance (Fig.19), but it increased its debt, making it adequate to the growing money supply.

The characteristic feature of the year 2004 was the Ministry of Finance's involvement to problems that, strictly speaking, are not within its competence. While MF did not experience any difficulties related to financing the revenue side of the state budget, in the course of the year, MF tried to help NBK sterilize "excessive" money and investors - reduce financial instruments deficit. For this purpose, the 2004 state budget deficit was set at the level of KZT 92.7, or 1.8% of GDP; the deficit was to be financed by GS issuance.

As yearly as February, 2004, Minister of Finance Yerbolat Dossayev pronounced that it was necessary to facilitate the GS market development in order to help NBK prevent overly strengthening of KZT and to supply Kazakhstan's APF with long-term KZT denominated instruments. This was proclaimed as the primary task which, in order to be fulfilled, required to abandon foreign borrowing in favor of long-term (15-20 year) inflation indexed MF bonds. Initially, these bonds were planned to be issued after April 01, 2004. It was supposed that the bonds would be sold only to Kazakhstan's APF, while their circulation on the secondary market would be banned. Furthermore, in February, 2004, the Ministry of Finance made known its intention to stop using the institute of primary dealers on GS market and to sell bonds directly on KASE. According to MF experts, this measure will make the primary market accessible not only to banks, but also to

²⁵ KASE evaluation by the NBK official rate.

²⁶ In September 2004 the IMF recommended JV Tengizchevroil to carry out the planned issue of bonds not in USD (as planned by the issuer), but in tenge. Nevertheless, these bonds (USY8586EAA56) were denominated in USD and issued on November 2004 in the amount of USD 1.1 billion.

²⁷ Due to the necessity of servicing its growing internal debt, the NBK closed the year with a loss for the first time in several years.

Tab. 16. Dynamics of debt structure of MF (bn KZT, unless otherwise specified)

Type of GS	As of Jan 01, 04		As of Jan 01, 05		Trend	
	sum	stake, %	sum	stake, %	sum	%
MEKKAM	5.481	2.1	22.220	7.9	+16.739	+305.4
MAOKO*	7.070	2.7	5.555	2.0	-1.515	-21.4
MEOKAM	151.744	57.6	205.528	73.0	+53.783	+35.4
MEIKAM	5.631	2.1	2.797	1.0	-2.834	-50.3
Total internal debt	169.926	64.4	236.100	83.8	+66.174	+38.9
weighted-average term, days	1,139		1,122		-18	-1.5
Eurobonds (external debt)	93.743	35.6	45.500	16.2	-48.243	-51.5
TOTAL	263.669	100.0	281.600	100.0	+17.931	+6.8

* debt indexed on devaluation of KZT to USD, with protection from revaluation.

non-banking organizations, including PAM, which will increase the number of participants in primary placements up to 50.

Unfortunately, these innovations took almost a year to introduce. MF, NBK, and KSE made a lot of efforts to draft new Rules of Issuance, Placement, Servicing, and Redemption of Government Treasury Bills of the Republic of Kazakhstan, approved by the Resolution of the Government of the Republic of Kazakhstan № 941, dated September 08, 2004, and put into force on January 01, 2005. Also, a set of internal documents of the stock exchange regulating the procedure for MF bonds placement on KASE was put into force; the TS was modified and settlement procedures were designed for GS primary placement.

The assistance of the Ministry of Finance to the National Bank and the stock market was not limited to just plans. During most of the year, MF was active on the primary market issuing new securities whose maturities ranged from 91 days to 10 years. The peak of borrowing fell on September when MF, in order to redeem sovereign Eurobonds, was accumulating cash by way of raising KZT on the domestic market. MEKAM issuance in September reached KZT 34.4 bn in nominal terms. Total capitalization of the Ministry of Finance GS market grew from KZT 263.7 to KZT 281.6 bn (USD 1.828 bn to USD 2.166 bn), or by 6.8% (18.5%) in the course of the reporting period. Preference was given to medium-term²⁸ MEOKAM, whose market share significantly increased (Tab. 16).

The Government compensated for a delay in bringing to market inflation-indexed long-term saving bonds, which the Ministry of Finance had promised to issue, by way of implementing a mortgage lending program. In accordance with this program, in 2004, Kazakhstan Mortgage Company JSC, having the status of a financial agency since August, 2003, carried out 5 issues totaling to KZT 25.0 bn. These securities are in great demand and have inflation-indexed coupon and maturities varying from 4.9 to 10.3 years.

In the course of 2004, total capitalization of Kazakhstan's GS market, calculated as the aggregate par value of all bonds in circulation (including domestic GS, municipal bonds²⁹, and international securities of the Republic of Kazakhstan), increased by 45.2% in KZT terms, or by KZT 217.1 bn; in USD terms - by 61.1%, or by USD 2.034 bn at current exchange rates. Corresponding indicators in 2003 were as follows: a 63.4% increase in KZT terms, or by KZT 184.7 bn, and a 76.3% increase in USD terms, or by USD 1,428.4 m. Since in 2004 KZT strengthened against USD by 9.3% in nominal terms, increase in the state debt in USD terms appears most impressive (Fig. 18). As can be seen from the chart, NBK notes made greatest contribution to the increase.

THE PRIMARY MARKET

Methods of introducing GS to the market in 2004 did not change. The primary offering of the MF and NBK securities was still carried out through correspondence auctions organized by NBK with intermediation of MF Primary Dealers and NBK Primary Agents. The primary offering of municipal bonds was carried out on KASE.

²⁸ In accordance with classification of state securities of the Ministry of Finance, which was in effect in 2004.

²⁹ According to the acting in 2004 legislation, the local executive body's bonds had the status of state securities in Kazakhstan. A separate division is assigned to the market of these securities in the present report.

Tab. 17. Major parameters of the primary GS market in 2003–2004

Type of GS	2003				2004				Change of yield of 2004 to 2003, points
	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	1	1.930	0.3	5.86	2	13.955	2.0	3.28	-2.58
MEKKAM-06	2	6.460	0.9	5.82	5	16.299	2.3	4.89	-0.93
MEKKAM-12	–	–	–	–	3	22.220	3.1	4.79	X
MEKKAM	3	8.390	1.1		10	52.475	7.4		
MEOKAM-24	5	10.100	1.4	5.80	2	17.954	2.5	5.80	0
MEOKAM-36	6	22.500	3.1	6.10	–	–	–	–	X
MEOKAM-48	–	–	–	–	2	3.950	0.6	6.00	X
MEOKAM-60	10	39.250	5.4	6.09	4	16.287	2.3	5.50	-0.59
MEOKAM-72	2	9.780	1.3	6.10	4	22.632	3.2	5.60	-0.50
MEOKAM-84	3	10.810	1.5	6.10	4	11.146	1.6	5.70	-0.40
MEOKAM-96	1	0.560	0.1	6.20	1	2.272	0.3	6.10	-0.10
MEOKAM-108	2	0.740	0.1	6.30	–	–	–	–	X
MEOKAM-120	3	3.140	0.4	6.40	1	1.033	0.1	6.40	0
MEOKAM	32	96.880	13.2		18	75.273	10.6		
MAOKO-12	–	–	–	–	1	3.682	0.5	5.10	X
MAOKO	–	–	–		1	3.682	0.5	5.10	X
Total MF	35	105.270	14.4	X	29	131.429	18.5	X	X
Notes of NBK	125	626.758	85.6	5.07	67	578.467	81.5	2.92	-2.15
Total NBK	125	626.758	85.6	X	67	578.467	81.5	X	X
GRAND TOTAL	160	732.028	100.0	X	96	709.896	100.0	X	X

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); volumes are given in nominal expression of debt.

The main parameters of the primary market of MF and NBK GS for 2004 are shown in Tab. 17. It illustrates each issuer's tactics on the primary market.

Paradoxical as it is, NBK issuing activity slowed down, while the debt in circulation increased two-fold (see above), because NBK issued longer securities in 2004. Average weighted maturity of notes, auctioned in the course of the reporting year, was 244 days, while in 2003 it did not exceed 155 days. The number of note issues significantly decreased because since March 2004 NBK got to carry out one auction a week, as a rule, on Fridays, after the week closing³⁰. This, on one hand, allowed for more effective usage of information about balances in STB correspondent accounts, and, on the other, made it easier for market participants to plan financial flows. More notes were sold at every auction in 2004 than in 2003 (averaging KZT 8.6 bn against KZT 5.0 bn in 2003), and notes YTM sharply declined. As said above, servicing this large debt resulted in NBK losses in 2004. Therefore the central bank actively used demand for notes in order to reduce servicing cost, ignoring indicative money-market rates established by itself. Desire of market participants to invest in a traditional "expectation instrument" appeared to be the main factor in notes pricing.

Tab. 17 demonstrates that the Ministry of Finance's tactics on GS primary market somewhat deviated from its original intentions announced in February, 2004. The share of medium-term bonds (MEOKAM) in the total volume of GS issued by the MF in 2004 decreased in comparison with the previous year, and the growth of issuing activity became possible mainly due to the issuance of discount MEKKAM. KASE experts think that the reasons for this lie in the current needs of the state budget that was more effectively financed from "short" securities issuance. Also, MEKKAM could be sold at higher prices which helped reduce servicing costs. Nevertheless, declining yields on the primary market were characteristic for all MF securities issues. However, yields of the "longest" securities declined at a slower pace against growing annual average rate of inflation³¹.

Declining GS yields on the primary market remained to be the principal tendency both in 2004 and within previous two years. The market showed signs of "overheating". As the market participants experienced excessive liquidity in KZT terms, they could not use their bid terms to make GS issuers raise their rates. When bid terms did not meet expectations of MF and NBK, the issuers still

³⁰ A reporting week of the NBK subdivisions starts on Friday and finishes on Thursday.

³¹ According to information of the Agency of Statistics of Kazakhstan inflation in January-December 2004 equaled to 6.9% compared to 6.4% at the same period of the previous year in the average annual estimation. Estimating December to December, inflation dropped down from 6.7% in 2004 to 6.8% in 2003.

managed to obtain desired yields through the "hard" use of cut-off prices or simply by refusing to sell the securities. The latter happened extremely rarely. Out of 99 primary GS auctions that were announced in 2004, only three did not result in actual sale of securities because of unsatisfactory bid terms (23 April, 19 May, and 17 September). All three auctions concerned NBK notes. On the other hand, MF bonds were in constant demand because of their higher yields.

As in 2003, the level of the GS primary market yields, serving as a benchmark, to a large extent determined the secondary market prices. If for some reasons GS yields to maturity on the secondary market became lower than those at auctions, demand grew higher on the primary market and lower on the secondary market.

The National Bank ended the year with a positive net balance of KZT 187,101.7 m³² on the GS primary market. The note sales amounted to KZT 561,891.5 m, and redemptions reached KZT 374,789.8 m. In 2003, corresponding numbers were KZT 27,245.4 m, KZT 61,325.7 m, and KZT 485,780.3 m.

The Ministry of Finance ended the year with a positive net balance of KZT 838.3 m on the primary GS market (including Eurobonds). The budget inflows reached KZT 126,212.0 m, while GS related redemptions and regular payments amounted to KZT 125,373.6 m. In 2003, MF's net balance was also positive amounting to KZT 25,965.3 m with inflows amounting to KZT 105,113.4 m and outflows (redemptions) amounting to KZT 79,148.1 m.

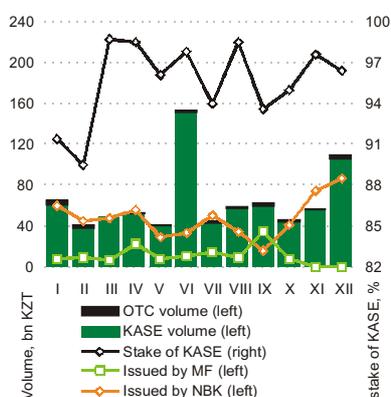
It can be noted that in 2003 MF's part in the sterilization of "excessive" cash appeared more essential than in the course of the reporting period. This was due to the redemption of sovereign Eurobonds being mostly in circulation outside the Republic of Kazakhstan (approximately, three fourths of the issue). Redeeming these securities from non-Kazakhstan residents did not result in a growth of money supply in Kazakhstan. At the same time, the majority of cash needed to redeem the Eurobonds was borrowed by MF on the domestic market. If the cost of servicing sovereign Eurobonds within the third issue was to be excluded from calculation of MF's net balance, this figure would increase up to KZT 46,207.5 m. This means that in the reporting year the Ministry of Finance assisted the National Bank in fulfilling its tasks to a larger extent than before.

