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## Following shortenings and abbreviations are used in the text

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<b>\$</b>	US dollar
<b>ALT</b>	Almaty time (GMT + 06:00)
<b>DEM</b>	Deutschemark
<b>EUR</b>	Euro
<b>IBRD</b>	International Bank for Reconstruction and Development
<b>IFC</b>	International Finance Corporation
<b>IPE</b>	International Petroleum Exchange
<b>ISMA</b>	International Securities Market Association
<b>KASE</b>	Kazakhstan Stock Exchange CJSC (official abbreviation)
<b>KIBOR</b>	indicative average interbank offered deposit rate in Kazakhstan
<b>KIBID</b>	indicative average interbank bid deposit rate in Kazakhstan
<b>KIMEAN</b>	average value between KIBOR and KIBID
<b>KZT</b>	Kazakstan tenge
<b>LIBOR</b>	interest rate on credits in various currencies, which is offered by London banks, usually for 1, 2, 3, 6 and 12 months term
<b>NYMEX</b>	New York Mercantile Exchange
<b>SPOT</b>	settlement term, when liabilities on a deal are fulfilled one business day after the deal was concluded
<b>TOD</b>	settlement term when liabilities on a deal are fulfilled on the same day when the deal is concluded (from English "today")
<b>TOM</b>	settlement term when liabilities on a deal are fulfilled on the day following the day when the deal was concluded (from English "tomorrow")
<b>USD</b>	US dollar
<b>STB</b>	second tier bank
<b>SAPF</b>	State Accumulative Pension Fund CJSC
<b>SBS</b>	state block of shares
<b>GS</b>	government securities
<b>SB</b>	subsidiary bank
<b>CJSC</b>	closed joint-stock company
<b>GFER</b>	gold and foreign exchange reserves
<b>PAMC</b>	pension assets management company
<b>KISC</b>	National State Enterprise "Kazakhstan Interbank Settlements Center"
<b>MAOKO</b>	state special compensation treasury bonds of the Ministry of Finance of the Republic of Kazakhstan (abbreviation of securities' name in Kazakh)
<b>MEAKAM</b>	special state treasury bills of the Ministry of Finance of the Republic of Kazakhstan with 10-year circulation term (abbreviation of securities' name in Kazakh)
<b>MEIKAM</b>	state indexed treasury bills of the Ministry of Finance of the Republic of Kazakhstan inflation indexed (abbreviation of securities' name in Kazakh)
<b>MEKAM</b>	state treasury bills of the Ministry of Finance of the Republic of Kazakhstan usually applied to all securities irrespective of maturity term (abbreviation of securities' name in Kazakh)
<b>MEKKAM</b>	state short-term treasury bills of the Ministry of Finance of the Republic of Kazakhstan with up to 1-year circulation term (abbreviation of securities' name in Kazakh)
<b>MEOKAM</b>	state mid-term treasury bills of the Ministry of Finance of the Republic of Kazakhstan with 1 - 10 years circulation (abbreviation of securities' name in Kazakh)
<b>m</b>	million
<b>bn</b>	billion
<b>MCI</b>	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, size of which is determined by laws of the Republic of Kazakhstan about the republican budget for corresponding years
<b>MF</b>	Ministry of Finance of the Republic of Kazakhstan
<b>IFO</b>	International Financial Organization
<b>NBK</b>	National Bank of Kazakhstan
<b>PAPF</b>	Private Accumulative Pension Fund
<b>APF</b>	Accumulative Pension Fund
<b>CS</b>	corporate securities
<b>OJSC</b>	open joint-stock company
<b>ORR</b>	official repo rate
<b>PA</b>	Pension assets
<b>RSE</b>	republican state enterprise
<b>SRO</b>	self-regulated organization
<b>LLP</b>	Limited Liability Partnership
<b>trln</b>	trillion
<b>CSD</b>	Central Securities Depository CJSC

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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 "Yesterday's hills" (property of KASE) was used while designing the cover of this document.

# AUTHORIZED CAPITAL AND SHAREHOLDERS

As of January 01, 2003, the KASE authorized capital totaled KZT 79,209,360.00.

In total, KASE issued 216 common registered shares with a face value of KZT 366,710.00 each.

**Tab. 1. List of KASE shareholders as of January 01, 2003**

#	Full official name of KASE shareholder	Stake in total number of shares, %
1	National Bank of Kazakhstan Institution	25.00
2	BANK CASPIAN open joint-stock company	6.48
3	Nauryz Bank Kazakhstan open joint-stock company	4.17
4	Subsidiary Joint-stock Bank ABN AMRO BANK KAZAKHSTAN closed joint-stock company	4.17
5	KAZAKHSTAN-ZIRAAT-INTERNATIONAL-BANK closed joint-stock company	4.17
6	Turkie Kazakhstan International Bank closed joint-stock company	4.17
7	KAZKOMMERTSBANK open joint-stock company	3.70
8	ATFBank open joint-stock company (former name – Almaty merchant bank OJSC)	3.70
9	International bank Alma-Ata open joint-stock company	3.70
10	Neftebank open joint-stock company	3.70
11	HALYK SAVINGS BANK OF KAZAKHSTAN open joint-stock company	3.24
12	Bank TuranAlem open joint-stock company	2.78
13	Bank CenterCredit open joint-stock company	2.78
14	CITIBANK KAZAKHSTAN closed joint-stock company	2.78
15	Demir Bank Kazakhtan open joint-stock company	2.78
16	RG Securities limited liability partnership	2.78
17	Stock service closed joint-stock company	2.78
18	Alliance Investment Management (former name – INVESTMENT MANAGEMENT GROUP LLP)	2.78
19	Senim-Bank open joint stock company	0.93
20	Kazkommerts Securities open joint stock company	0.46
21	Kazakhstan financial company open joint stock company	0.46
22	FINANCIAL COMPANY GREENWICH CAPITAL MANAGEMENT open joint-stock company	0.46
23	Company CAIFC closed joint-stock company	0.46
24	DB SECURITIES (KAZAKHSTAN) open joint-stock company	0.46
25	RBNT SECURITIES closed joint-stock company	0.46
26	GLOBAL SECURITIES (KAZAKHSTAN) close joint-stock company	0.46
27	KIB ASSET MANAGEMENT Ltd limited liability partnership	0.46
<b>Total<sup>1</sup></b>		<b>90.28</b>
28	TuranAlem Securities limited liability partnership <sup>2</sup>	2.78
29	Tau Securities limited liability partnership <sup>2</sup>	2.78
30	VISOR Investment Solutions limited liability partnership <sup>2</sup>	2.78
<b>Total</b>		<b>8.34</b>
Have been bought by KASE (are on the blocked account and on treasury stocks account)		1.38
<b>GRAND TOTAL</b>		<b>100.00</b>

<sup>1</sup> On January 2003 27 KASE shareholders were officially registered. During 2002 KBS Broker LLP withdrew from the shareholders' composition; the Exchange's shares were sold by: Bank TuranAlem OJSC - 3 shares, Bank CenterCredit OJSC - 7 shares, NefteBank OJSC - one share; Alliance Investment Management LLP acquired 5 shares

<sup>2</sup> In 2002 the said organizations acquired 6 KASE shares each, but they will become members of full standing in 2003 after the re-registration of the KASE statutory documents.

## KASE MEMBERS

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**Tab. 2. Change of the KASE members number by categories in 2002**

Membership category	As of Jan 1,02	As of Jan 1,03
"B"	26	28
"C"	4	5
"K"	43	46
"P"	36	40
"H"	19	20
<b>TOTAL</b>	<b>52</b>	<b>56</b>

### Category "B"

**Admitted** to KASE membership in this category: NauryzBank Kazakhstan OJSC (20.09.02) and VALYUT-TRANZIT BANK OJSC (20.09.02).

### Category "C"

**Admitted** to KASE membership in this category as a clearing member: HALYK SAVINGS BANK OF KAZAKHSTAN OJSC (20.05.02).

### Category "K"

**Admitted** to KASE membership in this category: Intertrade OJSC (11.01.02), Development Bank of Kazakhstan CJSC (19.03.02), NURBANK OJSC (20.09.02).

### Category "P"

**Admitted** to KASE membership in this category: Intertrade OJSC (11.01.02), Subsidiary Bank of Alfa Bank OJSC (18.03.02), Development Bank of Kazakhstan CJSC 19.03.02), NURBANK OJSC (20.09.02).

### Category "H"

**Admitted** to KASE membership in this category: Intertrade OJSC (11.01.02).

Tab. 3. List of KASE members as of January 01, 2003

Brief name of the KASE member	Code of category				
	"B"	"C"	"K"	"P"	"H"
1 National Bank of the Republic of Kazakhstan	✓		✓		
2 Bank TuranAlem OJSC	EPP <sup>3</sup>	CKE <sup>4</sup>	✓	✓	
3 BANK CASPIAN OJSC	EPP		✓	✓	
4 International Bank Alma-Ata OJSC	EPP		✓		
5 SB HSBC Bank Kazakhstan CJSC			✓	✓	
6 ALASH-BANK CJSC	EPP				
7 Demir Bank Kazakhstan OJSC	EPP		✓	✓	
8 SB BANK OF CHINA IN KAZAKHSTAN CJSC	✓				
9 CITIBANK KAZAKHSTAN CJSC	EPP		✓		
10 NURBANK OJSC	EPP		✓	✓	
11 KAZKOMMERTSBANK OJSC	EPP		✓	✓	
12 KAZAKHSTAN-ZIRAAT INTERNATIONAL BANK CJSC	✓		✓	✓	
13 Alliance Bank OJSC	EPP				
14 HALYK SAVINGS BANK OF KAZAKHSTAN OJSC	EPP	CKE	✓	✓	
15 Turkie Kazakstan International Bank CJSC	EPP				
16 TEMIRBANK OJSC	EPP		✓	✓	
17 TEXAKABANK OJSC	EPP		✓	✓	
18 Bank CenterCredit OJSC	EPP		✓	✓	
19 Tsesna bank OJSC	EPP				
20 NEFTEBANK OJSC	✓				
21 Subsidiary bank ABN AMRO BANK KAZAKHSTAN CJSC	EPP		✓	✓	
22 Eximbank Kazakhstan OJSC	✓		✓		
23 Senim-Bank OJSC	EPP				
24 SB Alfa Bank OJSC	EPP		✓	✓	
25 Eurasian Bank CJSC	EPP		✓	✓	
26 ATFBank OJSC	EPP		✓	✓	
27 JB LARIBA-BANK OJSC	EPP		✓	✓	
28 Development Bank of Kazakhstan CJSC			✓	✓	
29 VALYUT-TRANZIT BANK OJSC	✓				
30 Nauryz Bank Kazakhstan OJSC	✓				
31 DB SECURITIES (KAZAKHSTAN) OJSC			✓	✓	✓
32 Kazkommerts Securities OJSC			✓	✓	✓
33 KBS Brokers LLP (assignee Fondovyi syndicate CJSC)			✓	✓	✓
34 CAIFC Company CJSC			✓	✓	✓
35 Kazakhstan financial company OJSC			✓	✓	✓
36 FINANCIAL COMPANY GREENWICH CAPITAL MANAGEMENT OJSC			✓	✓	✓
37 Alliance Investment Management LLP			✓	✓	✓
38 RSE Information-stocking center					✓
39 RBNT SECURITIES CJSC			✓	✓	✓
40 GLOBAL SECURITIES (KAZAKHSTAN) CJSC			✓	✓	✓
41 KIB ASSET MANAGEMENT Ltd LLP			✓	✓	✓
42 RG Securities LLP			✓	✓	✓
43 Stock Service CJSC		CTE <sup>5</sup>	✓	✓	✓
44 PAMC Ak niet CJSC			✓	✓	
45 TuranAlem Securities LLP		CTE	✓	✓	✓
46 Pension assets management company of Halyk Bank of Kazakhstan CJSC			✓	✓	
47 State accumulative pension fund CJSC			✓		
48 PAMC ZHETYSU CJSC			✓	✓	
49 Kazpost OJSC			✓		
50 Central Asian Trust Company LLP			✓	✓	✓
51 General Asset management LLP		CTE	✓	✓	✓
52 PAMC ABN AMRO Asset Management CJSC			✓	✓	
53 FUTURE CAPITAL LLP			✓	✓	✓
54 Tau Securities LLP			✓	✓	✓
55 KG Securities LLP			✓	✓	✓
56 Intertrade OJSC			✓	✓	✓
<b>Total</b>	<b>28</b>	<b>5</b>	<b>46</b>	<b>40</b>	<b>20</b>

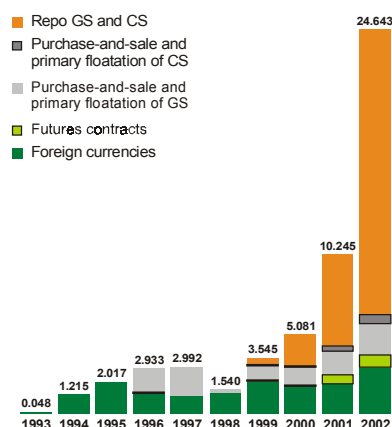
<sup>3</sup> Participant Early Payment Processing.

<sup>4</sup> Clearing member on futures contracts.

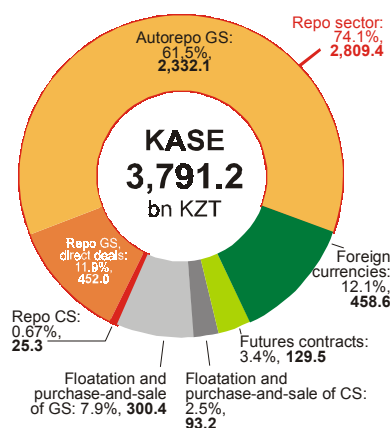
<sup>5</sup> Trade member on futures contracts.

# THE KAZAKHSTAN STOCK EXCHANGE MARKET IN 2002

**Fig. 1. Dynamics of the turnover and volume structures of the Kazakhstan Stock Market for the past 10 years (bn USD)**



**Fig. 2. Size and structure of the Kazakhstan stock market in 2002 (bn KZT)**



In the course of the year 2002, KASE conducted trade in foreign exchange, GS (including the bonds of local executive bodies which will subsequently be called 'municipal' for short), CS (including SBS), IFO bonds, futures contracts, and promissory notes. The initial placements of municipal and corporate bonds, and the preferred shares of listing 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 were conducted using the exchange's main method - open trade. Furthermore, participants of the stock market had the opportunity to conduct repo transactions by means of 'direct' trading (i.e. by closing direct deals).

In the reporting year KASE, as it had done before, regularly calculated the indicators for the Kazakhstani inter-bank deposits market - KIBOR, KIBID and KIMEAN rates with different offering (raising) terms - upon the instruction of market participants and based on their quotations. The stock market's climate was characterized on a daily basis by means of a series of indices-indicators: KASE\_Shares, KASE\_EP, KASE\_EC, KASE\_EY, KASE\_BP, KASE\_BC, KASE\_BY, and TONIA.

The development of the Kazakhstan stock market in 2002 was first and foremost characterized by the volume of trade. The exchange turnover reached an equivalent of USD 24.6 bn or KZT 3.8 trln, and for the first time became comparable with the GDP of the republic (in 2001 - 40% of the GDP). It is larger than the five proceeding years on aggregate (Fig. 1). In comparison to the year 2001, the exchange turnover increased 2.5 times in KZT equivalent, and this increase has been conditioned by the following four factors: increasing economic growth rates in the country, the dynamics of money aggregates in the republic, the growth of the banks' resource base, and the trust of professional participants of the financial market, governing bodies, and the Government of Kazakhstan in KASE and exchange services.

As is obvious from Tab. 4, the growth of the exchange turnover in 2002 was mainly due to an increase in repo deals and, in particular, to an increase in automatic repo deals. Significant growth rates were noted in the CS purchase-and-sale, futures, and foreign currencies sectors.

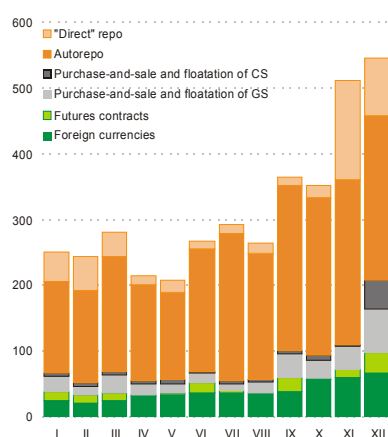
In general, the structure of the KASE turnover did not change significantly in the reporting year as compared to 2001 (Fig. 2). The share of the repo sector increased from 57.6% to 74.1%, reflecting the growing assets of institutional investors under a relative lack of investment objects. This became the main trend for the year 2002.

The dynamics of the volume of transactions on KASE on a monthly basis appeared to be traditional, and was influenced by a seasonal factor. Owing to this seasonal factor, the most active trades were conducted in the fourth quarter - particularly, in November and December (Fig. 3). However, compared to 2001, the reporting year demonstrated smoother change dynamics in the monthly volumes.

**Tab. 4. Comparative data on the turnover at KASE and its structure in 2001 and 2002 years**

Market sector	bn KZT						m USD					
	2001		2002		trend		2001		2002		trend	
	Volume	%	Volume	%	Volume	%	Volume	%	Volume	%	Volume	%
Sector of foreign currencies	288.8	19.1	458.6	12.1	+169.8	+58.8	1,961.9	19.2	2,980.7	12.1	+1,018.8	+51.9
Sector of GS	225.6	14.9	300.4	7.9	+74.8	+33.1	1,536.4	15.0	1,951.1	7.9	+414.6	+27.0
Sector of CS	46.7	3.1	93.2	2.5	+46.5	+99.4	315.7	3.1	603.6	2.4	+287.8	+91.2
Sector of REPO (GS and CS)	871.6	57.6	2,809.4	74.1	+1,937.8	+222.3	5,903.8	57.6	18,274.2	74.2	+12,370.4	+209.5
Futures sector	79.7	5.3	129.5	3.4	+49.8	+62.5	520.9	5.1	833.8	3.4	+312.9	+60.1
IFO securities sector	0.9	0.1	0	0	-0.9	x	5.9	0.1	0	0	-8.9	x
Promissory notes sector	0	0	0.004	0.0001	+0.004	x	0	0	0.023	0.0001	+0.023	x
<b>TOTAL</b>	<b>1,513.4</b>	<b>100.0</b>	<b>3,791.2</b>	<b>100.0</b>	<b>+2,277.8</b>	<b>+150.5</b>	<b>10,244.7</b>	<b>100.0</b>	<b>24,643.4</b>	<b>100.0</b>	<b>+14,398.6</b>	<b>+140.5</b>

**Fig. 3. Dynamics of the turnover structure and the size of the stock market in 2002 (bn KZT)**



The most active participants on the stock market of Kazakhstan in 2002 were:

1. Bank TuranAlem OJSC - 20.1% of the total exchange operations conducted on KASE, a leader in the foreign currencies, repo operations, GC purchase-and-sale, and futures contracts sectors; the KASE market-maker for the USD and the RUR;
2. ATFBank OJSC- 11.7% of the exchange turnover;
3. PAMC ZHETYSU CJSC - 6.9% of the exchange turnover;
4. PAMC Halyk Bank of Kazakhstan CJSC - 5.1% of the exchange turnover;
5. Eurasian Bank CJSC - 4.8% of the exchange turnover.

TuranAlem Securities LLP should be mentioned as the leader in the volume of CS purchase-and-sale transactions in 2002, and Stock Service CJSC as the leading operator in initial securities offerings on KASE. These KASE members were also financial advisors to issuers in 2002, and placed the most voluminous corporate securities issues on the stock market.

**Tab. 5. Detailed structure of the KASE turnover in 2002 (m USD, %)**

Segment of stock market	Total structure		Sector structure segment	Instrumental structure		Instrument	volume stake	
	Volume	stake		volume	stake		volume	stake
Corporate securities	603.6	2.4	primary floatations	33.3	0.1	shares	16.1	0.07
						bonds	17.2	0.07
						shares	200.0	0.81
						shares	125.5	0.51
						bonds	244.8	1.0
Government securities	1,951.1	7.9	primary floatations	21.4	0.1	municipal GS	21.4	0.09
						Kazakhstan euronotes	986.7	4.0
			purchase-sale	1,929.7	7.8	MEKKAM	9.3	0.04
						NB notes	359.3	1.5
						MEOKAM	463.0	1.9
						MEAKAM	110.8	0.45
						municipal GS	0.6	0.002
Futures contracts	833.8	3.4	purchase-sale	833.8	3.4	futures for \$1000	833.8	3.4
						futures for yield	0.03	0.0001
						Kazakhstan euronotes		
Foreign currencies	2,980.7	12.1	purchase-sale	2,980.7	12.1	EUR	2.6	0.011
						RUR	3.5	0.014
						USD	2,974.5	12.1
Repo	18,274.2	74.2	auto. repo	15,173.9	61.6	GS	15,170.1	61.6
						CS	3.7	0.015
			"direct" repo	3,100.3	12.6	GS	2,940.0	11.9
						CS	160.3	0.7
Notes	0,023	0.0001	purchase-sale	0.023	0.0001	N_KATP	0.023	0.0001
<b>TOTAL</b>	<b>24,643.4</b>	<b>100.0</b>		<b>24,643.4</b>	<b>100.0</b>		<b>24,643.4</b>	<b>100.0</b>



## THE CORPORATE SECURITIES MARKET

In the reporting year the Kazakhstan CS market continued to develop under the influence of the same factors as back in 2001. The main factor was the steady growth in the assets of leading institutional investors in the republic - banks and accumulative pension funds. An increase in the volume of PA with the almost uniform capitalization of the GS market gave rise to increased issuing activities by local companies as high demand on the side of PAMC enabled the borrowing of money from the internal market at a lower rate. The increase in the banking system's assets was accompanied by the ample growth of its capitalization, which expanded mainly as a result of the issuing of new stock, rather than as a result of junior bonds, which was the case in 2001. In addition to increasing the volume of raised deposits and syndicated loans, the latter was carried out by way of banks' accessing domestic and international markets with new borrowings. According to NBK<sup>6</sup>, in 2002 the volume of registered stock issues grew by 157.1% compared to 2001, and the volume of corporate bonds - by 69.3%. Furthermore, out of the 48 corporate bond issues that existed as of January 2, 2003, 46 issues were incorporated in the KASE official listing (40 - under category "A", and 6 - under category "B").

The increased investment quality of the instruments traded in the Kazakhstan CS market has played a great role in the further expansion of this market. As displayed below, the KASE official listing has expanded significantly on the account of the new issuers' securities. Obtaining a credit rating from the Moody's Investors Service<sup>7</sup> ratings agency for the first time in the CIS was a great achievement for Kazakhstan. Moreover, successful performance of the largest Kazakhstan issuers (Tabs. 6 and 7) has resulted in improved ratings for their creditworthiness from the world's leading rating agencies.

