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Following abbreviations were used in the text

\$	US dollar
AFS	Agency of the Republic of Kazakhstan on regulation and supervision of financial market and financial organizations
ALT	Almaty time (GMT + 06:00)
APF	accumulative pension fund
bn	billion
CD	Central securities depository JSC
CJSC	closed joint-stock company
CPI	consumer price index
CS	corporate securities
EUR	euro
FGS	foreign government securities
GAAP	General Accepted Accounting Principles
GDP	gross domestic product of the Republic of Kazakhstan
Government	Government of the Republic of Kazakhstan
GS	government securities
IAS	International Accounting Standards
IFO	international financial organization (international financial organizations)
IRBIS	IRBIS Information agency of financial markets LLP – subsidiary of KASE, authorized to spread the exchange's information
ISIN	International Securities Identification Number
JSC	joint-stock company
KAS	Kazakhstan accounting standards
KASE	short name of Kazakhstan stock exchange Inc.
KDR	Kazakhstan depository receipts
KIBID	average of indicative bid rates on interbank deposits in Kazakhstan
KIBOR	average of indicative offer rates on interbank deposits in Kazakhstan
KIMEAN	average between KIBOR and KIBID
KZT	Kazakhstan tenge
LLP	limited liability partnership
m	million
MCI	monthly calculation index used for calculation of benefits and other social payments, as well as for using penal sanctions, taxes and other payments in compliance with the legislation of the Republic of Kazakhstan, size of which is set by laws of the Republic of Kazakhstan on the republican budget for corresponding years
MEIKAM	government indexed treasury instruments of the Ministry of finance of the Republic of Kazakhstan (inflation indexed) (abbreviation of securities name in Kazakh language)
MEKAM	government treasury instruments of the Ministry of finance of the Republic of Kazakhstan (usually used for securities with all maturity terms) (abbreviation of securities name in Kazakh language)
MEKKAM	government short-term treasury instruments of the Ministry of finance of the Republic of Kazakhstan (with the circulation period of up to one year inclusive) (abbreviation of securities name in Kazakh language)
MEOKAM	government mid-term treasury instruments of the Ministry of finance of the Republic of Kazakhstan (with the circulation period of over one year to five years inclusive) (abbreviation of securities name in Kazakh language)
MEUJKAM	government long-term savings treasury instruments of the Ministry of finance of the Republic of Kazakhstan (with over five-year circulation period), offered among accumulative pension funds (abbreviation of securities name in Kazakh language)
MEUKAM	government long-term treasury instruments of the Ministry of finance of the Republic of Kazakhstan (with over five-year circulation period) (abbreviation of securities name in Kazakh language)
MF	Ministry of finance of the Republic of Kazakhstan
Ministry of finance	Ministry of finance of the Republic of Kazakhstan
MOIKAM	government mid-term indexed treasury instruments of the Ministry of finance of the Republic of Kazakhstan (with the circulation period of over one year to five years inclusive) (abbreviation of securities name in Kazakh language)
MUIKAM	government long-term indexed treasury instruments of the Ministry of finance of the Republic of Kazakhstan (with over five-year circulation period) (abbreviation of securities name in Kazakh language)
National Bank	National Bank of the Republic of Kazakhstan
NBK	National Bank of the Republic of Kazakhstan
NIN	national identification number of security, assigned in compliance with the legislation of the Republic of Kazakhstan
OJSC	open joint-stock company
PA	pension assets
PAIMO	pension assets investment management organization (organizations)
pic.	picture
RSE	republican state enterprise
RUB	Russian ruble
SAPF	Accumulative pension fund SAPF JSC
SB	subsidiary bank
SBS	state block (state blocks) of shares
SPT	settlement term, under which deal is executed on the second business day since its making date (eng. "spot")
SPV	Special Purpose Vehicle (special enterprise: a legal entity – non-resident of the Republic of Kazakhstan, which is issuer of international bonds, the only founder (participant, shareholder) of which is a legal entity – resident of the Republic of Kazakhstan, which acts as the guarantor of execution of obligations on the bonds)
SRR	single repo transactions rate
STB	second-tier bank (banks)

tab.	table
th	thousand
the exchange	Kazakhstan stock exchange Inc.
TOD	settlement term, under which deal is executed on its making date (eng. "today")
TOM	settlement term, under which deal is executed on the next business day since its making date (eng. "tomorrow")
TS	the exchange's trade system
USA	the United States of America
USD	US dollar

If this report does not contain any references to information sources, this means the exchange used data, which had been collected and systematized by its personnel during its work.

Design of cover sheet – V. Lui Ko "Game school" (property of KASE).

SHARES AND SHAREHOLDERS

To January 01, 2006, the KASE authorised capital summarised as KZT 111,113,130.

In total, KASE issued 450 common shares; as of January 1, 2006 the number of outstanding shares is 303.

Tab. 1. List of KASE shareholders as of January 01, 2006

	Full name of KASE shareholder / number of shares	Stake in total number of offered shares, %
1	State institution National Bank of the Republic of Kazakhstan / 54	17.82
2	BANK CASPIAN JSC / 19	6.27
3	Nauryz Bank Kazakhstan JSC / 6	1.98
4	Kazkommertsbank JSC / 6	1.98
5	SUBSIDIARY BANK KAZAKHSTAN-ZIRAAT INTERNATIONAL BANK JSC / 18	5.94
6	Halyk savings bank of Kazakhstan JSC / 7	2.31
7	Bank TuranAlem JSC / 6	1.98
8	Bank CenterCredit JSC / 6	1.98
9	Subsidiary Joint-stock Bank ABN AMRO Bank Kazakhstan JSC / 9	2.97
10	International bank Alma-Ata JSC / 8	2.64
11	ATFBank JSC / 6	1.98
12	NEFTEBANK JSC / 6	1.98
13	SENNIM-BANK JSC / 2	0.66
14	Kazakhstan financial company JSC / 1	0.33
15	Financial company Greenwich Capital Management JSC / 1	0.33
16	Almaty Investment Management JSC / 6	1.98
17	CAIFC Company JSC / 1	0.33
18	DB Securities (Kazakhstan) JSC / 6	1.98
19	Kazkommerts Securities JSC / 6	1.98
20	Global Securities (Kazakhstan) JSC / 1	0.33
21	RBNT SECURITIES CJSC / 3	0.99
22	KIB ASSET MANAGEMENT JSC / 3	0.99
23	Citibank Kazakhstan JSC / 6	1.98
24	First Investment JSC / 6	1.98
25	DEMIR KAZAKHSTAN BANK JSC / 6	1.98
26	RG Securities JSC / 4	1.32
27	TuranAlem Securities JSC / 3	0.99
28	VISOR Investment Solutions JSC / 6	1.98
29	Tau Securities LLP / 6	1.98
30	Alliance Bank JSC / 5	1.65
31	Nurbank JSC / 6	1.98
32	Kazinvestbank JSC / 6	1.98
33	Development Bank of Kazakhstan JSC / 6	1.98
34	Subsidiary Bank HSBC Bank Kazakhstan JSC / 6	1.98
35	Tsesnabank JSC / 6	1.98
36	Accumulative pension fund of Halyk bank of Kazakhstan JSC / 6	1.98
37	Financial company REAL-INVEST.kz JSC / 3	0.99
38	Kazkommerts Invest JSC / 6	1.98
39	Centras Securities JSC / 6	1.98
40	Accumulative pension fund SAPF JSC / 6	1.98
41	Financial company Alliance Capital JSC / 1	0.33
42	Halyk Securities JSC / 3	0.99
43	Pension assets investment management company ALFA TRUST JSC / 1	0.33
44	Valut-Tranzit-Bank JSC / 1	0.33
45	Industrial Bank of Kazakhstan JSC / 1	0.33
46	Pension assets investment management company Premier Asset Management JSC / 3	0.99
47	General Asset management JSC / 1	0.33
48	Astana-finance JSC / 1	0.33
49	DERBES SECURITIES JSC / 1	0.33
50	Registr-Center JSC / 2	0.66
51	Temirbank JSC / 2	0.66
52	TEXAKABANK JSC / 6	1.98
Total¹		100.00

¹ As of January 1, 2006 fifty two KASE shareholders are officially registered. During 2005 shares of the Exchange were purchased by: Accumulative pension fund SAPF JSC - 6 shares, Halyk Securities JSC - 6 shares, RBNT SECURITIES CJSC - 2 shares, KIB ASSET MANAGEMENT JSC - 2 shares, TEXAKABANK JSC - 6 shares, RG SECURITIES JSC - 1 share.

MEMBERS OF KASE

MAIN EVENTS

From November 16, 2005 the resolution #360 of the Board of the Agency of the Republic of Kazakhstan on regulation and supervision of financial market and financial organizations (hereinafter, Agency of Financial Supervision - AFS) dated September 30, 2005 "On requirements to foreign legal entities for membership on stock exchange", registered with Ministry of Justice of the Republic of Kazakhstan (RK) on November 1, 2005 under #3916, became effective. This regulatory document stipulates that foreign legal entities may be the members of the Stock Exchange if comply with one of the following:

- ✦ are the members of the exchanges, which comprise the World Federation of Exchanges
- ✦ have appropriate licenses from authorised body of the resident country for conducting brokerage and/or dealer activities; access permit of the foreign legal entities to the trading on the Exchange is available only in the presence of international agreements on cooperation and information exchange among authorised bodies regarding supervision of brokerage and/or dealer activities, which provide mutual admission of licenses for brokerage and/or dealer activities

Since December 13, 2005 the Amendment #6 to the KASE internal "Provision on membership" became effective. This amendment was earlier approved by the resolution of the Exchange's Council on November 11, 2005 and agreed with AFS on December 12, 2005. The amendment is introduced according to the resolution #360 dated November 16, 2005 "On requirements to foreign legal entities for membership on stock exchange".

CHANGES IN LISTINGS

Category B

Into KASE membership were **admitted**: Housing Construction Savings Bank of Kazakhstan JSC (December 15, 2005), Kazinvestbank JSC (December 29, 2005).

KASE memberships were **removed** from: Nauryz Bank Kazakhstan JSC (June 21, 2005).

Category K

Into KASE membership were **admitted**: Halyk Finance JSC (February 15, 2005), NOMAD FINANCE JSC (April 14, 2005), Pension assets investment management organization ALFA TRUST JSC (May 26, 2005), DERBES SECURITIES JSC (June 21, 2005), First Broker House (August 4, 2005), Housing Construction Savings Bank of Kazakhstan JSC (December 15, 2005).

KASE memberships were **removed** from: Nauryz Securities Kazakhstan JSC (November 14, 2005).

Category P

Into KASE membership were **admitted**: Halyk Finance JSC (February 15, 2005), NOMAD FINANCE (April 14, 2005), Pension assets investment management organization ALFA TRUST JSC (May 26, 2005), DERBES SECURITIES JSC (June 21, 2005), First Broker House (August 4, 2005), Housing Construction Savings Bank of Kazakhstan JSC (December 15, 2005).

KASE memberships were **removed** from: Nauryz Securities Kazakhstan JSC (November 14, 2005).

Category H

Into KASE membership were **admitted**: Halyk Finance JSC (February 15, 2005), NOMAD FINANCE (April 14, 2005), Pension assets investment management organization ALFA TRUST JSC (May 26, 2005), DERBES SECURITIES JSC (June 21, 2005), First Broker House (August 4, 2005).

KASE memberships were **removed** from: Nauryz Securities Kazakhstan JSC (November 14, 2005).