THE SECONDARY MARKET

The volume of trades in GS issued by the Ministry of Finance and the National bank continued to grow in 2004, although the rate of growth slowed down in a manner similar to the previous period. According to KASE and CD, the stock exchange and over-the-counter GS trades volume is reached KZT 784.6 bn with the increase of KZT 84.0 bn, or 16.3% compared to the previous year. The corresponding 2003 increase against 2002 was KZT 186.9 bn (+36.4%), the 2002 increase against 2001 - KZT 174.4 bn (+51.4%). This tendency is only in part caused by the dynamics of GS market capitalization. The volume of domestic debt represented by the KZT denominated GS increased in 2002 by KZT 100.0 bn (+106.0%); in 2003 by KZT 191.7 bn (+98.7%); in 2004 by KZT 265.3 bn (+68.7%). Since the liquidity of sovereign eurobonds on the domestic market fell down practically to zero during the last three years, they are hardly worth mentioning here.

Analyses of this data lead to a conclusion that the growth of KZT denominated GS in circulation has had a notable effect on the secondary market turnover over the last three years. At the same time, this effect was not decisive, and 2004 demonstrated a sharp decline in the bond turnover. In KASE opinion, several factors were at work. The main factor was the volume of GS sold. The most popular operation on the secondary market was Primary dealers buying NBK notes at auctions and selling them to PAM. Fig. 20 testifies to a high correlation between the volume of placements and the secondary market turnover. Furthermore, in 2004, as shows Tab. 17, MF and NBK sold by KZT 22.1 bn less GS than in 2003. Another factor that essentially constrained GS liquidity on the secondary market was low yields of these securities. Reselling GS with a positive price differential becomes more difficult.

Fig. 20. GS trade volume on the primary and secondary markets and the share of stock exchange turnover in 2004



³² Here and further on, the related balance data is given by IRBIS evaluation, which was fulfilled by the official rate of tenge to USD for the moment of payment. The 'minus' sign in the balance data showed that the indicated amount has been withdrawn from the budget of issuers and remained at investors'; 'plus' shows borrowed by investors amount which is more than repaid.

Tab. 18. Volume of trades in GS on KASE in purchase-and-sale sector and stake of the stock market

Month	Number of deals	Volume, m USD	Volume, bn KZT	Stake of KASE, %
I	321	426.6	60.134	91.4
II	308	268.6	37.397	89.5
III	338	354.4	49.250	98.7
Q1	967	1,049.7	146.782	93.2
IV	358	379.9	52.472	98.5
V	262	292.0	40.060	96.1
VI	366	1,102.7	150.262	97.8
Q2	986	1,774.6	242.794	97.7
VII	273	310.0	42.007	94.0
VIII	324	421.4	57.446	98.5
IX	329	438.1	59.270	93.6
Q3	926	1,169.6	158.723	95.4
X	272	329.1	43.837	95.0
XI	280	424.9	55.554	97.6
XII	257	810.8	105.412	96.4
Q4	809	1,564.8	204.803	96.4
TOTAL 2004	3,688	5,558.6	753.103	96.0
Reference:				
TOTAL 2003	3,290	2,346.7	349.288	49.8
Trend:	+398	+3,211.9	+403.8	+46.2
%	+12.1	+136.9	+115.6	+92.7

While the importance of these two factors can not be denied, the activity of the GS secondary market was to a larger extent effected by the willingness or reluctance of the market participants to treat government bonds as a collateral instrument or to use them in pseudo-market trading whose motivation is hard to determine from KASE point of view. As can be seen from Fig. 20, the largest volume of secondary market trade in GS fell on June and December. These months trade comprised 40% of the annual GS turnover on KASE. At the same time, 77% of all trades in July were carried out between two KASE members. While the gross turnover was very large, the net turnover stood almost at zero level. Similar situation was in December. Trade volumes during 30 and 31 December, 2004, exceeded KZT 62 bn, or the total November turnover, amounting to 59.6% of the total December turnover. This abnormality resulted from year end accounting needs. Market participants were putting in order their financial reports using so called internal transactions³³ and clearing arrangements.

These facts demonstrate that a large share of GS trading in Kazakhstan still represent money market elements. Such transactions have almost no relation to securities market.

In this context, a sharp increase of the share of GS trades carried out through the stock exchange in the total GS turnover in Kazakhstan appears rather interesting (Fig. 20). In 2004, this indicator reached a historical maximum of 96.0%, while in 2003 the share of GS trades carried out through the stock exchange did not exceed 49.8%, in 2002 - 57.8%, in 2001 - 64.8%. Beginning with February of the reporting year, virtually all GS trading took place on KASE which demonstrates that the market participants were able to fully adapt to the contemporary trade methods and appreciate advantages of the stock exchange trading.

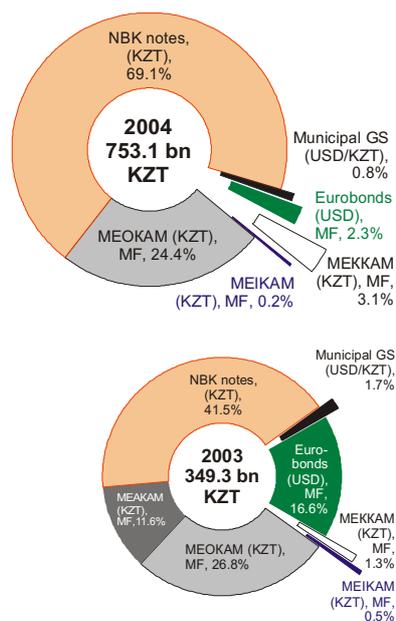
The Stock Exchange secondary market

Once again the reporting year demonstrated that this market sector had fully formed in terms of its legal framework, infrastructure, and settlement capabilities. So there was no need to modify any of these elements. The most important event in this context was the coming into force as of August 09, 2004, of a new internal document "Procedures for Trades and Confirmation System Functioning" approved by the KASE Board on August 05, 2004. This document sets the actual trade procedures which previously were regulated by various internal documents, the KASE Council, the KASE Board, and by means of the trading system settings. This document did not have any effect on the GS market situation.

In whole, 252 GS trade sessions took place in 2004. Trades were conducted from 11:30 to 18:00 ALT and all, without exceptions, resulted in actual sale of securities. In this sector, 3,688 (3,290) transactions³⁴ in 5,868,232,990 (1,959,676,349) bonds were registered within the KASE Trading System. Daily trade volume varied from KZT 47.8 m, or USD 366.9 th. (KZT 21.2 m, or USD 143.3 th.) to KZT 36.2 bn, or USD 278.3 m (KZT 13.6 bn, or USD 87.7 m) reaching an annual average of KZT 3.0 bn, or USD 22.1 m (KZT 1.4 bn, or USD 9.3 m). Monthly average reached KZT 62.8bn, or USD 1,389.9 m (KZT 29.1 bn, or USD 195.6 m). Aggregated trade information is presented in Tab. 18.

The instrument structure of this segment in 2004 did not undergo principal changes in comparison to 2003 (Fig. 21) due to a number of factors at work. The most essential effect on the turnover structure had an early redemption of MEAKAM, the highest yielding securities on the secondary market in 2003. Accelerated appreciation of KZT against USD resulted in a sharp decline in sovereign Eurobond trading on KASE. NBK notes, that actively traded on the primary market, replaced sovereign Eurobonds and MEAKAM in the trade structure. As was noted above, the most common operation was banks selling NBK notes to pension funds within two or three days after they purchased the notes at primary auctions. The price differentials were insignificant and had almost no effect on yields to maturity. However, due to short durations, the seller's yield to maturity was very high.

Fig. 21. GS turnover structure in the trade sector



³³ The deals carried out at the Exchange by a single member (broker-dealer), operating with different trade accounts.

³⁴ Only deals on which settlements have been fulfilled were registered. The data of the previous year is in brackets.

Fig. 22. Changes in the KASE turnover structure and the GS trade volume in 2004

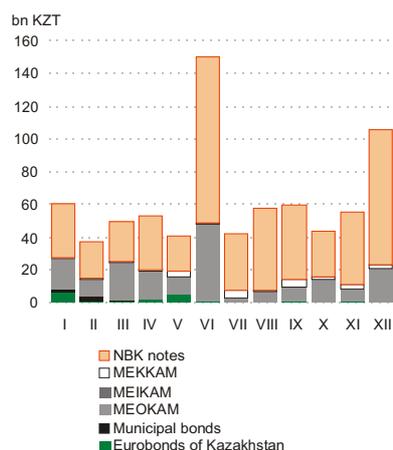


Fig. 23. Domestic GS: average weighted yield and trade volume on KASE in 2004

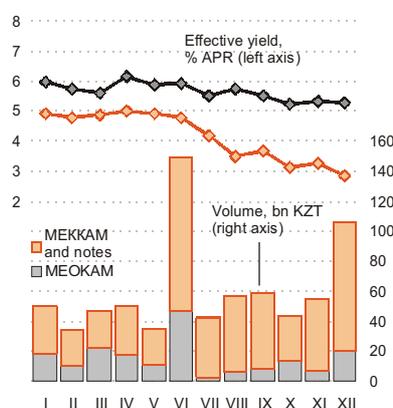
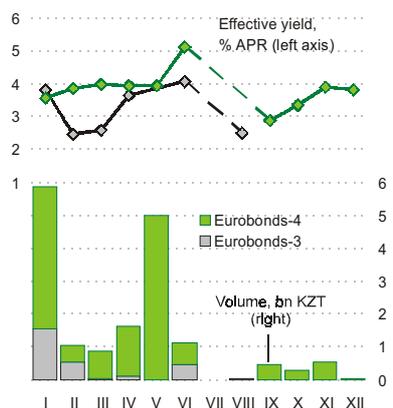


Fig. 24. Kazakhstan's Eurobonds: average weighted yield and trade volume on KASE in 2004



It should be noted that volume of trade in MEOKAM did not depend on their offering volume. It could well be seen in June and September (Fig. 22). In June, while the volume of MF bonds offering was quite ordinary, their share in secondary trading increased thanks to transactions that were not market-driven in their nature. To the opposite, large volumes of MF borrowing in September had no effect on the secondary market structure which remained to be represented mostly by trade in NBK notes. It can be explained by the fact that pension funds were primary investors in MEOKAM preferring to hold these securities in their portfolio until maturity.

There is nothing new to say about the secondary market dynamics of GS YTM in 2004. As in 2003, dynamics of domestic GS YTM was mostly effected by the primary market prices where yields were determined solely by the issuers. For these reasons, the shortest term securities - MEKKAM and NBK notes - experienced the sharpest decline in their primary market yields (Tab. 17) which found its adequate reflection in their secondary circulation (Fig. 23).

Yields of Kazakhstan's sovereign Eurobonds virtually did not change in the course of the year. It should be noted, however, that liquidity of these securities on KASE was extremely low. Absence of market-makers and only occasional trades in these securities made it impossible to obtain meaningful historical data allowing for a reliable analyses of the price dynamics. In KASE opinion, the coupon payment schedule was the main factor that effected the rates of return for these securities. As coupon payment dates approached, securities prices rose driven by demand, while after the coupon payment Eurobond holders preferred to sell their securities thus driving the yields up (Fig. 24).

The Secondary GS market continued to be controlled by STB³⁵. Their share in the gross turnover comprised 60.3% (61.9% in 2003). Broker-dealer companies somewhat threw back pension market subjects in the course of the reporting year (20.9% of the gross turnover; in 2003 - 19.4%). Four PAMs and two PFs, all Category "K" members, controlled 18.5% of the GS gross turnover in 2004 (17.9% in 2003). Other participants' share was 0.3%. These changes can hardly be considered principal, because some broker-dealer companies trade on KASE on behalf of pension market subjects that are not KASE members. One can conclude that STBs still represent the driving force behind the GS secondary market in Kazakhstan by ensuring liquidity of GS as opposed to APF that prefer to hold GS in their portfolios until maturity.

In whole, 46 Category "K" KASE members participated in GS trading on KASE in 2004 (38 in 2003). The level of monopolization of this segment in 2004 is characterized by the following data. The trade share of the most active trade participant comprised 33.5% (23.3%)³⁶ of the gross turnover; the two most active participants occupied 46.0% (33.0%); the three most active participants - 53.8% (40.1%); five - 65.7% (50.8%).

The most active participant in GS trading was Bank TuranAlem JSC (33.5% of trade volume). General Asset management JSC held the second position (12.5%), and ATF Bank JSC - the third (7.8%).

³⁵ In this case it is said about the trade participants, which are KASE members, but not real investors, whose bids were performed by the stock trades participants.

³⁶ The correspondent data of the previous year is shown in brackets.

THE MUNICIPAL BOND MARKET

The year 2004 became the last one in relation with which development of municipal bond market in Kazakhstan could be mentioned. The Government's attitude toward these securities continued to grow negative which was reflected in the new Budget Code of the Republic of Kazakhstan put into force on January 01, 2005. In accordance with this Code, local executive bodies of oblast centers and capital cities can only borrow from the Government of the Republic of Kazakhstan. Other ways of borrowing are not mentioned which means that municipal bond issuance is virtually prohibited.

All these events had direct negative impact on Kazakhstan's municipal bond market. For this reason, KASE did not pay much attention to this segment, and only wording of KASE internal documents underwent certain modification aimed at bringing these documents into correspondence with changes in Kazakhstan's laws.