At the same time, the growth rate of the Kazakhstan CS market continued to slow down during 2002 (Tab. 8)<sup>8</sup>. This was largely conditioned by the size of the market itself, which grew rapidly in money terms and could not maintain the former growth rate percentage wise. There were also, however, factors in 2002 that had an adverse affect on the market's potential to expand further. Essentially, the question was a deficiency of reliable instruments, the number of which didn't grow sufficiently for the volume of institutional investors' assets. This caused an "over-

**Tab. 6. Indicators of the listing companies activity of financial sector for 2002 (bn KZT)**

Issuer	Assets			Shareholders' capital <sup>9</sup>			Net Income		
	As of Jan 01,02	As of Jan 01,03	trend	As of Jan 01,02	As of Jan 01,03	trend	As of Jan 01,02	As of Jan 01,03	trend
SB Alfa Bank OJSC	5.889	8.681	+2.792	2.015	2.345	+0.330	0.142	0.386	+0.244
Alliance Bank OJSC	8.206	21.986	+13.780	1.340	2.215	+0.875	0.020	0.041	+0.021
Astana-finance OJSC	8.930	12.325	+3.395	2.436	2.796	+0.360	0.277	0.313	+0.036
ATFBank OJSC	39.268	58.275	+19.007	4.889	6.269	+1.380	0.789	1.086	+0.297
Development Bank of Kazakhstan CJSC	24.873	57.590	+32.717	24.800	32.810	+8.010	0.774	2.037	+1.263
Bank TuranAlem OJSC	162.400	228.742	+66.342	21.961	30.802	+8.841	2.220	3.029	+0.809
Bank CenterCredit OJSC	32.647	50.969	+18.322	3.659	6.184	+2.525	0.426	0.715	+0.289
BANK CASPIAN OJSC	15.026	29.022	+13.996	1.557	3.567	+2.010	0.320	0.678	+0.358
HALYK SAVINGS BANK OF KAZAKHSTAN OJSC	129.990	196.498	+66.508	10.853	21.122	+10.269	0.234	2.561	+2.327
KAZKOMMERTSBANK OJSC	191.407	278.617	+87.210	23.378	30.632	+7.254	3.791	6.011	+2.220
Kazakhstan Mortgage Company CJSC	1.058	2.138	+1.080	1.055	1.617	+0.562	0.055	0.067	+0.012
JB LARIBA-BANK OJSC	1.700	1.997	+0.297	1.072	1.237	+0.165	0.143	0.163	+0.020
NEFTEBANK OJSC	3.689	3.018	-0.671	1.178	1.131	-0.047	0.021	-0.374	-0.395
Nurbank OJSC	25.199	35.804	+10.605	4.628	5.291	+0.663	1.254	0.875	-0.379
Insurance company SAYA OJSC	0.123	0.257	+0.134	0.106	0.231	+0.125	0.000	0.000	+0.000
TEMIRBANK OJSC	21.985	22.980	+0.995	3.345	4.097	+0.752	0.457	0.281	-0.176
TEXAKABANK OJSC	5.893	9.202	+3.309	1.610	1.933	+0.323	0.039	0.209	+0.170
VALYUT-TRANZIT BANK OJSC	10.143	16.752	+6.609	2.664	3.327	+0.663	0.324	0.378	+0.054
<b>TOTAL</b>	<b>688.426</b>	<b>1,034.85</b>	<b>+346.424</b>	<b>112.546</b>	<b>157.606</b>	<b>+45.060</b>	<b>11.286</b>	<b>18.456</b>	<b>+7.170</b>
<b>Trend</b>			<b>+50.3%</b>			<b>+40.0%</b>			<b>+63.5%</b>

<sup>6</sup> NBK: "Information on the Status of the Securities Market in the Republic of Kazakhstan in 2002".

<sup>7</sup> On September 19, 2002 Moody's Investors Service raised the Kazakhstan's rating for foreign exchange bonds to "Baa3" with a stable forecast.

<sup>8</sup> The STB bank owners equity is provided according to the prudential norms. The Owner's Equity of Development Bank of Kazakhstan CJSC, Astana Finance OJSC, Kazakhstan Mortgage Company CJSC, and Insurance Company SAYA CJSC is provided according to the Balance Sheet data.

<sup>9</sup> Information is given as of November 1, 2002 due to the absence of information on KASE of October 1, 2002.



**Tab. 7. Indicators of the listing companies activity of non financial sector for 9 months of 2002 (bn KZT)**

Issuers	Shareholders' capital			Net income			Sales volume		
	As of	As of	trend	As of	As of	trend	As of	As of	trend
	Oct 01,01	Oct 01,02		Oct 01,01	Oct 01,02		Oct 01,01	Oct 01,02	
Aktobemunai-finance OJSC	n/d	1.374	n/d	n/d	0.391	n/d	n/d	0,098	n/d
Almaty Kus OJSC	1.555	1.599	+0.044	0.656	0.903	+0.045	0.037	0,082	+0.247
Aluminii Kazakhstana OJSC	19.262	23.981	+4.719	21.823	20.408	-1.713	4.392	2,679	-1.415
Atyraumunaigazgeologia OJSC	0.123	0.231	+0.108	0.471	0.554	+0.002	0.002	0,004	+0.083
ARNA OJSC	1.187	1.225	+0.038	0.978	1.151	-0.115	0.173	0,058	+0.173
Bayan-Sulu OJSC	0.581	0.597	+0.016	0.906	1.116	-0.008	0.010	0,002	+0.210
ОАО "CLAscAS"	n/d	0.150	n/d	n/d	0	n/d	n/d	0	n/d
Zhayremskiy OMPE OJSC	2.381	3.523	+1.142	4.084	3.478	-0.199	1.053	0,854	-0.606
Kant OJSC	n/d	1.698	n/d	n/d	3.320	n/d	n/d	0,525	n/d
Karazhanbasmunai OJSC	4.555	14.380	+9.825	13.873	24.692	+3.723	3.611	7,334	+10.819
DAGOK Kustanaiasbest OJSC	1.664	1.609	-0.055	2.639	2.871	+0.139	0.166	0,305	+0.232
KAZATOMPROM NAC CJSC	35.579	41.117	+5.538	13.288	20.137	+2.957	2.889	5,846	+6.849
TNC Kazchrome OJSC <sup>10</sup>	32.415	33.989	+1.574	37.079	45.269	+1.966	1.280	3,246	+8.190
Corporation Kazakhmis OJSC	86.829	118.938	+32.109	87.802	95.021	+5.434	25.725	31,159	+7.219
KAZNEFTEKHIM LLP	n/d	0.089	n/d	n/d	0.411	n/d	n/d	-0,013	n/d
Kazakhtelecom OJSC	39.501	44.789	+5.288	32.337	40.851	+2.197	6.122	8,319	+8.514
KazTransOil CJSC	127.586	136.530	+8.944	32.638	38.823	+5.403	6.133	11,536	+6.185
Mangistaumunaigaz OJSC	37.415	39.436	+2.021	85.092	81.314	-4.415	12.513	8,098	-3.778
Corporation Ordabasy OJSC	n/d	1.196	n/d	n/d	3.490	n/d	n/d	0,114	n/d
RG BRANDS OJSC	0.803	0.851	+0.048	0.61	0.666	-0.057	0.039	-0,018	+0.056
SHAKHARMUNAIGAZ OJSC	1.596	1.596	0	0	0	0	0	0	0
HOP OJSC	30.876	37.402	+6.526	41.360	30.051	+1.837	3.223	5,060	-11.309
NC KTZ CJSC	154.750	133.550	-21.200	112.394	n/d	n/d	15.094	n/d	n/d
UKBF CJSC	n/d	1.044	n/d	n/d	1.283	n/d	n/d	0,102	n/d
UKTMK OJSC	6.524	7.546	+1.022	7.238	8.391	+0.381	0.731	1,112	+1.153
VITA OJSC	0.383	0.437	+0.054	0.622	0.763	+0.024	0.017	0,041	+0.141
Valyut-Tranzit Park OJSC	0.048	0.048	n/d	0.024	0.021	-0.004	0.002	-0,002	-0.003
Zhyluenergia OJSC	0.216	0.720	+0.504	0.941	0.944	-0.48	0.233	-0,247	+0.003
KRTD ZANGAR OJSC	n/d	1.101	n/d	n/d	0.765	n/d	n/d	0,160	n/d
<b>TOTAL</b>	<b>585.829</b>	<b>650.746</b>	<b>+64.917</b>	<b>496.855</b>	<b>427.084</b>	<b>+3.009</b>	<b>83.445</b>	<b>86,454</b>	<b>-69.771</b>
<b>Trend</b>			<b>+11.1%</b>			<b>+3.6%</b>			<b>-14.0%</b>

heating" of the corporate bond market, which manifested itself in the drop of bond yield, and which resulted in an outflow of funds overseas in 2002. This was sanctioned by NBK as suitable revision of PA investment limits. The measure was a forced one, and was aimed at expanding the investment opportunities for PAMC and for SAPF. It should also be noted that there was almost no change in the number of professional market participants specializing in basic activities (broker/dealers, registrars, custodians, PAMC and SRO) in 2002. On the one hand, this fact should not be treated as a negative one, since it bears witness to the stabilization of the market infrastructure after a noticeable reduction in its participants in the years 2000 and 2001. On the other hand, the emergence of new, duly capitalized broker-dealer companies and of PAMC in the market could have contributed to its activation. Introducing a change to the Civil Code of the Republic of Kazakhstan as of January 01, 2002, whereby all liabilities throughout the republic must be reflected in KZT, had an adverse impact on the development of the CS market. Affected by such changes, bond issuers were forced to forego the denomination of the securities' face value in a foreign currency. Adapting to new conditions resulted in a three month quiet season in the CS primary market. During this period market subjects had to do a lot of work, which was, on the whole, of little use. All the same, issuers did not stop the indexing of bond prices based on KZT devaluation when the work was completed. Instead, a new mechanism for calculating a bond's face value and interest was merely suggested, one more complicated than its predecessor. The change in the Civil Code forced KASE to start indicating share prices in KZT from May 01, 2002 (prior to this listings were in USD), and which was accompanied by a significant modification of the exchange's software.

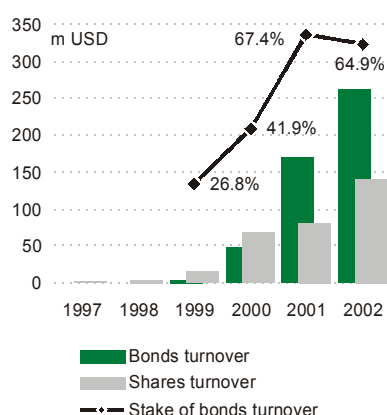
According to broker-dealer reporting and to the KASE information, the size of the overall Kazakhstan CS market in 2002 amounted in KZT 93.2 bn. All operations concerning the purchase-and-sale and the initial offerings of stock and corporate bonds on both KASE and OTC market, as well as GS sales on KASE by MF of the Republic of Kazakhstan were included in this category. In other words, this volume encompasses all CS transactions in which at least one party was repre-

**Tab. 8. Volume of the CS market in Kazakhstan and it's change**

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

<sup>10</sup> The Table has data on the stock market (only sale and purchase transactions with CS and initial offerings), the share of which starting from 2000 constitutes not less than 80% of the total CS market of Kazakhstan, if taking into consideration deals with the involvement of licensed legal persons.

**Fig. 4. Comparison of the number of deals with shares and corporate bonds on KASE**



sented by professional participants of the securities market. The data on securities movement in the other CS market sectors (data on transactions between non-professional participants, the sale of municipally owned GS, donation deeds and other similar transactions) cannot be accessed by KASE and are published by no organizations and government bodies. Therefore, in this report it is impossible to trace the full extent of the CS movement in the republic. According to the information available to KASE, the share of the exchange's turnover in the CS market in 2002 came to 91.2%. The overwhelming volume of OTC transactions in 2002, estimated to be KZT 9,003.8 m, was represented by the initial offering of shares and bonds by subscription. The remaining turnover consisted of transactions by professional participants redeeming securities from individuals. The stock market's share for 2001, calculated in the same manner, amounted to 78.3% of the total market. Thus, the lifting of restrictions on broker-dealer operations with individuals in 2002 did not have a negative impact on the exchange's turnover share.

Notwithstanding the successes of 2002, the Kazakhstan CS market continued to be one of low liquidity. The noted positive trend of a more rapid growth in the volume of stock transactions rather than in bonds transactions (Fig. 4) was the outcome of the falling investment appeal of bonds. This trend failed to raise the stock market to a qualitatively new level. As before, stock prices failed to reflect the financial condition and success of their issuers, and they were being formed with the influence of a number of subjective factors.

## THE KASE TRADE LISTINGS

During the last four years the structure of the KASE securities listing has not undergone any change. As of December 31, 2002 the five CS listings allowed to trade within the KASE trade system were:

- ✦ the official securities listing, category "A"
- ✦ the official securities listing, category "B"
- ✦ the "Non-listing securities" trade sector, first level of admittance
- ✦ the "Non-listing securities" trade sector, second level of admittance
- ✦ the State Block of Shares listing

As in 2001, each of the first four trading sectors has been divided into stock and bond sectors due to the presence of corporate bonds in the KASE listing.

## Listing requirements

In the second half of 2001 a need arose for the creation of an internal KASE document that would establish the requirements of officially listed securities and their issuers, and which would also regulate the relations between initiators of securities admittance and KASE that arose in the process of incorporating and keeping securities in the exchange's official list.

The development of the new internal KASE document "Listing Rules" that came into force on March 01, 2002, was finalized in January 2002. This document was developed on the wording of the KASE "Regulation on Securities Listing" that was in force at that time, but was also developed taking into account the current situation in the securities market and the possible forecasts for its potential development. The new document differs from its predecessor not only in terms of its structure, but also in the new requirements, new concepts, articles and attachments contained within it, and which are, for the most part, more rigorous than the previous requirements.

In contrast to the "Regulation on Securities Listing", the "Listing Rules" contain new requirements such as the signing of a listing agreement between the initiator of admittance and KASE, the obligatory presence of a financial advisor for the listing of the securities of non-financial institutions, and financial penalties for the non-fulfillment or untimely fulfillment of listing obligations by the initiator of admittance, all of which are to be imposed regardless of the expected or existing listing category of the securities. Furthermore, the new document has higher requirements regarding the minimum number of securities (shares and bonds) in the issues that are to be incorporated in the official listing, irrespective of their category.

**Tab. 9. Listing requirements of KASE to shares issuers**

Raised demand	By the end of 2002
<b>Official list, category "A"</b>	
Legal-organizational form of the juridical person	open joint-stock company
Existence term	not less than three years <sup>11</sup>
Presence of the net income	on any two of the last three years, or for the last year, confirmed by auditor <sup>12</sup>
Debt of dividends	to be absent
Debt of issued bonds	to be absent
Presence of market-maker of share	necessarily
Audit	each year by an auditor of "the big four"
Number of issued shares	common – not less than 100 000 units, privileged – not less than 10 000 units
Shareholders equity	not less than KZT 1.5 bn. <sup>13</sup> , insurance companies – not less than KZT 150.0 m.
Sales volume for the year (for non-financial organizations)	not less than KZT 1.5 bn. while shares including not less than KZT 1.0 bn. – during shares circulation <sup>14</sup>
Size of assets (banks and other financial organizations)	not less than KZT 5.0 bn.
Insurance payments for the last two years (for insurance companies)	not less KZT 500.0 m.
<b>Official list, category "B"</b>	
Legal-organizational form of the juridical person	open joint-stock company
Existence term	not less than one year
Number of issued shares	common – not less than 100,000 units, privileged – not less than 10,000 units

**Table 10. Listing requirements of KASE to bonds issuers**

Raised demand	By the end of 2002
<b>Official list, category "A"</b>	
Legal-organizational form of the juridical person	open joint-stock company or state enterprise (does not apply to special enterprises)
Existence term	not less than 3 years <sup>15</sup>
Presence of the net income	on any two or the last three years or for the last year, confirmed by auditor <sup>16</sup>
Debt of dividends	to be absent
Debt of issued bonds	to be absent
Presence of market-maker of share	necessarily
Audit	each year by an auditor of "the big four"
Minimum issue volume	not less than KZT 300.0 m and 20.0 th. bonds
Shareholders equity	not less than KZT 1.5 bn. <sup>17</sup>
Sales volume for the year (for non-financial organizations)	not less than KZT 1.5 bn. while bonds including, not less than KZT 1.0 bn. – during bonds circulation <sup>18</sup>
Size of assets (banks and other financial organizations)	not less than KZT 5.0 bn. <sup>19</sup>
<b>Official list, category "B"</b>	
Existence term	not less than one year <sup>20</sup>
Minimum issue volume	not less than KZT 50.0 m and 3.000 units

In addition to the requirements of those securities issuers in category "A" of the official listing in accordance with the "Regulation on Securities Listing", the "Listing Rules" contain requirements on the minimal values for the annual volume of principal activity sales for non-financial institutions, for the volume of assets where banks and other financial institutions are concerned, and for the volume of insurance payments over the last two years for insurance companies.

In addition, the "Listing Rules" contain more rigid requirements with regards to the availability of net income for issuers whose securities have been incorporat-

<sup>11</sup> For non-financial institutions on the special permission of the Exchange Council - not less than 2 years.

<sup>12</sup> Exception for non-financial institutions - for the past two years.

<sup>13</sup> Exception for non-financial institutions - not less than KZT 800.0 m.

<sup>14</sup> Exception for non-financial institutions - not less than KZT 800.0 m.

<sup>15</sup> Exception for non-financial institutions - not less than two years, for banks and organizations, carrying out specific types of banking transactions, the shareholder of which is either the Government and local executive authorities of the Republic of Kazakhstan or the National Bank of the Republic of Kazakhstan - is not determined.

<sup>16</sup> Exception for non-financial institutions - for the past two years.

<sup>17</sup> Exception for non-financial institutions - not less than KZT 800.0 m, for banks and organizations carrying out specific types of banking transactions, the shareholder of which is either the Government and local executive authorities of the Republic of Kazakhstan or NBK - not less than KZT 1.0 bn.

<sup>18</sup> Exception for non-financial institutions - not less than KZT 800.0 m.

<sup>19</sup> Exception - not less than KZT 1.0 bn.

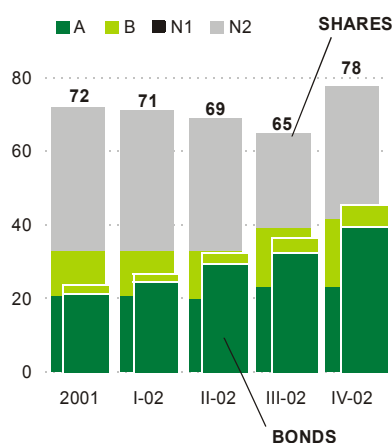
<sup>20</sup> Not determined for organizations where the sole owner of which is the Government in the person of NBK and/or MF.

**Tab. 11. Dynamics of the KASE listing structure in 2002**

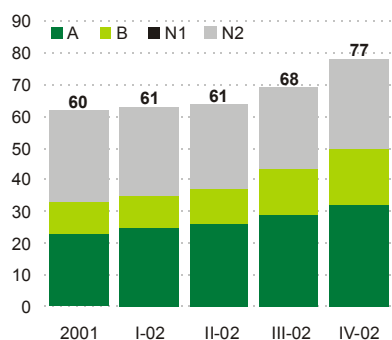
Admit- tance category	As of Jan 1, 02 secu- rities	is- suers	As of Jan 1, 03 secu- rities	is- suers
A	43	23	63	32
B	14	10	25	18
<b>A+B</b>	<b>57</b>	<b>33</b>	<b>88</b>	<b>50</b>
N1	0	0	0	0
N2	39	29	36	28
<b>N1+N2</b>	<b>39</b>	<b>29</b>	<b>36</b>	<b>28</b>
<b>TOTAL</b>	<b>96</b>	<b>62</b>	<b>124</b>	<b>78</b>

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

**Fig. 5. Number of CS admitted for trade in 2002 (as of period end)**



**Fig. 6. Number of issuers whose securities were admitted for trade in 2002 (as of period end)**



ed in the official listing in category "A". Thus, in accordance with the "Listing Rules" requirements, an issuer must have a net income for any two of the last three years or for the last year, in order to have their securities listed within category "A". In contrast, it was previously sufficient for an issuer to break even in the last reporting year, or for the last three years summed up together.

At the same time, in several cases the "Listing Rules" provide for some mitigation of category "A" requirements for financial institutions. For example, in order to have its securities (shares or bonds) officially listed within category "A" in compliance with the "Regulation on Securities Listing", a bank had to participate in the mandatory collective guarantee (insurance) of individuals' deposits system. However, this requirement has not been included in the "Listing Rules". One more significant distinguishing feature of the "Listing Rules" is that they provide a reasonable exemption from the official category "A" listing requirements with regards to the term of securities (net income and audit standards are also taken into account) for banks and institutions carrying out separate types of bank operations and owned by state authorities and organizations. The "Regulation on Securities Listing" did not provide such exemptions.

Irrespective of the fact that the new "Listing Rules" were enforced in March 2002, they had to be revised three times during the year. As a result, changes and amendments were introduced in the second half of 2002, making the listing requirements for certain issuer categories in category "A" more stringent in places and more relaxed in others. The obligation to submit audit reports for at least two previous fiscal years (prior to this the obligation was for at least one year), as well as a mandate to join international financial reporting standards from January 01, 2003 are among the toughest requirements. More relaxed requirements would be the introduction of a more simplified listing procedure for issuers of a certain rating, and further exceptions for the category "A" rating requirements for banks and organizations carrying out certain types of banking operations and who are owned by the state bodies, as well as for organizations depending on their equity or assets in situations where the bonds admitted to category "A" were mortgage bonds.

The listing requirements developed as of November 25, 2002 (Tabs. 9 and 10) were valid as of the end of 2002.

Changes and additions were not introduced to the other internal KASE document "The Procedure for Admitting Securities to the non-listing securities sector that sets forth the order and procedures for admitting securities to be traded on the non-listing floor of KASE.

## Requirements for market-makers

In the context of the KASE requirements for securities issuers on the official list, it is worth mentioning the KASE market-makers institution that continued to develop in 2002.