Tab. 2. Change of the number of KASE members by categories in 2005 and specification of categories

Membership category	As of Jan 1, 05	As of Jan 1, 06	Instruments, for trading with which only this category members of KASE are admitted
"B"	29	30	foreign currencies
"C"	5	5	futures contracts circulating (trading) on KASE
"K"	56	61	Kazakhstan GS, including municipal bonds
"P"	53	58	CS (including foreign), included in KASE official list; IFO bonds; foreign GS admitted to circulation (trading) on KASE
"H"	26	29	CS of "Non-listing securities" sector; SBS of privatized organizations
Total	61	66	

Tab. 3. List of KASE members complied as of January 1, 2006

Short name of KASE member	"B"	Membership category			
		"C"	"K"	"P"	"H"
1 First Investment JSC			✓	✓	✓
2 General Asset management JSC		CTE ³	✓	✓	✓
3 Halyk Finance JSC			✓	✓	✓
4 KG Securities JSC			✓	✓	✓
5 KIB ASSET MANAGEMENT JSC			✓	✓	✓
6 MONEY EXPERTS JSC			✓	✓	✓
7 NOMAD FINANCE JSC			✓	✓	✓
8 RG Securities JSC		CTE	✓	✓	✓
9 TEXAKABANK JSC	EPP ²		✓	✓	
10 VISOR Investment Solutions JSC			✓	✓	✓
11 Almaty Investment Management JSC			✓	✓	✓
12 Alliance Bank JSC	EPP		✓	✓	
13 ATFBank JSC	EPP		✓	✓	
14 BANK CASPIAN JSC	EPP		✓	✓	
15 Development Bank of Kazakhstan JSC	EPP		✓	✓	
16 Bank TuranAlem JSC	EPP	CKE ⁴	✓	✓	
17 Bank CenterCredit JSC	EPP		✓	✓	
18 Valut-Tranzit-Bank JSC	EPP		✓	✓	
19 Global Securities (Kazakhstan) JSC			✓	✓	✓
20 DB Securities (Kazakhstan) JSC			✓	✓	✓
21 DEMIR KAZAKHSTAN BANK JSC	EPP		✓	✓	
22 DERBES SECURITIES JSC			✓	✓	✓
23 Subsidiary Joint-stock Bank ABN AMRO Bank Kazakhstan JSC	EPP		✓	✓	
24 SUBSIDIARY BANK KAZAKHSTAN-ZIRAAT INTERNATIONAL BANK JSC	✓		✓	✓	
25 Eurasian bank JSC	EPP		✓	✓	
26 Housing construction savings bank of Kazakhstan JSC	✓		✓	✓	
27 Information-stocking center JSC					✓
28 Kazakhstan financial company JSC			✓	✓	✓
29 Kazakhstan innovation commercial bank JSC (before - ALASH-BANK JSC)	✓				
30 Kazinvestbank JSC	EPP				
31 Kazkommerts Invest JSC			✓	✓	✓
32 Kazkommerts Securities JSC			✓	✓	✓
33 Kazkommertsbank JSC	EPP		✓	✓	
34 Kazpost JSC			✓	✓	✓
35 CAIFC Company JSC			✓	✓	✓
36 International bank Alma-Ata JSC	EPP		✓		
37 Accumulative pension fund SAPF JSC			✓	✓	
38 Accumulative pension fund of Halyk Bank of Kazakhstan JSC			✓	✓	
39 Halyk savings bank of Kazakhstan JSC	EPP	CKE	✓	✓	
40 NEFTEBANK JSC	✓				
41 Nurbank JSC	EPP		✓	✓	
42 Pension assets investment management organization Bailyk asset management JSC			✓	✓	
43 Pension assets investment management organization Premier Asset Management JSC			✓	✓	
44 Pension assets investment management organization Zhetysu JSC			✓	✓	
45 Pension assets investment management organization ABN AMRO Asset Management JSC			✓	✓	
46 Pension assets investment management organization ALFA TRUST JSC			✓	✓	
47 Pervyi Brokerskiy Dom JSC			✓	✓	✓
48 SENIM-BANK JSC	✓		✓	✓	
49 Centras Securities JSC			✓	✓	✓
50 Citibank Kazakhstan JSC	EPP		✓		
51 Joint bank LARIBA-BANK JSC	EPP		✓	✓	
52 Temirbank JSC	EPP		✓	✓	
53 TuranAlem Securities JSC		CTE	✓	✓	✓
54 Financial company REAL-INVEST.kz JSC			✓	✓	✓
55 Financial company Alliance Capital JSC			✓	✓	✓
56 Financial company Greenwich Capital Management JSC			✓	✓	✓
57 Halyk Securities JSC			✓	✓	✓
58 Central-Asia Trust Company JSC			✓	✓	✓
59 Tsesnabank JSC	EPP		✓	✓	
60 Eximbank Kazakhstan JSC	✓		✓		
61 Subsidiary Bank Alfa-Bank JSC	EPP		✓	✓	
62 Subsidiary Bank of Bank of China in Kazakhstan JSC	✓				
63 State institution National Bank of the Republic of Kazakhstan	✓		✓	✓	
64 Subsidiary Bank HSBC Bank Kazakhstan JSC	EPP		✓	✓	
65 RBNT SECURITIES CJSC			✓	✓	✓
66 Tau Securities LLP ⁵			✓	✓	✓
Total	30	5	61	58	29

² Early Payment Processing participants - settlements on the basis of urgent delivery.

³ Clearing member of futures contract.

⁴ Trade member of futures contract.

⁵ Excluded from participation in trades in securities by the Resolution of the Board of Kazakhstan Stock Exchange Inc. #102/2 dated August 2, 2005.

THE KAZAKHSTAN SHARE MARKET IN 2005

Fig. 1. Dynamics of turnover structure and Kazakhstan exchange market volume for the last 13 years (bn USD)

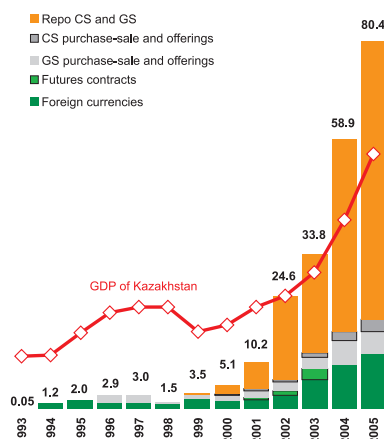
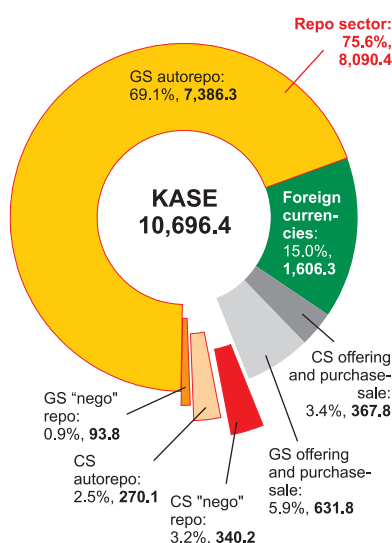


Fig. 2. Volume and structure of Kazakhstan exchange market turnover in 2005 (bn KZT)



During 2005 KASE conducted trades with foreign currencies, Government Securities of the Republic of Kazakhstan (including the securities of local executive bodies which will be called below "municipal" for short), foreign (Russian) Government Securities, Corporate Securities of Kazakhstan issuers (including State Block of Shares and bonds of Special Purpose Vehicle), International Financial Organizations bonds, futures contracts, and promissory notes. The offering of state treasury bonds of the Republic of Kazakhstan, corporate securities, common and preferred stocks of listed companies was carried on KASE. Throughout the year two repo (repurchase agreement transactions) sectors worked on KASE, their activities were focused on Government Securities and Corporate Securities. In the so-called automated repo sector financial resources were traded holding the general exchange's method that is called "open trade". Moreover, the equity market's participants had the opportunity to put into practice "direct" trading in repo transactions (i.e. by closing direct deals).

As before in the whole reporting year KASE regularly calculated the indicators for the Kazakhstan inter-bank deposits market - KIBOR, KIBID and KIMEAN for various deposit terms - upon the instruction of market participants and based on their quotations.

The equity market climate was daily characterised by the series of indices and indicators: KASE_Shares, KASE_BP, KASE_BC, KASE_BY, and TONIA.

The development of the Kazakhstan equity market in 2005 was first and foremost characterised by the volume of trade (Figure 1). The exchange turnover reached an equivalent of USD 80.4 bn (or KZT 10,696.4 bn). Taking into consideration preliminary data of the Agency on Statistics of the Republic of Kazakhstan, according to which the GDP in Kazakhstan reached KZT 7,453.0 bn in 2005, the Exchange's turnover in the reporting period is estimated as 1.435 of Kazakhstan GDP. The same correlation was in 2004.

The growth of the exchange turnover in 2005 as compared to 2004 (Table 4, Figure 1) denominated in Kazakhstan Tenge is estimated as 34.5 per cent against 58.0 per cent in 2004. For the US Dollar equivalent the increment is 36.6 per cent (74.1 per cent in 2004, respectively).

The growth of the exchange turnover in 2005 was mainly come from repo and foreign currencies transactions (Table 4). The first is arisen from excess of Kazakhstan Tenge liquidity on Kazakhstan financial market, which, as previously, cannot be fully utilised by the real sector. The second is explained by the fact that Kazakhstan economy is biased towards natural resources and as the result substantial inflows of foreign currency from export proceeds and external borrowings, which are willingly provided to Kazakhstan residents against favourable commodity market trends.

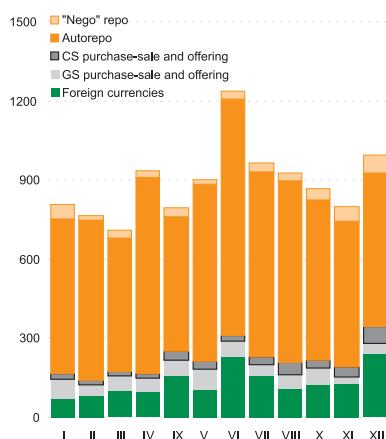
The presented data in the aforementioned table show another remarkable feature of the recent years, namely, the outrunning growth of the transactions with corporate securities, which increased during reporting period by 48.3 per cent. It exceeded USD 2.7 billion, which is KASE historical record.

In the reporting year as compared to 2004 the structure of KASE turnover did not undergo fundamental changes (Table 4, Figure 2).

Tab. 4. Comparative data on turnover on KASE and its structure in 2004 and 2005

Market sector	bn KZT										m USD	
	2004		2005		Trend		2004		2005		Trend	
	Vol.	%	Vol.	%	Vol.	%	Vol.	%	Vol.	%	Vol.	%
Foreign currencies	1,270.4	16.0	1,606.3	15.0	+335.9	+26.4	9,449.5	16.1	12,044.1	15.0	+2,594.7	+27.5
Kazakhstan GS	753.1	9.5	631.8	5.9	-121.4	-16.1	5,558.6	9.4	4,754.2	5.9	-804.4	-14.5
Foreign GS	0	0	0.1	0.001	+0.1	X	0	0	0.6	0.001	+0.6	X
CS	248.0	3.1	367.8	3.4	+119.8	+48.3	1,830.0	3.1	2,756.3	3.4	+926.3	+50.6
Repo (GS and CS)	5,683.5	71.4	8,090.4	75.6	+2,406.9	+42.3	42,012.0	71.4	60,848.2	75.7	+18,836.2	+44.8
Futures contracts	0.020	0.0003	0	0	-0.020	X	0.1	0.0002	0	0	-0.1	X
IFO bonds	0.038	0.005	0.002	0.00002	-0.04	-94.0	0.3	0.005	0.02	0.00002	-0.3	-93.7
Promissory notes	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	7,955.0	100.0	10,696.4	100.0	+2,741.3	+34.5	58,850.5	100.0	80,403.4	100.0	+21,552.9	+36.6

Fig. 3. Dynamics of the structure of exchange market turnover and volume in 2005 (bn KZT)



On a month slot the dynamics of the transactions' volume on KASE did not look perfectly traditional as the apparent market activity in the fourth quarter of the reporting year, which was so typical for previous years, was not observed. The most active was June (Figure 3). As is obvious from the figure the market was mostly active in two interrelated sectors of foreign currencies and repo.

The most active participants on the equity market of Kazakhstan in 2005 were recognised:

- 1) Bank TuranAlem JSC - 10.78 per cent from the volume of the all operations conducted on KASE, a leader of the repo operations' sectors; a KASE market-maker of US Dollar and Russian Ruble
- 2) BANK CASPIAN JSC - 7.13 per cent of the KASE turnover
- 3) Halyk Savings Bank of Kazakhstan JSC - 5.40 per cent of the KASE turnover
- 4) Pension assets investment management company Premier Asset Management JSC - 5.35 per cent of the KASE turnover
- 5) Kazkommertsbank JSC - 5.25 per cent of the KASE turnover

In 2005 TuranAlem Securities JSC retained the leading positions with the volume of Corporate Securities sales and as the leader among broker-dealer companies.

Tab. 5. Detailed structure of KASE turnover in 2005 (m USD, %)

Segment of exchange market	General structure of turnover		Sectoral structure of turnover			Instrumental structure of turnover		
	volume	stake	segment	volume	stake	instrument	volume	stake
CS	2,756.3	3.4	offerings	124.7	0.2	shares	62.9	0.08
						bonds	61.8	0.08
			SBS	28.6	0.04	shares	28.6	0.04
Kazakhstan GS	4,754.2	5.9	purchase-sale on secondary market	2,603.0	3.2	shares	948.9	1.18
						bonds	1,654.0	2.1
			offerings	928.9	1.2	MEKKAM	253.7	0.3
						MEOKAM	398.9	0.5
						MEUJKAM	276.2	0.3
			purchase-sale on secondary market	3,825.3	4.8	eurobonds	3.8	0.005
						NBK notes	2,989.3	3.7
						MEKKAM	187.2	0.2
						MEOKAM	642.3	0.8
						MEUJKAM	0.8	0.001
Foreign GS	0.6	0.0007	purchase-sale on secondary market	0.6	0.0007	municipal bonds	1.9	0.002
						RU_01_2806	0.4	0.0005
						RU_02_3003	0.2	0.0003
Foreign currencies	12,044.1	15.0	purchase-sale	12,044.1	15.0	EUR	25.0	0.031
						RUR	3.8	0.005
						USD	12,015.4	14.9
Repo	60,848.2	75.7	auto repo	57,586.4	71.6	GS	55,564.4	69.1
			"nego" repo	3,261.8	4.1	CS	2,021.9	2.5
						GS	713.1	0.9
						CS	2,548.7	3.2
IFO bonds	0.017	0.00002	purchase-sale	0.017	0.00002	IBRDD120405	0.017	0.00002
TOTAL	80,403.4	100.0		80,403.4	100.0		80,403.4	100.0

THE CORPORATE SECURITIES MARKET

MAIN EVENTS

The main changes in normative legal acts and KASE internal regulations which affected development of equity market in 2005 are described below.