THE PRIMARY MARKET

In the course of the reporting year, no applications were filed for the admittance of new municipal bonds to trades on KASE. So there were no municipal bond placements on KASE in 2004. Out of eight municipal bond issues that circulated on KASE during the year (Tab. 19), the first bond issue of the Akimat of East-Kazakhstan oblast (NIN KZ7051806A46, KASE code VKU036.001) and the third bond issue of Akimat of Astana (KZZ2KY030032, ASU036.003) were redeemed. According to the issuers, the bonds were redeemed on time and to the full extent. The redemptions resulted in the reduction of the total capitalization of the municipal bond market by 19.2% in 2004 (Fig. 25).

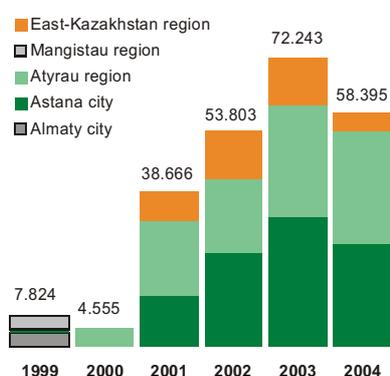
THE SECONDARY MARKET

Trades in municipal bonds on KASE were conducted daily within the frames of the same GS session from 11:30 to 18:00 ALT. Municipal bonds were still required to be traded through market-makers.

In 2004, the market did not differ in principal from 2003. It should only be noted that all transactions with municipal bonds were conducted on the stock exchange (in 2003 trades conducted on KASE comprised only 65.1% of all trades). In 2004, 25 transactions to the amount of KZT 5,878.1 m were, or USD 42,081.1 thousand conducted on KASE. In 2003, the trade volume reached KZT 5,811.9 m, or USD 39,741.4 th. Out of eight issues available on the market, bonds of five issues were traded. More detailed information is presented in Tab. 20.

In whole, this market segment was not well developed. This was conditioned by: 1) insignificant capitalization of the market, 2) relatively high risks that municipal bonds bore, 3) KZT appreciation against USD which effected par value of all municipal bonds without exception indexed to KZT/USD exchange rate, 4) little PA involvement in the municipal bond market. According to NBK, the level of PA investment into municipal bonds dropped in 2004 from KZT 769.5 m to KZT 44.3 m, and the share of these securities in APF portfolios dropped from 0.21% to 0.03% (mainly as a result of redemptions). The share of trades involving PA did not exceed 0.42% of the gross volume of trades in municipal bonds (in 2003 - 1.1%). The market was mainly controlled by STB and their clients.

Fig. 25. Dynamics of the capitalization and structure of Kazakhstan's municipal bond market over the last 6 years (USD m, as of the end of the period)



Tab. 19. Major parameters of municipal bonds, which circulated on KASE in 2004

Code on KASE	NIN	Issue currency	Date of		Issue volume in its currency	Rate coupon, % APR
			issue	maturity		
VKU036.001	KZ7051806A46	USD	19.06.01	18.06.04	7,190,500	6.30
ASU036.003	KZZ2KY030032	USD	26.12.01	25.12.04	6,657,700	9.80
VKU036.002	KZF2KY030021	USD	09.08.02	08.08.05	4,511,600	8.50
AST036.004	KZZ4KY030048	KZT	11.10.02	09.10.05	1,633,000,000	8.31
ARU060.003	KZE4KY050038	USD	25.09.01	24.09.06	5,887,100	8.60
AST048.005	KZZ4KY040054	KZT	11.10.02	09.10.06	967,000,000	8.50
AST048.006	KZZ4KY040062	KZT	26.06.03	24.06.07	1,299,978,300	8.50
ART060.004	KZE4KY050046	KZT	15.05.03	13.05.08	3,393,000,000	8.50

First two letters in KASE code – issuer's code: **AS** – Astana Akimat, **AR** – Akimat of Atyrau obl., **VK** – EKO Akimat.

All – semiannual coupon, actual/365 base. Face value of tenge bonds is indexed on change of USD rate to KZT.

The most active municipal bonds traders on KASE were Bank TuranAlem JSC (94.9% of the aggregate volume of trade), Kazkommerts Securities JSC (1.7%), and Bank CenterCredit JSC (1.4%).

Tab. 20. Parameters of the turnover of the secondary market of municipal bonds in 2004

Bond's code on KASE	Volume of deals		Yield to maturity for buyer, % APR			Market's stake, %	Turnover rate
	m KZT	th. USD	min	max	WA		
VKU036.001	859.9	6,130.8	5.74	7.99	5.84	14.6	0.85
ASU036.003	90.2	694.1	8.49	8.49	8.49	1.5	0.10
VKU036.002	1,083.2	7,726.2	6.81	8.68	7.96	18.4	1.71
AST036.004	0	0	–	–	–	0	0
ARU060.003	2,477.3	17,751.4	6.02	8.64	8.23	42.1	3.02
AST048.005	0	0	–	–	–	0	0
AST048.006	0	0	–	–	–	0	0
ART060.004	1,367.5	9,778.7	9.28	9.66	9.47	23.3	0.40
TOTAL 2004	5,878.1	42,081.1	5.74	9.66	8.12	100.0	0.72
Reference 2003 on comparable exchange operations:							
TOTAL	5,811.9	39,741.4	5.00	9.90	7.08	65.1	0.70*

* Taking into account over-the-counter market.

THE FOREIGN SECURITIES MARKET

This market segment was the youngest on KASE; Rules of Admittance of Foreign Government Securities to Circulation was approved by the Exchange Council on August 06, 2003, and came into force on August 07 of the same year.

According to the Rules, admittance of foreign government securities can only be initiated by Category "P" KASE members that hold first category license for broker-dealer activity on the securities market with the right to maintain customer's accounts as nominee holders. Also, in order for foreign securities to be admitted for trades on the stock exchange, they must be deposited in CD accounts and market-makers must be assigned to conduct trades.

According to the original version of the Rules, admitted to trades on KASE could be only foreign GS issued by OECD member countries with sovereign long-term ratings in foreign currency not less than "A" (Standard & Poor's and Fitch) or "A2" (Moody's).

In order to promote foreign GS on KASE, on December, 30 2003, the Exchange Council simplified requirements with regard to issuers of foreign GS. The requirement of OECD membership was removed and the rating requirement was downgraded from "A" to "BBB-" (Standard & Poor's and Fitch) and from "A2" to "Baa3" (Moody's). At the same time, it was decided that the KASE Board should use the following principals in reviewing country ratings:

- ✦ only ratings assigned (confirmed, updated) within last 18 months can be used
- ✦ when ratings assigned by several rating agencies are available, the highest rating should be used
- ✦ if within last six months a rating agency downgraded its long-term country rating in foreign currency, the last rating should be used. The appropriate provision was incorporated into the "Rules of Admittance of Foreign Government Securities to Circulation" as of February 13, 2004

After the coming into force of FSA's resolution № 63 On Requirements of the Issuers and Their Securities to be Admitted (Already Admitted) to Circulation on the Stock Exchange, As well As of Certain Categories within the Official Listing dated March 15, 2004, the third principal was removed from the said Rules. This revision was approved by the Exchange Council on March 24, 2004, and came into force on June 17, 2004.

Other revisions made to the Rules of Admittance of Foreign Government Securities to Circulation concerned only its wording.

Modification of the said Rules began to bear fruit in the second half of the reporting year. On August 11, 2004, based on an application of TuranAlem Securities JSC and a letter from CD, the KASE Board admitted for circulation on the stock exchange two sovereign bonds issued within the frames of Russian Federation's foreign debt:

- ✦ "Russia-2028" (ISIN - XS0088543193, trade code KASE - RU_01_2806; USD 2.5 bn, 24.06.98-24.06.28, semiannual coupon with the annual rate of 12.750%; Moody's - "Baa3", S&P - "BB+", Fitch -"BB+")
- ✦ "Russia-2030" (XS0114288789, RU_02_3003; USD 18.4 bn, 28.08.00-31.03.30, step-by-step amortization, semiannual multi-step coupon with 2.25% - 7.50% annual rate; Moody's - "Baa3", S&P - "BB+", Fitch -"BB+")

TuranAlem Securities JSC acted as the market-maker of these bonds, the minimum amount of obligatory quote being 10,000 units of the currency of the debt in nominal terms. Trades opened on August 11, 2004, when a new segment Foreign Government Securities Trading Sector was incorporated into the TS. Trades were conducted daily from 11:30 till 17:00 ALT.

In whole, 476 bids and offers with regard to the above mentioned foreign GS were placed in the TS. The most quotations were put up by the market-maker. Bids by another KASE member were made only during the period from August 25 to September 22, but no deals were concluded because trade participants were unable to compromise on prices. After the said date, only the foreign GS market-maker operated on the stock exchange. Trade information is presented in Tab. 21.

The reasons for the lack of Kazakhstan investors' interest in foreign GS lay in USD denomination of these securities, wide market-maker's spread, and in relatively low yields. All these reasons make these securities relatively unattractive in comparison with Kazakhstan securities of similar investment quality.

Tab. 21. Parameters of foreign GS quotations on KASE in 2004

Security's code	Best quotation for purchase			Best quotation for sale			Spread on clean price, % from quotation for purchase			Spread on yield, % points		
	date of quotation	clean price, %	yield, % APR	date of quotation	clean price, %	yield, % APR	min	max	aver	min	max	aver
RU_01_2806	27.12.04	163.40	7.14	19.08.04	150.00	8.01	0.8	10.7	2.2	0.07	1.03	0.22
RU_02_3003	18.11.04	98.83	6.74	23.08.04	92.41	7.66	0.5	11.4	2.2	0.04	0.91	0.18

THE IFO BOND MARKET

The stock exchange market of bonds issued by IFOs evolved in Kazakhstan in 2001 initiated by pension market subjects in search for new investment opportunities. Unfortunately, while in 2001 IFO bonds were successfully traded on KASE, within the two following years no transactions with these securities were concluded. Although legal discrepancies that resulted in KASE suspending STBs from trading in IFO bonds in 2003 were removed, the reporting year was not active in this regard.

As of January 01, 2004, modification of the law of the Republic of Kazakhstan On Banks and Banking Activities in the Republic of Kazakhstan allowed STBs to trade in selected IFO bonds determined by FSA. The list of such bonds was approved by a resolution of the FSA Board on February 09, 2004, becoming effective as of March 17, 2004.

As the IFO list approved by the said FSA resolution differed from the IFO list contained in the KASE internal document Rules of Admittance of Securities of International Financial Organizations to Circulation, the latter was appropriately modified in 2004.

It should be noted that in order to avoid negative consequences of the legal discrepancies, in 2003 KASE made the admittance procedure for IFO securities similar to that of the KASE official listing. On January 21, 2004, a provision was introduced into "Rules of Admittance of Securities of International Financial Organizations to Circulation" according to which KASE should not charge its listing fee for IFO securities admittance.

The said modifications did not have any effect on the IFO bond market on KASE.

Trades in IFO bonds were conducted on working days from 11:30 to 17:00 ALT. Securities of the following issuers were admitted to trade in this sector: International Bank for Reconstruction and Development (IBRD), International Finance Corporation, European Bank for Reconstruction and Development, Inter-American Development Bank, Bank for International Settlements, Asian Development Bank (ADB), African Development Bank, Islamic Development Bank, European Investment Bank, Scandinavian Investment Bank, European Council Development Bank.

In the course of the reporting period, stock exchange members did not have any new IFO bonds admitted to KASE trades. For this reason, in 2004, the same securities were traded on KASE as in 2003 (Tab. 22), except for IBRD (ISIN - US459056PP62) Eurobonds that were redeemed on March 17, 2003.

In comparison with the previous year, in 2004 this market segment gave but signs of life. Three transactions with IBRDD120405 bonds were registered in the TS to the total amount of KZT 37.6 m (USD 273.7 th.) (Tab. 23). These transactions represented market participants' attempts to gamble in KZT and USD exchange rates against EURO.

KASE experts are inclined to explain the narrowness of the exchange market of IFO bonds in 2004 by the lack of demand from institutional investors caused by: 1) low yields of these securities, 2) the lack of their liquidity on the Kazakhstan's

Tab. 22. Major parameters of IFO bonds admitted to circulation on KASE in 2004

Security type	global note	global note	debentures ³⁷	global note
Issuer	IBRD	IADB	IBRD	ASDB
ISIN	XS0092711802	US4581X0AD07	DE0001282705	US045167BH53
Code of KASE	IBRDU251113	IADBU200912	IBRDD120405	ADB_U040912
Issue currency	USD	USD	DEM	USD
Issue volume	500 m	2,000 m	3 m	500 m
Starting date	November 25, 1998	September 20, 2002	April 12, 1995	September 04, 2002
Circulation term	15 years	10 years	10 years	10 years
Maturity date	November 25, 2013	September 20, 2012	April 12, 2005	September 04, 2012
Interest rate	5.500%	4.375%	7.125%	4.500%
Coupon payment	November 25 annually	March 20 and September 20 annually	April 12 annually	March 04 and September 04 annually
Time basis	ISMA-30/360	ISMA-30/360	SMA-30/360	ISMA-30/360
Market-maker	TASEC	TASEC	GNPF_	TASEC

³⁷ A specific debt instrument.

securities market, 3) KZT appreciation against USD, and 4) by the hard to predict KZT exchange rate to USD and Euro. Furthermore, as had been the case in the previous year, Kazakhstan's STBs and PAMs were able to use their connections on international markets to trade IFO bonds without domestic intermediaries.