As before, two types of market-makers have operated on KASE during the year: the market-makers themselves and securities professionals. The latter constitutes market-makers that are confronted with more rigorous requirements regarding obligatory quotation spreads. The enforcement of new wording in the internal KASE document "Market-Makers Activity Regulations" as of November 15, 2002 should be qualified as the most significant change in the CS operational regime in 2002. The changes were incorporated into Attachment 1, "Specification of a market-maker status for members of the Stock Exchange under categories "P" & "H", of the Market-Makers Activities Regulation in order to increase the requirements for securities market-makers, to resolve the CS liquidity problem, and to establish fair market prices for them. The new version of this specification stipulates the transition to a yield indicator for the calculation of bond spreads and the difference between two consecutive obligatory quotations of bond professionals, and includes some innovations that can provide for a significant reformation of the business environment in the CS stock market in Kazakhstan. The specification sets forth that:

- the spread between obligatory quotations on corporate bonds for corporate bond specialists must not exceed 1.5, 3.0 for market-makers, percentage points of the yield-to-maturity of the bonds for a buyer, calculated on these quotations

Tab. 12. Official list of the KASE securities (bonds) as of January 01, 2003

Issuer	Code (amount)	Included into lists	Face value of the issue, m USD	Last net price or face value, %	Market capitalization m USD	Stake of the issue in capitalization
<b>Official list, category "A"</b>			<b>1,173.4</b>		<b>1,205.551</b>	<b>99.0</b>
SB Alfa Bank OJSC	ALBNb1	28.02.02	9.6	100.0000	9.625	0.8
Almaty Kus OJSC	ALKSb2	24.07.01	20.0	98.3291	19.666	1.6
ARNA OJSC	ARNAb1	20.11.02	3.0	100.0000	2.988	0.2
Alliance Bank OJSC	ASBNb1*	28.12.02	19.2	100.0000	19.250	1.6
Astana-finance OJSC	ASF1b1	02.07.01	10.0	98.2700	9.827	0.8
	ASF1b2	01.04.02	28.9	98.9800	28.580	2.3
ATFBank OJSC	ATFBb2*	07.01.02	10.0	101.3900	10.139	0.8
Development Bank of Kazakhstan CJSC	BRKZb1	19.02.02	28.9	100.1971	28.931	2.4
	BRKZe1	10.10.02	100.0	102.4000	102.400	8.4
Bank TuranAlem OJSC	BTASb1*	19.02.01	20.0	112.5000	22.500	1.8
	BTASb2*	29.04.02	24.1	99.0000	23.821	2.0
TuranAlem Finance B.V.	BTASe1	19.07.01	100.0	106.0000	106.000	8.7
	BTASe2	06.12.02	100.0	108.0236	108.024	8.9
Bank CenterCredit OJSC	CCBNb1*	15.12.00	4.5	102.5300	4.614	0.4
	CCBNb2*	01.04.02	9.6	101.4000	9.760	0.8
BANK CASPIAN OJSC	CSBNb1	19.07.01	15.0	98.4845	14.773	1.2
HALYK SAVINGS BANK OF KAZAKHSTAN OJSC	HSBKb*	29.06.00	16.0	103.0250	16.484	1.4
	HSBKb2*	21.05.02	13.1	95.3010	12.487	1.0
Zhayremskiy OMPE OJSC	JGOKb1	01.07.02	14.8	100.0000	14.758	1.2
Karazhanbasmunai OJSC	KARMB1	08.12.00	20.0	101.0000	20.200	1.7
KAZKOMMERTSBANK OJSC	KKGBb2*	02.12.02	48.1	100.0000	48.124	4.0
Kazkommerts International B.V.	KKGBb2*	27.12.00	20.0	100.0000	20.000	1.6
	KKGBb3	23.09.02	150.0	107.7500	161.625	13.3
DAGOK Kustanaiasbest OJSC	KZASb1	12.02.01	6.0	99.5000	5.970	0.5
KAZATOMPROM NAC CJSC	KZAPb1	01.04.02	14.8	98.5000	14.537	1.2
Kazakhstan Mortgage Company CJSC	KZIKb1	18.11.02	9.6	102.2000	9.852	0.8
Kazakhtelecom OJSC	KZTKb1	02.04.01	25.0	103.2500	25.813	2.1
KazTransOil CJSC	KZTOb	20.10.00	30.0	101.7000	30.510	2.5
	KZTOe1	27.08.01	150.0	103.4500	155.175	12.7
Nurbank OJSC	NRBNb1	05.06.02	9.6	98.7000	9.500	0.8
Corporation Ordabasy OJSC	ORDBb1	08.08.02	9.9	101.1459	10.060	0.8
RG Brands OJSC	RGBRb2	05.02.01	4.0	97.4288	3.897	0.3
SHAKHARMUNAIGAZ OJSC	SMGZb1	19.01.01	30.0	86.4460	25.934	2.1
HOP OJSC	SYRGB1	05.03.01	25.0	98.4343	24.609	2.0
TEMIRBANK OJSC	TEBNb	07.08.00	5.0	100.0000	5.000	0.4
	TEBNb2*	11.09.01	5.9	100.8000	5.947	0.5
	TEBNb3	26.12.02	14.1	100.0000	14.116	1.2
NC KTZ CJSC	TMJLb2	10.07.01	30.0	101.0000	30.300	2.5
TEXAKABANK OJSC	TXBNb1*	25.09.01	9.6	99.9323	9.634	0.8
VALYUT-TRANZIT BANK OJSC	VTBNb1	04.10.01	10.0	101.2500	10.125	0.8
<b>Official list, category "B"</b>			<b>12.3</b>		<b>12.355</b>	<b>1.0</b>
Atyraumunaigazgeologia OJSC	AMGGB1	10.07.01	1.0	100.0000	1.000	0.1
KAZNEFTEKHIM LLP	KZNHb1	15.10.02	2.0	100.0000	1.962	0.2
JB LARIBA-BANK OJSC	LAR1b1	15.08.01	1.0	100.0000	1.003	0.1
UKBF CJSC	UKPFb1	15.11.02	3.2	100.0000	3.208	0.3
VITA OJSC	VITAb3	11.06.02	4.8	101.0451	4.863	0.4
Valyut-Tranzit Park LLP	VTPRb1	22.07.02	0.3	99.3970	0.319	0.03
<b>Total of bonds:</b>	<b>(46)</b>		<b>1,185.7</b>		<b>1,217.906</b>	<b>100.0</b>

\* subordinated bonds

- ✦ the spread between obligatory quotations on the purchase and sale of stock for market-makers specializing in such stock must not exceed 50% of the purchase quotation value (previously it was 100%). The spread requirements for stock professionals remained the same - 3%
- ✦ the smallest obligatory quotation for market-makers and professionals on KASE grew from 500 to 2,000 (on bonds), and to 1,000 (on shares) MCIs

In addition, the procedure whereby bond professionals adjust the obligatory quotations for potential counterparts so that they are worse was amended. Such adjustment now may not exceed the value corresponding to the change in the yield-to-maturity of a bond for a buyer by 0.5 percentage points.



Tab. 13. Official list of the KASE securities (shares) as of January 01, 2003

Issuer	Trade code (amount)	Secu- rity	Included into lists	Last price or face value	Capitalization	
					m KZT	m USD
Official list, category "A"	(23)				165,421.6	1,061.4
Almaty Kus OJSC	ALKS	C	03.04.00	25.86	2,060.6	13.2
	ALKSp	P	03.04.00	55.17		
	ALKSp3	P	24.07.01	10.00		
Astana-finance OJSC	ASFI	C	17.01.00	1,000.11	1,832.8	11.8
ATFBank OJSC	ATFBp	P	11.06.01	834.35	333.7	2.1
Bank TuranAlem OJSC	BTAS	C	09.09.99	14,070.00	18,108.4	116.2
Bank CenterCredit OJSC	CCBN	C	28.06.99	200.82	2,492.7	16.0
BANK CASPIAN OJSC	CSBN	C	01.07.02	140.00	886.3	5.7
	CSBNp	P	01.07.02	140.00		
HALYK SAVINGS BANK OF KAZAKHSTAN OJSC	HSBK	C	29.07.98	130.00	10,767.4	69.1
	HSBKp	P	26.04.02	150.00		
	HSBKp7	P	30.09.02	151.00		
KAZKOMMERTSBANK OJSC	KKGB	C	16.10.97	93.57	33,079.1	212.3
	KKGBp	P	28.12.01	44.39		
Corporation Kazakhmis OJSC	KZMS	C	13.05.98	9,999.99	49,115.3	315.1
Kazakhtelecom OJSC	KZTK	C	16.10.97	3,062.00	36,601.3	234.9
	KZTKp	P	16.10.97	2,600.00		
TEMIRBANK OJSC	TEBN	C	08.10.98	1,000.00	1,400.0	9.0
	TEBNp	P	08.10.98	*1,000.00		
UKTMK OJSC	UTMK	C	16.10.97	5,850.00	6,387.4	41.0
	UTMKp	P	16.10.97	6,541.50		
VALYUT-TRANZIT BANK OJSC	VTBN	C	22.05.00	350.00	2,356.6	15.1
	VTBNp	P	22.05.00	400.20		
Official list, category "B"	(19)				43,566.8	279.5
Aktobemunai-finance OJSC	AKFI	C	01.07.02	100.00	1,298.4	8.3
Aluminiy Kazakhstana OJSC	ALKZ	C	16.10.97	98.00	5,512.6	35.4
	ALKZp	P	16.10.97	60.00		
Bayan-Sulu OJSC	BSUL	C	12.08.98	100.00	368.8	2.4
CLAscAS OJSC	CLAS	C	23.09.02	8,000.00	1,130.1	7.3
	CLASp	P	23.09.02	*1,000.00		
Kant OJSC	KANT	C	15.11.02	*100.00	687.1	4.4
TNC Kazchrome OJSC	KZCR	C	16.10.97	1,063.09	8,354.4	53.6
	KZCRp	P	16.10.97	1,000.00		
Mangistaumunaigaz OJSC	MMGZ	C	16.10.97	*1,000.00	10,695.2	68.6
	MMGZp	P	16.10.97	817.00		
NEFTEBANK OJSC	NFBN	C	15.04.98	1,301.18	882.7	5.7
Insurance company SAYA OJSC	SAYA	C	27.08.01	1,005.00	102.5	0.7
HOP OJSC	SYRG	C	16.10.97	232.14	14,376.7	92.2
	SYRGp	P	16.10.97	*1.00		
Zhyluenergiya OJSC	ZHEN	C	07.11.01	125.00	150.0	1.0
	ZHENp	P	07.11.01	125.08		
KRTD ZANGAR OJSC	ZNGR	C	25.12.02	*10.00	8.3	0.1
	ZNGRp	P	25.12.02	*10.00		
Total on shares:	(42)				208,988.4	1,341.0

C – common inscribed share, P – privileged inscribed share; prices in USD per share; prices that are taken as a face value are marked with asterisk (no deals were made on these shares).

## The Structure of Trade Listings

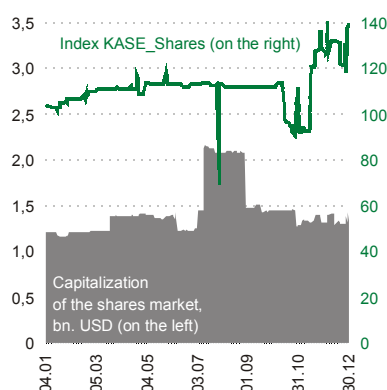
### Securities

As of December 31, 2002 the KASE trade listing consisted of 124 securities from 78 issuers. The number of securities increased by 29.2% (by 18.5% in 2001), and issuers - by 25.8% (14.8%). More detailed information on the dynamics of trade listing structure, with the exception of SBS, is displayed on Tab. 11 and in the diagrams (Fig. 5 and 6).

As was the case in the previous year, an increase in the list of securities in the official listing for category "A" was the most typical trend in 2002. The number of financial instruments within category "A" grew by 20, and the number of issuers by 9 during the year. At the same time, relevant growth indicators in category "B" were 11 and 8 accordingly. A noticeable expansion in the category "B" lists, which was not characteristic of the year 2001, was a particular trait of the reporting period. All indicators for the "non-listing securities" sector were seen to fall in the reporting year.

The 2002 official listing for category "A" grew mainly due to bonds and privileged shares, i.e. due to securities, which could interest PAMC. During the year 20 new

Fig. 7. Capitalization of the shares market and dynamics of the KASE\_Shares index in 2002



**Tab. 14. Sectoral structure of the official list of KASE (shares)**

Industries	2002		2001	
	m		m	
	USD	%	USD	%
Finances	462.9	34.5	389.4	32.4
Metal-lurgy	445.1	33.2	438.8	36.5
Communi-cation	234.9	17.5	197.9	16.4
Oil complex	160.9	12.0	169.3	14.1
Food industry	20.0	1.5	6.4	0.5
Other	17.3	1.3	1.7	0.1
<b>Total</b>	<b>1,341.0</b>	<b>100.0</b>	<b>1,203.5</b>	<b>100.0</b>

bond issues underwent the KASE listing procedure for category "A" (11 - in 2001). Two of the three stock issues added to the official listing in category "A" in 2002 were privileged. There were different trends for category "B". The main additions to this category's listing were common shares.

All of the above bears testament to the fact that the main trend of 2002 in the stock market remained a drive on the side of the issuers to obtain access to the continuously growing PAPF assets. Under these circumstances two goals were pursued: to increase capitalization on account of placement of mainly privileged shares, and to attract relatively cheap PAPF funds that were experiencing a lack of reliable investment objects. The expansion of category "B" lists (mainly, on account of stocks) reflected in the CS stock market turnover structure, as is shown below, can be viewed as preparation by less popular and less sizeable issuers for their entrance into the organized market within a higher category.

The official KASE listing as of January 01, 2003 is displayed in Tabs. 12 and 13.

### Capitalization

The method for calculating the capitalization of the CS market did not change in 2002. As before, the most recent market share prices officially listed on KASE (or their face value in the event of their absence) and the quantity of shares were taken into account to capitalize the stock market. Capitalization of the bond market reflected the current value of corporate bonds included in the KASE official listing at "net" prices. Both capitalization indicators were USD-denominated.

During the reporting period, capitalization of the stock market grew by 11.1%, up to USD 1,341.00 bn. Revising the trade listings had no significant effect on this indicator, as opposed to the prices of other shares that varied widely, especially in direct transactions. The results of analytical work do not allow us to talk about the dependence of the stock market's capitalization volume on the KASE\_Shares Index (Fig. 7), and which is calculated on the best demand quotations from market-makers. This consequence proves that capitalization was mainly influenced by the prices of direct transactions with a low dependence on the current market environment. The industry structure of the official KASE shares listing remained virtually the same during the year (Tab. 14). Banks, financial institutions and metallurgic enterprises continued to be leaders in this category.

As before, the extension of these securities listings had a major impact on the corporate bond market capitalization indicator. During the year, bond capitalization increased by USD 642.7 m, up to USD 1.218 bn, or 2.1 times (Fig. 8). Similar growth indicators for the year 2001 increased by USD 398.8 m, or 3.3 times. A modification of the industry structure (Tab. 15) once again confirmed the prevalence of issuing activity on the part of the financial sector of the Kazakhstan economy.

## CORPORATE SECURITIES TRADES

In the reporting year the CS stock market was second in terms of growth rate among all the KASE market sectors, yielding precedence only to the repo sector. The volume of operations in this category increased by KZT 46.5 bn (USD 287.8 m, or by 99.4% (91.2%). More detailed data is represented in Tab. 16. It follows from this Tab. that the market developed mainly on account of the increase in purchase-and-sale transactions in shares and bonds, and also on account of the growth in SBS sales.

### The Primary market

The KASE legal regulatory framework that regulates the procedure for carrying out specialized trades did not change in 2002. The emergence in the market of corporate bonds indexed at a KZT versus USD devaluation level, and with the face value denominated in KZT as a result of an amendment to the Civil Code of the Republic of Kazakhstan, forced KASE to revise a number of internal documents. This, however, did not affect the conduct practice for specialized trades with regard to the primary placement of securities.

As in the year 2001, the primary stock market for CS continued to drop during the reporting period. The volume of this type of operation also decreased (Tab.

**Tab. 15. Sectoral structure of the official list of KASE (bonds on face value)**

Industries	2002		2001	
	m		m	
	USD	%	USD	%
Finances	792.0	66.8	217.4	37.3
Oil complex	256.0	21.6	281.0	48.2
Food industry	32.0	2.7	24.0	4.1
Mineral resource	35.5	3.0	6.0	1.0
Transport	30.0	2.5	30.0	5.1
Communi-cation	28.0	2.4	25.0	4.3
Other	12.2	1.0	—	—
<b>Total</b>	<b>1,185.7</b>	<b>100.0</b>	<b>583.4</b>	<b>100.0</b>



16), irrespective of the fact that KASE offered issuers and their financial advisor-underwriters almost every option for specialized trade conduct. The practice of placing the vast majority of new issues outside of KASE (over the counter) that occurred in 2000-2001 became more widespread. This has been conditioned by convenience on the side of the investors, who receive more beneficial terms and conditions for the purchase of securities by negotiating with issuer representatives - something that is virtually impossible in the open stock market. The business environment of the CS primary market has also changed in comparison with 2001. While the bond yield has come down, their supply still overrides demand, despite a lack of financial instruments in the market. Investors have not been able to get past the psychological barrier of rate reduction. Bonds sales were much worse than those in 2001. From Tab. 17 it is clear that only two of the seven securities issues placed through KASE during the reporting period were acquired by banks and broker clients. The rest were fully bought out by PAMC, as it was the PAPF that severely suffered from the lack of investment objects. Even under these circumstances, not one single CS issue was placed on KASE to the full extent.

## The Secondary market

In 2002 this segment of the stock market was represented by the purchase-and-sale of shares and corporate bonds sector within the secondary circulation framework, as well as being represented by the sale of the SBS sector. As Tab. 16 shows, the market shares controlled by these sectors changed little in comparison with 2001.

As before, CS were traded on KASE on working days between 11:30 and 17:00 ALT, in one single session. Sales of SBS were performed by authorized brokers in the same time period, using the KASE principal trading methods that had been slightly modified with regard to the sales terms for any one specific block of shares. Essentially these particulars referred to settlements, paying guarantee fees, and the procedure for submitting an application. It should be noted that from February 15, 2002, in accordance with the recommendations from the NBK Department of Securities Market Regulation, KASE stopped the practice of extending the time for CS trade beyond the fixed time-limit. This decision was made in order to eliminate the conditions and premises whereby participants may close "negotiated" deals, manipulate prices, and close deals with knowingly unfavorable prices for the customers. KASE made a small change to CS trade procedures with effect from November 25, 2002 due to the fact that CSD had established a deadline for accepting orders for the registration of securities transactions in the form of electronic documents. It was determined, in particular, that if the shares

**Tab. 16. Volume of CS trades at KASE and sector structure of turnover**

Month	Primary market		Sector of exchange market of CS				TOTAL	
	th. USD	m KZT	th. USD	m KZT	th. USD	m KZT	th. USD	m KZT
January	—	—	28,513.8	4,315.3	—	—	28,513.8	4,315.3
February	—	—	26,715.9	4,059.8	—	—	26,715.9	4,059.8
March	9,853.9	1,499.8	16,727.4	2,545.9	—	—	26,581.4	4,045.7
<b>Q1</b>	<b>9,853.9</b>	<b>1,499.8</b>	<b>71,957.1</b>	<b>10,921.0</b>	—	—	<b>81,811.1</b>	<b>12,420.8</b>
April	10,785.7	1,650.0	18,322.8	2,799.1	—	—	29,108.5	4,449.1
May	7,643.4	1,169.2	37,673.6	5,763.3	0.021	0.003	45,317.1	6,932.5
June	636.6	97.5	9,317.7	1,426.7	—	—	9,954.3	1,524.3
<b>Q2</b>	<b>19,065.8</b>	<b>2,916.7</b>	<b>65,314.1</b>	<b>9,989.1</b>	<b>0.021</b>	<b>0.003</b>	<b>84,379.9</b>	<b>12,905.8</b>
July	—	—	34,590.5	5,320.5	—	—	34,590.5	5,320.5
August	—	—	14,962.9	2,309.3	0.149	0.023	14,963.0	2,309.3
September	4,362.7	675.0	30,558.9	4,724.3	—	—	34,921.6	5,399.3
<b>Q3</b>	<b>4,362.7</b>	<b>675.0</b>	<b>80,112.2</b>	<b>12,354.1</b>	<b>0.149</b>	<b>0.023</b>	<b>84,475.1</b>	<b>13,029.1</b>
October	—	—	50,494.6	7,798.8	19.829	3.059	50,514.4	7,801.9
November	—	—	19,683.1	3,037.7	—	—	19,683.1	3,037.7
December	—	—	82,763.5	12,887.7	199,959.0	31,145.6	282,722.5	44,033.3
<b>Q4</b>	—	—	<b>152,941.2</b>	<b>23,724.2</b>	<b>199,978.9</b>	<b>31,148.7</b>	<b>352,920.1</b>	<b>54,872.9</b>
<b>TOTAL 2002</b>	<b>33,282.4</b>	<b>5,091.5</b>	<b>370,324.7</b>	<b>56,988.5</b>	<b>199,979.0</b>	<b>31,148.7</b>	<b>603,586.2</b>	<b>93,228.6</b>
<b>Structure</b>	<b>5.5%</b>		<b>61.4%</b>		<b>33.1%</b>		<b>100.0%</b>	

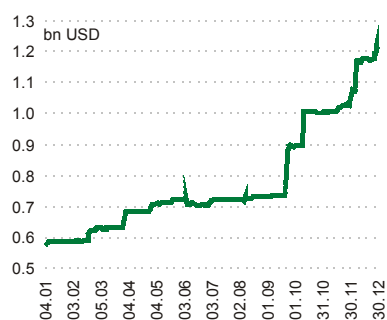
### Reference:

<b>TOTAL 2001</b>	<b>46,768.8</b>	<b>6,920.9</b>	<b>203,750.3</b>	<b>30,129.3</b>	<b>65,227.2</b>	<b>9,693.2</b>	<b>315,746.4</b>	<b>46,743.4</b>
<b>Structure</b>	<b>14.8%</b>		<b>64.5%</b>		<b>20.7%</b>		<b>100.0%</b>	

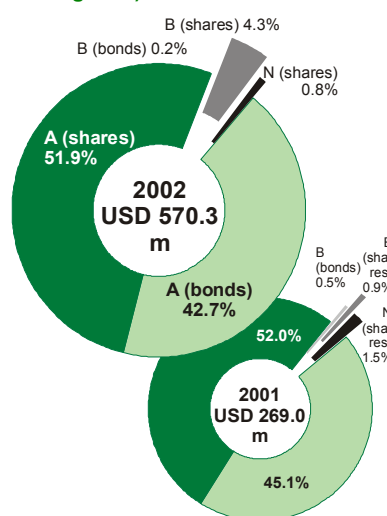
### Trend 2002 to 2001:

<b>in monetary terms</b>	-13,486.4	-1,829.4	+166,574.4	+26,859.2	+134,751.8	+21,455.5	+287,839.8	+46,485.3
<b>in percentage terms</b>	-28.8%	-26.4%	+81.8%	+89.1%	+206.6%	+221.3%	+91.2%	+99.4%

**Fig. 8. Capitalization of the corporate bond stock market in 2002**



**Fig. 9. Distribution of the secondary market deals according to the type of security and listings categories (including SBS)**



**Tab. 17. Stakes of main categories of investors in CS purchase at KASE primary flotation**

Main categories of investors	Stake of participation, % of purchase volume						
	ASFib2	BRKZb1	CCBNb2	HSBKb2	HSBKp	HSBKp7	KZAPb1
STB	—	59.9	—	—	—	—	50.0
STB clients	—	—	—	—	—	—	—
PAPF and PAMC	100.0	15.2	100.0	100.0	100.0	100.0	50.0
Brokers	—	—	—	—	—	—	—
Brokers' clients	—	24.9	—	—	—	—	—
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

listed in KASE were traded according to the Frankfurt method after 17:00 ALT, then these trades could not be extended later than 18:00 ALT. From the above-mentioned date, messages concerning the confirmation of securities transactions were accepted throughout the confirmation system only between the hours of 11:30 and 18:30 ALT. Additionally, it was decided that the KASE Trade Department employees would have the right to make repeat transactions based on the results of the securities trades until 18:30 ALT.

As it has been mentioned before, under the pressure of changes to the Civil Code of the Republic of Kazakhstan, KASE moved to quoting shares in KZT from May 1, 2002. Until this time, shares were quoted in USD.

The above-mentioned changes almost constitute a complete list of changes in the KASE legal framework with regard to the CS secondary market in the year under review.

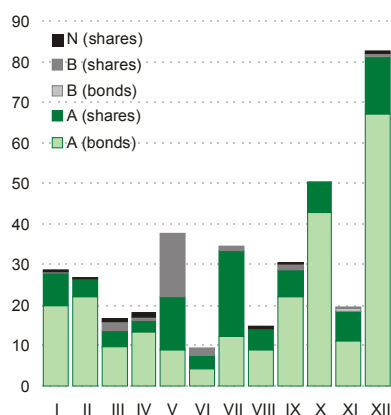
The structure of the CS secondary market's turnover compared to 2001 changed minimally (Fig. 9). Transactions with securities included in the official listing category "A" accounted for 94.5% of the turnover in the reporting year (compared to 97.1% in 2001). Meanwhile, liquidity in the bond market was higher as shares were sold through KASE and in the form of the SBS. The increase in the turnover of the shares included in the official listing category "B" was explained by a higher rate expansion of that list as compared to 2001 (Fig. 5). The portion of securities transactions traded on a non-listing floor still remained insignificant.

In 2002 transactions were carried out with a total of 100 different instruments in the secondary stock market for CS, including 48 transactions with shares (22 from category "A", 14 from category "B", and 14 with non-listing securities), 35 bonds (33 from category "A" and 2 from category "B") and 17 SBS.