From January 24, 2005 the KASE internal "Provision on methods of conducting trades", which superseded similar purposed KASE internal "Description of methods of conducting trades" and "Regulations for conducting specialised trades on offering or issue of securities", became effective. In this connection on that date the amendments to the "Order of trades and work of Confirmation system" were approved, which allow the possibility for sending preliminary orders to the trades held by the order-driven market method. In case of coincidence or intersection of prices shown in counter bids for shares purchase or sale, trades in them are transferred to fifteen-minute expectation mode, during which they are held by Frankfurt method. The minimal expectation mode time is 15 minutes. When the trades on listed stocks are transferred into expectation mode, the trading session on these stocks is extended for the expectation time of these trades but not later than 18:00 ALT. In specialised trading on financial instrument offering (sale, repurchase or acquisition) the orders, which are satisfied by using accounts controlled by the members of the Confirmation System, are subject to confirmation not later than 30 minutes after order closing period; and in trading on additional offering of securities - 15 minutes.

From May 20, 2005 KASE Regulations On Recognition of Deals with Securities as Made for Price Manipulation were put into force, which earlier received approval by the Resolution #110 of the Board of AFS on March 26, 2005. According to these Regulations, the deal is recognised as made for price manipulation when concluded at the exchange trades held by open trade method and if the price deviation (for deals with stocks) from average-weighted market price of the securities is 30 per cent or more; deviation of yield to maturity (for deals with bonds, including government bonds) according to the deal price from average-weighted market yield of such securities to maturity is three or more percentage points. The procedure of calculation of the average-weighted market price of the stocks and average-weighted market bond yield is set by these Regulations.

From July 1, 2005 amendments to Appendix 1 "Specification of the market-maker's status for the Exchange members of Category "P" and "H" to KASE standard document "Market-makers activity rules" were set in effect. These amendments narrow the price spread between obligatory quotation of specialists and market-makers on sale and purchase of corporate bonds. This spread for specialists and market-makers is decreased down to one and two percentage points (on difference in absolute figures between yield-to-maturity values on quotations for purchase and sale) from one and half and three percentage points, respectively.

From July 1, 2005 KASE amended "Provision on trades holding methods" and "Order of Trades and Work of Confirmation System". The amendments were introduced as the part of the package of measures for improvement of Frankfurt method of trading listed shares. The main points were the refusal from requirement of compulsory transfer of the trading listed shares into expectation mode, during which they are held by Frankfurt method (if any order remains unchanged in KASE trading platform during 30 minutes, trades in shares are not transferred into expectation mode and trades on such terms is executed immediately, when counter order with coinciding or intersected bid arise), and setting the time limit of 60 minutes for expectation mode.

From July 26, 2005 amendments to Listing rules took effect. The new notion of "infrastructure bond" was introduced into Listing rules (as it is determined the Law of Republic of Kazakhstan On Securities Market), and it was determined that listing rules of category A do not apply to infrastructure bonds issuers, and with the purpose of inclusion of infrastructure bonds in KASE official A listing category and their being in it, the issuer of such bonds must conform to requirements set by the corresponding normative legal act of AFS (Resolution #63 of AFS Board dated March 15, 2004). Besides, a regulation about the possibility of listing of bonds issued by limited liability partnerships under category A has been included.

From December 1, 2005 KASE Order of Trades and Work of Confirmation System was amended by the regulation, which set time limit for repeated trade executions. Such transactions may be concluded after closing time of trading according financial instruments, but not later than close of work of Confirmation System.

On December 29, 2005 Exchange Council approved additions to KASE Rules of Market-Makers Activities, developed with a view to strengthen responsibility of market-makers and to exclude possible non-execution of deals via use of Confirmation System. The additions took effect from January 16, 2006 and from that day market-makers are prohibited to use for announcement of compulsory quotations trade accounts, controlled through Confirmation system. For violation of this prohibition as well as non-execution of liabilities on deals, concluded on the basis of their compulsory quotations, penalty is fixed at 200 monthly calculation indices. Besides, these addition determine that untimely execution of requirements on established quotations is considered non-fixing of necessary quotations during one minute and more by market-makers, excluding cases coming from financial instruments features.

From December 30, 2005 the Law Concerning the Introduction of Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on Issues of Licensing and Consolidated Supervisions became effective. Particularly, the Law on Banks and Banking Activities in the Republic of Kazakhstan was amended so that the second-tier banks are allowed to trade bonds of legal entities, whose securities are listed on the stock exchange, which operates in Kazakhstan, on the highest and next to highest listing category. Earlier this law allowed the second-tier banks to trade only listed obligations of Category A (according to KASE classification). Moreover, since December 30, 2005 the second-tier banks are allowed to trade bonds of foreign issuers, who have minimal required credit rating. The Statutory Decree of the President of the Republic of Kazakhstan On Real Estate Mortgage was amended with the addition, which sets the restriction for mortgage organizations on purchase of shares, except shares of financial organizations, organizations providing automation services for mortgage companies, and joint-stock companies, which are not financial organizations but whose shares are listed at the top category on the stock exchange operating in Kazakhstan.

During 2005 KASE twice diminished exchange commission on trade in corporate securities, included in KASE official list (except State Block of Shares), at order-driven market. Since January 1, 2005 the rate of the commission was reduced from 0.04 per cent to 0.03 per cent of the sum of transaction levied on each of the parties of the transaction, and since November 1, 2005 it was reduced to 0.02 per cent. According amendments were made in KASE internal Regulations on Membership Fees and Exchange Commission.

Continuous order-driven trading (as one of the open trades holding method) and negotiation-deals trading were the general and additional methods of holding trades in corporate securities, respectively. The majority of participants traded via remote access.

LISTING REQUIREMENTS

During 2005 the AFS Board's Resolution #63 On Requirements to Issuers and Their Securities, Which are Admitted (Have Been Admitted) to Circulation on the Stock Exchange, and to Specific Categories of the Stock Exchange Listing dated March 15, 2004 (hereinafter in this section - The Resolution) and KASE internal regulations (Listing Rules and Listing Requirements for Foreign Securities and Kazakhstan Depository Receipts) were amended.

The Resolution was amended three times during 2005. At that, 4 amendments became effective after registration at Kazakhstan Ministry of Justice, and one of which was approved by the Board of AFS in the late November 2004.

The most significant amendments to the Resolution concerned diminishing requirements to issuers admitted in the exchange's official listing on the top and following the top categories. For instance, the requirements to the size of shareholders' equity and assets for such issuers were diminished from 300,000 to 200,000 monthly calculation indices, the requirements on sales volume from operating activities from 300,000 to 50,000 monthly calculation indices, respec-

tively. Besides, the requirement to availability of net income for the issuers admitted in the exchange's official listing at the top and next to the top categories was changed. Earlier the availability of net income for the last accomplished financial year or any two of three last accomplished financial years was required, and according to included amendments this requirement is fixed for the last accomplished financial year for the issuer's securities listed in mentioned category and for any one of three last accomplished financial years for securities listed in this category.

In 2005 the Resolution was added by the regulation that allows the bonds of limited liability partnerships to be listed in the official list of the exchange (earlier, only for joint-stock companies) and also by requirement to the issuers on availability of corporate governance code (which should contain the provisions of the Corporate Governance Code approved at the meeting of Issuers Council on February 21, 2005), which extends over the issuers admitted to the official listing of the exchange in both categories (except limited liability partnerships).

Besides, the Resolution was added by the requirements to the issuers of infrastructure bonds, concerning audit of the issuers' financial statements, availability of the corporate governance code and market-maker for their securities, absence in their charters and issuing documents of the norms infringing or limiting rights of security holders to transfer or dispose of their securities (carve-out of securities). Other amendments and additions to the Resolution were of clarifying or editing character.

During 2005 Listing Rules were amended three times and mainly duplicated amendments to the Resolution including regulation which allows the bonds of

Tab. 6. KASE listing requirements for shares and corporate bonds of Kazakhstan issuers⁶

Requirements	At the end of 2005
Category "A" of the official list	
Organization-legal form	for listing of shares – joint-stock company, for listing of bonds – joint-stock company or limited liability partnership
Existence period	at least three years ⁷
Net income presence	for the last year or for any two years from among last three years
Overdue indebtedness on outstanding securities and on other liabilities exceeding 10% of assets	must be absent
Presence of market-maker on shares/bonds	obligatory
Accounting standards	for joint-stock companies – IAS, for limited liability partnerships – KAS or IAS
Audit	annually by an auditing organization, meeting criteria of the World Bank, which it set for auditing organizations for the purpose of making audit of projects, realized in the Republic of Kazakhstan on credits or grants of the World Bank ⁸
For listing of shares – number of declared shares	common – at least 100,000 units, preferred – at least 10,000 units
For listing of bonds – issue volume	at least 300.0 m tenge and 20.0 th. bonds
Equity capital	at least 1,200,000 MCI and can not be less than authorized capital ⁹
Amount of assets (financial organizations)	at least 5,000,000 MCI
Sales volume for one year (non-financial organizations)	at least 1,200,000 MCI
Category "B" of the official list	
Organization-legal form	for listing of shares – joint-stock company, for listing of bonds – not set
Existence period	at least one year
Net income presence	for the last year – for inclusion, for any of last three years – during circulation
Accounting standards	for joint-stock companies – IAS, for other organization-legal forms – KAS or IAS
Audit	annually by any auditor
For listing of shares – number of declared shares	common – at least 100,000 units, preferred – at least 10,000 units
For listing of bonds – issue volume	at least 50.0 m tenge and 3,000 bonds
Equity capital	at least 200,000 MCI and can not be less than authorized capital
Amount of assets (financial organizations)	at least 1,000,000 MCI
Sales volume for one year (non-financial organizations)	at least 50 000 MCI

⁶ According to the Resolution and Listing rules.

⁷ The offset of the period of existing organization (s) may be executed, where the new issuer was created as the consequence of its (their) reorganization, and shorter period of existence for issuers, where the single shareholder is the government, was set.

⁸ At the end of 2005, only the auditors of Big Four and BDO Kazakhstanaudit LLP complied with the World Bank criteria.

⁹ The rate of MCI set by legislation on state budget for 2005 was KZT 971.

limited liability partnerships to be listed at category A of KASE official list, the requirement of availability of corporate governance code approved by the meeting of shareholders of the issuers, admitted to both categories of KASE official listing (except limited liability partnerships), and the requirement to the issuers of infrastructure bonds (particularly, the reference to the requirements set in the Resolution). Other amendments and additions to the Listing Rules were of clarifying or editing character.

The Exchange's standard Listing Rules and Listing Requirements for Foreign Securities and Kazakhstan Depository Receipts were amended one time during 2005; the amendment was of editing character.

As of 2005 year-end the listing rules were imposed to Kazakhstan residents' securities, described in Table 6, to foreign securities and Kazakhstan Depository Receipts - in Table 7.

THE KASE TRADE LISTS

There were four lists of corporate securities admitted to the trades on KASE in 2005:

- ✦ official securities list, Category A
- ✦ official securities list, Category B
- ✦ Non-listed securities list
- ✦ state block of shares list

Each of the first three sectors was split on share sector and bond sectors, at that, the securities of both Kazakhstan residents and foreign issuers were authorised to trade in all these sectors.