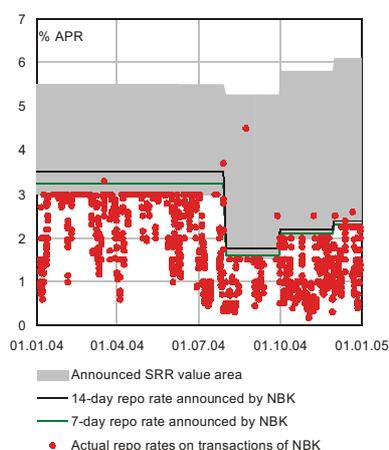
The State Accumulation Pension Fund was recognized the leader of this market segment with 50.0% of the gross volume of KASE trades in these bonds.

Tab. 23. Parameters of deals with IFO bonds on KASE in 2004 (IBRDD120405, ISIN – DE0001282705)

Date of deal	Number of bonds	Price, KZT per bond	Clean price, % from nominal	Yield to maturity, % APR	Amount of deal	
					in KZT	in USD
16.03.04	200,000	97.6533	105.26	2.11	19,530,650.58	140,296.32
12.07.04	100,000	90.3610	103.65	2.15	9,036,101.26	66,800.48
17.08.04	100,000	90.6713	102.90	2.56	9,067,134.07	66,591.76

THE REPO MARKET

Fig. 26. Comparison of the NBK official repo rates with the rates based on actual NBK operations on KASE



In 2004, this sector continued to be the leading one on Kazakhstan's financial market in terms of trade volume. This sector remained, firstly, the main source of "short money" to deal with short-term liquidity problems, secondly, an investment object for temporarily free money, and, thirdly, the NBK monetary policy instrument.

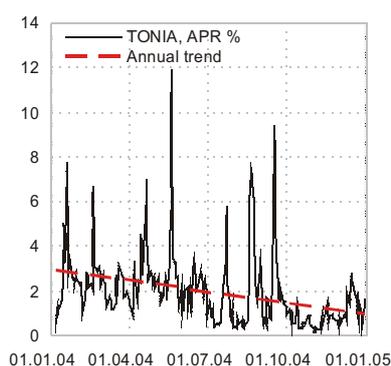
The NBK's approach to the repo market did not change in 2004. A major increase of foreign currency inflows from exports, foreign borrowing and direct foreign investments resulted in the threat of "overheating" the economy which forced the NBK to stiffen its monetary policy in the end of the year. One of the measures taken by the NBK in this regard was its work on raising interest rates. Despite the NBK's intention to raise its refinancing rate in the end of the reporting year, it was not raised and remained at the level of 7% by the end of 2004. But the NBK had to abandon the step-by-step raising of the unified repo rate (URR). This indicative rate was at the level of 4.5% in the beginning of the year \pm 150 basis points and was changed by the central bank three times in the course of the year. On 01 August URR was lowered down to 3.5% \pm 200 basis points, on 01 October it was raised up to 4.0% \pm 200 basis points, on 01 December it was further raised up to 4.25% \pm 200 basis points (Tab. 24).

In the course of the reporting period, the NBK, on a daily basis, published its indicative "overnight", one and two week repo/reverse repo rates. These indicators changed along with URR. The minimum URR corresponded to the NBK's overnight repo rate, and the minimum URR corresponded to the overnight, one week and two week reverse repo rates (Tab. 24).

The data presented in Fig. 26 demonstrates that the NBK rates had little impact on the repo market and even on the market behavior of the bank itself. The majority of transactions were conducted by the bank at lower rates than the minimum URR. Furthermore, these rates actually represented the maximum cost of short money which the NBK temporarily withdrew from circulation aimed at the sterilization of the market participants' liquidity.

It was stated in the previous annual report that beginning mid September, 2003, the NBK stopped supporting STBs' short-term liquidity on the repo market and limited its participation by attracting money. This strategy remained in 2004 when, on October 29, the National Bank conducted only one reverse repo operation. The rest repo operations conducted by the NBK were intended at attracting money.

Fig. 27. The TONIA index dynamics in 2004



This information demonstrates that in the course of the whole year KZT excessive liquidity existed on the financial market causing continuous decline of cost of the shortest money (Fig. 27). This was especially the case in October and November when huge USD amounts were sold on the domestic market as a result of high international oil prices and increased activity of Kazakhstan's residents offering their debt securities abroad. The NBK's buying the bulk of USD resulted in the money supply growth, so some overnight repo operations were opened on KASE at 0.15% annual rate. The Kazakhstan's market never experienced such low rates before. The TONIA index³⁸ did not demonstrate the same periodicity in its dynamics which had depended on the schedule of budget payments. The KZT liquidity of the financial market participants and their clients happened to be so high that the banks managed to survive the "taxation weeks" in October and November without help of short money.

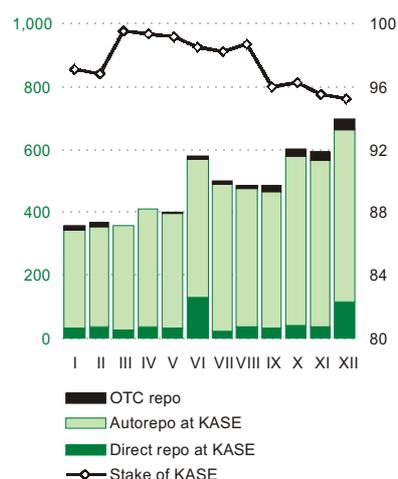
As a whole, securities repo operations in Kazakhstan were conducted both on KASE and over-the-counter.

Tab. 24. Dynamics of indicative repo rates set by NBK in 2004 (% APR)

Period	ECP	Announced repo rate of NBK					
		borrowing			lending		
		overnight	7 days	14 days	overnight	7 days	14 days
Until 01.08.04	3.00–6.00	3,00	3,25	3,50	6.00	6.00	6,00
01.08.04–30.09.04	1.50–5.50	1,50	1,60	1,75	5.50	5.50	5,50
01.10.04–30.11.04	2.00–6.00	2,00	2,10	2,20	6.00	6.00	6,00
Since 01.11.04	2.25–6.25	2,25	2,30	2,40	6.25	6.25	6,25

³⁸ Tenge OverNight Index Average is 'overnight', an average weighted repo rate, formed at the stock market of automatic repo of state securities.

Fig. 28. The repo market volume, turnover structure, and the KASE share in 2004



In the reporting year, two sectors operated on KASE: the "direct" repo sector, for conducting transactions in which the trade participants agree in advance the parameters of the transaction and then conclude it on KASE, and the automatic repo sector, where money lots are openly traded and the repo rates are used as a basis for supply and demand prices. The GS and CS could be used as objects of repo operations. In trades in the automatic repo sector, the evaluation of securities used as the subject of repo operations was carried out automatically by the TS in accordance with the KASE methodology. Repo operations in the automatic repo sector had standard terms of 1, 2, 3, 7, 14 and 28 days. For repo with CS deviations from the standard periods were allowed. In the direct repo sector it was possible to conduct repo operations for any term.

Over-the-Counter repo operations with GS were conducted by means of direct trade through the MF Primary Dealers and the NBK Primary Agents; all transactions were subject to obligatory registration with the CD. Operations of this type were declared by the parties and registered with the CD as repo and mortgage operations (mortgage opening and closing operations).

According to the KASE data, the total volume of Kazakhstan's repo market reached KZT 5,838.3 bn, and grew 1.72 times compared to 2003. Due to the fact that reliable information on the OTC repo market is obviously not available in Kazakhstan, the OTC volume is not taken into consideration³⁹.

The share of repo operations conducted on KASE increased from 94.6% to 97.3%, and varied from 95.3% to 99.5% on a monthly basis (Fig. 28, Tab. 25). The decline of repo volume in the last quarter of the reporting year was temporal and was caused by increased OTC activities of one of the banks and by the year-end financial reporting reasons.

The large share of repo operations conducted on the organized market makes it possible to state that the whole Kazakhstan repo market situation did not change in 2004 and was effected mostly by the excess of free money. As was the case in 2003, the monthly dynamics of the volume of KASE repo operations depended on a number of factors (currency market events, redemption of large GS issues, NBK regulatory actions, etc.) However, availability of excessive money with the market participants and their clients had the decisive impact.

Tab. 25. Volume and sectoral structure of the repo market's turnover on KASE in 2004, stake of the stock market

Month	Volume of opening and closing deals, bn KZT (unless otherwise specified)							Stake of the stock market, %	
	direct repo			autorepo			TOTAL		
	in CS	in GS	total	in CS	in GS	total	m USD		
January	6.638	26.383	33.021	2.275	311.927	314.2	2,465.4	347.223	97.1
February	6.504	30.454	36.959	1.215	318.170	319.4	2,560.3	356.343	96.9
March	4.286	24.824	29.110	1.513	328.962	330.5	2,586.8	359.585	99.5
Q1	17.428	81.662	99,090	5.003	959.059	964.062	7,612.6	1,063.152	97.8
April	8.021	28.432	36.453	3.849	370.136	374.0	2,970.5	410.439	99.3
May	9.081	23.947	33.028	6.046	359.419	365.5	2,906.8	398.493	99.2
June	8.229	122.634	130.863	7.174	433.728	440.9	4,194.1	571.764	98.5
Q2	25.331	175.012	200.344	17.069	1,163.284	1,180.353	10,071.3	1,380.696	98.9
July	5.358	17.785	23.143	7.221	459.030	466.3	3,610.5	489.394	98.2
August	6.619	30.933	37.552	4.439	435.850	440.3	3,509.8	477.841	98.7
September	5.454	28.139	33.593	5.576	426.517	432.1	3,440.0	465.685	96.0
Q3	17.431	76.856	94.287	17.235	1,321.397	1,338.633	10,560.3	1,432.920	97.7
October	12.518	29.833	42.351	5.746	531.103	536.8	4,347.9	579.200	96.3
November	13.468	21.965	35.433	6.972	522.841	529.8	4,326.6	565.245	95.5
December	11.429	103.687	115.116	8.829	538.354	547.2	5,093.3	662.299	95.3
Q4	37.415	155.485	192.901	21.546	1,592.297	1,613.843	13,767.8	1,806.744	95.7
TOTAL 2004	97.606	489.016	586.622	60.853	5,036.036	5,096.890	42,012.0	5,683.512	97.3
Structure	1.72%	8.6%	10.3%	1.07%	88.6%	89.7%		100.0%	
Reference, year 2003:									
TOTAL	43.669	411.749	455.419	18.170	2,735.333	2,753.503	21,523.6	3,208.922	94.6
Structure	1.36%	12.8%	14.2%	0.57%	85.2%	85.8%		100.0%	
Trend 2004 to 2003:									
in money	+53.9	+77.3	+131.2	+42.7	+2,300.7	+2,343.4	+20,488.3	+2,474.6	
percentage	+123.5%	+18.8%	+28.8%	+234.9%	+84.1%	+85.1%	+95.2%	+77.1%	

³⁹ The Central Depository data on repo after-market on state securities and a total turnover of the repo market of the national and state securities on KASE.

THE STOCK EXCHANGE REPO MARKET

This market segment was regulated by the KASE internal documents Rules of Conducting Repo Operations and Specification of the Automatic Repo Sector, put into force on December 24, 2002. Evaluation of stock and bonds used in repo operations was carried out in accordance with the Methodology of Evaluation of Securities Used in Repo Operations approved by the KASE Board on February 19, 2003.

Because of the relatively young age of this segment, the KASE had to pay more attention to its legal base. Various precedents that took place in the process of trades and settlements provided the basis for the modification of the above mentioned documents in 2004.

On January 01, 2004, there came into force a new provision to the Rules of Conducting Repo Operations, approved by the Exchange Council on December 30, 2003, which dealt with the penalties imposed on the participants of direct repo operations for failure to fulfill their obligations with regard to repo closing. According to the new addition, the failing party is obliged to pay the counterparty a 5% fine of the total amount of the repo closing operation.