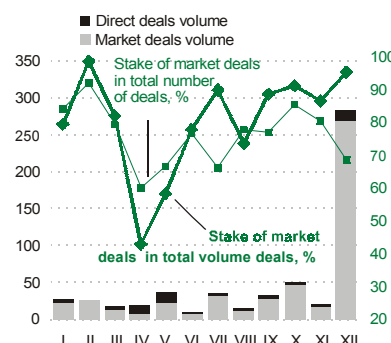
**Tab. 18. Main parameters of the listing bonds issues of 2002**

Brief name of issuer	Trade code	Issue date	Issue currency	Issue volume, m	Circulation term, years	Coupon rate, %
Development Bank of Kazakhstan CJSC	BRKZb1	15.02.02	KZT	4,500.0	5	8.5
	BRKZe1	10.10.02	USD	100.0	5	7.125
SB Alfa Bank OJSC	ALBNb1	28.02.02	KZT	1,500.0	6	9.0
KAZATOMPROM NAC CJSC	KZAPb1	01.04.02	KZT	2,300.0	5	8.5
Astana-finance OJSC	ASFib2	01.04.02	KZT	4,500.0	3	9.0
Bank CenterCredit OJSC	CCBNb2	01.04.02	KZT	1,500.0	7	10.0
Bank TuranAlem OJSC	BTASb2	29.04.02	KZT	3,750.0	8	9.0
HALYK SAVINGS BANK OF KAZAKHSTAN OJSC	HSBKb2	21.05.02	KZT	2,042.0	5	8.0
Nurbank OJSC	NRBNb1	22.05.02	KZT	1,500.0	3	8.5
VITA OJSC	VITAb3	11.06.02	KZT	750.0	2	14.0
Zhayremskiy OMPE OJSC	JGOKb1	04.03.02	KZT	2,300.0	4	10.0
Valyut-Tranzit Park OJSC	VTPRb1	06.06.02	KZT	50.0	0,5	discount
Corporation Ordabasy OJSC	ORDBb1	08.08.02	KZT	1,550.0	3	11.0
Kazkommerts International B.V.	KKGBb2	08.05.02	USD	200.0	5	10.125
KAZNEFTEKHIM LLP	KZNHb1	15.10.02	KZT	305.8	2	14.0
UKBF CJSC	UKPFb1	11.09.02	KZT	500.0	5	14.0
ARNA OJSC	ARNAb1	06.09.02	KZT	465.0	3	13.0
Kazakhstan Mortgage Company CJSC	KZIKb1	10.11.02	KZT	1,500.0	3	10.75
KAZKOMMERTSBANK OJSC	KKGBb2	01.12.02	KZT	7,500.0	7	8.0
TuranAlem Finance B.V.	BTASb2	29.05.02	USD	100.0	5	10.0
TEMIRBANK OJSC	TEBNb3	20.10.02	KZT	2,200.0	10	9.0
Alliance Bank OJSC	ASBNb1	23.12.02	KZT	3,000.0	7	9.0
ATFBank OJSC	ATFBb2	04.01.02	USD	10.0	5	9.0

**Fig. 10. Dynamics and structure of CS turnover in the purchase-and-sale sector (m USD) in 2002**



**Fig. 12. Percentage of market transactions (on the right) and volume of trades (on the left, m USD) in the CS purchase-and-sale and sector in 2002**



## The Share and Bond Purchase-and-Sale Sector

During the reporting year 1,302 transactions<sup>21</sup> were made with 154,613,604 items of securities in the course of trading sessions in this sector. 231 out of 251 bids were effective. The volume of effective bids during a day varied from USD 1,750.2 to USD 19.2 m and was estimated to be equal to USD 1,610.1 a year on average. The respective indicator in 2001 was USD 1,075.9. The average monthly turnover in 2002 was USD 30,860.4. Statistics with a breakdown of the months and quarters are shown in Tab. 16.

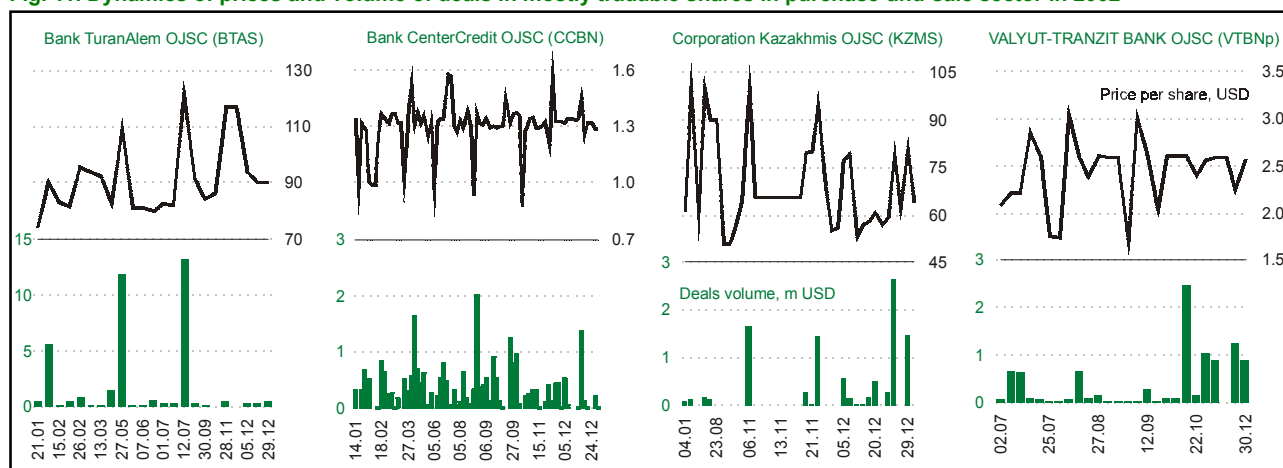
Different factors affected the distribution of transactions over the months (Fig. 10). For example, an eruption of activity in the CS market led to the withdrawal of Kazakhstan's second issue sovereign Eurobonds last October. Investors' released funds (mainly those of APF) created a high demand in corporate bonds. The rolling out of large international corporate bond issues in the year under review strongly influenced the liquidity of the CS market in KASE. Thus, a significant amount of the transactions in October were conditioned, among other things, by the appearance of the Kazkommerts International B.V. second issue Euronotes, Kazakhstan Development Bank CJSC first tranche bonds, and by the appearance of TuranAlem Finance B.V. second issue Eurobonds on the market. A number of events connected with the Corporation Kazakhmis OJSC have also modified the market. The sale of the last state share of this company on KASE in the form of two large SBS (see below), as well as a change in the equity structure by the issuer has resulted in animated sales of common shares in the copper-producing giant in the fourth quarter of 2002 including sales by individual request.

Factors of a non-market character have also influenced the volume of transactions. For instance, in May a series of 18 direct transactions involving shares from the Zhylyuenergiya OJSC accounted for a significant volume of the shares transactions in the official KASE listing category "B". The volume of each transaction was 800 thousand shares, and the movement of securities took place through one broker's account. The considerable volume of transactions at the end of the year was due to the fact that the market participants were closing and preparing the final results for different types of reports. In this case transactions involving PA were of importance as PAMC, working under conditions of tough competition, capitalized the profit on previously bought securities.

The non-market factors situation illustrates the status of direct transactions, which worsened somewhat in comparison with 2001 (Fig. 12). If the results of 2001 show that 8.8% of transactions in the sector (in terms of volume), or 26.5% of the total number of transactions, were direct transactions, then these indicators were 12.1% and 23.7%, respectively for 2002.

The list of the ten most traded CS in the purchase-and-sale sector (Tab. 19) also shows how different factors influence the market. Along with the securities that were in great objective demand (BTASe2, KKGBe3, KZTKb1, BTASe1, KZTOe1), the list includes shares and bonds that are, by nature, subjects of direct and non-market transactions (BTAS, CCBN, ZHEN, VTBNb1).

**Fig. 11. Dynamics of prices and volume of deals in mostly tradable shares in purchase-and-sale sector in 2002**



<sup>21</sup> Only those transactions are accounted for on which the settlements were realized.

Fig. 13. Dynamics of the KASE\_Shares index modifications in 2001 and 2002

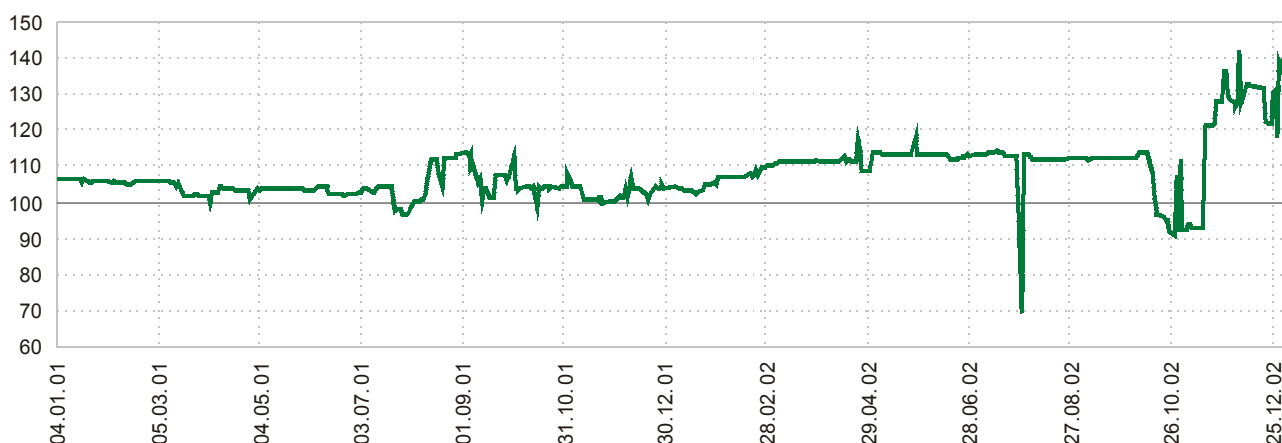
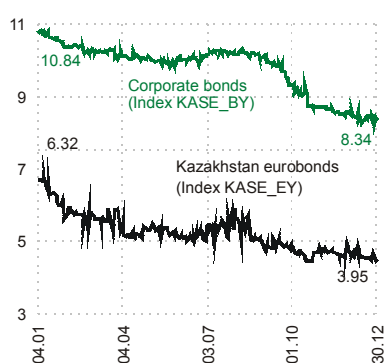


Fig. 14. The weighted-average bond yield (% APR) on KASE in 2002



The shares market of 2002 did not differ greatly from that of the previous year, remaining restricted, of low liquidity, and uneven in terms of prices. This did not allow KASE to move from the KASE\_Shares index that reflects the dynamics of quotation demand on shares included in category "A" listing with a due account of their issuers market capitalization to a more traditional exchange index based on the trade prices. Fig. 13 shows that the share market-makers changed quotations very seldom, quotations which in no way depended on the results of security issuers activity or market competition. Only at the end of 2002 did the KASE\_Shares revive due to an increased volatility in the KZMS rate- the common shares of Corporation Kazakhmisk OJSC<sup>22</sup>. Due to the above-mentioned reasons these shares started to be actively traded on KASE, including transactions at individual requests, which forced the market-makers to change the quotations every day. With regard to other shares, used mainly as security assets or as a means for implementing financial schemes that are understood by the interested parties only, the change in rate looked almost chaotic (Fig. 11).

The bond market, as in 2001, was again more interesting than the shares market. Its liquidity was ensured mainly by PAMC (including through authorized brokers) and supported by STB that often acted as counter agents with regard to transactions with subjects of the pension market. The "overheating" of the sovereign debt Eurobonds market, together with a decrease in its capitalization due to the repayment of second issue obligations, resulted in a higher demand in corporate bonds. Its yield also started to decrease, and the decrease rate appeared to be comparable with that of Kazakhstan Eurobonds (Fig. 14). Nevertheless, in 2002 the corporate bonds provided their holders with a premium of 400-600 basic points over Kazakhstan sovereign debt bonds (in 2001-220-450 basic points). This fact resulted in a steady decrease in the liquidity of the Kazakhstan Eurobond market in favor of corporate bonds. This trend was also supported by a higher speculative potential in corporate bonds (Fig. 15).

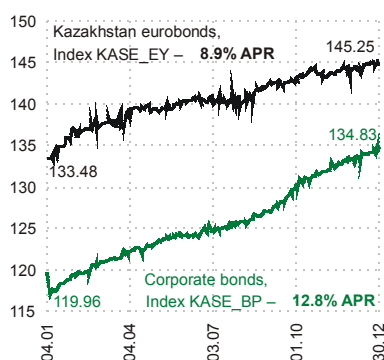
Tab. 19. Characteristics of the ten most traded CS in purchase-and-sale sector of KASE

Code	Brief name issuer	S	Admi- tance	Deals volume		Deals numb.	Price or yield			Stake market, %
				th. USD	of sec.		min	max	last	
BTAS	Bank TuranAlem OJSC	C	A	37,057.8	352.743	35	11,229.23	18,794.00	14,070.00	10.0
BTASe2	TuranAlem Finance B.V.	E	A	34,221.9	31,436.600	9	7.83	7.99	7.99	9.2
CCBN	Bank CenterCredit OJSC	C	A	26,177.7	19,842.020	122	130.01	242.00	177.00	7.1
KKGBe3	Kazkommerts International B.V.	E	A	24,673.4	22,967.000	33	7.35	10.26	7.35	6.7
KZTKb1	Kazakhtelecom OJSC	B	A	21,152.6	204.070	81	7.11	10.25	7.11	5.7
BTASe1	TuranAlem Finance B.V.	E	A	17,509.4	16,572.000	77	5.95	11.61	7.24	4.7
ZHEN	Zhyluenergiya OJSC	C	B	17,301.6	16,545.938	24	124.93	239.50	125.00	4.7
VTBNb1	Valyut-Tranzit Park OJSC	B	A	17,136.6	168.148	93	9.96	34.17	10.58	4.6
KZTOe1	KazTransOil CJSC	E	A	16,212.8	16,046.700	53	7.30	9.40	7.37	4.4
BTASb2	Bank TuranAlem OJSC	B	A	15,073.4	160.636	27	9.19	10.50	9.19	4.1
<b>TOTAL</b>				<b>226,517.2</b>		<b>554</b>				<b>61.2</b>

C – common inscribed share, P – privileged inscribed share, B – bonds, E – eurobonds; prices are given in USD per share, yield – in % APR on semi-annual basis.

<sup>22</sup> The significant fall in the index on July 29, 2002 was as a result of a technical mistake by one of the market makers.

**Fig. 15. Pricing indexes for bonds on KASE in 2002 with yield computation**



In the reporting year 31 members of KASE from the categories "P" and "H": 17 broker-dealer companies, 11 STB, and 3 PAMC (30 in 2001) took part in signing CS purchase-and-sales transactions on KASE. The banks and their customers accounted for 12.4% of the gross turnover in the sector, while broker-dealer companies and their customers accounted for 76.3%, and PAMC for 11.3%.

The most active trader controlled 30.8% (27.8%)<sup>23</sup> of the total volume of transactions, two traders controlled 39.2% (39.9%), three traders controlled 46.8% (51.9%) and five traders controlled 59.7% (69.3%). TuranAlem Securities LLP was declared as the most active participant of the sector in 2002, KG Securities LLP was the second active (8.4% of the gross turnover) and KIB ASSET MANAGEMENT Ltd. LLP was recognized as the third most active participant with 7.6%.

## The SBS Trade Sector

In 2002 activity in this market sector was regulated by the internal KASE document "State Block of Shares - The admission procedure for Trades and Settlements as a Result of Trading". In accordance with this document the traded SBS are divided into two groups: those with the trading code NZ, which means that shares included in the SBS structure are in a depot account in CSD, and those with the trading code Z, which means that shares included in the SBS structure are in the registrar's account.

During the year MF sold 15 SBS from group Z and 2 SBS from group NZ on KASE through authorized brokers. The volume of SBS trades is shown in Tab. 16.

The sale of two blocks of SBS in the Corporation Kazakhmis OJSC from the NZ group, and which were held by MF, on December 27, 2002 caused the biggest interest. The following items were put up for auction:

- ◆ SBS consisting of 982,307 common inscribed shares (20.0% of the total number of issued shares of Corporation Kazakhmis OJSC) that were sold as a single indivisible lot; and
- ◆ SBS consisting of 228,577 common inscribed shares (4.65% of the total number of issued shares) that were sold retail without any lot restrictions

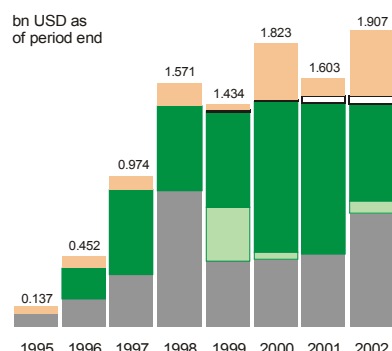
Based on the auction results, the 20% SBS were sold for KZT 28,662,735,953.00 or USD 184,018,592.40 US at the current average-weighted exchange rate of KZT 155.76 to USD 1. The trading price was KZT 29,179.00 or USD 187.33 per share and that transaction became the largest in the entire history of KASE. The same day a second block of SBS was sold in a single transaction for KZT 2,354,343,100.00 or USD 15,115,197.10, which was equal to KZT 10,300.00 or USD 66.13 per share. In all, the state budget received KZT 31 bn (equivalent to USD 199.1 m) from the sale of the last block of SBS in the Corporation Kazakhmis OJSC.

<sup>23</sup> In brackets - the relevant figure for 2001.

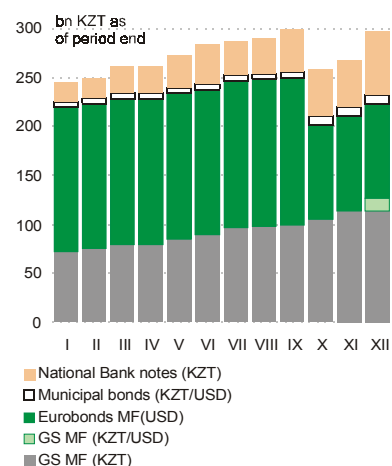


## THE GOVERNMENT SECURITIES MARKET

**Fig. 16. Dynamics of Kazakhstan debt issued in GS over the past 8 years<sup>24</sup>**



**Fig. 17. Change in the capitalization and the instrumental structure of GS in 2002**



As for the GS market, the year under review did not differ significantly to the preceding one as the macroeconomic situation did not demand that NBK and MF change the behavioral strategy in the market. However, there was a distinct division in the interests of the above-mentioned issuers in 2002.

The reporting year, like the one before it, was characterized by a low demand in the national budget for borrowed funds. However, MF continued to issue government securities to optimize internal debt and to obtain money to serve foreign debt. This continued until last October when Kazakhstan redeemed its second issue Eurobonds to the amount of USD 350 m (Fig. 17). MF announced beforehand that new sovereign Eurobonds would not be issued. However, in order to support the local institutional investors that were experiencing an extremely heavy deficit in investment instruments at the end of the year, MF made the decision to issue MEKAM sovereign bonds to the amount of KZT 17.3 bn in October-December 2002. However, these plans were not realized. The actual amount of the domestic bonds issue did not exceed the nominal value of KZT 16.6 bn. After November 20, 2002 MEKAM sovereign bonds ceased to be issued. In 2002 the market did not see three MAOKO issues, to an aggregate nominal value of KZT 12.5 bn, registered at the end of the year. In fact, MF issued its securities only in case it was necessary to finance the budget. Consequently, according to the results of 2002, MF debt issued in the form of GS has not changed a great deal in terms of USD (Fig. 16) - it decreased by USD 9.4 thousand. In terms of KZT the debt increased by 6,347.6 m or 2.9% for the year. Under the circumstances the debt structure has undergone noticeable changes (Fig. 16), reflecting the parameters of the GS secondary market. The share of foreign debt declined, while internal debt was restructured (Tab. 20).

From October 2002 NBK had to recompense the shortage of GS in the domestic market that appeared after the redemption of the sovereign Eurobonds and the reduction in issuing activity. This was done by increasing the volume of short-term note issues and using other measures generated by the monetary regulation challenges (the development of mortgage lending, a review of PA investment limits and other). One of the results of such measures was an increase in the capitalization of the Kazakhstan GS market in 2003 from USD 1.603 bn to USD 1.907 bn, or an increase of 18.9%. The debt in KZT terms increased from 240.8 bn to 296.7 bn, or 23.2%.

Municipal bodies have also contributed to the debt increase. Their component in the total volume of the government borrowings in 2002 increased from USD 38.7 million (KZT 5.808 bn) to USD 53.7 m (KZT 8.353 bn) in nominal terms. This debt type will be mentioned in more detail in a separate chapter of the report.

## THE PRIMARY MARKET

Methods of introducing GS to the market in 2002 did not change. The primary distribution of the MF and NBK bonds was still through correspondence auctions organized by NBK. The primary distribution of municipal GS was made through KASE.

**Tab. 20. Dynamics of debt structure of MF (KZT bn)**

Type	As of Jan 01,02		As of Jan 01,03		Trend	
	sum	stake,%	sum	stake,%	sum	%
<b>GS</b>						
MEKKAM	2.218	1.0	2.643	1.2	+0.425	+19.2
MAOKO*	0	0	12.489	5.6	+12.489	x
MEOKAM	30.646	14.1	68.827	30.8	+38.181	+124.6
MEIKAM**	3.416	1.6	7.863	3.5	+4.447	+130.2
MEAKAM	34.441	15.9	34.441	15.4	0	0
<b>Total internal debt</b>	<b>70.721</b>	<b>32.6</b>	<b>126.264</b>	<b>56.5</b>	<b>+55.543</b>	<b>+78.5</b>
<b>Weighted-average term, days</b>	<b>1,417</b>		<b>1,016</b>		<b>-401</b>	<b>-28.3</b>
Eurobonds (external debt)	146.445	67.4	97.250	43.5	-49.195	-33.6
<b>TOTAL</b>	<b>217.166</b>	<b>100.0</b>	<b>223.514</b>	<b>100.0</b>	<b>+6.348</b>	<b>+2.9</b>

\* debt indexed on devaluation of KZT to USD

\*\* debt indexed on inflation

<sup>24</sup> As of period end, the KASE evaluation as per the official rate of NBK.

The regulatory framework of the GS primary market did not change in the reporting year. From February 21, 2002 the Rules of Placement, Circulation, and Payment of Short-term Notes of NBK were enacted in a new edition that has been significantly revised compared to the previous one, in which the issuer had more powers in the primary market and, in particular, legalized the early redemption of notes. The new Rules that have taken 5-years of note distribution experience into account enabled NBK to respond more quickly to the changes in monetary aggregates, but essentially have not changed the procedures existing in the market.

Introductions to the GS primary market of 2002 also included MAOKO - special government compensation treasury bonds that were issued by MF to the amount of KZT 12.5 bn (USD 80.3 m) as a means for recompensing the deposits of the citizens of the Republic of Kazakhstan kept in the accounts with the former Kazakhstan Republican Savings Banks of the USSR. MF transferred these bonds to its financial agent - Halyk Savings Bank of Kazakhstan OJSC - who started to convert the deposit balances into bonds from March 01, 2003. Accordingly, MAOKO were not in circulation in 2002.

The main parameters of the primary market of the MF and NBK<sup>25</sup> GS for 2002 are shown in Tab. 21. It is evident from the Tab. that the structure of issues in 2002 did not change much compared to 2001. The share of the most short-term MEKKAM in the total volume of securities issued by MF decreased a little. Preference was given to the issue of MEOKAM. Despite a reduction to almost half the number of auctions for MEKAM distribution, the total volume of its issue in 2002 increased 2.5 times compared to 2001. Nevertheless, MF ended the reporting year in the GS primary market (including Eurobonds) with a negative balance of net borrowings to the amount of KZT 36,477.6 m. As a result KZT 51,736.5 m went to the budget, while KZT 88,214.1 m was dispensed for the repayment of GS and their interest.