Securities

As of January 01, 2006, the KASE trade lists consisted of 243 securities of 99 issuers. The number of securities increased by 38.1 per cent (in 2004 by 2.2 per cent decrease, comparatively), the number of issuers increased by 23.8 per

Tab. 7. KASE listing requirements for shares and bonds of foreign issuers, including those, which are basic asset of KDR¹⁰

Requirements	At the end of 2005
Category "A" of the official list	
Organization-legal form	for listing of shares – providing free circulation of shares, for listing of bonds – not set
Issuer's existence period	at least three years
Equity capital	at least 100 m USD or equivalent of this amount
Net income presence	for listing – for each year from among last three years, during circulation – annually ¹¹
Accounting standards	IAS or GAAP USA
Audit	annually by an auditor of "The top four"
For listing of shares – long-term issuer's credit rating in foreign currency, for listing of bonds – bonds rating	no lower than "A" on Standard & Poor's and Fitch or "A2" on Moody's
Overdue indebtedness on outstanding securities and on other liabilities exceeding 10% of assets	must be absent
Presence of market-maker on shares/bonds on KASE	obligatory
Category "B" of the official list	
Organization-legal form	for listing of shares – providing free circulation of shares, for listing of bonds – not set
Issuer's existence period	at least three years
Equity capital	at least 10 m USD or equivalent of this amount
Net income presence	for listing – for the last year, during circulation – annually ¹¹
Accounting standards	IAS or GAAP USA
Audit	annually by an auditor of "The top four"
For listing of shares – long-term issuer's credit rating in foreign currency, for listing of bonds – bonds rating	no lower than "B" on Standard & Poor's and Fitch or "B2" on Moody's
Overdue indebtedness on outstanding securities and on other liabilities exceeding 10% of assets	must be absent
Presence of market-maker on shares/bonds on KASE	obligatory

¹⁰ According to the Resolution and Listing rules.

¹¹ During floatation the absence of net income is permitted only for not more than one financial year.

Tab. 8. Dynamics of KASE trade lists structure in 2005

Admis- sion ca- tegory	Jan 1, 05 securi- ties	is- suers	Jan 1, 06 securi- ties	is- suers
A	132	49	189	61
B	42	32	46	35
A+B	174	79	235	94
N	2	2	8	8
TOTAL	176	80	243	99

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

cent (decrease by 24.5 per cent in 2004, comparatively). More detailed information about the dynamics of structure of the trade registers, without taking State Block of Shares into consideration, is shown in Table 8 and Figures 4 and 5.

The dynamics of KASE official list have kept the basic tendency of the previous years: widening number of financial tools accepted to KASE auctions occurred of the main account of the securities listing into the Category A. The result of 2005 was KASE official list increased by 61 new titles of securities, but for all that increased by 61 tools into the Category A and only by 4 into the Category B. The same tendency kept to the issuers whose securities admitted to KASE trades within the official list. Their volume increased by 12 into the Category A and by 3 into the Category B and by 15 at overall official list, accordingly.

The instruments' structure analysis results of KASE official list shows that the list of Category A had been growing for the account of included bonds (50 out of 57 new titles of securities). The situation with Category B was different: the amount of shares increased by five titles, at the same time the amount of bond was decreased by one title (in the account of scheduled redemption of the issue).

Capitalization

In 2005 the procedure of calculating the capitalization of the stock exchange market of corporate securities did not change as compared to previous reporting period. As before, for estimating of capitalization of share market segment was taken into consideration the basis of the last market shares' prices of the KASE official list and the number of current outstanding shares with notarisation by vidimus of securities holders' registers or (when vidimus is not available) by allotment certificates, or information from issuers. Failing market prices of shares (i.e. in the absence of trades in them) the estimation was made on the basis of their par value. However, the notion of share's par value as applied to the secondary securities market was excluded from the Kazakhstan Law On Joint-Stock Companies dated May 13, 2003. So the new share issues registered after that law became effective were associated with the offering prices, which had been defined according to the opinions of the Boards of Directors of joint-stock companies, and ought to get market appreciation during initial offering on the market. Taking into consideration this circumstance, in the reporting year, as in the previous, with the absence of trades in shares of the official list on the Stock Exchange Market issued under the new legal framework, KASE accepted prices of such shares equal zero and in fact did not include them in estimating of the share market capitalization.

The bond market capitalization, as previously, reflected current value of corporate debt certified by bonds included in the KASE official listing. If any bonds were not traded, the estimating of capitalization was made at their par value.

These both capitalization indicators were denominated in US Dollars, the translation was made using current Kazakhstan Tenge versus US Dollar market exchange rate.

Capitalization of the share market in 2005 grew 2.7 times up in US Dollar terms, from USD 3.941 bn to USD 10.521 bn (in 2004, this indicator increased by 62.5 per cent). Denominated in Kazakhstan Tenge, this indicator grew 174.3 per cent up from KZT 512.3 bn in the beginning of 2005 to KZT 1,407.4 bn in the end of the year.

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

- ✦ trade listing dynamics (i.e. the result of new shares listing and delisting of previously listed shares on KASE)
- ✦ alteration of paid-in authorised capital of listing companies
- ✦ trend of the prices of the traded shares on KASE
- ✦ receiving on KASE of market valuation of shares which had not value in the beginning of the year

The results of traced research show that changes in KASE trade lists in 2005 determined the decrease in share market capitalization of KZT 60.9 bn (more than USD 450 m). The listing of Category A of preferred shares of the three Kazakhstan banks - Halyk savings bank of Kazakhstan JSC, Alliance Bank JSC

Fig. 4. Number of CS admitted to trades in 2005 (at the end of the period)

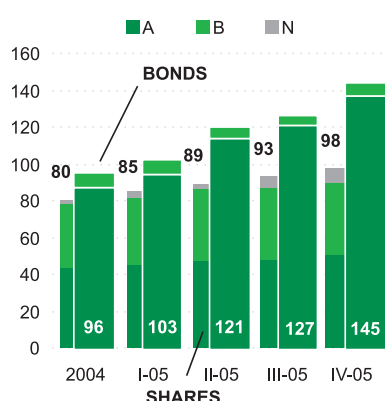
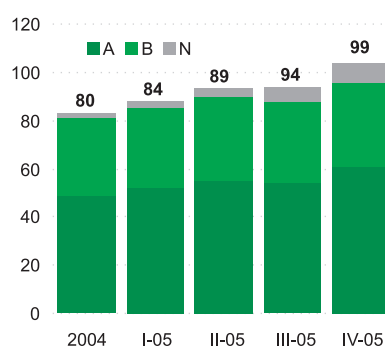


Fig. 5. Number of issuers, securities of which were admitted to trades in 2005



and Bank CenterCredit JSC, as well as common shares of Glotur JSC, PavlodarEnergoService JSC and Eurasia Insurance Company JSC could not compensate the negative trend resulting from delisting of preferred shares of Halyk Savings Bank of Kazakhstan, common shares of Mineral JSC and S.A.S. JSC, at that delisting of the last was the critical because the capitalization of this company at the moment of delisting amounted approximately KZT 78.8 bn (USD 589 m). The listing as well as delisting of other companies did not significantly affect the level of capitalization due to the absence of their market appreciation.

The change in paid-in authorised capital of listing companies and receiving first market appreciation by their shares had insignificant (little more than 3 per cent, or KZT 327.3 bn) positive effect on the capitalization dynamics. Among shares, which had not appreciation from the market at the beginning of 2005 only common shares of KazTransCom JSC received this during the year. 31 listing companies had the increase in the size of paid-in authorised capital.

The main factor (weighing more than 95 per cent), which accelerated triple growth of capitalization in 2005, was the positive trend of the prices of the stocks of listing companies. Here the common shares of CNPC-Aktobemunaigaz JSC demonstrating the growth by 312.1 per cent, common and preferred shares of Bank TuranAlem JSC with 212.5 per cent and 180.5 per cent, respectively, and common shares of Kazakhtelecom JSC having 271.1 per cent increase, were in the lead with confidence in absolute money terms. Considerable impact of the factor corroborated by high correlation of capitalization indicator with behaviour of KASE_Shares index (Figure 6) which is computed with the best market-makers' quotation of rate.

The industry structure of the KASE official share list underwent notable changes (Table 9). Here, as previously, financial and oil and gas sectors were leading. Their share in the share market capitalization increased by 9.7 per cent and 6.8 per cent, respectively. Telecommunication sector companies' share also grew, while mining and retail sectors climbed down by 6.1 per cent and 15.4 per cent, respectively. The share of other sectors slightly changed and as before remained insignificant.

Capitalization of the bond market on KASE saw increase by USD 2.972 bn up to USD 8.248 bn, or by 1.6 times during reporting year (the growth in 2004 was estimated as USD 2.674 bn, or 2.1 times) (Figure 7). Denominated in Kazakhstan Tenge, the growth whirled up by 60.9 per cent, from KZT 685.9 bn at the beginning of the year to KZT 1,103.3 bn at the end of the year. As before, the main influence on given indicator was exerted from the expansion of the KASE official list.

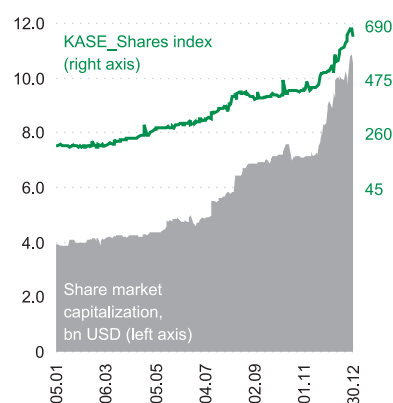
In spite of the KASE list lost eight bond titles (due to redemption) in 2005, the new attracted securities listing plentifully compensated these losses. Change in capitalization of this sector as the response to price behaviour and early bond redemption was insignificant.

The industrial structure of the KASE official bond list in 2005 was not essentially changed as compared to previous year (Table 10). As before, financial sector held leading positions with the share of 90 per cent of the debt market value, while oil and gas sector shared only 3.3 per cent, and the rest sectors' share was 5.0 per cent.

CORPORATE SECURITIES TRADES

During 2005 volume traded on the market of corporate securities tended to whirl up rapidly. Overall volume of trades in shares and corporate bonds was estimated as KZT 367.8 bn or USD 2,756.3 m. As compared to 2004, the turnover increased by KZT 119.8 bn (USD 926.3 m), or 48.3 per cent (50.6 per cent in US Dollar terms). In 2004 the total volume of corporate securities traded rose by KZT 65.3 bn (USD 804.8 m), the velocity in general was even higher - by 62.4 per cent denominated in Kazakhstan Tenge and 78.5 per cent in US Dollar terms. The detailed data on the volume and the structure of the turnover is shown in Table 11.

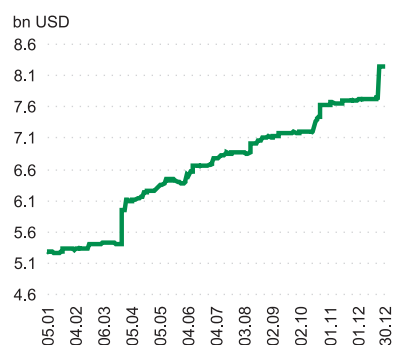
Fig. 6. Share market capitalization and dynamics of KASE_Shares index in 2005



Tab. 9. Sectoral structure of KASE official list (shares at market cost)

Sector	2005		2004	
	m USD	%	m USD	%
Finance	4,525.2	43.0	1,312.9	33.3
Oil complex	2,609.8	24.8	708.4	18.0
Commun-on	2,170.1	20.6	585.3	14.9
Mining complex	894.9	8.5	576.1	14.6
Food industry	39.9	0.4	38.0	1.0
Trade	35.4	0.3	622.0	15.8
Other	246.0	2.3	98.0	2.5
Total	10,521.2	100.0	3,940.7	100.0

Fig. 7. Corporate bond market capitalization in 2005



Tab. 10. Sectoral structure of KASE official list (bonds)

Sector	2005			2004		
	m USD	Market value of debt stake, %	Difference market / face value*	m USD	Market value of debt stake, %	Difference market / face value*
Finance	7,561.1	91.7	+2.7%	4,751.1	90.1	+3.2%
Oil complex	272.3	3.3	+3.2%	249.2	4.7	+5.4%
Communication	32.7	0.4	-0.9%	37.6	0.7	+0.3%
Mining complex	79.5	1.0	+1.1%	66.4	1.3	+1.4%
Food industry	87.5	1.1	+1.6%	50.6	1.0	+2.0%
Trade	111.2	1.3	+0.5%	57.9	1.1	+0.3%
Power industry	33.7	0.4	+3.0%	9.3	0.2	+2.7%
Other	69.8	0.8	+3.2%	53.7	1.0	+5.8%
Total	8,247.7	100.0	+2.6%	5,275.8	100.0	+3.2%

* Difference between market value and face value of debt.

The primary market

The KASE normative framework regulating offering corporate securities on the stock exchange did not change during 2005.

The share of corporate securities in total turnover on KASE during reporting period slightly decreased. In 2001 this indicator averaged 14.8 per cent, in 2002 - 5.5 per cent, in 2003 - 9.4 per cent, in 2004 - 8.5 per cent, in 2005 - 4.5 per cent.

These figures reflect that the stock exchange managed to keep its position on this market. However, securities public offering in Kazakhstan is still an exception to the rules. It mainly bound up to the existing traditions according to which goal-oriented offerings with subscriptions turn out for issuers and underwriters more effective than public.