On March 01, 2004 modifications were made to the Rules of Conducting Repo Operations according to which:

- ✦ if a direct repo operation with a GS removed from the KASE listing is cancelled on the closing day as a result of the seller's failure to fulfill his obligations, the seller should pay the counterparty a fine in the amount of 50% of the total amount of the operation (this provision was approved by the Exchange Council on December 30, 2003)
- ✦ parameters of a "direct" closing repo (closing date or closing price) can be modified except when the security used in the operation has been removed from the KASE listing (this provision was approved by the Exchange Council on December 03, 2003, and slightly modified by the Exchange Council on October 20, 2004)

The KASE efforts to make participants in the stock exchange repo market more responsible before their counterparties resulted in modification of the Rules of Conducting Repo Operations approved by the Exchange Council on October 20, 2004. The said modification, effective as of December 22, 2004, prohibited repo operations of any kind if it becomes known that the security to be used in the repo is subject to the full or partial redemption during the intended period of such repo operation.

The KASE internal document Specification of the Automatic Repo Market did not undergo principal changes. At the same time, the Methodology of Evaluation of Securities Used in Repo Operations was modified twice in the course of the reporting year. On January 01, 2004 there came into force amendments and alterations approved by the Exchange Council on December 23, 2003 with regard to the procedure for calculating yields of GS of the Republic of Kazakhstan within the first group and corporate bonds issued by Kazakhstan's residents in accordance with legislation of Kazakhstan and of other countries, including bonds issued with use of SPV. The second set of amendments was approved by the Exchange Council on June 18, 2004 and came into force on July 22, 2004. These amendments set the provision according to which the yields of GS of the Republic of Kazakhstan within the second or the third group shall be calculated using parameters of trades in such securities that took place within 30 days prior to the evaluation date (previously, 5 days). Furthermore, the amendments set limits for the amount of quotations used as the market price of stocks. After the amendments and alterations becoming effective, only quotations amounting to at least 1,000 MCU should be used in calculating the market price of stocks.

In whole, 252 trade sessions were conducted on KASE in 2004. Trades were carried out on the daily basis from 11:30 to 18:00 ALT for repo operations with GS and from 11:30 to 17:00 ALT for repo operations with CS. In the course of the year, 35,524 (25,542) transactions⁴⁰ were conducted on KASE with 73,058,733,724 (22,063,055,473) securities to the amount of KZT 5,683.5 (KZT 3,208.9) bn, or USD 42,012.0 (USD 21,523.6) m, including:

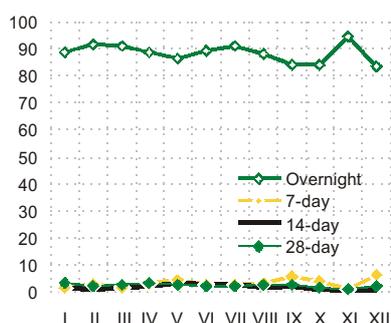
- ✦ direct repo market

⁴⁰ The correspondent data of 2003 is shown in brackets.

Tab. 26. Instrumental structure of turnover in CS automatic repo sector in 2004

Repo subject code	Repo terms, days	Volume of opening, bn KZT deals	Number of deals	Stake of market, %
ALKS	1, 3, 7, 28	1,282.0	38	4.2
ALKSp	28	32.0	2	0.1
ASBN	3, 7, 28	525.0	3	1.7
ASBNb1	7, 14	8.0	3	0.03
ASFIb2	1, 2, 7, 21, 30	1,469.0	44	4.8
ASFIb4	7	140.0	2	0.5
ATFBb2	3, 14	105.0	2	0.3
BRKZb1	1, 3, 7, 14	177.0	6	0.6
BTASb2	14, 28	217.0	2	0.7
CCBN	1, 7, 14, 30	781.0	27	2.5
CCBNb3	28	2,200.0	17	7.2
HRLT	1, 7, 14, 28	3,144.0	20	10.2
HSBKb	1, 2, 7, 28	1,452.1	26	4.7
KARMB2	7	29.0	1	0.1
KZASb2	7, 28	120.0	3	0.4
KZIKb1	1, 3, 14, 28	2,199.1	39	7.2
KZIKb2	3	701.0	2	2.3
KZIKb4	3	40.0	1	0.1
KZTCb1	1, 7, 28	2,410.0	40	7.9
NRBNb2	28	1,065.1	7	3.5
ORDB	7, 14, 28	2,720.0	46	8.9
ORDBb1	1, 7, 14, 28	1,123.0	29	3.7
ORDBp	1, 3, 7, 14, 28	734.0	23	2.4
RGBRb3	7, 28	1,505.0	15	4.9
ROSAb1	28	80.0	1	0.3
TEBN	30	1,381.0	23	4.5
TXBNb1	1, 7, 14	460.0	18	1.5
TXBNb2	1, 7, 14	931.0	20	3.0
VTBN	1, 7, 14, 28	1,146.0	28	3.7
VTBNb1	1, 7, 14, 28	858.1	24	2.8
VTBNp	1, 7, 14, 28	1,664.0	42	5.4
Total:	X	30,698.6	554	100.0

Fig. 29. Dynamics of the instrument structure of the automatic repo market turnover in 2004 (% of the opening repo volume)



2,260 (1,954) opening repo operations to the amount of KZT 313.4 (KZT 225.2) bn, or USD 2,324.5 (USD 1,510.2) m

2,029 (1,908) closing repo operations to the amount of KZT 273.2 (KZT 230.2) bn, or USD 2,018.9 (USD 1,541.0) m

⊕ automatic repo market

15,615 (10 884) opening repo operations to the amount of KZT 2,559.6 (KZT 1,384.6) bn, or USD 18,921.7 (USD 9,289.2) m

15,620 (10,796) closing repo operations to the amount of KZT 2,537.3 (KZT 1,368.9) bn, or USD 18,746.9 (USD 9,183.3) m

All trade sessions resulted in actual operations. The daily volume varied from KZT 11.7 bn (USD 82.4 m, January 09) to KZT 55.7 bn (USD 428.6 m, December 30) and reached an average of KZT 22,6 bn (USD 166.7 m). Average monthly volume reached KZT 473.6 bn, or USD 3,501.0 m.

In all, 45 KASE members participated in repo operations on KASE in 2004 (in 2003 - 41)⁴¹. Banks accounted for 79.1% of the gross turnover, broker-dealer companies - 9.4%, pension market subjects - 10.4%, other trade participants - 1.2%.

The level of the repo market monopolization in 2004 was characterized by the following data. The share of the most active trade participant (with an exception of the National Bank) comprised 15.7% (13.8%)⁴² of the gross turnover, the share of the two most active participants - 23.5% (24.6%), three - 29.2% (31.9%), five - 39.5% (43.9%). Thus the level of monopolization somewhat declined in comparison with 2003.

The most active participant of the repo market on KASE in 2004 was Bank TuranAlem JSC (15.7% of the total operations). The second and third positions were held by Kazkommertsbank JSC (7.8%) and Alliance Bank JSC (5.6%).

The Automatic Repo Sector

The principle of operation of this sector is described above. Tab. 25 illustrates the leading growth of the volume of transactions in the automatic repo sector in 2004 in relation to the entire repo market which was observed in the previous reporting period as well. The volume of repo operations in 2004 somewhat rose but the share of this sector in the total volume of this market continues to fall.

Judging by data provided in Tab. 26 and 27, during the reporting period the market participants preferred to work, as before, mostly with overnight repo instruments. Their share at the automatic repo market remained approximately constant during the entire year (Fig. 29).

As for lots, trade participants used mostly GS, constituting the major share of the government debt: MEOKAM, NBK notes and partially MEKKAM (Fig. 30). In respect to 2003 there have occurred no cardinal changes here since the public debt structure issued as GS being main lots of automatic repo operations has little changed. The place of the called MEAKAM (3.7% in the 2003 automatic repo turnover) and sovereign international bonds of the 3rd issue redeemed in October 2004 was occupied by mostly NBK notes. The share of these securi-

Tab. 27. Instrumental structure of turnover in GS automatic repo sector in 2004

Trade code*	Weighted average rate, % APR	Volume of opening, bn KZT	Number of deals	Stake of market, %
REPO_KZT_001	1.77	2,256.9	12,807	89.2
REPO_KZT_002	1.69	58.0	267	2.3
REPO_KZT_003	2.18	32.0	193	1.3
REPO_KZT_007	2.40	87.1	727	3.4
REPO_KZT_014	3.17	44.2	508	1.7
REPO_KZT_028	3.35	50.7	559	2.0
Total:	X	2,528.9	15,061	100.0

* In trade code – repo transaction currency, repo transaction term in days

⁴¹ The represented in this paragraph data is calculated without accounting the NBK lines.

⁴² The correspondent data of 2003 is shown in brackets.

Fig. 30. Objects of automatic repo operations in 2004

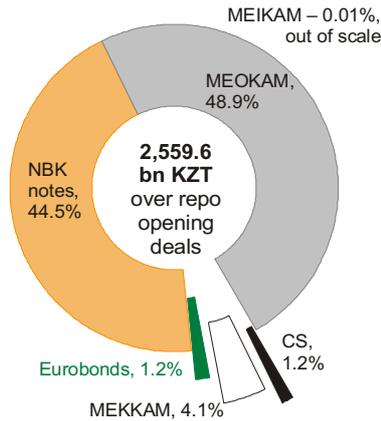
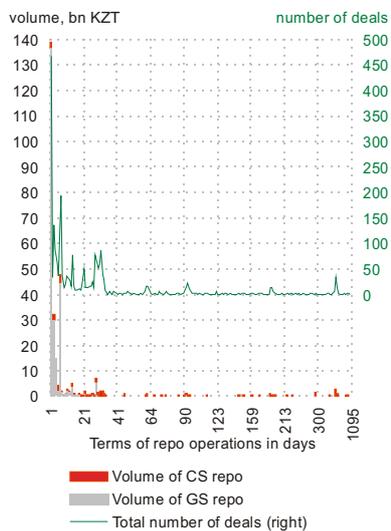


Fig. 31. Distribution of the volume and number of "direct" repo operations according to their term



ties rose from 28.5% to 44.5% compared to 2003. Instead of MEOKAM (55% in 2003) the market participants used MEKAM more often as repo lots the share of which grew up from 3.4 to 4.1%. A sudden drop of the Kazakhstan's sovereign Eurobonds, from 11.2 to 1.2% is noted in the automatic repo market turnover, which cannot be explained only by the redemption of these Issue 3 securities. Systematic strengthening of tenge to US dollar during the reporting period practically reduced the liquidity of these bonds to zero at the local market and led to their withdrawal out of the country. The KASE analysts tend to attribute a rare incidence of these bonds at all the KASE trade sites due to this very circumstance.

The continuing involvement of CS in automatic repo operations should be particularly noted. This trend marked in late 2002 received a powerful thrust in 2003 as well as in the reporting period. If in 2002 deals were concluded only with five respective instruments, then in 2003 the number of instruments involved in repo operations increased up to 45, and in 2004 up to 85 (Tab. 26). The volume of respective transactions grew up from KZT 576.6 m in 2002 to KZT 18.2 bn tenge in 2003, and to KZT 60.9 bn tenge in 2004 (Tab. 25). Such a dynamics was in connection with positive experience accumulated by the market in 2002 - 2003, a widened record of CS that underwent the listing procedure at the KASE as well as modification of the market valuation methods of CS used as automatic repo lots.

The dynamics of yields in the automatic repo sector (Fig. 32) was quieter than in 2003. This was explained due to lack of the deficit of tenge at the market. The volatility of the repo operations yields dropped significantly and their dependence on the time of repo operations practically disappeared. Infrequently overnight repo rates turned out to be higher than the price of long-term money as the banks' time lags became shorter and they experienced a critical need in the most short-term money only.

As earlier, the second tier (commercial) banks approved themselves as the mostly active in the automatic repo sector in 2004 as both dealers and brokers. Their share accounted for 51.6% of the gross market turnover (not counting the National bank) (80% in 2003). Broker/dealer firms and their patrons controlled 39.6% of the turnover (7.9%), pension sector market participants - 1.4% (6.2%).