The number of the NBK note issues increased in 2002 by 6.4%, while the volume at par value increased 1.8 times. The issuer, as before, preferred the most long-term notes: the average-weighted duration of bonds issued in 2002 increased from 65 days in 2001 to 78 days in 2002. NBK ended 2002 with a positive balance of net borrowings to the amount of KZT 45,952.1 m due to the need for sterilizing the market of "excessive money". The total volume of attracted funds was KZT 208,267.0 m, while the amount of repayment was equal to KZT 162,314.9 m.

**Tab. 21. Major parameters of the primary GS market in 2001-2002**

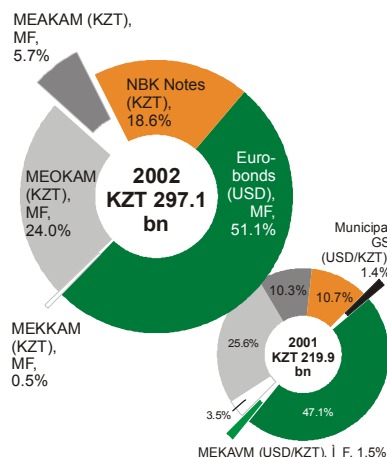
Type GS	number of issues	2001			number of Issues	2002		
		Volume of issues		yield, % APR		Volume of issues %		
		KZT bn	% of grand total			KZT bn	of grand total	yield, % APR
MEKKAM-03	12	1.235	0.9	5.28	3	0.317	0.1	5.20
MEKKAM-06	4	0.948	0.7	5.52	4	1.041	0.4	5.52
MEKKAM-09	4	0.322	0.2	6.18	2	0.623	0.2	6.18
MEKKAM-12	5	0.668	0.5	6.80	4	2.020	0.7	6.78
<b>MEKKAM</b>	<b>25</b>	<b>3.173</b>	<b>2.2</b>		<b>13</b>	<b>4.002</b>	<b>1.5</b>	
MEOKAM-24	27	8.130	5.7	8.20	8	12.590	4.6	8.19
MEOKAM-36	19	8.869	6.2	8.00	13	19.434	7.1	7.40
MEOKAM-48	13	2.494	1.7	8.30	9	7.857	2.9	8.00
MEOKAM-60	5	0.643	0.4	8.00	4	2.902	1.1	8.20
<b>MEOKAM</b>	<b>64</b>	<b>20.136</b>	<b>14.0</b>		<b>34</b>	<b>42.783</b>	<b>15.5</b>	
MEIKAM-18	1	0.260	0.2	3.90	1	1.972	0.7	3.90
MEIKAM-24	—	—	—	—	2	2.524	0.9	3.85
MEIKAM-36	1	0.310	0.2	7.60	1	0.643	0.2	4.00
MEIKAM-48	5	1.219	0.8	4.30	—	—	—	—
MEIKAM-60	3	0.720	0.5	4.00	—	—	—	—
MEIKAM-84	1	0.215	0.1	4.10	—	—	—	—
<b>MEIKAM</b>	<b>11</b>	<b>2.724</b>	<b>1.9</b>		<b>4</b>	<b>5.139</b>	<b>1.9</b>	
MAOKO-12	—	—	—	—	1	4.861	1.8	6.78
MAOKO-24	—	—	—	—	1	2.487	0.9	8.19
MAOKO-36	—	—	—	—	1	5.141	1.9	7.40
<b>MAOKO</b>	<b>0</b>	<b>0</b>	<b>0</b>		<b>3</b>	<b>12.489</b>	<b>4.5</b>	
<b>Total MF</b>	<b>100</b>	<b>26.034</b>	<b>18.1</b>		<b>54</b>	<b>64.413</b>	<b>23.4</b>	
Notes NBK	125	117.662	81.9	5.55	133	210.841	76.6	5.87
<b>Total NBK</b>	<b>125</b>	<b>117.662</b>	<b>81.9</b>		<b>133</b>	<b>210.841</b>	<b>76.6</b>	
<b>GRAND TOTAL</b>	<b>225</b>	<b>143.696</b>	<b>100.0</b>		<b>187</b>	<b>275.255</b>	<b>100.0</b>	

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).

<sup>25</sup> A special section in the report is allocated to municipal GS.



**Fig. 18. Structure of the GS turnover in the purchase-and-sale sector**



According to the results of 2002, the final balance of net borrowings of all Kazakhstan GS issuers was + KZT 11,326.3 m.

Dynamics of the GS yield in the primary market for 2002 was less impressive than that of 2001 (Tab. 21). This can be explained by the fact that the MF and NBK's principal activity in obtaining a well-balanced picture of rates finished in 2001. The data in the Tab. brings one to note that the GS yield in the primary market decreased symbolically and was practically unchanged with regard to most bonds. This resulted in the transformation of the MEKAM and notes primary market into a kind of "depository shop", to which professional participants of the market applied in order to place funds at a previously known yield. In fact, there was also no precedent of true market placements where investors would have the chance to influence issuers by the parameters of their demand. MF and NBK on their part were not interested in a further drop in rates, as according to current inflation rates<sup>26</sup> the actual yield of new MEKAMs was minimally positive, while that of the NBK notes was negative. The insignificant dynamics for the GS yield in the primary market predetermined the minimal influence this indicator had on the cost of securities traded in the secondary market.

## THE SECONDARY MARKET

During the reporting period the Kazakhstan GS purchase-and-sale market grew at a rate higher than its capitalization. According to CSD and KASE, the volume of the exchange's transactions and OTC transactions involving state bonds totaled to KZT 513.8 bn in 2002, an increase of KZT 174.4 bn or 51.4% compared to 2001. At the same time, as it has been mentioned above, capitalization of the whole GS market increased by only KZT 55.9 bn, or 23.2%, in terms of KZT. This data is testament to the noticeable growth in the GS turnover that appears to be quite regular. According to the NBK data, the volume of PA invested by Kazakhstan APF grew by KZT 89.7 bn in 2002, while the aggregate assets of STB invested into securities increased by KZT 59.1 bn.

**Fig. 19. Volume of the GS purchase-and-sale transactions in Kazakhstan and share of the stock market in 2002**

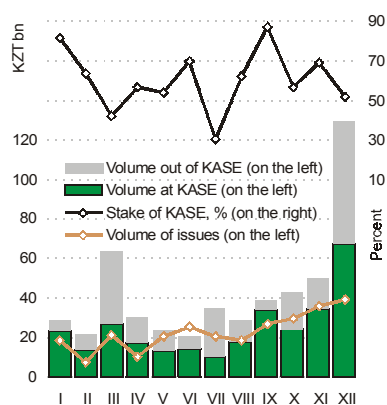
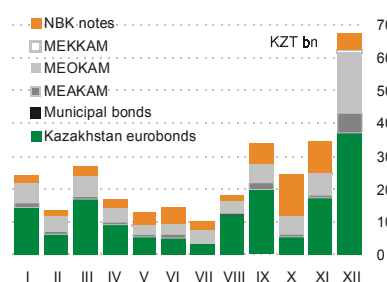


Fig. 19 shows that in many ways dynamics of the GS turnover in the secondary market was defined by the volume of primary placements, which was not characteristic of 2001. However, this was not the only factor. For example, the growth in the volume of transactions in March was due mainly to the restructuring of investors' portfolios related to the payment of coupon interest on the Kazakhstan second and third issue Eurobonds in April. On the one hand, the peak of activity in December can be put down to the traditional activation of the financial market that happens at the end of the year, although it could also be due to the sale of large CS in the Corporation Kazakhmis OJSC that was held by MF. It should be noted that in the reporting year the participants of the Kazakhstan financial market developed a number of new schemes for working with GS both on and outside of KASE, which resulted in a number of large transactions, including those involving PA. The market nature of these transactions causes particular doubt. Moreover, the majority of these transactions took place right in December 2002.

High proportion of non-market type transactions, whereby market participants ensure the quick transfers of large amounts of money to each other to avoid the repo sector, may explain the fall in the GS exchange share of the Kazakhstan purchase-and-sale market from 64.8% in 2001 to 57.8% in 2002. This indicator was at its lowest in July (30.1% according to comparable transactions) and at its highest in September (87.4%) (Fig. 19).

**Fig. 20. Changes in the turnover structure and volume of the GS purchase-and-sale transactions on KASE in 2002**



## The Secondary Stock market

The GS purchase-and-sale market in KASE, in terms of its legal framework, infrastructure, calculation component, and principal players, was formed as early as the middle of 2000. For this reason no measurable structural changes were observed compared to 2001. The market was still under the control of STB (59% of the gross turnover, while 51% in 2001) and subjects of the pension market - PAMC and SAPF (33%, while 25% in 2001). The broker-dealer companies accounted only for 6.7% of the gross turnover. The KASE legal framework regarding this sector was optimized as far as methodology was concerned, which did not affect the market organization and its trends.

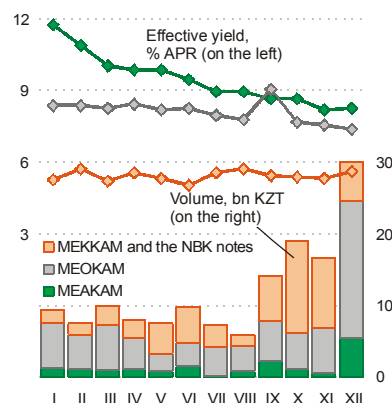
In total, 251 GS purchase-and-sale sessions were held on KASE in 2002. Up to November 25, 2002 the trades took place between 11:30 and 18:30 ALT, and after November 25, 2002 between 11:30 and 18:00 ALT. All the trades were effective.

<sup>26</sup> According to the Agency on Statistics of the Republic of Kazakhstan the level of inflation in 2002 amounted to 6.6%.

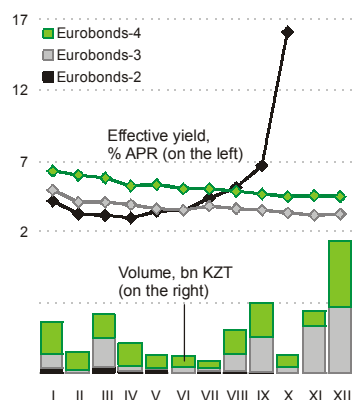
**Tab. 22. Volume of trades in GS at KASE in the purchase-and-sale sector and stake of the stock market in 2002**

Month	Num. of deals	Stake of KASE, %	
		m USD	bn. KZT
I	319	157.3	23.861
II	228	89.1	13.545
III	331	176.1	26.812
<b>Q1</b>	<b>878</b>	<b>422.5</b>	<b>64.217</b>
IV	330	111.6	17.048
V	286	84.0	12.850
VI	283	95.2	14.570
<b>Q2</b>	<b>899</b>	<b>290.7</b>	<b>44.468</b>
VII	270	68.4	10.528
VIII	251	117.2	18.084
IX	293	219.2	33.883
<b>Q3</b>	<b>814</b>	<b>404.8</b>	<b>62.495</b>
X	307	157.1	24.263
XI	301	221.9	34.282
XII	365	432.6	67.351
<b>Q3</b>	<b>973</b>	<b>811.6</b>	<b>125.896</b>
<b>TOTAL</b>	<b>3,564</b>	<b>1,929.7</b>	<b>297.076</b>

**Fig. 21. Internal GS: the weighted-average yield and volume of the purchase-and-sale transactions on KASE in 2002**



**Fig. 22. The weighted-average yield of the Kazakhstan Euronotes and volume of the purchase and sale transactions on KASE in 2002**



3564 transactions<sup>27</sup> with 1,444,247.693 bonds were registered. The daily trade volume varied between KZT 29.5 m (USD 194.0 thousand) and KZT 20.428,7 m (USD 131.2 m) and amounted to KZT 1,183.6 m (USD 7,688.1 thousand) on average per year. The average amount of monthly turnover was KZT 24,756.3 m (USD 160.8 m). Consolidated information on the turnover in this sector is shown in Tab. 22.

Notwithstanding a noticeable change in the instrumental structure of the debt in circulation, the structure of the turnover in the sector has undergone minimal alteration compared to 2001 (Fig. 18). Eurobonds still remained the most traded GS on KASE and accounted for more than a half of the exchange's turnover. It should be noted that the repayment of second issue bonds (XS0080679961) in early October 2002 (Fig. 22) had a minimal effect on the turnover of these GS. These securities were characterized by the least liquidity in KASE for the reporting period, and the bulk of the transactions were performed with third issue (XS0102764031) and fourth issue (XS0111078183) notes. Results in November and December showed that the KASE category "K" members actively used Eurobonds in financial schemes, the separate parts of which may be observed on the KASE and OTC market.

The change in structure of the debt in circulation was reflected on the secondary market as an increase in the NBK note's share in the turnover. Increasingly large amounts were invested in these securities, with them being the shortest "standby instrument". At the same time, the lacking supply of deficit MEAKAM and MEOKAM resulted in the decrease of their share in the turnover in 2002.

GS yield to maturity for the buyers in the secondary stock market in 2002 was formed under the influence of a number of factors. With bonds placed in the primary market (MEKKAM, MEOKAM and the NBK notes) it traditionally depended on the yield in the auctions. As its dynamics were minimal (Tab. 21), the change of the respective indicator for the GS secondary market in KASE was also minimal (Fig. 21). The situation was completely different for MEAKAM and Kazakhstan Eurobonds. With a lack of instruments, the market for these GS operated in conditions that were constantly "overheating" as a result of non-changing investor demand. This resulted in a steady decline in the MEAKAM yield and Eurobonds for the buyers (Fig. 21 and 22). Suffice to say, the MEAKAM yield for the year, according to the average-weighted monthly index, decreased between January and December by 29.6%, that of third issue Eurobonds - by 33.8%, and fourth issue Eurobonds decreased by 29.5%. The only exception was second issue Eurobonds, the yield of which rocketed before redemption (Fig. 22). This was conditioned by a "discharge" of securities by investors who, upon redeeming the last coupon, were fixing the income at a price difference earned through the purchase of bonds just in time for lower prices.

In total 30 members from the KASE's category "K" participated in closing transactions in the GS purchase-and-sale market in KASE in 2002 (while 29 in 2001). The sector monopolization level in 2002 was characterized by the following data. The most active participant accounted for 22.0% (18.4%)<sup>28</sup> of the gross turnover, the two most active participants for 38.2% (30.7%), the three most active participants for 50.0% (42.2%), and the five most active participants accounted for 66.0% (59.0%) of the gross turnover.

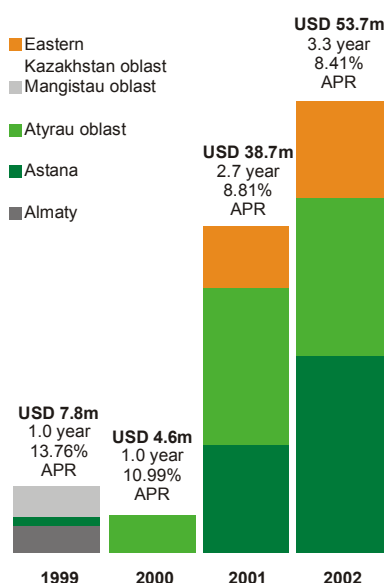
Bank TuranAlem OJSC was recognized as the most active participant in the GS trades (22.0%) according to the results of 2002. PAMC Zhetysu CJSC was the second most active (16.2%) and ATFBank OJSC was third (11.9%).

<sup>27</sup> Only those transactions are accounted for on which the settlements were realized.

<sup>28</sup> In brackets - the relevant figure for the previous year.

## THE MUNICIPAL SECURITIES MARKET

**Fig. 23. Dynamics of the main parameters of the Kazakhstan municipal debt**



In 2002 the Kazakhstan municipal securities market with its GS status was characterized by contradictory trends. The volume of debt in circulation increased 1.4 times in the year to an amount equivalent to USD 53.7 million in nominal terms (Fig. 23). The average-weighted duration of the marketable securities increased from 2.7 years in 2001 to 3.3 years in 2002. In this regard the average-weighted yield of bonds decreased from 8.81% APR to 8.41% APR. During the year the municipal bonds of four new issues, issued by the Akimats of Astana and the Eastern Kazakhstan region, underwent a procedure of authorization for circulation in the market. The earlier issued securities were redeemed in strict compliance with the debt service schedule. In this case it should be noted that the situation regarding coupon payment was somewhat overshadowed by a 24-hour delay (due to technical reasons) in the payment of regular interest on second and third issue Atyrau bonds.

The creditworthiness of the Kazakhstan local executive bodies in 2002 was noted by Fitch Ratings. In March this Agency confirmed the long-term rating of the Mangistau region on its borrowings in foreign and local currencies as being "BB-" level and assigned a short-term "B" rating with regard to its borrowings in foreign currency. The rating projection is "stable". In August the same Agency increased Almaty's long-term ratings in foreign and local currencies from "BB-" to "B+", leaving the forecast of their change as "stable", and assigned the city a short-term "B" rating for its borrowings in foreign currency. In October the forecasts for the Mangistau region and Almaty city were reviewed and changed to "positive".

Despite the above-mentioned factors, the expansion of the municipal bond market in 2002 was constrained because the Government was reviewing its attitude towards this kind of borrowing. More specifically, in May Mr. Kairat Kelimbetov, First Deputy Minister of Finance, said at the Government's session that Kazakhstan intended to decrease the volume of borrowings by local executive bodies in 2002 because of the expense of the debt, and that Kazakhstan may abandon borrowings of this type completely the following year. According to him, it is necessary to reduce the level of borrowing exceeding "the threshold indicators for economic security" that has been reached. In July 2002, and following this path, MF supported the KASE's suggestion of amending the current legislation by adding provisions defining the responsibility of local executive bodies for the non-fulfillment of their obligations to municipal bondholders. This support resulted in the intent to add amendments to the "rules for the issue, placement, circulation, redemption and servicing of the medium-term government issue securities of local executive bodies" with regard to imposing fines on the local executive body - the issuer of the municipal bonds - if they failed to execute their obligations to pay an amount when redeeming or servicing these bonds, and with regard to determining the responsibility of such an issuer if they violate the terms of the issue, circulation, servicing and redemption of securities they had issued. Notwithstanding the fact that in the reporting year four municipal bond issues were authorized for circulation on KASE, it was not permitted to buy such securities at the expense of PA managed by APF. For the bonds of the previous eight issues this permission was given just in time.

The effect of all of the above-mentioned factors in 2002 was a reduction in issuing activity from local executive bodies and a drop in demand for municipal bonds in the primary market. The yield of bonds offered for placement was very low because of pressure from MF, and according to the opinion of investors, it did not compensate for the objectively high investment risks entailed from the terms and conditions of issuers' regional investment programs.

Amendments to the Civil Code of the Republic of Kazakhstan enacted at the beginning of the year that prohibited expressing the nominal value of municipal bonds in terms of a foreign currency had a negative impact on the expansion of the municipal securities market. These changes contradicted the latest edition of the "rules for the issue, placement, circulation, redemption and servicing of the medium-term government currency securities issued by local executive bodies" approved in the Government of the Republic of Kazakhstan's decree No.1139 of September 04, 2001, which led to an ambiguous situation in the municipal debt market.

## THE PRIMARY MARKET

As was previously the case, all primary placements of municipal papers in Kazakhstan were carried out on KASE in accordance with the current legislation and bonds underwent an access procedure in KASE that was, in many ways, similar to the procedure for corporate securities listing. The KASE legal framework governing this market segment did not change in 2002.

In 2002 the municipal bonds of two issues from the Astana Akimat - the fourth issue (KZZ4KY030048) and fifth issue (KZZ4KY040054), and the municipal bonds of two issues from the Eastern Kazakhstan Akimat - the second issue (KZF2KY030021) and third issue (KZF2KY070035), were allowed to be traded on KASE. The nature of these securities is illustrated in Tab. 23.

**Tab. 23. Major parameters of the municipal GS, which have passed admission procedure for circulation at KASE in 2002**

Akimat-issuer	Astana		Eastern-Kazakhstan region	
Ordinal # of the issue	4	5	2	3
NIN	KZZ4KY030048	KZZ4KY040054	KZF2KY030021	KZF2KY070035
Trade code	AST036.004	AST048.005	VKU036.002	VKU084.003
Face value	100 tenge	100 tenge	100 USD	100 USD
Circulation start	11.10.02	11.10.02	10.08.02	16.08.02
Maturity date	09.10.05	09.10.06	08.08.05	14.08.09
Circulation term	3 year	4 year	3 year	5 year
Floated bonds	16,330,000	9,670,000	45,116	
Volume of borrowing, KZT	1,633,000,000.00	967,000,000.00	699,183,537.62	
Issue volume, USD	10,569,579.29	6,258,899.68	4,511,600.00	bonds have not been floated
Coupon, % APR	8.31	8.50	8.50	
WA yield during floatation, % APR	8.31	8.50	8.47	

All bonds are indexed on devaluation level of KZT to USD, coupon is paid twice a year, time basis at all settlements is "actual/365".

The methods for the primary placement of municipal government securities on KASE have changed in comparison with those of the preceding year. Where previously a single placement took place for every coupon bond, and the trade subject was the coupon rate while the bonds were placed at the nominal value, then in the reporting period, as well as in the second half of 2001, the issuer had the opportunity to make an additional placement. In this case the coupon rate was determined as the result of the trade in the first placement, whereas bonds in subsequent placements were sold at a price different to that of the nominal price, and this price appeared to be the article of trade. In 2002 this method was used to place the second and third issue bonds of the Eastern Kazakhstan region. The Eastern Kazakhstan region bonds of the third issue were not placed because the price parameters proposed by the investors appeared to be unacceptable.

The full planned sum of Astana bonds in 2002 was placed at the very first specialized auction.

In total, local executive bodies attracted KZT 3.3 bn, or USD 21.3 m at the official exchange rate for the commencement of bond circulation, through bond placement on KASE in 2002. This is about 39% of the total volume of the primary securities placement carried out on KASE in the reporting year. In 2001 the respective indicator was equal to 45%.

The clients of the Kazakhstan STB were the main buyers of municipal bonds at their primary placements. They accounted for 86.1% of investment (Tab. 24). The second largest investors were STB themselves, members of the KASE category "K", and in third place were broker-dealer companies who bought the bonds for their own accounts.

Stock Service CJSC was recognized as the leading financial consultant in 2002, bringing the largest volume of municipal debt to KASE.

## THE SECONDARY MARKET

During the reporting period the Kazakhstani secondary market for municipal debt issued in the form of bonds changed significantly compared to 2001 as a result of the respective increase in market capitalization (Tab. 23). The volume of transactions increased 1.8 times to KZT 20.0 bn. The bonds of the four issues (out of eight) in circulation were involved in purchase-and-sale transactions (three issues out of six in 2001). Tab. 25 shows the parameters and structure of the turnover in 2002.

**Tab. 24. Participation of the main categories of investors in the primary market of the municipal bonds in 2002, % of investments volume**

Trade code	STB	STB clients	Brokers-dealers
AST036.004	—	100.0	—
AST048.005	7.2	92.8	—
VKU036.002	55.5	44.2	0.3
<b>TOTAL</b>	<b>13.9</b>	<b>86.1</b>	<b>0.1</b>

All the same, the stock market has become very narrow. During the year under review only three transactions to the amount of KZT 95.3 m were signed in the purchase-and-sale sector on KASE. In 2001 the figure was KZT 3,087.7 bn. Such significant market shrinkage was due in the main to a loss of interest on the side of the pension market participants in dealing with municipal bonds<sup>29</sup>. This is also confirmed by the NBK statistics, according to which the total volume of PA investments increased by KZT 89.7 bn (50.4%) in 2002, whereas municipal bonds increased by only KZT 0.072 bn (6.3%). As a result, the trading of municipal bonds on KASE virtually came to an end, despite the continuous work of their market-makers<sup>30</sup>.