Totalling in 2005, 21 (48)¹² actual primary and additional corporate bonds offerings of eight titles and shares of two titles were made on KASE up. The offerings were carried out by dint of specialised holding auctions in satisfaction of vie proposals at the bid prices or at cut-off prices and also by open trade method. During the year 22 (13) specialised securities auctions were made. Having sold their shares and bonds on the KASE primary market, issuers raised 16,616.6 (21,138.1) m Kazakhstan Tenge what with current exchange rate effective at the dates of transactions equal USD 124.7 (USD 156.3 m) m. In total, in this market sector 46 (119) deals were registered in the KASE trading platform.

Judging with shown in Table 12 data, institutions of the pension market remained in the ranks of the principal participants of the corporate securities placements on KASE, although as compared to 2004 their share in aggregate volume of corporate securities offered increased along with the increased share of second-tier banks against a background of decrease of brokers-dealers and their clients share fraction.

In 2005 the share of bonds placed on the open bonds market saw increase from 23.0 to 48.8 per cent of total volume of the registered bond issues.

The most active participant of the corporate securities primary market on KASE in 2005, judging on the volume of securities purchased via specialised securities auctions, was Pension assets investment management organization Zheytysu JSC. Its share reached 34.9 per cent of total purchased shares and bonds. On second place came Accumulation Pension Fund of Halyk bank of Kazakhstan JSC (21.5 per cent), on third - ATFBank JSC (8.6 per cent). Altogether 14 members of KASE P Category had worked as buyers who acted on behalf of their own and their clients' names.

The secondary market

In 2005, the secondary corporate securities market as before was represented by purchase and sale sector of the shares and corporate bonds in the scope of secondary circulation and by the state block of shares trade sector. As Table 11 shows, the shares of these sectors were not radically changed, as compared to 2004.

¹² Corresponding data of the year 2004 is given in this paragraph in brackets.

Tab. 11. Volume of CS trades on KASE and sectoral structure of the turnover

Month	Primary,market		Sector of exchange's CS market				TOTAL	
	th USD	m KZT	th USD	m KZT	th USD	m KZT	th USD	m KZT
January	18,554.4	2,415.8	160,653.8	20,902.6	—	—	179,208.2	23,318.4
February	—	—	117,942.9	15,348.5	—	—	117,942.9	15,348.5
March	—	—	126,036.6	16,469.3	—	—	126,036.6	16,469.3
I quarter	18,554.4	2,415.8	404,633.3	52,720.3	0	0	423,187.7	55,136.1
April	4,547.9	597.8	127,934.8	16,797.4	—	—	132,482.7	17,395.1
May	14,822.9	1,947.2	211,257.9	27,769.6	—	—	226,080.8	29,716.8
June	—	—	174,222.3	23,410.0	—	—	174,222.3	23,410.0
II quarter	19,370.7	2,544.9	513,415.0	67,977.0	—	—	532,785.8	70,521.9
July	—	—	224,551.5	30,475.1	—	—	224,551.5	30,475.1
August	7,235.4	978.8	302,524.9	41,002.2	—	—	309,760.3	41,981.1
September	10,137.7	1,368.7	245,995.9	33,014.6	—	—	256,133.7	34,383.3
III quarter	17,373.1	2,347.5	773,072.4	104,491.9	0	0	790,445.5	106,839.4
October	4,086.4	547.2	241,012.1	32,257.8	2,186.6	296.7	247,285.0	33,101.7
November	32,928.1	4,424.5	249,470.3	33,462.7	26,382.6	3,582.2	308,781.1	41,469.5
December	32,429.4	4,336.6	421,364.8	56,399.7	—	—	453,794.3	60,736.3
IV quarter	69,443.9	9,308.3	911,847.2	122,120.2	28,569.2	3,878.9	1,009,860.4	135,307.5
TOTAL year 2005	124,742.2	16,616.6	2,602,967.9	347,309.4	28,569.2	3,878.9	2,756,279.3	367,804.9
Structure	4.5%		94.4%		1.0%		100.0%	

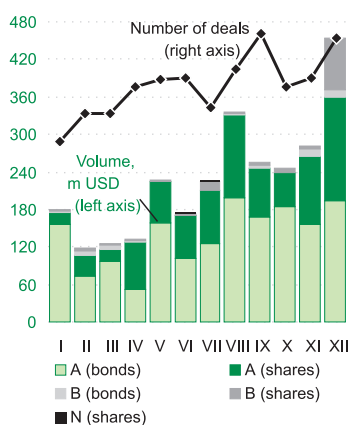
Reference year 2004:

TOTAL	156,280.7	21,138.1	1,663,308.3	225,412.8	10,407.7	1,442.5	1,829,996.7	247,993.3
Structure	8.5%		90.9%		0.6%		100.0%	

Trend 2005 to 2004:

monetary terms	-31,538.5	-4,521.5	+939,659.6	+121,896.7	+18,161.5	+2,436.5	+926,282.6	+119,811.6
percentage	-20.2%	-21.4%	+56.5%	+54.1%	+174.5%	+168.9%	+50.6%	+48.3%

Fig. 8. Market activity and structure of CS turnover in purchase-sale sector in 2005, including SBS



In the same way as before, trading hours for corporate securities on KASE were business days from 11:30 till 17:00 ALT under single session. Authorised broker-dealers conducted sales of state block of shares during this time interval using KASE primary trading method.

During 2005 the volume of corporate securities trading was distributed through months non-uniformly (Figure 8), and was affected by different factors.

The most active, in terms of trade volumes, were the following months:

- ✦ August (owing to the sale of Kazzinc JSC state block of shares, and large market transaction with preferred shares and bonds of Halyk Savings Bank of Kazakhstan JSC)
- ✦ December (as the result of boost in trades in stocks listed on A Category of official list due to heavy increase in their price)

The turnover structure of the corporate securities secondary market insignificantly changed compared to 2004 (Figure 9). The exchange market for corporate securities stayed oriented on the deal with the highest investing quality instruments (A Category of KASE official listing) and even deepened this tendency.

Tab. 12. Participation stake of main categories of investors in CS purchase on KASE during offerings in year 2005

Security symbol	Amount of deals, m KZT	Stake of KASE primary market, %	Percent in issue volume of bonds	Participation stake, % in purchase volume			
				STB	Broker-dealers	Clients of broker-dealers	PAIMO for account of PA
ATFBe4	13.3	0.1	0.1	—	100.0	—	—
CSBNe1	533.8	3.2	2.7	—	—	—	100.0
HSBK	939.4	5.7	X	—	—	99.9	0.1
HSBkb10	3.8	0.0	0.1	—	100.0	—	—
HSBkb6	200.0	1.2	100.0	—	—	—	100.0
HSBkb7	2,215.8	13.3	57.0	71.4	—	—	26.4
HSBkb8	769.5	4.6	19.4	—	0.5	12.9	86.5
HSBKp1	7,469.4	45.0	X	—	0.1	—	99.9
KZIKb12	50.8	0.3	1.0	100.0	—	—	—
KZIKb13	4,420.7	26.6	90.0	68.5	1.5	0.3	29.8
Total	16,616.6	100.0	48.1	28.0	0.6	6.3	64.8

¹³ Corresponding data of the year 2004 is given in this and following paragraphs in brackets.

Fig. 9. Division of the volume of secondary exchange market deals by securities types and listing categories (including SBS)

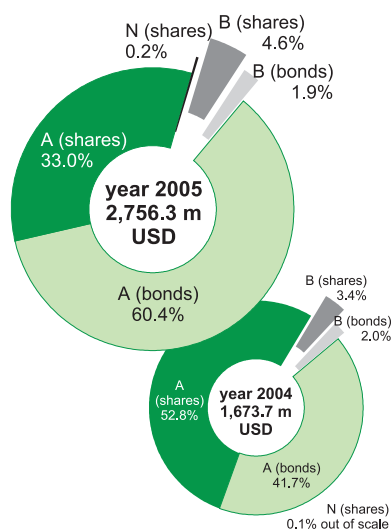
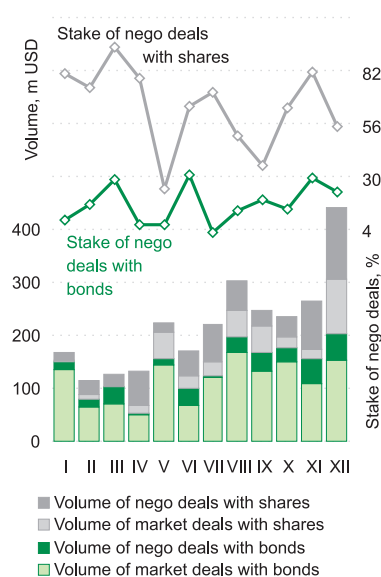


Fig. 10. Volumes (on the left) and stake (on the right) of different types of deals with CS in purchase-sale sector in 2005



In 2005, transactions with 180 (140)¹³ various instruments were carried out on KASE secondary corporate securities market, including 42 (35) stock titles and 115 (75) bond titles within A Category, 15 (16) stock titles and 7 (9) bond titles within B Category, and 6 (3) non-listing stock titles and 3 (8) state block of shares.

During reporting year KASE trading platform registered 6,189 (4,555) transactions¹⁴ with 54,190,770,458 (43,289,790,215) securities. All of 250 (252) conducted trades (252) resulted in actual sale of securities.

The daily trade volume varied from USD 93.7 thousand (USD 3.6 thousand) to USD 77.3 m (USD 176.5 m) and estimated at USD 10.5 m (USD 6.7 m) annually average. The average monthly volume traded was USD 219.3 m (USD 139.5 m) or KZT 29.3 bn (KZT 18.9 bn). Monthly and quarterly breakdown is presented in Table 11.

The decreasing number of direct transactions with CS represented the positive tendency of the year (Figure 10).

While by the end of 2002 direct transactions comprised 12.1 per cent of all concluded transactions (23.7 per cent of the total number of transactions), in 2003 they reached 41.1 per cent (39.9 per cent), and in 2004 - 58.3 per cent (59.0 per cent), and in 2005 - 34.1 per cent (33.4 per cent).

In whole, 46 (40)¹⁵ KASE members in Categories P and H participated in secondary corporate securities trades on KASE during the reporting year: 27 (21) broker-dealer companies, 10 (12) second-tier banks, 7 (6) pension market participants, and Development Bank of Kazakhstan JSC and National Bank of Kazakhstan. The share of banks and their clients comprised 8.2 per cent (4.6 per cent) of the gross secondary market turnover; broker-dealers and their clients - 78.3 per cent (83.9 per cent); Pension assets investment management organizations - 13.1 per cent (7.7 per cent). The most active participant controlled 22.2 per cent (27.5 per cent) of the total volume of trades; the two controlled 32.8 per cent (37.5 per cent) of trades; the three - 39.2 per cent (45.8 per cent); the five - 50.7 per cent (60.5 per cent). In 2005, TuranAlem Securities JSC was recognised as the most active participant of the sector; RG Securities JSC held the second place (8.4 per cent of the gross turnover) and KG Securities JSC held the third place (7.3 per cent).

The share trading sector

During 2005 volume of stocks traded increased by USD 6.6 m (0.7 per cent) or KZT 659.5 m (0.5 per cent) up to 948.9 m (KZT 126.8 bn). The number of transactions saw decline from 2,837 to 2,638. At that, the number of titles of stocks traded increased from 54 to 62 compared to 2004.

KASE_Shares index trend is presented at Figure 11. This index, as in 2004, was calculated not on the basis of transaction prices, but on the basis of the best quotes with account of the market capitalization of the stock issuers. For reporting period KASE_Shares index grew by 203 per cent, from 213.37 to 646.42 (+433.05 points). This growth resulted from the positive annual change in bid prices: UTMKp (+59,900.0 per cent), KZZN (+331.0 per cent), AMGZ (+309.8 per cent), CSBN (+309.4 per cent), ATFB (+300.0 per cent), KZTK (+261.8 per cent), BTAS (+201.2 per cent), KKGB (+195.9 per cent), KZTKp (+149.2 per cent), BTASp (+117.4 per cent)¹⁶.

During 2005, 55 per cent of traded stock titles saw increase of daily average-weighted prices, 21 per cent saw fall, and 3 per cent were characterised by unchanged prices. Other instruments were not traded in 2005.

The respective figures for 2004 are: 44 per cent, 20 per cent, and 9 per cent. The positive trend in stock prices in 2005 saw in the corridor from 1.5 per cent (VTBNp) to 506.2 per cent (CSBN) and 121.9 per cent as the average, the negative - from 0.3 per cent (NFBN) to 99.4 per cent (HSBK), and 38.7 per cent as the average.

¹⁴ Only deals with fulfilled settlements, including deals on purchase and sale of the state block of shares.