The "Direct" Repo Sector

The existence of this sector is still determined by the willingness of trade participants to carry out repo transactions according to previously approved parameters without a risk of bids being intercepted by third parties. Therefore an element of trade is present here only partially, between the parties intending to carry out a transaction. Registration of such transactions at the exchange using

Fig. 32. Dynamics of weekly average weighted rates of the automatic repo market for liquid instruments (% annual, on the left)

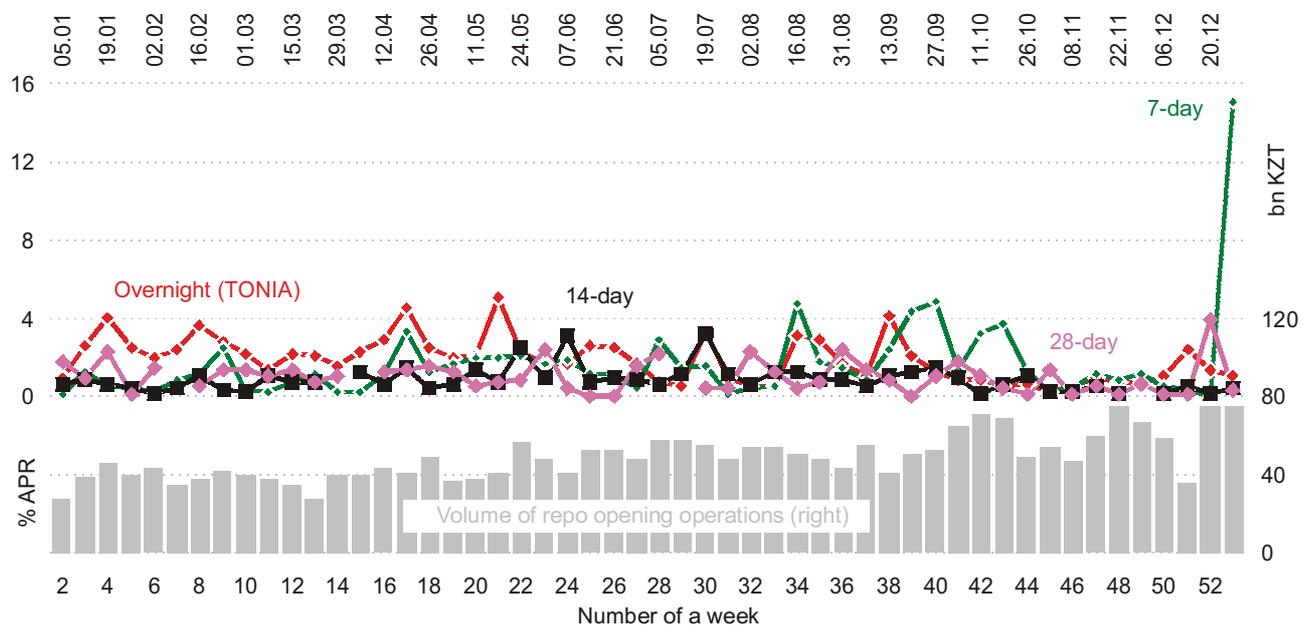


Fig. 33. Objects of "direct" repo operations in 2004

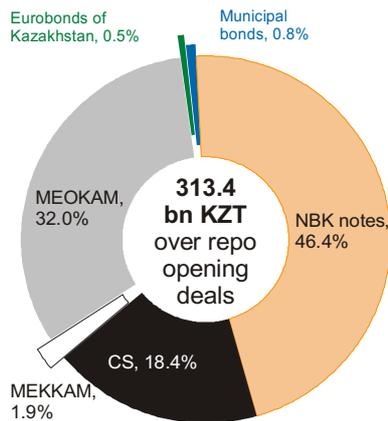
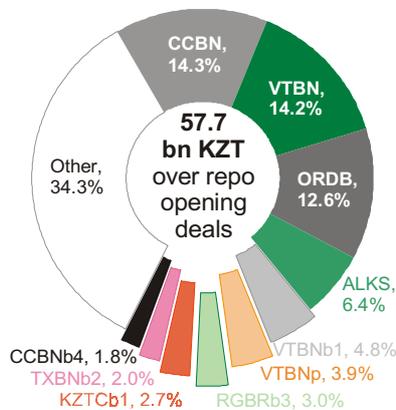


Fig. 34. Objects of repo operations in the sector of "direct" repo with CS in 2004



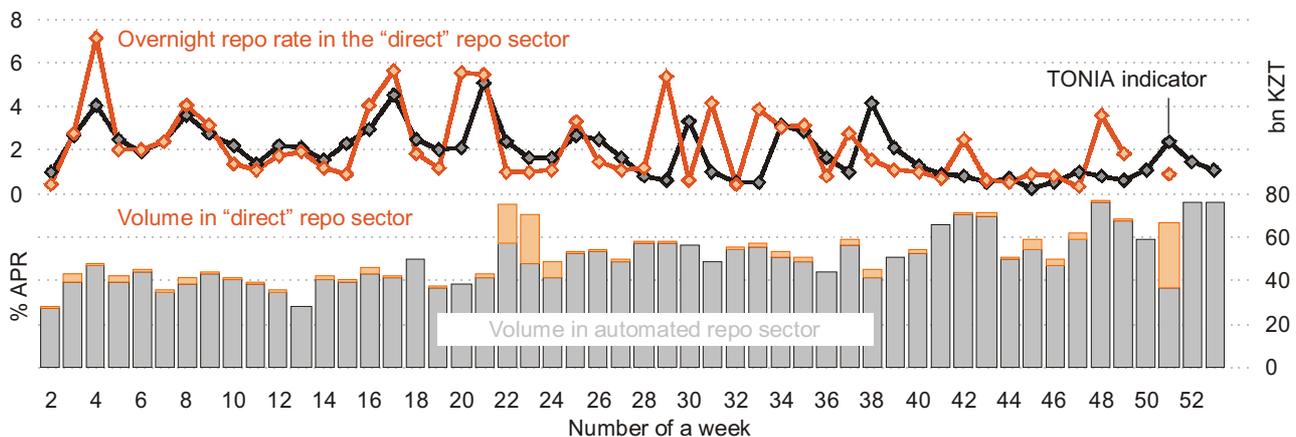
services provided by the KASE is to be discussed later on. As opposed to the automatic repo sector, which to significant extent is regulated by the National bank, transactions of any yield, with any securities and for any terms can be carried out at the direct repo market. A number of actions taken during the reporting year by the Agency of financial supervision and KASE aimed at limiting the participants' opportunities to conclude 'hidden' repo deals with CS in the purchase/sale sector positively told on the volume growth of repo trade carried out via contractual deals. A prohibition being still in force on participation of the SAPF assets in the direct repo trade is significantly restricting the development of this market segment.

Participants in this sector used overnight repo most frequently as in the automatic repo sector (Fig. 31). Its share was 44.3% in the reporting year (42.3% in 2003) to the entire repo opening deals and 20.7% (27.9%) to the entire number of deals. As in the automatic repo sector, the largest volume of transactions was carried out by participants within the period up to 30 days, with mainly GS used as repo lots. For more extended time periods, funds were mostly attracted thanks to CS as collateral. Same patterns were typical for 2003 as well. However, market participants borrowed for longer terms during the reporting period using CS as collateral. During the year direct repo sector deals were opening for 180 (131) various time-periods from 1 to 1,095 (368)⁴³ days.

The instrumental structure of the direct repo sector turnover is illustrated at Fig. 33 and 34. It was notably different from the automatic repo sector both by a set of instruments and shares of their participation which was primarily determined by wider use of CS as repo lots. In relation to 2003, a sudden drop of the share of the Kazakhstan's Eurobond transactions was recorded in the instrumental structure of the direct repo market, from 5.4% down to 0.5%) given a rise in the trade volume share for NBK notes (from 31% to 46.4%) and CS (from 8.7% to 18.4%). Both the MEKKAM notes and municipal bonds portion remained at the same level. In general it can be said that the instrumental structure of the direct repo sector turnover as well as that of the automatic repo market was dictated by the respective structure of the government debt issued in the form of GS with a greater expressed interest of the participants to CS as repo lots for a term in excess of 30 days. In this regard, the range of CS used widened notably. If 42 CS instruments were involved in direct repo deals in 2003, then in the reporting year their number was 89.

Rates of return at the direct repo market in general repeated the behavior of the automatic repo rates. In any case, for the most popular terms (Fig. 35), this was typical for 2003 as well. This is explained by that the dominating volume of turnover in the sector concerned overnight repo deals, where GS were used as lots. These securities are characterized by minimal liquidity risks. When opening long-term repo, trade participants used CS mostly. The yields in this case were substantially affected by the investment quality of the collateral, an extent of its liquidity in the purchase/sale sector and other factors, as was the case during the two preceding years.

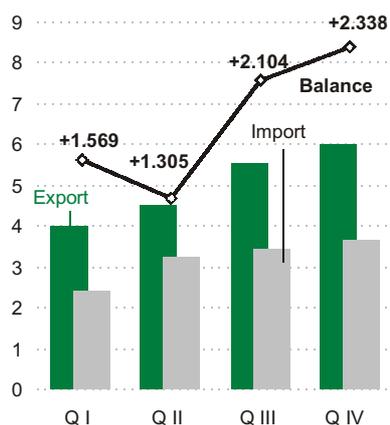
Fig. 35. Dynamics of weekly average weighted "overnight" repo rates (on the left) in different sectors of the stock exchange market and the volume of corresponding opening repo operations (on the right) in 2004



⁴³ The correspondent data of 2003 is shown in brackets.

As before, the direct repo market in 2004 was controlled by banks mostly. 65.6% of the gross turnover was attributed to the portion of these KASE members operating on behalf of themselves and their clients. The broker/dealer firms controlled 34.4% of the turnover, with 0.03% resting with the remaining participants. The respective indicators in 2003 equaled 86.9%, 12.7% and 0.4%. Hence a conclusion can be made about a substantial drop in activity of the banks in the direct repo sector and a boost of activity of the broker/dealer firms.

Fig. 36. Net trade balance of Kazakhstan in 2004, USD bn



THE FOREIGN EXCHANGE MARKET

In 2004 Kazakhstan foreign currency market was practically replicated to the market of the previous year as it was characterized by the same trends and developing under the pressure of the same jobber's turn factors. Alias foreign currency market in general was represented by the US dollar dealerships. This currency continued to keep unconditional superiority in the local market.

The factor defining conjuncture was continuously growing volume of receipts of foreign currency in the country. It lasts by two reasons. The main was a favorable situation for Kazakhstan at the world primary markets and first of all - the oil market. In accordance with Bloomberg agency data, the price of the near-term futures contracts for Brent North Sea Crude Oil at IPE in 2004 increased 29.8% in US dollar denomination and 34.2% for Light Sweet Crude Oil at NYMEX. In 2004 the positive moving of world prices for copper, uranium and other Kazakhstan's exports were also described. At this time the correlation of increasing rate of the export/import prices remained profitable for the Republic as a whole. For instance, in according with RK Statistics Agency data, in January - September 2004 the prices of goods removed from Kazakhstan increased 38.7%, whereas for imported goods prices were increased only 17.6%.

Under the result of the above factors in the reporting period the export surplus of the KZ balance of trade grew up to USD 7,315 m in comparison with USD 4,573.5 m in 2003⁴⁴. Regarding of 2003 the volume of exports rose 55.8% up to USD 20,096.2 m, and volume of imports rose 53.5% up to USD 12,781.3 m. The most markedly KZ exports dominated over KZ imports in Q3 and Q4 2004 (Fig. 36). The structure of the exports/imports underwent the least changes: in 2004 to mineral commodities pertained 68% (65%)⁴⁵ of the Kazakhstan's export, and 43% (43%) of the import volume were machines, equipment, transport and instruments.

Borrowing of the real sector of the economy by Kazakhstan's banks and companies should be indicated as another reason which provided growth of foreign currency volume to the internal market. In 2004 via the international bonds floatation USD 3,375 m was obtained by the nongovernmental bodies while in 2003 it was equaled USD 950 m⁴⁶. It had been possible by increasing confidence to Kazakhstan from the international community. The success of the Kazakhstan's economy found reflection in the growth of credit ratings assessment which had been given by the leading rating agencies to Kazakhstan as well as its residents.

On the one hand the effect of the above mentioned factors had led to significant growth of volume of foreign swap transactions in Kazakhstan, on the other hand to strengthening KZT to the US dollar, Euro and Russian rubles that are three basic currencies of the Kazakhstan's market, at the end it is allowed to the National bank of Kazakhstan significantly increase golden and monetary reserves and assets of the National fund.

First clause can be illustrated by the following data. In 2004 the KASE appraised the whole volume of the interbank foreign exchange market of the country to USD 18,462.5 m (USD 13,701.6 m), including: USD 9,449.5 m (USD 6,413.4 m) at KASE, USD 7,511.2 m (USD 6,413.4 m) OTC between the resident banks, and USD 1,501.8 m (USD 586.9 m) OTC with non-resident banks. The specified values take into account the balanced trade between Kazakhstan's resident banks (on KASE and OTC) and the sum of transactions on purchase and sale currency in the time of work of Kazakhstan's banks and non-resident banks. The shown turnover's indicators appear the record high annual indicators during the whole history of Kazakhstan.

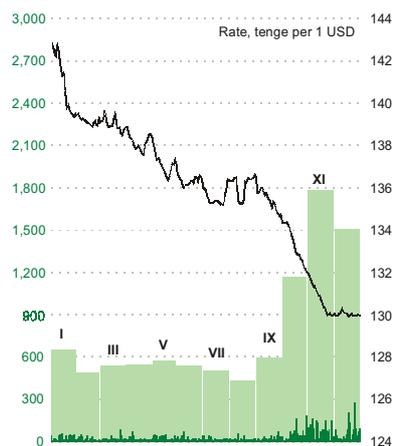
The attitude of KZT toward the main foreign currencies which traded in Kazakhstan strengthened notable. Judge from the weighted average rate of the main (morning) KASE session, the nominal strengthening of KZT towards the US dollar was 9.3% in the reporting period while in 2003 KZT was stronger towards the general world currency that is the US dollar 8.03% in nominal terms.