**Tab. 25. Structure of the turnover of the secondary market of municipal bonds in 2002<sup>31</sup>**

Trade code	Deals at KASE		Deals over the counter		Debt parameters		TOTAL volume, m KZT	Stake of KASE, %	Turnover ratio
	Issue volume, m KZT	WA yield, % APR	Deals volume, m KZT	WA yield, % APR	Deals volume, m KZT	Matu- rity date			
ARU024.002	1,885.8	—	0	7.67	12,356.5	25.09.03	12,356.5	0	6.55
ARU060.003	872.2	—	0	8.74	3,589.5	24.09.06	3,589.5	0	4.12
VKU036.001	1,055.4	6.62	85.3	6.62	2,466.8	18.06.04	2,552.1	3.3	2.42
VKU036.002	700.0	—	0	8.32	1,505.7	08.08.05	1,505.7	0	2.15
<b>TOTAL</b>	<b>4,513.4</b>	<b>6.62</b>	<b>85.3</b>	<b>7.78</b>	<b>19,918.4</b>		<b>20,003.7</b>	<b>0.4</b>	<b>4.43</b>

<sup>29</sup> According to the current legislation all transactions with GS in which PA are involved should be carried out on the organized market.

<sup>30</sup> The availability of the market-maker shall be a mandatory condition of the admission of the municipal bonds for circulation on KASE.

<sup>31</sup> According to the KASE and SSD data.



## THE REPO MARKET

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The repo market has recently been Kazakhstan's most dynamically developing financial sector market, the volume of which has grown quickly (Fig. 1) and the regulatory structure has been perfected. This is caused by a number of factors. The most important of which is an increase in the supply of money, with a parallel growth in the main institutional investors' assets - STB and APF. As a result, the number of instruments available for investment within the republic is significantly increasing, and large companies in the real sector are experiencing plenty of KZT liquidity.

APF have played a key role in the development of the organized Kazakhstan short money market. According to the current legislation, it is only permitted to perform reverse repo transactions, that is, to lend money backed by securities. Furthermore, PA, which were received for management, are to be invested in financial instruments within a strictly limited time frame. Together with the falling of the GS and CS yield, this circumstance predetermined a constant supply of short money from APF, and the amount of this supply has been steadily increasing over the last four years. Taking this into account, STB changed their tactics for backing up their short-term liquidity, and redirected it to the Exchange's repo field, where you can always buy money at minimal rate through the open bid process. The effect of the said factors led to the development of the organized component of Kazakhstan repo market and, mainly to the development of the so-called "automatic" repo sector. This sector was opened at KASE on August 01, 2001 and transformed the stock market.

During the reporting year NBK promoted the development of the automatic repo sector to a large extent. From January 2002 the Resolution of the Board of NBK of October 19, # 410 was enforced, which modified the Resolution of the Directorate of the National Securities Commission of the Republic of Kazakhstan "On Carrying out Purchase-and-Sale Transactions with the Participation of PA on the Organized Stock Markets" of June 24, 1999, # 352. According to this document, all reverse repo transactions involving PA must be done only by means of open trade. This virtually meant that all repo opening transactions, in which the buyers are PAMC, SAPF, and the exchange's members, authorized by PAMC to be executed as repo on account of PA, should be carried out only in the KASE automatic repo sector.

This Resolution is a part of the NBK's program for the transition to ORR - a key market indicator in inflation targeting, which was elected by NBK as the underlying principle for market regulation in the upcoming two years. The program of transition to ORR was published in February 2002. The first stage of this program was a weekly announcement by NBK on the interest rate corridor with regard to direct and reverse repo operations and providing banks with a wide access to repo operations with NBK according to the rates within this corridor. The main periods for repo operations with NBK during the transition period would be "overnight", 7 and 14 days. In the future just one target period would be determined. The main purpose of the NBK's operations in the repo market would be maintaining the weighted-average market rate yield around the midpoint of the said corridor. In the case of the rate moving closer to the corridor boundaries, depending upon the displacement factor, NBK should adjust the liquidity through the issuance of its notes by attracting deposits, through repo transactions, or if need be, by revising the corridor boundaries. At the end of the transition period there should be a stable fluctuation of the weighted-average market rate yield of repo operations around the midpoint of the corridor, which will be known as ORR. This rate shall be determined by the NBK Board on a monthly basis and will be the major target for the market.

The key role in the realization of the ORR transition program is played by KASE as the organizer of the short-term money open market, and, in particular, by the automatic repo sector. It is for this reason that the KASE regulatory structure that governs the repo market continued to transform in the reporting period.

From March 01, 2002 a standard lot to the amount of KZT 1 m with the minimal number of divisible lots as defined in the bids, equal to five, was introduced. This decision was made taking the interests of the most significant players in the repo market into account.

From this date modifications were introduced into the internal KASE document "Repo Rules" which allowed auction participants to alter the parameters of the

repo closing transactions, and the appropriate actions were directly implemented in the KASE trading system (the previous version of Rules stipulated the need to submit written applications from both parties for this).

On March 04, 2002 auctions were opened in the automatic repo sector of KASE using CS as the subject of repo operations. For this purpose a specialized sector was opened at KASE - automatic repo with the CS traded by the open method from 11:30 till 17:00 ALT on weekdays. The instruments in the automatic repo sector with CS were categorized by issuers, and the types of securities categorized in accordance with the new version of the internal KASE document "Specifications for the Automatic Repo Market", which was approved by a KASE resolution put into effect on February 28, 2002. From March 04, 2002 the "Methodology for Corporate Securities Evaluation", approved by the KASE Risk Committee on February 28, 2002, was also enforced. The methodology regulated the procedure for the CS evaluation, which is carried out in order to determine the number of securities necessary to secure the stock exchange members' liabilities over those of other trade members in the automatic repo deals. By using the methodology it is determined that the CS evaluation is carried out on the basis of the resolution of the KASE Risk Committee on a monthly basis, except for those securities that are appraised daily, or on any day. In the latter case the methodology determined that the KASE Risk Committee has power to independently determine the market value of the security, without governing the calculation procedure, which was set out in the methodology. Shares in general are evaluated on the market-maker's average quotes for purchases in the month preceding the day of the evaluation, and bonds are based on the average yield rate of the market-maker's purchase quotes for a similar period. The trading in the automatic repo sector was opened on March 15, 2002.

In order to satisfy the needs of the trades participants, KASE carried out an experiment between October 01 and December 31, 2002, during which the lot size for the GS and CS was changed. During the experiment a lot in the automatic repo sector was determined as being KZT 1 m.

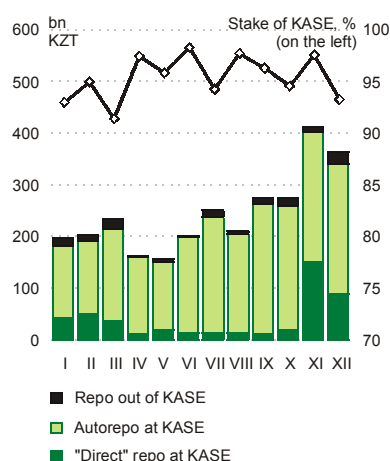
On December 24, 2002 the KASE internal document "The Rules for Repo Transactions", as well as "The Specifications of the Automatic Repo Market", were enforced. These documents were revised in principal. The new versions of these documents took the KASE's experience in the organization of the repo market in 1999-2002 into consideration.

In general, repo deals with securities were carried out both on KASE and OTC in the Kazakhstan financial market. During the reporting year, as before, two sectors worked on KASE: the so called "direct" repo sector, for making deals in which the trade participants agree in advance upon the parameters of the deal and then conclude it on KASE, and the automatic repo sector, where money lots are openly traded and the repo yield deals rates are used as a basis for supply and demand prices. The GS and CS can be used as objects of repo operations. In trades in the automatic repo sector, the evaluation of securities used as the subject of repo deals was carried out automatically by the KASE trade system, and was based on the results of the market evaluation in accordance with the KASE methodology. Repo operations in the automatic repo had standard terms of 1, 2, 3, 7, 14 and 28 days. For repo operations with CS, deviations from the standard periods were allowed. In the direct repo sector it was possible to deal for any period.

According to the KASE data, the total volume of the Kazakhstan repo market reached KZT 2,941.7 bn in 2002, and grew 3.1 times compared to 2001. All deals with regard to pledge, repayment, and mortgage opening and closing deals are relegated to repo operations on the OTC market, except for the repo operations themselves. Due to the fact that reliable information on the OTC market is obviously not available in Kazakhstan, the volume of these transactions in the Fig.s given should not be relied up<sup>32</sup>. The parameters of the exchange repo market, dynamics of the KASE portion, and a comparison with 2001 are shown in Tab. 26 and on Fig. 24.

Although the monthly dynamics for the volume of repo transactions on KASE depended on many factors (events in the foreign exchange market, the redemption of significant GS emissions, alterations to PA investments regulating the operations of NBK, and other factors), the decisive factor was the amount of "free"

**Fig. 24. Size of the repo market, the turnover structure, and the KASE portion in 2002**



<sup>32</sup> The CSD data on the OTC repo market with GS and also the full volume of the repo market with CS and GS on KASE are used.



**Tab. 26. Volume and sectoral structure of the repo market's turnover at KASE in 2002, 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	2.125	40.828	42.953	0	139.953	140.0	1,206.1	182.905	93.0
February	1.360	48.840	50.200	0	141.520	141.5	1,260.7	191.719	95.0
March	0.569	37.278	37.847	0	175.881	175.9	1,403.9	213.728	91.4
Q1	4.054	126.945	130.999	0	457.353	457.353	3,870.8	588.352	93.1
April	1.715	10.985	12.700	0	147.083	147.1	1,045.8	159.782	97.5
May	0.253	18.397	18.650	0	133.408	133.4	994.0	152.058	95.9
June	0.165	12.976	13.141	0	186.983	187.0	1,306.9	200.123	98.4
Q3	2.134	42.357	44.491	0	467.473	467.473	3,346.6	511.963	97.3
July	1.331	13.624	14.954	0	223.153	223.2	1,547.8	238.107	94.3
August	1.122	13.231	14.353	0.030	192.546	192.6	1,340.8	206.929	97.7
September	1.201	11.602	12.803	0.060	251.111	251.2	1,707.7	263.973	96.2
Q3	3.654	38.457	42.110	0.090	666.809	666.899	4,596.2	709.009	96.0
October	1.468	18.550	20.018	0.080	239.680	239.8	1,682.4	259.778	94.6
November	1.900	148.565	150.465	0.317	250.793	251.1	2,601.4	401.575	97.6
December	11.537	77.144	88.681	0.089	249.994	250.1	2,176.8	338.765	93.3
Q4	14.905	244.259	259.164	0.486	740.467	740.953	6,460.6	1,000.118	95.3
TOTAL 2002	24.746	452.018	476.764	0.577	2,332.102	2,332.679	18,274.2	2,809.443	95.4
Structure	0.88%	16.1%	17.0%	0.02%	83.0%	83.0%		100.0%	

**Reference:**

<b>TOTAL 2001</b>	<b>28.041</b>	<b>584.994</b>	<b>613.036</b>	<b>0</b>	<b>258.569</b>	<b>258.569</b>	<b>5,903.8</b>	<b>871.605</b>	<b>91.7</b>
<b>Structure</b>	<b>3.22%</b>	<b>67.1%</b>	<b>70.3%</b>	<b>0%</b>	<b>29.7%</b>	<b>29.7%</b>		<b>100.0%</b>	

**Trend 2002 to 2001:**

<b>in money</b>	-3.3	-133.0	-136.3	+0.6	+2,073.5	+2,074.1	+12,370.4	+1,937.8
<b>percent</b>	-11.7%	-22.7%	-22.2%	X	+801.9%	+802.1%	+209.5%	+222.3%

cash possessed by the trade participants and their clients. A decrease in the price of the shortest money, as the preferred choice, led to a growth in the size of the repo market in the majority of cases (Fig. 26).

In total, 251 sessions were carried out in the KASE repo market in 2002. Trading occurred on weekdays between 11:30 and 18:30 ALT (and until 18:00 from November 25 due to the CSD's changes in the deadline for accepting orders for the registration of transactions with securities in electronic format) if GS were used as the repo subject, and between 11:00 and 17:00 ALT if working with CS. All trading occurred in the KASE trade system. The majority of the trade participants worked on a call-in regime. During the year 17,521 deals were made<sup>33</sup> with 7,614,645,747 securities for KZT 2,809.4 bn or USD 18,274.2 m, including:

✦ in the "direct" repo market:

1599 repo opening deals for KZT 240.5 bn (USD 1,543.2 m)

1580 repo closing deals for KZT 236.3 bn (USD 1,537.1 m)

✦ in the automatic repo market

7,197 repo opening deals for KZT 1,167.6 bn (USD 7,595.8 m)

7,145 repo closing deals for KZT 1,165.1 bn (USD 7,578.1 m).

All sessions for the year showed good results. The daily trade volume varied between KZT 3.1 bn (USD 20.5 m) and KZT 23.5 bn (USD 152.0 m), and the average for the year came to KZT 11,193.0 m (USD 72.8). The average monthly turnover is KZT 234.1 bn or USD 1,522.8 m.

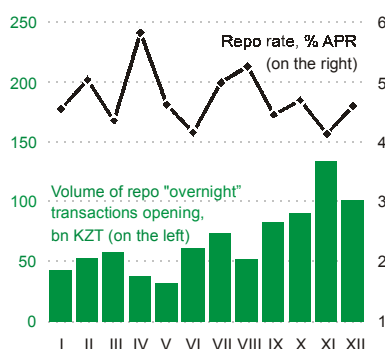
A total of 35 KASE members took part in the closing of deals (in 2001 - 27)<sup>34</sup>. Banks constituted 60.8% of the gross market turnover, and their portions of clients amounted to 15.3%. PA deals carried out by PAMC and the SAPF controlled 22.6% of the gross KASE repo market. Attendance in the market by the participants of other categories was not observed.

The degree of monopolization in the repo market in 2002 is characterized by the following data. The most active trade participant's (excluding NBK) share is

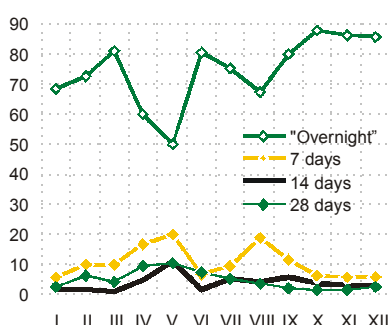
<sup>33</sup> Including transactions with municipal bonds. Only those transactions are accounted for on which the settlements were realized.

<sup>34</sup> The figures provided in this paragraph were computed not taking into account the position of NBK.

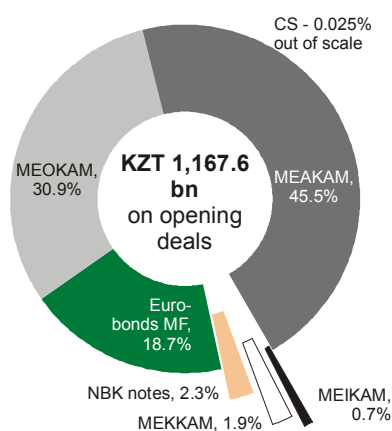
**Fig. 25. Dependence of the volume of repo transactions on the price of money in 2002**



**Fig. 26. Dynamics of the instrumental structure of the automatic repo sector in 2002 (% of the volume of repo opening deals)**



**Fig. 27. Subjects of the automatic repo transactions in 2002**



18.2% of the gross-turnover, the share of two participants is 32.3%, the share of three is 39.8%, and the share of five constitutes 51.6%.

Compared to 2001 monopolization has significantly increased.

Bank TuranAlem OJSC was considered to be the most active trade participant in the KASE repo market in 2002 amongst STB and companies (18.2% of the volume of transactions). In second and third place are ATFBank OJSC (14.1%) and PAMC Dzhetyysu CJSC (7.5%).

## THE AUTOMATIC REPO SECTOR

The operational principle for this sector is described above. Tab. 25 illustrates the significant growth in the automatic repo sector in 2002 (in 2001 the market did not work for the whole year). Transactions in this sector constituted 83.0% of all the KASE repo deals, and their proportion in 2001 was 29.7%. In monetary terms the sector grew by KZT 2074.1 bn or 9 fold as a result of the growth in all the KASE repo transactions (3.2 times).

According to the data in Tab. 26, during the reporting period the market participants preferred to work mainly with the overnight repo instruments. The decline in transactions of this type, observed in the first half of the year (Fig. 26), did not develop, despite the NBK hopes for the gradual transition to weekly repo.

Trade participants used mainly GS as the subjects of repo operations: MEAKAM, MEOCAM and Kazakhstan sovereign Eurobonds (Fig. 27). Compared to 2001 there were no noticeable changes. Thanks to the retirement of second issue sovereign bonds, the MEAKAM and MEOCAM portion increased somewhat. In addition, the active participation of NBK in open market transactions predetermined MEAKAM's leading position in the use of securities as the automatic repo subject. It should be noted that in 2002 participants seldom used MEKAM and the NBK notes.

As one can see from the Tab.s and graphs for the section, CS transactions in the automatic repo sector in 2002 were rarely carried out. Trading in this segment of the market was opened on March 15, 2002. Due to the fact that all repo market deals should be concluded exclusively by means of open trade, the launch of the automatic repo sector with CS increased the list of potential repo transaction items for pension market subjects. The increase of this list was gradual on account of CS. By the end of the year, trading through 55 instruments was opened on KASE; 13 CS from nine issuers were the subjects of repo operations (including 4 common and 2 preferred shares, and 7 bonds). However, during the year deals were finalized with only 5 of them (Tab. 27). It should be noted that in using shares and corporate bonds as subjects for repo operations, the yield rates for repo operations depended upon the type of security, not upon the period in which the money was attracted. In this way trade participants evaluated the degree of

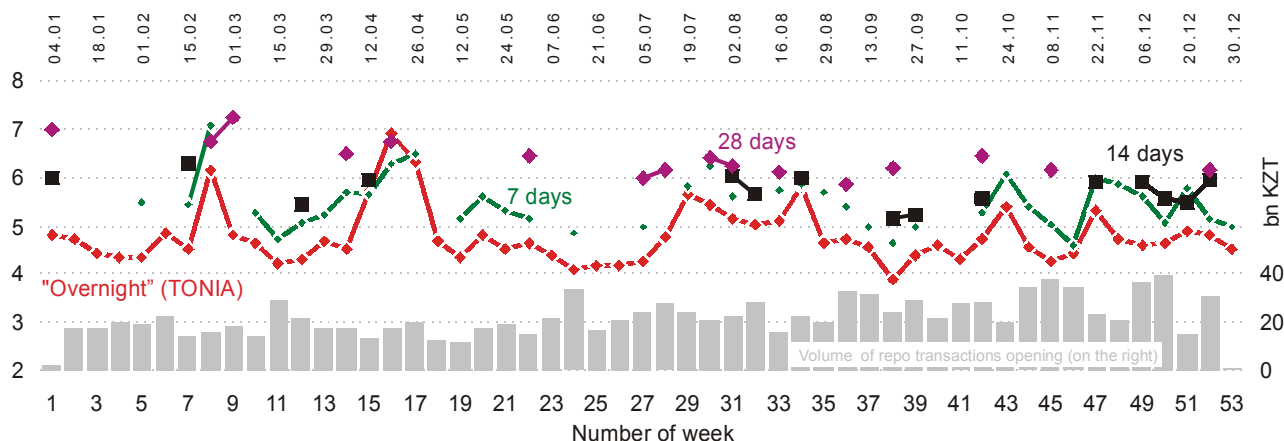
**Tab. 27. Instrumental structure of turnover in the automatic repo sector in 2002**

Trade code	Weighted average rate, % APR.	Volume of opening, bn. KZT	Number of deals	Stake of the market, %
<b>Subject of repo – GS<sup>35</sup></b>				
REPO_KZT_001	4.70	894.1	4 955	76.6
REPO_KZT_002	5.05	36.4	294	3.1
REPO_KZT_003	5.11	23.6	216	2.0
REPO_KZT_007	5.51	118.0	963	10.1
REPO_KZT_014	5.80	45.4	404	3.9
REPO_KZT_028	6.38	49.8	356	4.3
<b>Subject of repo – CS<sup>36</sup></b>				
R_ALKSb2_030	12.00	0.003	1	1.0
R_CCBN__030	12.15	0.135	5	45.6
R_TXBNb1_001	7.00	0.119	1	40.2
R_VTBNb1_007	8.00	0.022	1	7.4
R_VTBNb1_028	8.00	0.017	1	5.7

<sup>35</sup> In the code – repo currency, the term of the repo transaction in days.

<sup>36</sup> In the code – the security code - the subject of repo transactions, the term of the repo transaction in days.

**Fig. 28. Dynamics of the weekly weighted-average rates in the automatic repo market on liquid instruments in 2002 (% APR, on the left)**

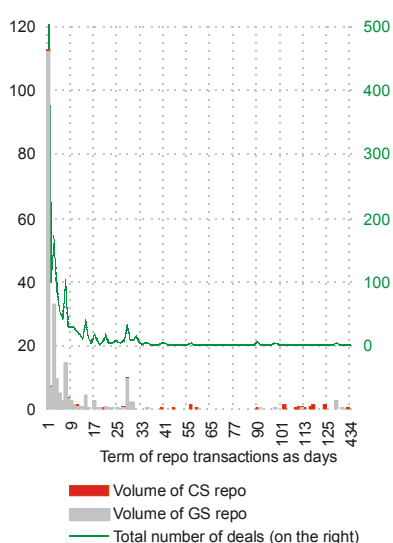


the liquidity in the CS market used and also evaluated the investment risks attributable to the shares and bonds pledged as security.

Dynamics for the rates in the automatic repo sector (Fig. 28), and especially in the "overnight" repo<sup>37</sup> sector, as it is most frequently used by trade participants, mainly reflected the periodical problems of short liquidity market subjects. These problems, as a rule, arose from the need to make budget payments according to the monthly, quarterly and year 2001 results. An increase in the cash base and in the influx of foreign currency to the internal market served to even the rate movement, and by purchasing foreign currency NBK increased its KZT liquidity. Thanks to these factors, the rate fluctuation in the automatic repo sector during the second half of the reporting year was less dramatic.

A total of 28 KASE members participated in the deals in the automatic repo market in 2002<sup>38</sup>. Banks and their clients constituted 78.2% of the gross turnover of the sector. The presence of participants from other categories in the sector was insignificant. Therefore, the proportion of trade participants was almost identical to that of the whole repo market. The leading operator in the automatic repo sector for the reporting year, excluding NBK, was ATFBank OJSC (13.7% of the sector's gross turnover).

**Fig. 29. Volume distribution (m KZT) and the number of "direct" repo transactions according to transaction duration**



## The "Direct" Repo Sector

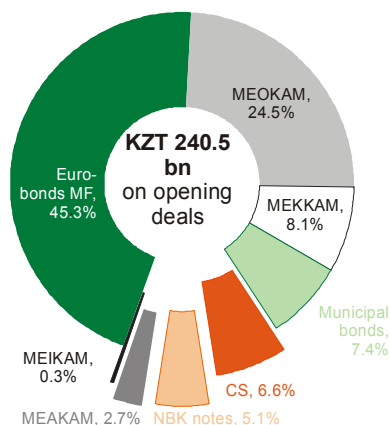
This sector of the KASE market was opened on July 05, 1999. However the prohibition on direct deals with GS in the purchase-and-sale sector was imposed only on August 02, 1999. Prior to this time "hidden" repo deals with GS often took place by traders not on the specialized floor. There was no official opening at KASE of the "direct" repo sector with CS. The sector started to work upon brokers' initiative in March 2000. From this time on, the volume of "direct" repo transactions continually increased, and only in the reporting year, thanks to an increase in the automatic repo market, did the volume and the portion of the KASE's "direct" repo transactions start to diminish.