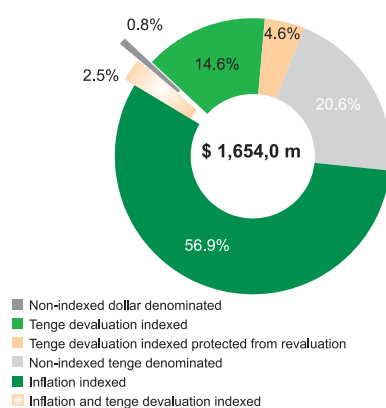
¹⁵ The corresponding index of the year 2004 is given in brackets.

¹⁶ The decoding of share identification codes is presented on the following web-site of the Exchange - http://www.kase.kz/instruments/nzb_code.html

Fig. 11. Dynamics of KASE_Shares index change in 2004 and 2005



Fig. 12. Instrumental structure of bond turnover on KASE in purchase-sale sector in 2005



Analytical data for dynamics of prices of listed stocks, traded on KASE open market in 2005, are presented in Table 13. The data on KASE market estimation is the most representative and conservative on Kazakhstan share market, which is not notable with the liquidity of stocks traded on it and has big volatility of prices and quotations. Method of quotations fluctuations smoothing is considered in market estimation mechanism, this does not let anomalous values of separate bid prices considerably influence upon results of the estimation. Precisely on this reason, the basis of the ranking mentioned in the table is the change of stock prices, calculated in accordance with internal KASE Securities Estimation Methods, and shares in the tables are sorted mainly in descending order of this indicator. The problems on stocks liquidity on KASE, which are well illustrated by the ranking, considerable reduce investment attractiveness of shares traded on Kazakhstan Stock Exchange. At the same time, results of researches allow to say about coming out of Kazakhstan organized share market in 2005 to qualitatively new level, due to which it becomes more attractive for retail investor - physical persons, who wish to join exchange's playing with stocks having rather small volume of money, comparable with volumes of compulsory quotations of market-makers.

The bond trading sector

The number of trades in this sector grew more than 2 times compared to 2004 totalling 2,638. The trade volume increased by USD 933.0 m (2.29 times), or by KZT 122.6 bn (2.25 times) totalling 1,654.0 m US Dollar, or KZT 220.5 bn. The number of bond titles traded reached 115, while in 2004 they did not exceed 83.

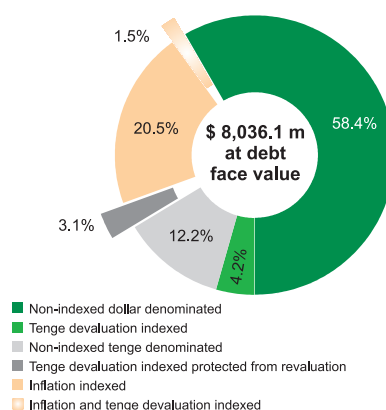
During the reporting year, this sector developed along the same lines as before. Investors preferred securities of the highest investment quality, i.e. bonds within Category A of the KASE official listing (Figure 9).

The turnover structure, as presented on Figure 12, did not correspond to the corporate debt structure (Figure 13). First and foremost, this was due to the Kazakhstan Tenge appreciation against US Dollar resulting in lower yields of bonds denominated in US Dollars and of those indexed to changes in Kazakhstan Tenge/US Dollar exchange rate on the secondary market.

As presented on Figure 12, the market participants showed more regard for the bonds, whose coupon rate was linked to Kazakhstan Consumer Price Index. Non-indexed denominated in Kazakhstan Tenge bonds enjoyed relatively high demand, as well as bonds protected against Kazakhstan Tenge revaluation (the grey and beige colours on the diagram).

In 2005, KASE bond market was different from the previous year in terms of pricing. Changes in "clean" prices and KASE_BC index that characterises them during 2005 are shown in Figure 14. Corporate bond yields in index terms practically did not change (Figure 15).

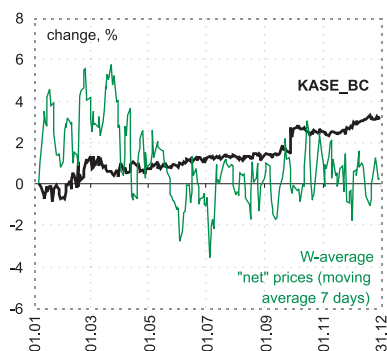
Fig. 13. Instrumental structure of KASE's official bond list as at January 1, 06



The State Blocks of Shares trading sector

During 2005 the Kazakhstan Ministry of Finance sold two state blocks of shares: Joint Venture Vasilkovskoye Zoloto JSC (Almaty) and Kazzinc (Ust-Ka-

Fig. 14. Change of KASE_BC index and corporate bonds weighted average "net" prices on KASE in 2005



menogorsk). Centre for Information and Accounting JSC acted as authorised broker in the sale of the corresponding blocks.

State block of shares of Joint Venture Vasilkovskoye Zoloto JSC was put for sale in a single undivided board lot on July 28, 2005. It consisted of 107,906 of common shares KZ1C49770015 (5.0 per cent of total shares offered at the time of the auction), trade code NZ_VGOK_5. In the same day, July 28, this board lot was sold for KZT 296,741,500.00 or 2,186,585.37 US Dollar at current KASE exchange rate for that day (135.71 Kazakhstan Tenge against US Dollar). The price of deal was KZT 2,750 per share (20.26 US Dollar).

All bids were made by one KASE member, the bid-prices varied from KZT 2,710.00 to KZT 2,750.00 per share.

For preparation of the sale, State Block of Shares of Kazzinc JSC, consisting of 1,032,183 common shares (5.0 per cent of the total shares actually placed by the time of the auction), was divided into two parts:

- ✦ 825,747 shares (80.0 per cent of state block of shares subject to sale, or 4.0 per cent of total placed shares of Kazzinc JSC, trade code NZ_KZZN_4)
- ✦ 206,436 shares (20.0 per cent of state block of shares subject to sale, or 1.0 per cent of total placed shares of Kazzinc JSC, trade code NZ_KZZN_1)

Both board lots were offered for sale on August 5, 2005. Trades in NZ_KZZN_4 were conducted under specialised trading, order of which is stipulated by the Article 9 of KASE internal Provision on Methods of Conducting Trades. Trades in NZ_KZZN_1 were held within trading session of corporate securities by continuous order-driven auction in accordance with the Article 4 of abovementioned Provision.

Tab. 13. Shares ranking, based on change of their market rate in 2005

Share symbol	Issuer's short name	Price change, % APR		Volume of deals, th USD	Number of deals
		at KASE's market valuation	at weighted average price		
HSBK	Halyk savings bank of Kazakhstan JSC	1,113.9	1,442.7	7,592.5	32
KZZN	KAZZINC JSC	368.8	261.9	3,028.4	72
AMGZ	CNPC-Aktobemunaygas JSC	294.8	312.1	284.0	46
KZTK	Kazakhtelecom JSC	205.7	271.1	4,772.6	59
CSBN	BANK CASPIAN JSC	189.7	506.2	237.1	35
BTAS	Bank TuranAlem JSC	141.9	427.3	3,568.7	28
KZTKp	Kazakhtelecom JSC	127.7	145.7	188.2	10
KKGB	Kazkommertsbank JSC	119.9	212.5	42.3	16
NRBN	Nurbank JSC	100.7	39.7	369.2	1
ASFI	Astana-finance JSC	91.4	70.0	2,146.0	148
KANT	Kant JSC	75.0	X	6.1	1
NRBNp6	Nurbank JSC	68.9	41.3	7.8	1
TEBNp	Temirbank JSC	65.6	X	70,452.8	178
ORDB	Corporation Ordabasy JSC	59.3	51.8	5,510.0	7
ORDBp	Corporation Ordabasy JSC	58.0	82.9	6,858.7	12
CCBN	Bank CenterCredit JSC	56.5	97.0	11,232.3	68
CSBNp	BANK CASPIAN JSC	49.1	75.4	6.8	10
BTASp	Bank TuranAlem JSC	47.9	180.5	15.7	2
ATFB	ATFBank JSC	38.9	350.0	3,037.1	6
ATFBp	ATFBank JSC	38.3	23.7	1,221.6	10
KKGBp	Kazkommertsbank JSC	27.1	9.3	10,776.6	242
ALKS	ALMATY KUS JSC	20.0	66.7	3,152.8	14
TSBNp	Tsesnabank JSC	16.7	25.0	7.4	1
HSBKp	Halyk savings bank of Kazakhstan JSC	16.7	16.3	198.6	6
HSBKp7	Halyk savings bank of Kazakhstan JSC	16.7	X	0	0
ATFBp8	ATFBank JSC	15.7	10.6	27,246.1	13
TXBN	TEXAKABANK JSC	7.4	X	0	0
VTBNp	Valut-Tranzit-Bank JSC	2.2	1.5	3,414.3	35
VTBN	Valut-Tranzit-Bank JSC	1.0	9.4	12,821.1	48
TEBN	Temirbank JSC	0.6	0	24,509.1	53
ROSA	ROSA JSC	0.5	12.0	5,551.0	28
ALKSp	ALMATY KUS JSC	0	X	1.2	1
ALKSp3	ALMATY KUS JSC	0	X	0.038	1
TSBN	Tsesnabank JSC	0	0	1,187.6	9
UTMKp	Ust-Kamenogorsk titanium-magnesium combine JSC	0	120.0	22.7	2
UTMK	Ust-Kamenogorsk titanium-magnesium combine JSC	-0.9	0	136.4	2
HRLT	CHARALTYN JSC	-5.5	52.3	10,680.0	22
ASBN	Alliance Bank JSC	-6.8		2,499.3	8

HSBK – inclusive of split; TEBNp – till June of 2005 market deals were absent.

Fig. 15. Change of KASE_BY corporate bonds yield index in 2005 (% APR)



The board lot NZ_KZZN_1 was sold on August 5, 2005 for KZT 682,993,506.00 or USD 5,038,311.49 at KASE current exchange rate for that day (135.56 Kazakhstan Tenge versus US Dollar), at price of KZT 3,308.50 per share (24.41 US Dollar). The board lot NZ_KZZN_4 was sold on the next business day, August 8, 2005, for KZT 2,899,197,717.00 or 21,344,310.66 US Dollar at KASE current exchange rate for that day (135.83 Kazakhstan Tenge versus US Dollar), which corresponds to the price per share of KZT 3,511.00 (25.85 US Dollar). For purchasing these two lots 89 bids were made from two KASE members. Bid-prices varied from 1,950.00 to KZT 3,511.00 per share.

Fig. 16. Dynamics of Kazakhstan debt, issued as GS, for the last 8 years¹⁷

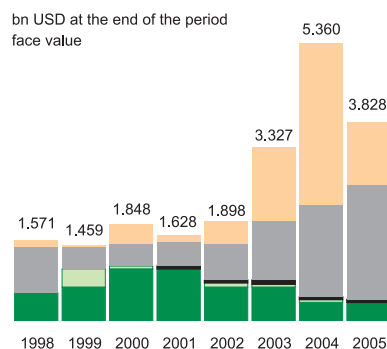
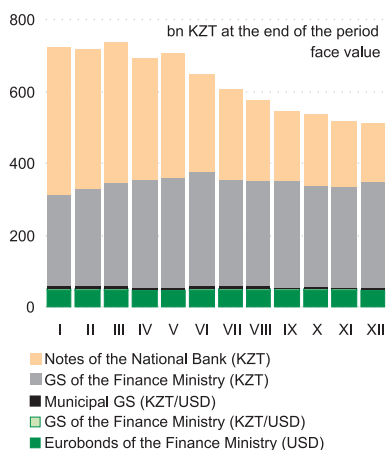


Fig. 17. Change of GS market capitalization and instrumental structure in 2005



THE GOVERNMENT SECURITIES MARKET

MARKET OVERVIEW

The reporting year on Kazakhstan government securities market was characterised by new trends. For the first time in history the capitalization of this sector significantly decreased. In US Dollar terms this decline estimated in USD 1.532 bn or 28.6 per cent (Figure 16). In Kazakhstan Tenge terms the volume of outstanding government securities, including bonds of local executive authorities, dropped in nominal terms by KZT 184.8 bn or 26.5 per cent.

The main contribution in the decrease of the sector capitalization was made by the National Bank of Kazakhstan, who from the mid-year put significantly less emphasis on sterilisation of the market from "excessive" money through issuance of its short-term bonds. This was determined by two circumstances.

First, changed from summer 2005, US Dollar internal market environment did not require NBK to make large interventions of Kazakhstan Tenge in the trades in US Dollar. This allowed to NBK not to consider its short-term bonds to be the one of the main instruments for sterilisation of the excess liquidity of Kazakhstan Tenge, and enabled an attempt for regulation of the market through interest rates, real rates at money market, as well as changing reserve requirements to the second-tier banks. For this reason, the volume of outstanding bonds began to rapidly decline from summer 2005 and stabilised only at the end of the third quarter 2005 (Figure 17), when the trend of appreciation Kazakhstan Tenge versus US Dollar became vital again. According to the data of IRBIS agency, in 2005 the volume of issue of government securities of the National Bank of Kazakhstan amounted KZT 1,960.2 bn (in 2004 - KZT 561.9 bn, comparatively). At that, the issuer redeemed its liabilities, including in advance, at the amount of KZT 2,210.3 bn (KZT 374.8 bn). Thus, the NBK's balance of the net borrowing on the government securities market came up to minus KZT 250.0 bn, while the according balance in 2004 was KZT 181.1 bn¹⁸.