⁴⁴ The data of the Statistics Agency of Kazakhstan.

⁴⁵ Here and further on the correspondent data of 2003 is given in this chapter in brackets. The data of the Statistics Agency of Kazakhstan.

⁴⁶ KASE evaluation.

Fig. 37. Indicators of KASE USD market in 2004



In confirmation of NBK, in 2004 in real time KZT became stronger to the world's main reserve currency 15.62%⁴⁷ (as compared with 12.39% in 2003). In the reporting period the weighted average of USD exchange rate formed at the level KZT 134.19 on the main (morning) sessions and KZT 134.46 on the all exchange sessions of the year. In 2003, the corresponding indicators were KZT 148.84 and KZT 149.75 for 1 USD. At the end of reporting year, one US dollar costs KZT 130 on the KASE and KZT 143.3 at the end of 2003.

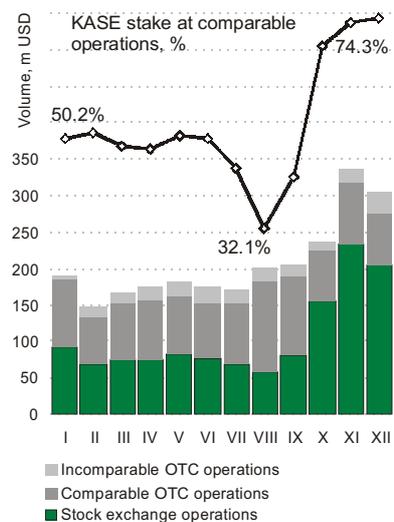
In 2004 KZT concerning Euro became stronger in rating value by the weighted average exchange rate 0.77%, and 6.93% in real impression (judge from the real effective exchange rate). In 2003, KZT to Euro devalued nominally 14.8% on the KASE and 6.92% in real time. In the reporting period the weighted average Euro rate were KZT 170.82. At the end of year one Euro costs KZT 177.47 on the KASE and KZT 178.84 at the end of 2003.

Regarding the Russian ruble as third foreign currency which traded on the KASE, KZT strengthened in rated withstand value 4.29% and in real time 1.33% with accordance of NBK data in 2004. In 2003, KZT devalued to ruble 0.09% nominally on the KASE and 5.44% in real time. In the reporting period the weighted average ruble rate came to KZT 4.6478. At the end of 2004, one ruble costs KZT 4.69 at the exchange and KZT 4.9 at the beginning of the year⁴⁸.

With accordance of NBK data, in 2004, KZT made stronger 6.1% in real impressions in point of the baskets of currencies of 24 states - Kazakhstan's trade partners including 2.1% towards the baskets of currencies of four CIS countries (Belarus, Kyrgyzstan, Russian Federation, and the Ukraine) and increased 8.4% in attitude to the baskets of currencies of 20 distant states. It is remarkable that in 2003 KZT devalued to all these baskets of currencies 2.5%, 4.2% and 1.5% pro tanto.

The given data can arise disturbances about competitive ability of Kazakhstan's goods inside domestic market. Therefore, the 2004 was complicated for the NBK. On the one hand, retention of predicted level of inflation demands of it minimal intrusion in the events of the open foreign exchange market as a buyer of the US dollars. On the other hand, the interests of the export-oriented economy demanded a balanced rate of the Kazakhstan's national currency in regard to the basket of currencies of the states - main trade partners. Due to this reason, at the end of 2004, when the strengthening of tenge towards to the Kazakhstan's trade partners' currencies obtained critical scale in reality, NBK made a decision on toughening its monetary policy. This toughening developed into a number of actions, one of which became a more stringent currency regulation which allowed stabilizing KZT rate towards US dollar in the last ten days of November and in December (Fig. 37).

Fig. 38. Sector structure of the foreign exchange turnover and the KASE share in 2004



As was mentioned above, the third consequence of the significant increasing of volume of incoming foreign currency into the domestic market got a growth of the Kazakhstan's gold and exchange currency reserves. In 2004, in then-current prices gold and exchange currency reserves of the NBK grew up from USD 4,959 bn to USD 9,277 bn or 87.1% (58%), with the NBK fund's assets are increased from USD 3,603 bn to USD 5,065 bn or 40.6% (88.2%). The international gold and exchange currency reserves of the country having risen 67.5% (69.4%) or USD 5,780 bn (USD 3,508 bn)⁴⁹ during a year made USD 14,342 bn (USD 8,562 bn) up at the end of 2004 as a whole.

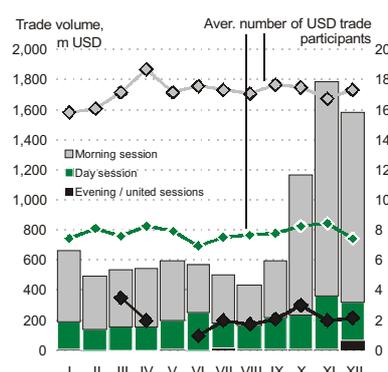
In 2004, at Kazakhstan's market the allotment of exchange turnover of the foreign currency with comparable transactions was arranged from 32.1% (August) to 74.3% (December), having averaged 55.4% for the year (Fig. 38). In 2003 this allotment did not exceed 48.9%, and 41.4% in 2002. With inference the given indicators was taken into consideration that only resident banks of Kazakhstan can strike bargains with foreign currencies. Therefore the comparison of the exchange turnover is correct only for the volumes of OTC transactions which were accomplished by resident banks between themselves.

⁴⁷ Here and further on the data on the REER (Real Effective Exchange Rate) is given in accordance with the NBK publications.

⁴⁸ It should be counted that there was no liquidity at the RUB and EUR stock market in the reporting year, and the represented data on devaluation or revaluation of tenge to these currencies in nominal terms should be accepted with care.

⁴⁹ The NBK data.

Fig. 39. Distribution of the foreign exchange trade on KASE according to sessions and months in 2004



Increasing the exchange market's allotment in attitude to the previous years had been reversed the upward movement of the volume of dollar proposal on the KASE where the National bank supported the market from below. As a result as a rule on the KASE during the reporting year USD rather was more profitable to sale than at the OTC market especially at the end of the year.

No principal amendments alterant to foreign exchange market opportunities were made into the established rule database of KASE in the reporting year.

FOREIGN EXCHANGE TRADES

In 2004 in the KASE foreign exchange sector were traded the following currencies:

- ◆ USD with settlements on T+0 (USD_TOD, T+1 (USD_TOM) and T+2 (USD_SPT)
- ◆ EUR with settlements on T+0 (EUR_TOD) and from August 09, 2004 on T+1 (EUR_TOM)
- ◆ RUB with settlements at the day of transaction (RUB_TOD)

The following three trade sessions on foreign exchange were conducted on KASE daily:

- ◆ The morning one (10:15 - 11:00 ALT), being the main for USD_TOD instrument
- ◆ The day one (11:30-15:30 ALT), being additional for USD_TOD instrument and the main one for EUR_TOD, RUB_TOD
- ◆ The evening one (14:00-18:00 ALT), which was the main for USD_TOM, USD_SPT and EUR_TOM instruments

In case a session was the main for an instrument, its fixed average weighted rate for the given instrument to tenge was used as the market rate for this instrument. KASE announced a closing rate by results of additional session.

During the holidays in the countries whose currencies were traded on KASE, the trades in these currencies were carried out with T+1 or T+2 settlements, depending on the number of holidays. Together with this, the day and evening sessions on USD and EUR were joined into one session opened at 11:30 and closed at 18:00 ALT.

The two market-makers, Bank TuranAlem JSC (USD, RUB) and Halyk saving bank of Kazakhstan JSC (USD) were operating in the foreign exchange sector during the whole year. Market-makers maintained the obligatory quotations of specified currencies at day sessions in accordance with the following internal KASE documents: "Specification of the USD Market-Maker Status" and "Specification of the Russian Federation RUB Market-Maker Status".

In 2004 all foreign exchange sessions, without exception, were held in the TS on the basis of open trade method. The overwhelming majority of participants

Tab. 28. Volume of trades in foreign currencies on KASE and structure of turnover in 2004

Month	Volume of trades, th. units			Volume of trades, th. KZT	Turnover's equivalent, th. USD	
	USD	EUR	RUB		in 2004	to 2003
January	657,515	400	0	92,664,074.0	658,030.2	+351,428.7
February	490,980	200	200	68,360,997.1	491,242.5	-116,350.0
March	534,795	150	0	74,327,851.6	534,978.6	+178,355.6
Q1	1,683,290	750	200	235,352,922.7	1,684,251.3	+413,434.2
April	546,140	0	0	75,450,586.0	546,140.0	+147,553.9
May	576,065	16,115	6,500	81,697,168.7	595,872.7	+202,851.4
June	536,645	24,230	23,100	77,288,957.3	567,145.0	-378.0
Q2	1,658,850	40,345	29,600	234,436,712.0	1,709,157.8	+350,027.3
July	497,735	475	18,000	67,661,764.9	498,943.3	+71,998.3
August	430,480	25	14,400	58,664,401.8	431,002.3	-143,232.7
September	593,555	1,550	10,500	80,536,234.1	595,762.0	-47,609.9
Q3	1,521,770	2,050	42,900	206,862,400.7	1,525,707.5	-118,844.3
October	1,163,175	750	12,300	154,772,665.6	1,164,528.3	+512,678.7
November	1,780,340	3,000	21,000	233,420,165.6	1,785,045.1	+1,380,656.6
December	1,508,965	53,415	11,500	205,519,206.8	1,580,797.7	+498,094.0
Q4	4,452,480	57,165	44,800	593,712,037.9	4,530,371.2	+2,391,429.3
Total in 2004	9,316,390	100,310	117,500	1,270,364,073.3	9,449,487.8	+3,036,046.5

Fig. 40. Indicators of KASE EUR market in 2004

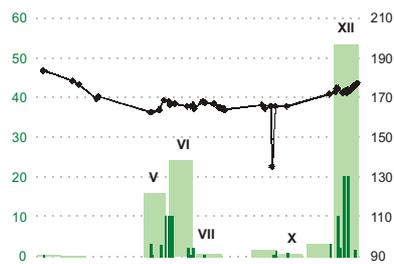
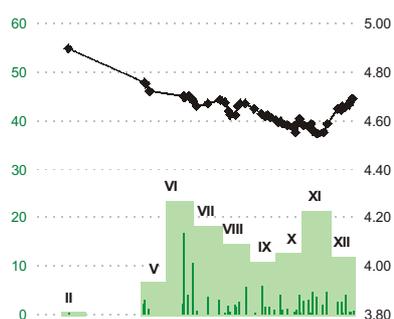


Fig. 41. Indicators of KASE RUB market in 2004



operated with TS in the remote access regime.

In total, in 2004 the participants held foreign exchange quoting on KASE at 550 (541) trade sessions⁵⁰. In the trading system there were made 41,777 (34,224) deals with USD, 57 (26) ones with EUR and 49 (12) ones with RUB. Detailed data on the volume of foreign exchange trades in 2004 is given in Tab. 28.

As it was mentioned above, the volume of the foreign currency inflow to the Republic, especially US dollars, became the main factor, which influenced Kazakhstani foreign exchange market in 2004. The increase of USD offer resulted in acceleration of strengthening tenge to dollar, with rare exception, on KASE. The last four months of the reported year were particularly active. At the beginning of fall Kazakhstani exporters brought foreign currency receipts, accumulated during summer vacations, to the domestic market. It definitely turned the US dollar market down (Fig. 37). The run up of the world oil prices to their historical maximum in October 2004 resulted in a record high volume of USD sales on KASE in November and December of the reporting year. The investment level credit rating of the third leading rating agency (Fitch Ratings), received by Kazakhstan, provoked the growth of borrowings by Kazakhstani residents on the world debt markets. Transactions on placement of international bonds were closed by Halik saving bank of Kazakhstan JSC (USD 200,0 m), Kazkommertsbank JSC (USD 350,0 m by SPV), Bank TuranAlem JSC (USD 375,0 m by SPV), INTERGAS CENTRAL ASIA CJSC (USD 250,0 m by SPV), ATFBank JSC (USD 200,0 m), Tengizchevroil Ltd, (USD 1,1 bn) in October-December 2004. The fast acceleration of tenge to US dollar strengthening during this period permitted Kazakhstani banks to service their debts in US dollar by negative real commission rates. Therefore a speculative component of their traders' behavior in the domestic USD market significantly increased in the second half of the reporting year, forcing the National Bank to take appropriate measures.

Morning trades traditionally were characterized by the highest activity of traders in 2004. Barely 25.8% of registered on KASE deals in foreign currencies amounts (in 2003 - 31.6%, in 2002 - 28.6%) made a share of a day trade session. However, the day USD trades remained exclusively important for the market participants, because they determined prices for the next day. A significant divergence between the average-weighted exchange USD rate on KASE, calculated only by morning sessions (134.19) and the one defined by all exchange trades (134.46), had been a notable feature of the reported year. This divergence lead to the conclusion that traders often used day trades for closing short positions, which resulted in a slight retreat of US dollar. In the morning trades they mainly fulfilled clients' bids for USD sale. For the mentioned reason, the average number of Category B Exchange members taking part in the day trade sessions remained relatively stable during the reporting year (Fig. 39).