The existence of the sector was conditioned by the trade participants' desire to carry out repo operations according to the preliminarily agreed upon parameters, and without the risk of trapping applications from the third parties. Therefore the trade element present here is at least partial - between the parties intending to carry out the transaction. The registration of the transaction at KASE with the use of the KASE service is discussed below. In contrast to the automatic repo sector, which is to a great extent regulated by NBK through the support of the rates corridor, transactions of any yield can be carried out with any securities and within any period on the "direct" repo market. However, according to the results for 2002, the most popular was "overnight" repo (Fig. 29). Its portion in the reporting year was 46.8% of the total volume of opening repo deals and 35.6% of the number of such deals. As in the automatic repo sector, the largest part of deals carried out by the

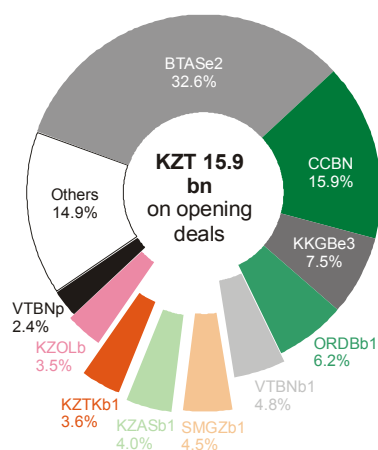
<sup>37</sup> The weighted-average "overnight" repo date, which was built on the automatic repo stock market during the day, was given TONIA (Tenge Overnight Index Average) indicator name.

<sup>38</sup> The numbers provided in this paragraph are calculated taking into account the positions of the NBK, unless otherwise specified in the text.

**Fig. 30. Subjects of "direct" repo transactions in 2002**



**Fig. 31 Subjects of repo transactions with GS in the "direct" repo sector in 2002**



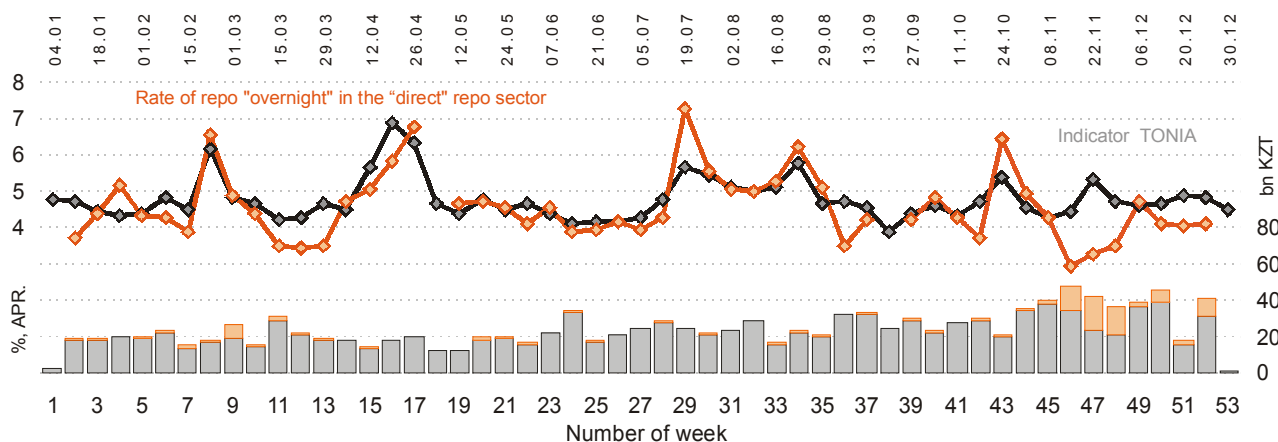
participants were for a period of up to 30 days. In total, operations were opened in the "direct" repo sector for 105 various periods, between 1 and 434 days.

The turnover structure in securities used as the subject of transactions in the "direct" repo sector (Fig. 30) significantly differed from the structure in the automatic repo sector in 2002 (Fig. 27). Participants used Kazakhstan Eurobonds more frequently, the bonds of local executive bodies were involved, and the CS portion was significantly higher. The most characteristic difference was the limited use of MEAKAM as the subject of repo operations, and this was due to the marginal participation of NBK (which normally operates with such securities) in the sector. In the execution of transactions with CS preference was given to the international corporate bonds and the bonds from the official KASE category "A" (Fig. 31). In all, participants used 31 corporate securities in order to carry out the transactions in the "direct" repo sector in 2002. The largest number of transactions was carried out with common shares from BankCenterCredit OJSC (64, trading code - CCBN), first issue bonds from VALYUT-TRANZIT BANK OJSC (33, VTBnb1), and first issue bonds from SHAKHARMUNAIGAZ OJSC (31, SMGZb1)<sup>39</sup>.

From the viewpoint of the existing rates' composition, the negative feature of the "direct" repo sector is its lack of a market character. In some circumstances it is beneficial for the participants (more often than not these were affiliated persons) to work through direct deals when carrying out their financial settlements. On the other hand, the strict regulation of the automatic repo market by NBK, within the framework of the declared strategy, calls the market nature of automatic repo rates into question. In 2002 the said factors led to significant deviations in synchronic repo rates in both sectors, especially when the volume of "direct" repo was comparable to the volume of automatic repo. This is illustrated in Fig. 32, in which the rates and the volume of the most popular "overnight" repo deals are compared.

A total of 32 KASE members participated in the deals in the "direct" repo sector<sup>40</sup>. Banks and their clients constituted 93.5% of the gross turnover of the sector, broker-dealer companies and their clients - 5.8%, the share of PAMC and SAPF was 0.8% (pension market subjects were able to work in the sector till January 11, 2002). The leading operator in the sector for the reporting year was Bank Turan Alem OJSC. Its share constitutes 49.0% of the gross turnover.

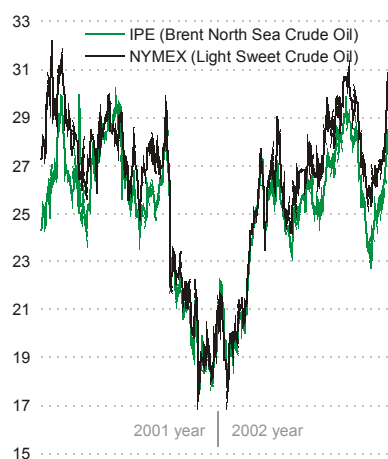
**Fig. 32. Dynamics of the weekly weighted-average overnight repo rates (on the left) in various sectors of the stock market, and the volume of relevant repo transactions in repo opening deals (on the right) in 2002**



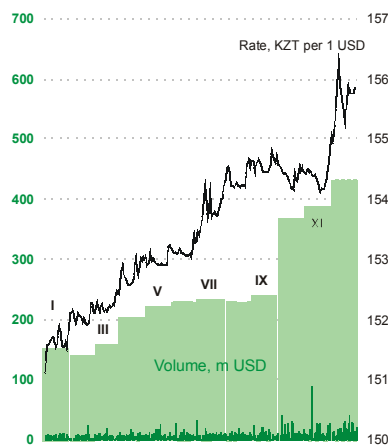
<sup>39</sup> On the Figures the shares of the securities are computed on the basis of the volume of repo opening deals.

<sup>40</sup> The numbers provided in this paragraph are calculated taking into account the positions of NBK.

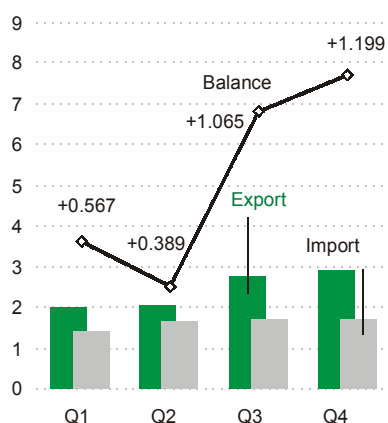
**Fig. 33. Price dynamics for spot delivery against futures on NIMEX and IPE, USD for barrel**



**Fig. 34. USD stock market data for 2002**



**Fig. 35. The trade balance of Kazakhstan in 2002, bn USD**



## THE FOREIGN EXCHANGE MARKET

The foreign exchange market in Kazakhstan over the reporting period was very similar to the market for 2001, and was characterized mainly by positive tendencies. The devaluation of the KZT against the USD, computed according to the weighted-average rate for the KASE morning (main) session, was 3.26% (in 2001 3.82%). The weighted-average USD exchange rate for the reporting year was KZT 153.78 per USD 1, versus 147.22 for the preceding year (in the approved budget for 2002 the corresponding predetermined figure amounted to KZT 154.6 per USD 1). At the end of the year the USD cost KZT 155.85 on KASE. With respect to the RUR, the second most significant currency on the Kazakhstan market, the KZT strengthened by 2.18% (3.27%)<sup>41</sup> in 2002. The KASE's weighted-average exchange rate for the year was KZT 4.9055 (5.0406) per RUR 1, and as of the end of 2002 the RUR rate had fallen to KZT 4.8954.

The climate of the foreign exchange market in 2002, as previously, was defined by several factors, but the most important was the dynamics in world prices for Kazakhstan exports, and primarily oil. It is clear from Fig. 33, that the trends in the world oil market in 2002 were favorable to Kazakhstan. This had a positive impact on the annual balance of the trade Balance Sheet of the republic, which in the reporting year increased to USD 3,219.1 m, compared to USD 2,283.9 m of 2001<sup>42</sup>. The volume of exports grew 12.3% up to USD 9,709.1 m in comparison with the previous year, and the volume of imports by 2.0% up to USD 6,490.5 m. The export and import structure virtually did not change. The portion of minerals in 2002 was 61% (58%) of Kazakhstan export, and 43% (41%) of imports was comprised of machines, equipment, means of transportation, and devices. Taking into consideration the fact that the pace of the GDP growth in the reporting year slowed down (in 2001 GDP increased by 13.5% and in 2002 by 9.5%), the increase of the balance of the trade Balance Sheet, mainly, reflected the outgrowing growth of prices of Kazakhstan export over the growth of import prices. According to the information from the Agency on Statistics of the Republic of Kazakhstan in 2002, the prices of goods exported from Kazakhstan grew by 37.1%, and goods imported into the republic by only 12.6%.

The said factor led to an increase in the USD supply in the internal market and, consequently, to a decrease in the devaluation level of KZT to USD in nominal terms. The volume of the foreign currency stock market also grew as more than 99% of this volume was in USD. By regulating the market towards the provision of a balanced KZT to USD, RUR and EUR real term exchange rate, under the circumstances NBK had the potential to build up GFER and the National Fund assets even further. In 2002 the net reserves grew from USD 2.506 bn to USD 3.138 bn at today's prices, or by 25.2%. The National Fund assets grew from USD 1,240 bn to USD 1,917 bn, or by 54.6%. By the end of 2002 the international reserves of the republic in general amounted to USD 5,054 bn and increased by 34.8% (36.0%) or USD 1.305 bn (USD 992.4 m) over the year.

It should be noted that in the reporting year the foreign exchange market of Kazakhstan continued to develop in the direction of self-regulation. Compared to 2001, the NBK's share of participation in the exchange trades decreased despite an increased supply of USD at KASE and an objective need for NBK to buy foreign exchange on the internal market for the assurance of a balanced KZT rate, for the replenishment of the country's international reserves, and for an increase in money. This is explained by the fact that the USD's speculative attractiveness continues to fall thanks to smoother fluctuations in its rate. In general the need for a significant interference in the market on the part of the leading bank was dictated by high oil prices in the second half of 2002 (Fig. 33), which led to a very large influx of foreign exchange into Kazakhstan in the third-fourth quarter (Fig. 35). NBK evened out sharp fluctuations in the KZT exchange rate in the remaining months of the year by using the monetary instruments available with insignificant direct participation in the exchange trades.

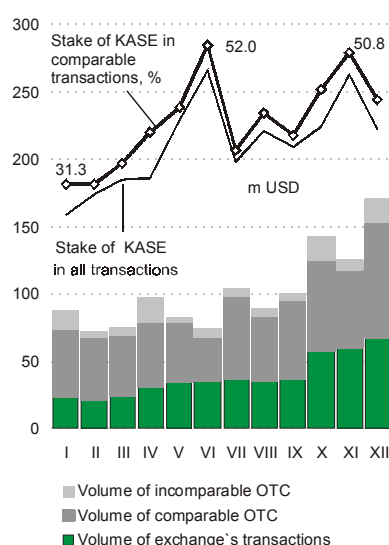
As in the year 2001, NBK worked towards raising the monetization level of the economy during the reporting period by means of increasing money aggregates (Fig. 28). If in 2001 the level of monetization grew from 15.3% to 17.3%, by the end of 2002 this figure reached 20.4%. Although the amount of cash increased in the foreign stock market in many ways, the pace of the aggregate M3 increases for 2002 were lower than during the previous year. This is explained by the high

<sup>41</sup> Here and afterwards in brackets the relevant number for 2001 is given, unless otherwise is specified in the text.

<sup>42</sup> The data of the Agency on Statistics of the Republic of Kazakhstan.



**Fig. 36. Sectoral structure of the foreign exchange market's turnover and its portion on KASE in 2002**



**Tab. 28. Dynamics of the main monetary aggregates in 2001 and 2002 (bn KZT as of period end)**

Indicator	2001	2002	Change:			
			in 2001		in 2002	
			bn KZT	%	bn KZT	%
Monetary base	175.0	208.2	41.0	30.6	33.2	19.0
Cash in circulation (M0)	131.2	161.7	24.8	23.3	30.5	23.3
Money supply (M3)	569.1	765.0	169.6	42.5	195.9	34.4

inflation risks that are unavoidable in the case of an increase in the amount of money in circulation with a parallel decrease in the pace of production growth<sup>43</sup>. These risks led to an increase in the inflation level from 6.4% in 2001 to 6.6% in 2002, and suppressed a faster cash increase.

The total volume of the inter-bank currency market of the republic in 2002 is valued by KASE at USD 8,007.8 m (USD 13,237.8 m), including USD 2,980.7 m (USD 1,961.9 m) on KASE, USD 4,334.9 m (USD 3,850.9 m) OTC between resident banks, and USD 0.692 m (USD 3,574.1 m) OTC with non-resident banks. The given numbers are based on the net transactions between resident banks of Kazakhstan (on KASE and OTC) and the amount of purchase-and-sale currency deals in the course of operations between Kazakhstan banks and non-resident banks<sup>44</sup>.

The given data illustrates the basic difference between the currency market for 2002 and the market of the previous reporting period - a sharp drop in currency transactions between domestic banks and non-resident banks of the Republic of Kazakhstan. This can be explained at least in part by a downswing in the trade turnover of Kazakhstan and the CIS member-countries as the amount of Kazakhstan exports fell by USD 409.0 m and imports fell by USD 275.3 m in relation to 2001.

In 2002 the share of foreign exchange market's turnover for comparable transactions in the Kazakhstan market varied between 31.2% (in January) and 52.0% (in June), forming an average of 41.4% for the year (Fig. 36). In 2001 the share didn't exceed 33.8%, in 2000 - 33.08%. On receipt of these indicators, it was considered that only Kazakhstan resident banks could do transactions on KASE. Therefore, it is only correct to compare the exchange turnover with the volumes of OTC deals concluded between resident-banks. The increase in the KASE portion was brought about by the advantageous realization of exporters' foreign currency proceeds on the stock exchange, as it was more beneficial to sell it this way.

## FOREIGN EXCHANGE TRADES

USD (TOD, TOM, SPOT settlements) EUR (TOD) and RUR (TOD) were traded in the foreign exchange sector in 2002. Three sessions were conducted daily: a main one (morning, 10:15 - 11:00 ALT), an additional one (11:30 - 15:30 ALT), and an afternoon session (14:00 - 18:00 ALT). The morning session was intended for USD and EUR trade by means of TOD settlements, and the KZT weighted-average exchange rates against these currencies, used basic foreign stock market indicators, were formed at this session. The additional session was basically used for RUR. The results of the KZT weighted-average exchange rate against the RUR were determined upon it. Additionally, within the framework of the session EUR and USD were traded by means of TOD settlements. The closing rates were declared as the price indicators for such currencies. The afternoon session was intended for USD trade by means of TOM and SPOT settlements, as well as EUR, by means of TOM settlements. On public holidays in the countries whose currencies have been traded on KASE, trades in these currencies at the main and additional sessions were carried out by means of TOM or SPOT settlements, depending on the number of holidays.

During the year one market-maker operated in the stock exchange in the foreign exchange sector - Bank TuranAlem OJSC (USD, RUR). Furthermore, from June 01, 2002, the USD obligations of the market-maker were performed by Halyk Savings Bank of Kazakhstan OJSC. Upon the KASE Board's resolution of August 12, 2002, Bank Caspian OJSC was stripped of its market-maker status regarding the RUR on the basis of its voluntary rejection of this status. The resolution made by

<sup>43</sup> According to the data of the Agency on Statistics of the Republic of Kazakhstan the volume of the industrial production in 2002 increased by 9.8% compared to the growth by 13.5% a year earlier.

<sup>44</sup> In 2001 KASE report other methodology was used, according to which only half of transactions with non-residents was recorded, the information for 2001 was adjusted in this report.

Tab. 29. Volume of trades in foreign currencies at KASE in 2002

Month	Volume of trades, th. units			Volume of trades, th. KZT	Turnover's equivalent, th. USD	
	USD	EUR	RUR		to 2001	to 2002
January	150,880	0	27,100	23,011,694.6	+25,599.7	151,766.3
February	138,810	80	18,400	21,203,718.1	+6,161.2	139,475.4
March	156,335	345	2,700	23,855,493.3	+11,545.1	156,724.0
<b>Q1</b>	<b>446,025</b>	<b>425</b>	<b>48,200</b>	<b>68,070,905.9</b>	<b>+43,306.0</b>	<b>447,965.7</b>
April	202,065	0	5,400	30,892,067.4	+72,530.4	202,238.1
May	219,790	230	100	33,651,962.6	+59,089.8	220,006.4
June	228,290	2,000	27,100	35,379,770.9	+88,601.2	231,040.0
<b>Q2</b>	<b>650,145</b>	<b>2,230</b>	<b>32,600</b>	<b>99,923,800.8</b>	<b>+220,221.4</b>	<b>653,284.6</b>
July	231,920	0	7,100	35,725,384.1	+67,091.8	232,145.0
August	226,545	0	1,500	34,968,257.7	+104,891.8	226,592.5
September	237,690	0	8,200	36,770,894.9	+81,772.8	237,949.0
<b>Q3</b>	<b>696,155</b>	<b>0</b>	<b>16,800</b>	<b>107,464,404.7</b>	<b>+253,756.4</b>	<b>696,686.5</b>
October	366,725	0	6,800	56,656,938.9	+139,203.6	366,939.3
November	385,295	150	1,800	59,513,878.7	+181,446.1	385,503.0
December	430,190	0	4,400	66,984,496.0	+180,853.2	430,328.2
<b>Q4</b>	<b>1,182,210</b>	<b>150</b>	<b>13,000</b>	<b>183,155,313.6</b>	<b>+501,502.9</b>	<b>1,182,770.6</b>
<b>Total 2002</b>	<b>2,974,535</b>	<b>2,805</b>	<b>110,600</b>	<b>458,614,424.9</b>	<b>1,018,786.7</b>	<b>2,980,707.4</b>

Fig. 37. The additional session's share in the total foreign exchange turnover on KASE in 2002

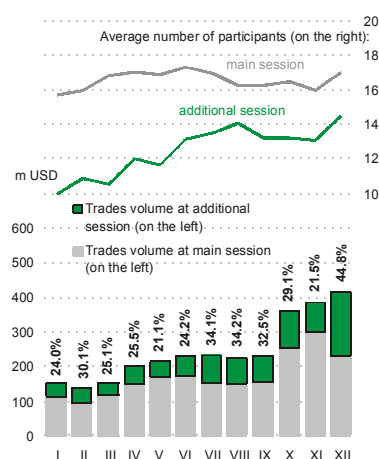


Fig. 38. Russian ruble stock market data for 2002

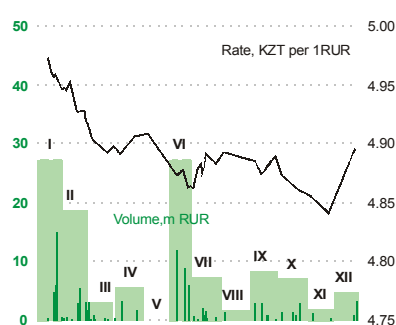
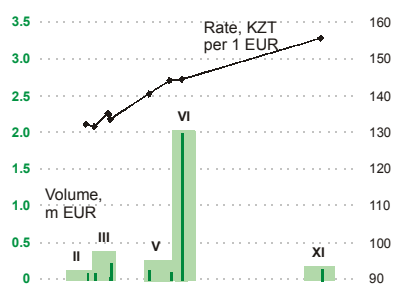


Fig. 39. EUR stock market data for 2002



the said Bank was related to a low activity in the RUR trades on KASE. Therefore, following August 12, 2002 only one RUR market-maker operated on KASE. As previously, the market-maker's duties included mandatory purchase-and-sale quotes for the given currencies during the additional session.

Compared to 2001 no changes took place in the trades regime. In 2002 all foreign exchange sessions, without exclusion, were carried out on a KASE electronic trade system using the open trade method. Majority of the participants worked on a dial-in regime.

In total there were 753 (753) trade sessions with foreign exchange over the 252 working days in 2002. 20,885 (16,438) USD deals were closed in the trade system, 12 (9) EUR deals, and 67 (57) RUR deals. Detailed data on the results of the trades is shown in Tab. 29. The trade turnover during the reporting period in this market sector was a record high for the whole of the KASE history. By comparing the graphs in Fig. 33, 34 and 35 one can form the conclusion that the main factor influencing the monthly dynamics of the exchange turnover for 2002 was the change in oil prices on the world markets, which influenced the trade balance in Kazakhstan.

In 2002, the most effective sessions were traditionally the main (morning) sessions. Their share constituted 69.2% (80.8%) of all deals concluded. Compared to 2001, the share of the additional session turnover grew to 28.6% from 18.9%, which should be noted as a positive feature (Fig. 37). By the end of the year the results of the USD afternoon trades in many ways determined the environment for the main session of the following day. This trend developed further. By March 2003 the weighted-average exchange rate for the USD in the morning KASE trades was very close to that at the close of the additional session of the previous day.

No significant changes in the KASE turnover took place over the reporting period. Evaluating the structure in KZT equivalent, 99.79% (99.81) of the total volume of the exchange trades were in USD; 0.09% (0.016%) in EUR, and 0.12 (0.17%) in RUR. As previously, there was no liquidity rate for the RUR and EUR markets.

The foreign exchange turnover structure on the inter-bank OTC market significantly differed from that on KASE. Therefore, when carrying out operations between resident banks, the USD share amounted to 97.89% (98.15%), the RUR share equaled 0.66% (0.895), and the EUR - 4.42% (0.60%). When carrying out operations with non-resident banks the turnover structure significantly changed in comparison with 2001: the USD share equaled 94.51% (34.20%), the EUR - 1.07 (0.14%), and the RUR - 4.42% (64.71%).

The share of the most active (according to the volume of deals made) STB in the USD trades gross volume amounted to 14.0% (20.6%). The general monopolization level was slightly reduced, in as much as four STB controlled only 45.8% (in 2001 - 48.9%), eight controlled 64.9% (69.8%), eleven controlled 73.5% (86.7%), and fifteen controlled 82.0% (91.6%). During 2002, 29 (29) banks participated in the trades.