Second, the Kazakhstan Ministry of Finance kept its promise, given in 2004, on introducing new long-term bonds to the market, issued for accumulative pension funds, whose profits were biased to the inflation level. According to the new Rules of Issuance, Placement, Servicing, and Redemption of Government Treasury Bills of the Republic of Kazakhstan, which will be described below, the MEUJKAM began to float at the market. This enabled the Ministry of Finance, despite the absence of objective demand for state budget financing from issue of government securities, to keep the rate of growth of its indebtedness to investors at the level of previous three years (Figure 16). The balance of net borrowing of the Ministry of Finance in 2005 is estimated by IRBIS agency at plus KZT 41,407.7 m, while in 2004 the balance was plus KZT 838.3 m.

The growth of issuing activity of the Ministry of Finance was the additional factor, which influence enabled NBK to reduce its indebtedness.

The saturation of the market by more long-term, and thus more profitable, government securities effected in extension of the period of outstanding debt. The new MEKAM became an object of investing for mainly pension market participants, who, as well-known, prefer to hold attractive securities until maturities. The NBK's bonds attracted pension assets investment management organizations and accumulative pension funds to less extent due to short maturities and low yields. The stock broking of bonds, bought by banks on auctions, by pension asset managers was no longer the main scheme for the government securities secondary market. All this led to slump of government securities liquidity on the secondary market in 2005 and had negative effect on the volume of according trades in the reporting period¹⁹.

¹⁷ KASE evaluation by the official rate.

¹⁸ The "minus" sign in the balance data showed that the indicated amount has been withdrawn from the budget of issuers and remained at investors; "plus" shows amount borrowed by investors which is more than repaid.

¹⁹ Please, see the section "Kazakhstan share market in 2005".

MAIN EVENTS

The main events mostly affected the environment and organization of KASE government securities market in 2005 were as following.

From January 1, 2005 the Rules of Issuance, Placement, Servicing, and Redemption of Government Treasury Bills of the Republic of Kazakhstan, approved by the Resolution of the Government of the Republic of Kazakhstan #941, dated September 8, 2004 were put into force. According to these rules, from the beginning 2005 the Ministry of Finance was authorised to issue the following securities: MEKKAM, MEOKAM, MEUKAM, MOIKAM, MUIKAM, MEUJKAM²⁰.

The new MEKKAM did not differ from earlier issued. As before, they represented discounted non-indexed bonds with par value of KZT 100 and with maturity till 12 months, divisible by 3 months. The bond timely basis is actual/actual.

The new MEOKAM differed from already outstanding homonymous securities by maturity, which limited to 5 years, and by timely basis of 30/360. The par value remained at KZT 1,000. The bond holders shall receive semi-annual coupon at fixed rate, which is the subject of trades at initial offering.

MEUKAM are the brand new bonds. Their par value is KZT 1,000 and maturity exceeds five years and shall be divisible by one year. The bonds are featured by fixed coupon interest rate, which is payable once annually, and shall be the subject of trades at bonds offering.

MOIKAM are mostly similar to already outstanding MEIKAM. Unlike them, MOIKAM maturity shall be divisible by six months, be more than one year and not more than five years; timely basis is 30/360, and coupon interest is paid to investors once in half-year. The calculation procedure of interest for inflation is similar to MEIKAM (although slightly different formulae are applied), and the subject to trade in market offering of the bond shall be the fixed (minimal guaranteed) coupon rate.

MUIKAM are designed in similar manner. Unlike MOIKAM, the maturity of these bonds is more than 5 years divisible by 12 months, and investors shall receive interest once a year.

One of the most interesting innovation, stipulated by the new rules is MEUJKAM. These securities are similar by their structure, par value and debt servicing method to MUIKAM, although they should be offered compulsorily only among Kazakhstan accumulative pension funds and floated during first half of maturity period preset by the bond structure only among investors of this category. During the second half of their maturity period the bonds may be traded without restrictions. The Rules set the volume of issued MEUJKAM should not exceed 30 per cent of the total volume of issued state treasury bonds during appropriate year.

According to the new rules the treasury bonds shall be offered via auction, additional placement, subscription and other ways, set by the internal rules for treasury bonds placement.

Other significant innovations in the Rules are described below.

The notion of government securities issuer's financial agent is worded as "legal entity performing treasury bond offering on behalf of and on instruction of the issuer, according to concluded agency agreement". This implies, that from that moment KASE could operate as financial agent, and initial offering of government securities of the Ministry of Finance might be conducted on exchange platform according to appropriate exchange rules, which took place in 2005. For the first time in Kazakhstan history, **all of government securities of the Ministry of Finance were offered via KASE trades in the reporting period.**

The notion of primary dealer is also luring attention. In the new Rules, this is "the professional securities market participant admitted in accordance with established order to participate in government securities offering". This provision allowed considering all KASE members of Category K as primary dealers of the Ministry of Finance in offering securities on exchange. That is to say, that from that moment receiving primary dealer status had not been bound to any obliga-

²⁰ Abbreviations expansions are in the list of shortenings of the report.

tions and procedures. Accordingly, the list of primary dealers significantly expanded. Whereas before, this list comprised mainly large banks (pension asset managing companies are prohibited to take liabilities), then with introduction of the new Rules all members of Category K were enabled to participate directly in offering securities of the Ministry of Finance.

From January 1, 2005, according to the new Rules of Issuance, Placement, Servicing, and Redemption of Government Treasury Bills of the Republic of Kazakhstan, the KASE internal Calculation Procedure of Bond Yield and Amounts of Deals with Bonds was amended by Annex #2. The class-list of securities types of the Government of the Republic of Kazakhstan, which are stated in this Procedure, were put into accordance with the abovementioned Rules by these amendments.

From January 1, 2005, the Amendment #3 to KASE internal Order of Trades and Work of Confirmation System took effect. The amendment fixed that government securities quotation modes (at "net" and "gross" prices) on KASE shall be determined by KASE internal documents and decisions of the Board, made in connection with the beginning of floating these bonds on KASE.

From January 24, 2005, KASE internal Rules of Placement of Government Treasury Bonds of the Republic of Kazakhstan were put into force. They received approval from Exchange Council on December 29, 2004, and agreement from the National Bank of Kazakhstan on January 20, 2005, and from AFS - on January 21, 2005. Introduction of these Rules enabled KASE to conduct initial offering of government securities of the Ministry of Finance.

On January 27, 2005 the Ministry of Finance performed the first initial offering of MEUJKAM to Accumulative pension funds on KASE.

From February 16, 2005 the amendment #4 to KASE internal Securities Estimation Methods became effective. By this amendment, the MEUJKAM, which maturities were more than 1,460 days from the date of their valuation, were delisted from the fourth estimation group and transferred into the fifth group.

From April 1, 2005 the National Bank of Kazakhstan turned to offering bonds with one maturity period only, which is 28 days. The exceptions were offerings of November 18 (27 days) and December 15 (29 days).

On April 29, during specialised trading in MEUJKAM, KASE made the opportunity for market participants to bid with negative fixed coupon rate. Presuming from demand parameters, this opportunity was fully realised.

From July 1, 2005 the Appendix # 2 "Specification of the market-maker's status for the Exchange members of Category K" to KASE internal Market-Makers Activity Rules was amended. By this amendment, the spread between obligatory quotations on purchase and sale (on difference in absolute terms between levels of yield to maturity quotations on bid and ask) was reduced from three to two percent points for market-makers on government securities. This innovation was not realised on the market because of absence of market-makers on government securities on KASE in 2005.

From July 1, 2005 the National Bank of Kazakhstan in declaration of placement parameters for its short-term bonds began to state not indicative raising volume, but real volume of money, which the issuer intended to raise from sale of bonds. Starting from July 29, as a rule, this indicator did not significantly differed from the actual volume of raising.

THE PRIMARY MARKET

Methods of introducing Government Securities to the market in 2005 did not change. The primary offering of the securities of the Ministry of Finance and National Bank of Kazakhstan was still carried out through correspondence auctions organized by the with intermediation of the Ministry of Finance Primary Dealers and National Bank of Kazakhstan Primary Agents. The auctions were conducted once a week on Fridays if the transfer of week-ends and celebrations did not intervene them. During 2005 the National Bank of Kazakhstan undertook 52 offerings, from which 51 were effective (the placement of notes-35 of January 28 was held invalid). The bonds maturities varied from 14 (March 25, 2005) to 182 (January 7, 2005) days. These auctions raised KZT 1,960.2 bn tenge, average of KZT 37.7 bn for one placement. The largest volume raised

Tab. 14. Main parameters of the primary market of NBK notes in 2005

Circulation period, days	Number of auctions	Volume, m KZT at face value	Volume of borrowing, m KZT	Weighted average yield, % APR		
				mini-mum	maxi-mum	weighted average
14	1	16,894.3	16,879.1	2.35	2.35	2.35
27	1	55,092.3	55,000.0	2.30	2.30	2.30
28	40	1,702,302.5	1,699,424.7	1.96	2.35	2.21
29	1	43,072.8	43,000.0	2.14	2.14	2.14
35	3	58,008.7	57,875.3	2.40	2.40	2.40
42	1	6,667.5	6,648.2	2.53	2.53	2.53
49	2	54,075.6	53,894.4	2.47	2.54	2.50
56	1	13,307.3	13,255.4	2.55	2.55	2.55
182	1	14,499.2	14,261.4	3.34	3.34	3.34
TOTAL	51	1,963,920.2	1,960,238.4	1.96	3.34	2.24

was recorded on May 27, 2005 (KZT 89.7 bn), the minimal was on January 21, 2005 (KZT 6.7 bn). The more detailed data are presented in Table 14 and Figure 18.

The Exchange Primary Market

As mentioned before, the feature of 2005 is that all the bonds of the Ministry of Finance were offered on KASE. The order of those offerings was regulated by aforementioned KASE internal Rules of Placement of Government Treasury Bonds of the Republic of Kazakhstan. During reporting year these Rules were not amended.

Eight specialised trades in MEKAM were conducted on KASE in 2005, including one repeated auction on additional placement of earlier issued bonds. The Ministry of Finance raised KZT 122,778,850,137.69 (USD 928,858,027.29 at current to that day exchange rate). The parameters of trades and sold bonds are shown in Tables 15 and 16.

Thirty two KASE members took part in trades in the government securities of the Ministry of Finance, who participated in specialised trades on behalf of themselves and their clients, acting as Primary Dealers of the Ministry of Finance according to the new Rules. At that, the share of Pension assets investment management organizations (including Accumulative pension funds) was 54.05 per cent of total volume of trades on the primary market, share of Kazakhstan banks²¹ was 36.67 per cent, broker-dealer organizations' share was 9.27 per cent, and other - 0.01 per cent.

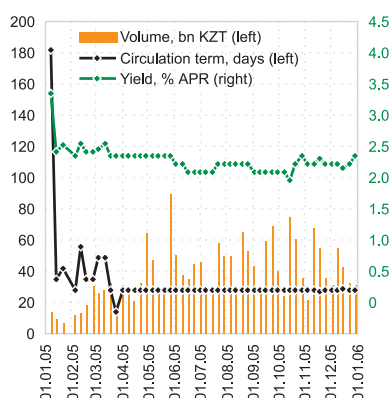
Assuming custody accounts of KASE Primary Dealers, banks purchased 35.29 per cent of bonds traded on specialised trades, their clients bought 1.37 per cent, Pension assets investment management organizations acquired 62.03 per cent in exchange of their pension assets, broker-dealer organizations purchased 0.09 per cent, their clients - 1.22 per cent²².

The most active among Primary Dealers of the Ministry of Finance on KASE in 2005 became Pension Assets Investment Management Organization Zhetysu JSC. Its share amounted 21.5 per cent of the total bought on specialised trades bonds. The second place took Accumulative Pension Fund of Halyk bank of Kazakhstan JSC (19.4 per cent), the third - Development Bank of Kazakhstan JSC (14.5 per cent).

THE SECONDARY MARKET²³

As in previous years, trades in the secondary market government securities were run both on KASE and over-the-counter market. According to KASE and Central Securities Depository, the stock exchange and over-the-counter trades volume did not exceeded KZT 647.6 bn with the decrease of KZT 137.1 bn as compared to 2004 due to aforementioned reasons. The share of the exchange turnover was slowly reducing (Figure 19), which can be explained by the following. As it will be described below, the main turnover on the secondary market fell

Fig. 18. Main parameters of NBK note primary market in 2005



²¹ Including the National Bank, who executed orders of its clients, and Development Bank of Kazakhstan JSC.