The turnover settlement structure in the described sector of the stock market practically did not change during the year. In 2004 the deals with settlement at the day of transaction accounted for 96.1% (compared to 96.5% in 2003), those with settlement on T+1 scheme - 3.9% (3.5%), those with settlement on T+2 - 0% (0.0002%). At the same time the overwhelming amount of deals with settlement on T+1 was carried out on KASE during USA holidays, when banks were unable to fulfill settlements at the day of transaction. Based on the results of the year it is possible to conclude that Kazakhstani stock currency market in 2004 did not move forward in the direction towards extending USD trades with forward settlement.

There were no significant changes in the currency structure of KASE turnover as well. When evaluating this structure in USD equivalent in 2004, one can see that 98.59% (compared to 99.88% in 2003) of the total volume of the exchange deals fell at USD, 1.37% (0.11%) at EUR (Fig. 40) and 0.04% (0.014%) at RUB (Fig. 41). In the interbank off-exchange market the currency structure of the turnover was slightly different from KASE. In transactions between the resident banks the USD share was 97.64% (99.33%), that of EUR was 1.69% (0.43%), and RUB was 0.68% (0.24%). In transactions between Kazakhstani and non-resident banks the share of the deals with USD was 89.24% (87.73%), that of EUR was 1.43% (2.01%), and RUB share was 9.33% (10.26%).

The share of the most active (according to volume of deals made) second-tier bank amounted to 16.0% (14.4%) in the foreign exchange trades gross volume

⁵⁰ Trades, where listings and deals were absent, are not counted in this data, because the sessions are not registered in KASE archives.

on KASE in 2004. The general monopolization of the this market segment in the reporting year practically did not change, since the four second-tier banks controlled 46.4% (compared to 45.0% in 2003), eight controlled 62.6% (63.2%), eleven controlled 70.2% (71.7%), fifteen controlled 77.0% (79.1%). Meanwhile 28 (27) second-tier banks participated in trades in 2004.

Halyk saving bank of Kazakhstan JSC (16.0% of gross turnover in tenge equivalent) was recognized the most active participant of foreign exchange trades among second-tier banks on KASE by the results of 2004. It is followed by Bank TuranAlem JSC (13.3%), then SB ABN AMRO Bank Kazakhstan CJSC (8.9%) and Kazkommertsbank JSC (8.3%).

Tab. 29. Results of trades in futures contracts for the rate of US dollar to euro in 2004

Month	Number of deals	Volume, m USD	
		deals	open interest (max)
January	0	0	0
February	4	31.898	12.820
March	11	67.394	12.820
Q1	15	99.292	12.820
April	4	17.053	4.768
May	5	28.659	11.960
June	0	0	0
Q2	9	45.712	11.960
July	0	0	0
August	0	0	0
September	0	0	0
Q3	0	0	0
October	0	0	0
November	0	0	0
December	0	0	0
Q4	0	0	0
2004	24	145.004	12.820

THE FUTURES MARKET

No principal changes occurred in the normative base of KASE futures market in 2004. Only drafting amendments regulating this sector which could not influence the market or behavior of its participants, were introduced into internal documents of KASE.

During the year the stock market participants were trading with the following three types of futures contracts on KASE:

- ⊕ six-month futures for USD 1,000 with a corresponding standard underlying asset
- ⊕ six-month futures for the exchange rate of USD to EUR with a standard base asset of 1,000 EUR
- ⊕ six-month futures for the yield of international securities of Kazakhstan Republic (Eurobonds) with a standard underlying asset of USD 1,000 of the issued debt of a certain issue in nominal terms

All contracts were delivery free. The trades on KASE were conducted daily on working days from 10:30 to 17:00 ALT. The list of KASE Category C members did not change.

In total the reporting period proved that there was no real market of futures contracts in Kazakhstan, in spite of the record high volume of trades reached in 2003 (almost equal to USD 2.5 bn).

The year 2004 started and closed on KASE with a zero volume of open interest. Only 24 deals with 118 contracts for the sum of KZT 20.1 m or USD 145.0 th. were signed in the trading system of the Exchange. The mentioned volumes are totally incomparable with the indexes of 2003.

This can be explained by several reasons.

For example, in 2004 professional members of the market excluded futures for USD 1,000 from their financial schemes, preferring to involve other instruments. This resulted in the fact that not a single deal with the contract of that type was signed on KASE. The lack of liquidity at the underlying asset market eliminated the interest of traders to the futures for the yield of international securities of Kazakhstan Republic. Everything happened in this sector of the Exchange was related to the work of retail investors, who made slight efforts to gamble on the exchange rate difference between USD and EUR with the minimal volume of open interest (Tab. 29). Due to the narrowness of the market these efforts ended up. In the second half of the year the futures contract stock market was inactive.

Bank TuranAlem JSC, with a share of 53.3% of the volume of signed deals, was recognized being a leader of the futures stock market in the reporting year, as previously. This clearing member of KASE was operating the three positional accounts in 2004. The share of another clearing member of KASE Halyk saving bank of Kazakhstan JSC, operating only one positional account, amounted to 33.6% of the volume of signed deals. Other futures transactions were carried out by the Exchange, fulfilling settlements on positions opened by the moment of contract execution.

THE PROMISSORY NOTES MARKET

Promissory notes trades were opened on KASE on March 04, 2002 and were conducted between 11:30 and 17:30 ALT on working days. In 2004 these rules of procedure did not change. The regulatory framework of this market sector was not significantly modified, only some drafting amendments related to the introduction of new internal KASE documents were entered.

Regardless of the fact that in the reporting period the status of the first-class promissory notes of the National Bank issuer, by KASE data, was received by Corporation Ordabasy JSC (January 29), Food Contract Corporation JSC (January 29), and AES Ust-Kamenogorskaya HS JSC (July 22), the list of payers on promissory notes was not changed by the Exchange in 2004. No applications from any of these companies were submitted to KASE.

By the end of 2004 the list of KASE payers included the following six companies:

- ✦ Kazakhtelecom JSC (commercial code of promissory notes N_KZTK)
- ✦ National Atomic Company KAZATOMPROM CJSC (N_KATP)
- ✦ Kazakhstan Temir Zholy National Company JSC (N_TMJL)
- ✦ Kazakhstan Power Network Management Company JSC (N_KEGC)
- ✦ Sokolovsko-Sarbaiskoe Mining Production JSC (N_SSGP)
- ✦ Almaty Kus OJSC (N_ALKS)

During 2004 not a single application for purchase or sale of promissory notes was submitted to the KASE trading system. Kazakhstani stock market was idle.

Tab. 30. Weighted average indicators of interbank deposit market in 2004

Month	Indicator	Two Three				
		7 days	14 days	mon-th	mon-ths	mon-ths
I	KIBOR	5.56	6.46	7.39	8.25	9.13
	KIBID	2.02	2.96	3.83	4.26	5.19
	KIMEAN	3.79	4.71	5.61	6.26	7.16
II	KIBOR	5.11	6.11	7.10	7.95	8.89
	KIBID	1.99	2.96	3.93	4.48	5.45
	KIMEAN	3.55	4.54	5.52	6.21	7.17
III	KIBOR	5.07	6.06	7.02	7.79	8.61
	KIBID	1.97	2.87	3.82	4.24	5.19
	KIMEAN	3.52	4.46	5.42	6.02	6.90
IV	KIBOR	5.11	6.04	6.97	7.65	8.45
	KIBID	1.96	2.85	3.80	4.33	5.30
	KIMEAN	3.53	4.45	5.38	5.99	6.88
V	KIBOR	5.31	6.09	6.99	7.48	8.26
	KIBID	2.05	2.95	3.82	4.33	5.12
	KIMEAN	3.68	4.52	5.40	5.91	6.69
VI	KIBOR	5.04	5.72	6.50	7.22	7.94
	KIBID	1.96	2.84	3.56	4.24	4.88
	KIMEAN	3.50	4.28	5.03	5.73	6.41
VII	KIBOR	4.86	5.64	6.40	7.14	7.88
	KIBID	1.67	2.37	3.02	3.73	4.42
	KIMEAN	3.27	4.01	4.71	5.44	6.15
VIII	KIBOR	4.88	5.52	6.20	6.91	7.59
	KIBID	1.18	1.97	2.67	3.32	3.96
	KIMEAN	3.03	3.75	4.44	5.12	5.78
IX	KIBOR	4.51	5.23	5.91	6.63	7.30
	KIBID	1.58	2.28	2.99	3.68	4.36
	KIMEAN	3.05	3.76	4.45	5.16	5.83
X	KIBOR	4.44	5.17	5.86	6.57	7.10
	KIBID	1.76	2.46	3.16	3.86	4.31
	KIMEAN	3.10	3.82	4.51	5.22	5.71
XI	KIBOR	4.10	4.81	5.55	6.30	7.01
	KIBID	1.23	1.95	2.69	3.43	4.12
	KIMEAN	2.67	3.38	4.12	4.87	5.57
XII	KIBOR	4.02	4.69	5.39	6.10	6.83
	KIBID	0.99	1.90	2.61	3.30	3.99
	KIMEAN	2.51	3.30	4.00	4.70	5.41

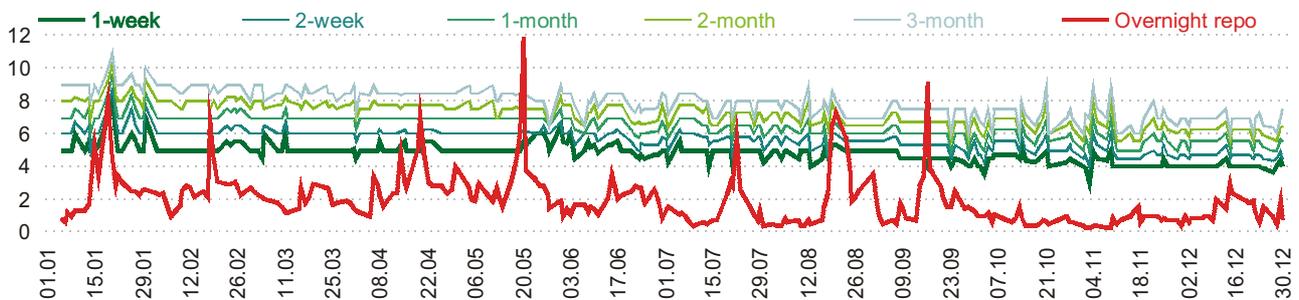
INTERBANK DEPOSITS INDICATORS

A regulatory framework of the system of formation of inter-bank market deposit indicator did not change in the reporting year. "The Memorandum on formation of an inter-bank deposits market indicator" and "The inter-bank deposits market indicator formation procedure", approved in the middle of 2000, remained the basis of it.

In accordance with these documents, the parties of the mentioned Memorandum (the number of which did not change in 2004 and equaled to 10 second-tier banks) announced in KASE trading system the indicative KIBOR (the average offering rates), KIBID (the average bid rates), and KIMEAN (the average difference between offering and borrowing rates) quotations. Fixation of these rates took place on KASE daily at 16:00 Almaty time.

Unfortunately, as well as in 2003, not all the parties of the mentioned Memorandum thoroughly fulfilled taken obligations. Every day quotation of inter-bank deposits was produced by three - five banks, in average by four ones (Bank TuranAlem JSC, ATFBank JSC, Kazkommertsbank JSC, Eurasian Bank JSC should be noted among them). Correspondingly in 2003 there were three-seven banks, in average four. Therefore, a conclusion about low representation of the rates formed by the Exchange in this segment, which is remained at the level of the year 2003, could be made. The same decision is forced by the low paired coefficient of correlation between 'overnight' repo rates values (the most representative sampling) and weekly KIBOR rates equaled to 0.3727 during the reported year. In 2003 the corresponding data equaled to 0.2506, in 2002 to 0.3665, in 2001 to 0.6187, in 2000 to 0.7281.

Fig. 42. Dynamics of KIBOR rate and actual "overnight" repo rates in 2004 (% annual)



SETTLEMENTS

During the reporting period the KASE settlement procedures did not significantly change in comparison with 2003. The detailed procedure was described in the Exchange report for the year 2002.

KASE continued cooperation with the following correspondent banks: Deutsche BankTrust Company Americas (settlements in USD; New-York, USA); The Bank of New-York (USD; New-York, USA); Citibank N.A. (USD; New-York, USA); Commerzbank AG (EUR; Frankfurt, Germany); Saving Bank of Russia (Russian rouble; Moscow) on carrying out settlements on foreign currency trades results in the reporting year.

Starting from March 01, 2004 KASE activated a new correspondent account in Citibank N.A. (London, United Kingdom), which was used as a reserve one while fulfilling settlements on EUR trades.