According to the results of 2002, the most active participant of foreign exchange trades on KASE among STB was Bank Turan Alem OJSC (14.0% of the gross turnover in KZT equivalent); then the following STB: Halyk Bank of Kazakhstan OJSC (13.6%), ABN AMRO Bank Kazakhshtan OJSC DB (11.2%), CITIBANK KAZAKHSTAN CJSC (6.9%).



## THE IFO BOND MARKET

This sector of the stock market appeared in 2001 as a result of active efforts from subjects of the pension market of Kazakhstan with regard to investing their assets in the securities of foreign issuers. In 2002 the terms, conditions, and procedure for admitting IFO securities into circulation on KASE were not changed, and are regulated by the "Rules on Admitting IFO Securities into Circulation on the Exchange" that were put into effect on February 02, 2001. According to this document, the following organizations were specified as IFO:

- ✦ The Asian Development Bank (ADB)
- ✦ The African Development Bank (ADB)
- ✦ The Bank for International Settlements (BIS)
- ✦ The European Bank for Reconstruction and Development (EBRD)
- ✦ The Islamic Development Bank (IDB)
- ✦ The Inter-American Development Bank (IADB)
- ✦ The International Finance Corporation (IFC)
- ✦ The International Bank for Reconstruction and Development (IBRD)

During the reporting year, as before, IFO bonds were accepted for circulation on KASE by a Board resolution that was based on an application from the initiator of the admission - a member of the KASE category "K" - and upon a statement from one of the KASE's members regarding the market-maker's functions concerning the IFO bonds permitted for circulation.

IFO bonds trades were carried out every working day in 2002 from 11:30 to 17:00 ALT. During the year operations were carried out with six bonds on KASE (Tab. 30). Of these operations, four (IBRDD 120405, IBRDU060302, IBRDU170303, IFC\_U060405) were permitted for circulation on KASE in 2001 and were quoted by the SAPF, two (IBRDU251113 and ADB\_U040912) were put up for trade on November 19, 2002 on the initiative of Bank Turan Alem OJSC, who fulfilled the market-maker duties at KASE with regard to these securities.

Despite the regular quoting of these instruments in 2002 no deals were made on KASE with them. The market-makers' quotes were not acceptable for the trades participants, the majority of whom were able to acquire the analogous bonds on the international market without using the services of Kazakhstan intermediaries.

Tab. 30. Major parameters of IFO bonds, which were quoted at KASE in 2002

Type of security	eurobond	eurobond	eurobond	debentures <sup>45</sup>	global notes	eurobond	eurobond
Issuer	IBRD	IBRD	IBRD	IBRD	ADB	IFC	IBRD
ISIN	XS0092711802	US459056QC41	US459056PP62	DE0001282705	US045167BH53	XS0110024550	XS0092711802
Trade code	IBRDU251113	IBRDU060302	IBRDU170303	IBRDD120405	ADB_U040912	IFC_U060405	IBRDU251113
Issue currency	USD	USD	USD	DEM	USD	USD	USD
Issue volume	500 m	2 m	4 m	3 m	500 m	1 m	500 m
Starting date	25.11.98	06.03.00	17.03.98	12.04.95	04.09.02	06.04.00	25.11.98
Circulation term	15 years	2 years	5 years	10 years	10 years	5 years	15 years
Maturity date	25.11.13	06.03.02	17.03.03	12.04.05	04.09.12	06.04.05	25.11.13
Interest rate <sup>45</sup>	5.500%	6.750%	5.625%	7.125%	4.500%	7.125%	5.500%
Coupon payment	25.11 annual	06.09 and 06.03 annual	17.09 and 17.03 annual	12.04 annual	04.03 and 04.09 annual	06.10 and 06.04 annual	25.11 annual
Time basis	ISMA-30/360	ISMA-30/360	ISMA-30/360	ISMA-30/360	ISMA-30/360	ISMA-30/360	ISMA-30/360

<sup>45</sup> Specific debt liabilities.

<sup>46</sup> In the annual interest rates.

## THE FUTURES MARKET

During the reporting period KASE progressed in its expansion of the futures market. However, there took place no principle changes observed in this market sector, despite a growth in the volume of transactions of 62.5%, from KZT 79.9 m (USD 520.9 m) in 2001 to KZT 129.5 bn (USD 833.8 m) in 2002. The futures market share in the KASE total turnover decreased to 3.4%, whereas in 2001 it was 5.3%. The market is still very restricted, it is characterized by a high volatility in volumes, and the market participants virtually do not want to work with the new instruments proposed by KASE.

Unfortunately, the futures market has either remained a "toy" for the traders or has been used for implementation of their financial schemes. Futures contracts were not used as hedging tools in 2002.

Amendments made to the Rules for Exchange Trade and Settlements on Futures Contracts, put into effect on May 02, 2002, can be referred to the changes of the regulatory base. These amendments have determined that the KASE clearing member shall have an equity capital of not less than 3 m of MCI, although last year the given limit amounted to USD 15 m in KZT.

The list of futures market participants was expanded in 2002. According to the KASE Council resolution of May 20, 2002, Halyk Savings Bank of Kazakhstan OJSC was admitted to the KASE category "C" membership as a new clearing member. Prior to this, Bank TuranAlem OJSC was the only clearing member operating on KASE. The number of positional accounts used by the trade participants when making deals increased to 17 in 2002 (there were 12 in 2001).

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

- ◆ 6-month futures for USD 1000;
- ◆ 6-month futures based on the USD exchange rate to the EUR;
- ◆ 6-month futures based on the yield of international securities of the Republic of Kazakhstan (Eurobonds).

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

Bank TuranAlem OJSC was the leader of the exchange's futures market, as in 2001 its was an overwhelming portion of the deals made.

### Futures for USD 1000

The given instruments were traded on KASE more actively in the reporting year (Tab. 31). During the year the maximum volume of open interest in the individual contracts varied between USD 23.3 m (June, July) and USD 187.0 m in November - December 2002, and sometimes it significantly exceeded the volume of the stock market's underlying assets. The April (FUSD0204UN) and June (FUSD0206UN) futures were traded more actively in the beginning of the year. For the first quarter of the year their share equaled 38.6% of the total turnover of that sector. The second peak in activity was in June, the third - at the end of the year. The maximum number of deals was registered in June. Market participants dealt with FUSD0209UN, FUSD0210UN and FUSD0211UN contracts. The leader for the number of deals made among all the thirteen traded futures in this instrument was the June futures (FUSD0206UN). A total of 18 deals were made on those futures. The March futures (FUSD0203UN) led according to the volume of deals. It should be noted that the highest volume of open interest was observed in the futures market during the fourth quarter of 2002 - the most volatile period for the USD market (Tab. 31).

### Futures based on the USD exchange rate to the EUR

Trades involving this type of futures contracts were opened on KASE on November 14, 2001. Regular futures quotation by one of the participants started on November 21, 2001 and continued during the whole reporting period. However, no single position has been opened yet. The market did not express interest in the new instrument due to the high risks associated with trade.

**Tab. 31. Results of trades in futures contracts for USD 1000 in 2002**

Month	Number of deals	Volume, m USD	
		deals	open interest (max)
January	17	97.8	53.5
February	16	77.0	27.6
March	10	81.6	81.6
<b>Q1</b>	<b>43</b>	<b>256.3</b>	<b>81.6</b>
April	1	11.3	81.6
May	1	13.8	70.3
June	24	104.3	58.9
<b>Q2</b>	<b>26</b>	<b>129.4</b>	<b>81.6</b>
July	1	20.8	44.1
August	1	0	23.3
September	16	150.2	127.0
<b>Q3</b>	<b>18</b>	<b>171.0</b>	<b>127.0</b>
October	2	10.0	137.0
November	7	80.0	187.0
December	18	187.0	187.0
<b>Q4</b>	<b>27</b>	<b>277.0</b>	<b>187.0</b>
<b>2002</b>	<b>114</b>	<b>833.8</b>	<b>187.0</b>

## **Futures based on the yield of the international securities of the Republic of Kazakhstan (Eurobonds)**

Specifications for the six-month futures based on the yield of the international securities of the Republic of Kazakhstan, which were approved by a KASE Board decision, were introduced on October 01, 2002. According to the Specifications, a futures contract is a six-month non-supply futures contract, the underlying assets of which are the international securities (Eurobonds) of the Republic of Kazakhstan of a specific issue. Eurobonds of that issue to the amount of USD 1000 in nominal value are the standard number for underlying assets. The last Friday of the month is the execution date. The price is quoted on the basis of the annual yield to maturity.

Trades involving futures contracts were opened on KASE on October 01, 2002. A total of 4 deals were made - on October 03 (2 deals that matured in October, directed at opening positions on the contracts based on the yield of the third and fourth issue Eurobonds) and on October 24 (participants closed the existing positions in 2 deals). The total volume of deals equaled 20 contracts or KZT 3.9 m (USD 25.5 thousand). Since that time no futures of any type have been traded on KASE.

## THE PROMISSORY NOTE MARKET

On November 15, 1999 the "Rules for STB Operations with Transfer Notes and Promissory Notes" was approved by the NBK Board's Resolution # 397, and in the second half of 2000 NBK identified the first so called first-class promissory note issuer - National Atomic Company KAZATOMPROM CJSC. The notes issued by this company were intended for settlements with suppliers and were taken by NBK for the inventory.

In order to increase the organized market, and to enhance its liquidity, taking the domestic problem of KASE non-payments into account, the "Rules for Trading Notes through the Exchange" were developed and then approved by the KASE Committee on February 08, 2002. These Rules determined the procedure for note issuance in trades on KASE, and the procedure for making deals with notes and settlements on these deals. According to the Rules for Exchange Trades, notes permitted for trade through the exchange shall be those where the drawees (the persons liable to pay on the note) are included in the List of Drawees compiled by the NBK Board, which is based on trade participant applications and the recommendations of the KASE Trades Organization Department. The exclusion of drawees from the list shall be done by the KASE Board based on the recommendations from the KASE Trades Organization Department and the exchange's trading activity.

A special sector "The Note market" was opened in the KASE trading system to organize note auctions, trades that should be done only through the "direct trade method". In other words, the open trading of notes on KASE is not envisaged, and we are talking about the deals with notes between the preliminarily agreed parties. Participants submit indicative quotes to the KASE trading system, on the basis of which deals are made. KASE was not involved in changing the note to the name of the purchaser as a result of deals made on its floor, and merely exercised control over the transfer of money from the buyer to the seller. Changing the note to the buyer's name was taken care of independently by the buyer and the seller.

The banks that are members of categories "B" and /or "K", and non-banking institutions that are members of category "P" are allowed to trade with promissory notes.

Promissory note trading on KASE was opened on March 4, 2002 and is carried out between 11:30 and 17:30 ALT on working days. The list of drawees on notes in the reporting year included Kazakhtelecom OJSC (the trade code - N\_KZTK), National Atomic Company KAZATOMPROM CJSC (N\_KATP), National State Company Kazakhstan Temir Joly (N\_TMJL), Kazakhstan Power Network Management Company OJSC (N\_KEGC), and Sokolovsko-Sarbaiskoye Mining Production OJSC (N\_SSGP).

In total, two promissory note transactions were concluded at KASE in 2002 (Tab. 32). Both transactions were concluded on March 13. Kazkommertsbank OJSC acted as the seller for the National Atomic Company KAZATOMPROM notes, and the buyer was Eurasian Bank OJSC. On the whole, the promissory note market's share in the KASE turnover for the reporting year did not exceed 0,001%.

**Tab. 32. Results of trades in promissory notes at KASE on March 13 of 2002**

Trade code	Prom. note's par value, KZT	Date of prom. note repayment	Price of deal, KZT	Number	Sum of deal, KZT
N_KATP	500,000.00	11.04.02	495,972.22	7	3,471,805.54
N_KATP	100,000.00	11.04.02	99,194.44	1	99,194.44
<b>TOTAL</b>					<b>3,570,999.98</b>

## INTER-BANK DEPOSITS INDICATORS

**Tab. 33. Average monthly values of indicators of the inter-bank deposit market in 2002**

Mo- nth	Indi- cator	7 days	14 days	Mo- nth	Two Mo- nth	Three Mo- nth
I	KIBOR	8.44	9.26	10.23	11.06	11.68
	KIBID	3.92	4.61	5.37	6.01	6.52
	KIMEAN	6.18	6.93	7.80	8.54	9.10
II	KIBOR	8.18	8.85	9.80	10.68	11.20
	KIBID	3.98	4.53	5.20	5.72	6.02
	KIMEAN	6.08	6.69	7.50	8.20	8.61
III	KIBOR	8.03	8.78	9.64	10.48	11.28
	KIBID	4.22	4.81	5.43	6.00	6.47
	KIMEAN	6.12	6.79	7.54	8.24	8.88
IV	KIBOR	8.36	9.09	9.93	10.83	11.47
	KIBID	4.37	4.90	5.55	6.13	6.49
	KIMEAN	6.36	6.99	7.74	8.48	8.98
V	KIBOR	8.30	9.07	9.93	10.82	11.47
	KIBID	4.22	4.80	5.47	6.00	6.38
	KIMEAN	6.26	6.93	7.70	8.41	8.93
VI	KIBOR	7.81	8.59	9.50	10.46	11.25
	KIBID	3.82	4.42	5.09	5.82	6.38
	KIMEAN	5.81	6.50	7.30	8.14	8.82
VII	KIBOR	7.89	8.51	9.26	10.11	10.90
	KIBID	4.17	4.68	5.22	5.73	6.11
	KIMEAN	6.03	6.59	7.24	7.92	8.50
VIII	KIBOR	7.99	8.80	9.66	10.51	11.21
	KIBID	3.87	4.47	5.18	5.88	6.31
	KIMEAN	5.93	6.63	7.42	8.19	8.76
IX	KIBOR	7.46	8.43	9.44	10.48	11.31
	KIBID	3.49	4.17	4.85	5.66	6.15
	KIMEAN	5.47	6.30	7.15	8.07	8.73
X	KIBOR	7.21	8.13	9.11	10.11	11.03
	KIBID	3.45	4.08	4.73	5.27	5.79
	KIMEAN	5.33	6.11	6.92	7.69	8.41
XI	KIBOR	6.99	7.97	8.94	9.91	10.87
	KIBID	3.17	3.85	4.49	5.13	5.73
	KIMEAN	5.08	5.91	6.71	7.52	8.30
XII	KIBOR	7.79	8.77	9.77	10.76	11.61
	KIBID	3.29	4.13	4.90	5.72	6.28
	KIMEAN	5.54	6.45	7.34	8.24	8.95

On July 11, 2000 the largest STB made the decision to create a generally accepted indicator for the inter-bank deposits market in the republic, which according to the methodology of its formation, could be the Kazakhstan analogue of LIBOR. For this purpose, a memorandum on the formation of an inter-bank deposits market indicator was produced. The parties to the memorandum authorized KASE to collect current deposit rates from the parties to the project and to calculate the indicator.

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

The fixing of the rate at KASE was held daily at 16:00 ALT based on the participants' quotations. KASE calculated three indicators:

✦ **KIBOR** - the average offering rates;

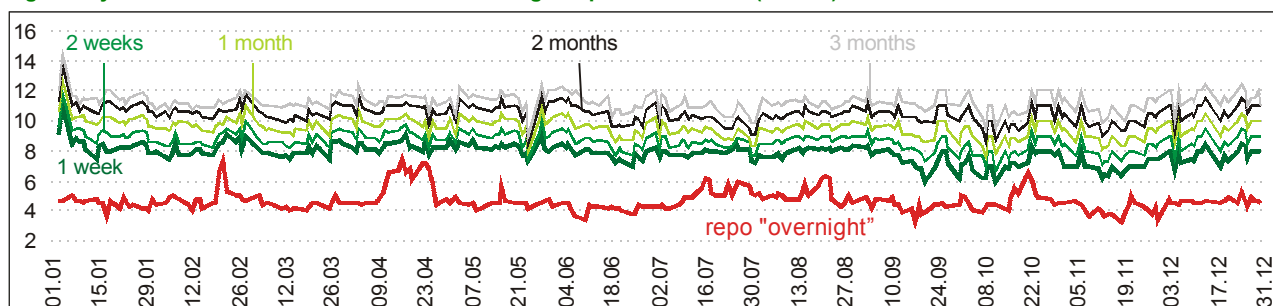
✦ **KIBID** - average bid rates;

✦ **KIMEAN** - average difference between the offering and bid rates.

During 2002 quotations were regularly produced by the following participants: ABN AMRO Bank Kazakhstan CJSC BB, Demir Bank Kazakhstan OJSC, ATFBank OJSC, KAZKOMMERTSBANK OJSC, Eurasian Bank CJSC, TEMIRBANK OJSC, CITIBANK KAZAKHSTAN CJSC, and Bank TuranAlem OJSC. Deposit quotations were carried out daily by 1-13 banks, on average - by six banks. During the reporting period, the list of the banks signing the memorandum did not change.

As is shown in the given diagram (Fig. 40), regardless of the indicative character of the bank quotations, deposit rates were sensitive to the changes in the money market climate during the year. A comparison of the indicators with synchronous real rates in the KASE repo sector gave a positive correlation, although it appeared to be lower compared to 2001. This is explained, on the one hand, by the high degree of repo market regulation in the reporting year, as it was in 2002 that NBK declared the repo rates "corridor", and on the other hand, by a less responsible approach to the indicative quotes on the side of the banks.

**Fig. 40. Dynamics of KIBOR rates and factual overnight repo rates in 2002 (% APR)**





## SETTLEMENTS

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During the reporting period the KASE settlement procedures for corporate securities were not changed significantly in comparison to 2001.

### Settlement Procedures for NCS

With regard to CS deals concluded through the open trade method, the settlement scheme **"T+0"** was applied via CSD. The **"T+N"** scheme (where N was not more than 3 working days) was not used in 2002. According to the **"T+0"** scheme, the delivery of securities and cash is carried out on the same day as the deal was made. The execution of a deal under this scheme could be carried out only via CSD, in accordance with the procedure established in its internal regulatory documents.

In the event where a securities deal should be confirmed via the KASE confirmation system prior to its execution, then it should be transferred to CSD for settlement on the deal only upon receipt of confirmation. The confirmation of the deal means that it corresponds to the provisions according to which it should be concluded, and that the trade participant who concluded the deal has a sufficient amount of securities or cash for its execution. In the event of a refusal to confirm the deal, it should be canceled immediately. The participant making the deal shall be responsible for the cancellation of a non-confirmed deal on whose part this deal was not confirmed.

In the event where a deal with securities does not require confirmation via the KASE confirmation system it will be transferred to CSD immediately after its execution to be settled.

For the period from the moment of concluding the deal on purchase-and-sale of securities to the commencement of arranging CSD settlements on the said deal, the seller is obliged to facilitate their sufficient amount in his depo account, whereas the buyer - a sufficient sum on his own account.

The whole procedure from the moment of concluding a deal until the moment of its execution takes from 10 to 20 minutes provided that the confirmation of the deal was made on a timely basis.

The **"Outright"** scheme shall be used for the deals carried out by means of the direct method. Execution of the deals concluded through this scheme must be carried out by the trade participants in the places and within the deadlines specified in the relevant KASE certificates.

For **"Outright"** scheme settlements that are to be made through CSD, KASE transfers information on the deals concluded to CSD, and CSD sends KASE information on the deals being executed.

Settlements on the deals in the **"non-listing securities"** sector may be carried out through accounts with independent registrars. In this case, the participants of the deal should independently submit the exchange certificates on the deal made to the independent registrars for so that settlements may be made in securities.

Deals with securities in the official listing were carried out only via CSD.

### Settlement Procedures for SBS

The rules for settlement with regard to SBS purchase-and-sale transactions are determined by the KASE internal document **"State Block of Shares - The Admission Procedure for Sale at Trades and the Settlements based on Trade Results"**.

According to this document, SBS are divided into two groups: those with an **NZ** trade code, meaning that the shares within SBS are in a deposit account with CSD, and those with a **Z** trade code, which means that the shares within SBS are in the registrar's account. In both cases the same cash settlement scheme is applied - a guarantee deposit to a par value of the shares anticipated for purchase from the buyer, and payment of the balance within seven working days of its conclusion (for SBS with the **NZ** trade code - to the correspondent CSD account, with the **Z** code - to the correspondent KASE account).

In 2002 settlements with securities for SBS sold on KASE were carried out both via CSD and registrars.

## Settlement Procedures for Specialized Trades

The settlements for specialized trades on which securities are placed and repurchased are determined by the KASE internal document "The Rules for Specialized Trades in the Placement and Repurchase of Securities". In accordance with this document, settlement for the deals concluded in the specialized trades are carried out according to the scheme **"T+0"**. Buyers should ensure the enlistment of the required amount in the correspondent KASE account by 16:00 ALT on the day the deal is made. In its turn, KASE will transfer the money received (less commission) to the account of the securities seller by 18:00 ALT on the same day.

## SETTLEMENT PROCEDURES FOR GS

During the reporting period all settlements on GS on KASE were carried out based on the **"T+0"** scheme. Deals carried out through this scheme should be carried out only via CSD under the procedure established in its internal regulatory documents. Cash settlements by means of the **"T+0"** scheme should be made only via the correspondent accounts for the trade participants that have been opened with NBK. Trade participants with no correspondent accounts at NBK should make settlements via the KASE correspondent accounts, or through the third parties having an account with NBK.

When making settlements on GS, the KASE confirmation scheme can be applied. The confirmation of GS and CS deals through the confirmation system shall be carried out according to the same rules.

The whole procedure, from the moment of making a deal on KASE until the moment of its execution, should take between 10 and 20 minutes provided that this deal was done on a timely basis.

## SETTLEMENT PROCEDURES FOR FOREIGN EXCHANGE

During the reporting period, all settlements of foreign exchange deals that took place on KASE were carried out by the KASE clearing house. Such settlements are regulated by the KASE regulatory documents, "Settlement rules for foreign exchange trades" and other applicable KASE regulatory documents. Settlements in KZT and foreign currencies were made based on the results of foreign exchange trades and by making payments that settled net obligations created as a result of clearing counter claims and obligations on the deals.

### Settlements in KZT

Settlements in KZT were made through the KASE correspondent account to the NBK Payment System Department in the inter-bank money transfer system by using the KISC payment system. Settlements were made in a real-time regime.

### Settlements in foreign currencies

In 2002 the "immediate delivery method" was used for transactions in foreign currencies whereby the trade participant should assure the transfer of the foreign exchange sold by him to the KASE correspondent accounts no later than 16:30 ALT. The banks, which did not operate according to this regime, were admitted to trades only on the basis that the foreign exchange they sold was preliminarily delivered to the KASE correspondent accounts.

In order to secure the obligations of the trade participants to KASE, they finalized agreements with KASE, which stipulated the blocking of GS owned by the trade participants in cases where there were delays in the execution of such liabilities in favor of KASE and the provision of KASE with the right to sell the blocked GS in the event of the non-fulfillment of such obligations. From October 2002 trade participants, who followed the "immediate delivery method" and did not conclude the said agreements with KASE, were transferred to a regime of preliminary delivery and payment for the foreign currency acquired, based on a resolution by the KASE Council.

As in previous years, the work of the international correspondent network of KASE was maintained primarily through the S.W.I.F.T. communication system.

During the reporting period, KASE continued to cooperate with the following correspondent banks: Deutsche Bank Trust Company Americas (the former name - Bankers Trust Company) settlements in USD, New York, USA); The Bank of New

York (settlements in USD, New York, USA); Commertsbank AG (settlements in EUR, Frankfurt on Main, Germany); Deutsche Bank AG (settlements in EUR, Frankfurt on Main, Germany); and The Savings Bank of Russia (settlements in RUR, Moscow, Russia).

On October 1, 2002 a new correspondent KASE account was activated for USD settlements in Citibank N.A. (New-York, USA).