²² The shares are calculated from amounts of executed deals.

²³ All data in this section include exchange turnover of bonds of the local executive bodies, which had the status of government securities in Kazakhstan. The more detailed description of these securities market is presented in special section of the report.

Tab. 15. Results of offering of coupon GS of the Ministry of finance of Kazakhstan on KASE in 2005

Date of trades	Jan 27, 05	Feb 23, 05	Apr 29, 05	May 25, 05	Dec 27, 05	Dec 30, 05*
Security type	MEUJKAM-120	MEOKAM-36	MEUJKAM-180	MEOKAM-60	MEOKAM-48	MEOKAM-48
NIN	KZKAKY100014	KZK2KY030627	KZKAKY150019	KZK2KY050260	KZK2KY040345	KZK2KY040345
Issue number	1	62	1	26	34	34
KASE symbol	MUJ120_0001	MOM036_0062	MUJ180_0001	MOM060_0026	MOM048_0034	MOM048_0034
Time basis	30/360	30/360	30/360	30/360	30/360	30/360
Circulation start date	Jan 27, 05	Feb 23, 05	Apr 29, 05	May 25, 05	Dec 27, 05	Dec 27, 05
Maturity date	Jan 27, 15	Feb 23, 08	Apr 29, 20	May 25, 10	Dec 27, 09	Dec 27, 09
Circulation period	10 years	3 years	15 years	5 years	4 years	4 years
Coupons per year	1	2	1	2	2	2
Coupon rate	subject of trade	subject of trade	subject of trade	subject of trade	subject of trade	3.50% APR
Coupon payments dates	**	Feb 23, Aug 23	**	May 25, Nov 25	Jun 27, Dec 27	Jun 27, Dec 27
Declared volume, m KZT	18,000.0	18,000.0	14,000.0	16,000.0	12,000.0	10,000.0
Subject of trade ("price" in bids)	fixed coupon rate	coupon rate	fixed coupon rate	coupon rate	coupon rate	net price
Offering price, KZT per bond	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	
Bids submission method	open	open	closed	closed	closed	closed
Bids satisfaction at the price	cut-off	cut-off	cut-off	cut-off	cut-off	submitted
Market bids limit, %	30	30	10	10	10	10
Number of primary dealers	8	26	9	20	20	12
Submitted bids (total / confirmed):	84 / 39	159 / 75	103 / 69	147 / 99	84 / 68	41 / 31
limited	58 / 23	127 / 53	93 / 59	120 / 81	72 / 59	37 / 29
market bids	26 / 16	32 / 22	10 / 10	27 / 18	12 / 9	4 / 2
Volume of confirmed bids, m KZT:	45,690.0	55,521.7	59,965.0	51,238.3	39,713.1	13,583.4
limited	27,275.0	42,394.5	45,340.0	39,323.3	33,363.1	12,253.7
number of market bids	18,415.0	13,127.2	14,625.0	11,915.0	6,350.0	1,329.7
Bid to offer, %	253.8	308.5	428.3	320.2	330.9	724.8
Bid prices:						
minimum	+0.01% APR	3.50% APR	-0.64% APR	3.85% APR	2.80% APR	96.0100%
maximum	+0.50% APR	7.00% APR	+0.30% APR	6.00% APR	6.00% APR	101.6900%
weighted average	+0.1984% APR	3.1891% APR	+0.0361% APR	4.2795 APR	3.8590% APR	98.4657%
Yield on submitted bids, % APR:						
minimum	7.02***	3.50	6.80***	3.85	2.80	3.05
maximum	7.51***	7.00	7.74***	6.00	6.00	4.61
weighted average	7.21***	3.1891	7.4761***	4.2795	3.8590	3.9159
Volume of satisfied bids, KZT	22,190,000,000.00	18,777,117,000.00	14,000,000,000.00	16,000,000,000.00	12,000,000,000.00	5,811,733,277.90
Volume of satisfied bids, bonds	22,190,000	18,777,117	14,000,000	16,000,000	12,000,000	5,807,778
Set coupon rate, % APR	CPI + 0.01	3.78	CPI + 0.00	4.05	3.50	
Net offering prices, %:						
minimum (cut-off):	100.0000	100.0000	100.0000	100.0000	100.0000	99.9998
maximum	100.0000	100.0000	100.0000	100.0000	100.0000	101.6900
weighted average:	100.0000	100.0000	100.0000	100.0000	100.0000	100.0389
Yield of offered bonds to maturity for a buyer, % APR:						
minimum	7.02***	3.78	7.44***	4.05	3.50	3.05
maximum	7.02***	3.78	7.44***	4.05	3.50	3.50
weighted average	7.02***	3.78	7.44***	4.05	3.50	3.4894

General characteristics: bonds face value – 1,000.00 tenge; settlement scheme T+0

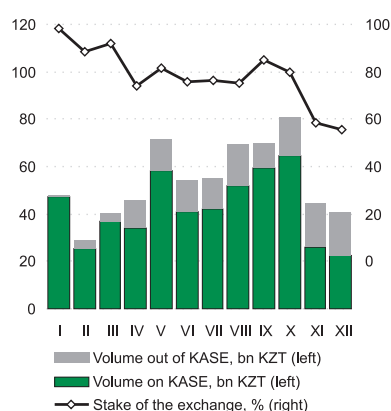
Notes:

* the so called "repeated auction", i.e. additional offering of bonds issued before

** on the fifth business day of the month in every 12 full calendar months of circulation

*** forecasted yield, calculated at the current inflation rate effective by the moment of offering

Fig. 19. Volume of GS purchase-sale deals on the secondary market and stake of exchange turnover in 2005



at the notes of the National Bank of Kazakhstan. During reporting year the interest from pension asset managing companies to these securities significantly decreased. Accumulative pension funds and Pension assets investment management organizations bought the notes from Primary Agents of the National Bank of Kazakhstan less willingly if compared to 2004. At the same time, all trades involving pension assets should be run on open organized market according to effective legislation. Therefore, the fall of interest from pension managing companies to these notes caused the reduction of the share of exchange turnover on the government securities market.

It is necessary to note, that due to decreasing liquidity of government securities, the bonds of this type much less used in so called closing entries of the year and quarters, and almost were not involved in "internal" transactions²⁴.

The stock exchange secondary market

There were 249 trade sessions on government securities were run on KASE in 2005 in whole. Trades were conducted from 11:30 to 18:00 ALT and all, without exceptions, resulted in actual sale of securities. In this sector, 2,110 (3,688) transactions²⁵ in 4,326,212,031 (5,868,232,990) bonds were registered within KASE Trading system. Daily trade volume varied from KZT 2.2 m or USD 17.1 th (KZT 47.8 m or USD 366.9 th) to KZT 18.4 bn or USD 138.7 m (KZT 36.2 bn or

²⁴ Deals where one KASE member acts as both buyer and seller.

²⁵ Only deals on which settlements have been fulfilled were registered. The data of the previous year are in brackets.

Tab. 17. Volume of GS trades on KASE in purchase-sale sector and stake of exchange market

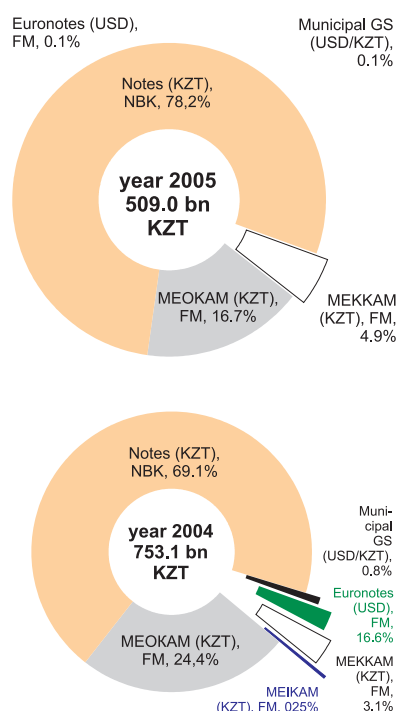
Mo- nth	Deals number	Volume, m USD	KASE bn KZT	stake, %
I	290	362.0	47.121	98.0
II	181	195.2	25.391	88.6
III	219	283.9	37.133	92.2
QI	690	841.0	109.645	93.7
IV	202	258.0	33.955	74.1
V	191	442.3	58.263	81.6
VI	187	305.7	40.906	75.8
QII	580	1,006.1	133.123	77.8
VII	161	308.5	41.835	76.6
VIII	117	384.7	52.130	75.3
IX	173	440.9	59.190	84.9
QIII	451	1,134.1	153.155	79.1
X	165	482.5	64.585	80.0
XI	113	192.4	25.809	58.3
XII	111	169.3	22.655	55.5
QIV	389	844.2	113.049	68.2
TOTAL				
2005	2,110	3,825.3	508.972	78.6
Reference:				
TOTAL				
2004	3,688	5,558.6	753.103	96.0
Trend:	-1,578	-1,733.2	-244.1	-17.4
%	-42.8	-31.2	-32.4	-18.1

Tab. 16. Results of offering of discount GS of the Ministry of finance of Kazakhstan on KASE in 2005

Date of trades	March 30, 05	June 29, 05
Security type	MEKKAM-12	MEKKAM-12
NIN	KZK1KM120836	KZK1KM120844
Issue ordinal number	83	84
KASE symbol	MKM012_0083	MKM012_0084
Offering date	March 30, 05	June 29, 05
Maturity date	March 30, 06	June 29, 06
Declared borrowing volume, m KZT	16,000.0	18,000.0
Number of participants - primary dealers	22	27
Number of submitted bids (total / active)	91 / 83	166 / 123
limited	72 / 66	143 / 107
market bids	19 / 17	23 / 16
Volume of active bids, m KZT	26,473.7	54,325.5
limited	17,343.7	48,355.2
market bids	9,130.0	5,970.3
Bid to offer, %	165.5	310.3
Bid prices, KZT per security:		
minimum	94.5000	93.0233
maximum	97.1440	97.5610
weighted average	96.7947	96.9335
Yield on submitted bids, % APR:		
minimum	2.94	2.50
maximum	5.82	7.50
weighted average	3.31	3.1635
Volume of satisfied bids, KZT:	15,999,999,938.23	17,999,999,921.56
Volume of satisfied bids, bonds:	165,060,928	184,949,867
Offering prices, KZT:		
minimum (cut-off)	96.6184	97.2000
maximum	97.1440	97.5610
weighted average	96.9339	97.3237
Yield of offered bonds to maturity for a buyer, % APR:		
minimum	2.94	2.50
maximum	3.50	2.88
weighted average	3.16	2.75

General characteristics: bonds face value – 100.00 tenge; time basis – actual/actual; circulation period – 1 year (365 days); subject of trade – price; bids submission method – closed; bids satisfaction method – at stated price; stake of market bids satisfaction – 10%; settlement scheme T+0

Fig. 20. Change of GS turnover structure in purchase-sale sector in 2004 and 2005



USD 278.3 m), reaching an annual average of KZT 2.0 bn or USD 15.4 m (KZT 3.0 bn or USD 22.1 m). Monthly average reached KZT 42.4 bn or USD 318.8 m (KZT 62.8 bn, or USD 1,389.9 m). Aggregated trade information is presented in Table 17.

The instrument structure of this segment in 2005 did not undergo principal changes in comparison to 2004 (Figure 20). It mostly formed by appropriate structure of outstanding debt (Figure 17). The overwhelming volume of exchange transactions fell at notes of the National Bank of Kazakhstan, which were used by market participants as the "standby instrument". Money is invested in such instrument for short period when more efficient investments are unavailable. As in 2004, volume of trades in MEOKAM did not depend on their offering volume (Figure 21). It can be explained by the fact that pension asset managing companies were primary investors in MEOKAM preferring to hold these securities in their portfolio until maturity.

There is nothing new to say about the secondary market dynamics of government securities yield to maturity in 2005. As in previous year, for internal securities it was mostly affected by the primary market prices, where yields were determined solely by the issuers. Due to the Ministry of Finance as well as the National Bank of Kazakhstan were interested in easing their debt servicing, they experienced the gradual decline in their primary market yields (Tables 15 and 16, Figure 18), which found its adequate reflection in their secondary circulation (Figure 22).

Yields of Kazakhstan Eurobonds virtually did not change in the course of 2005. The bonds of one issue were outstanding (XS0111078183, KASE trade code - ENU07.05, USD 350.0 m, 11.05.00 - 11.05.07, semi-annual coupon 11.125 per cent per annum), which were involved in 13 trades on KASE totaling USD 3,350,891.00 in nominal debt terms. The volume traded was KZT 501,281,009.75, which comprised less than 0.005 per cent of the total ex-

Fig. 21. Change of the structure of turnover and volume of GS purchase-sale deals on KASE in 2005

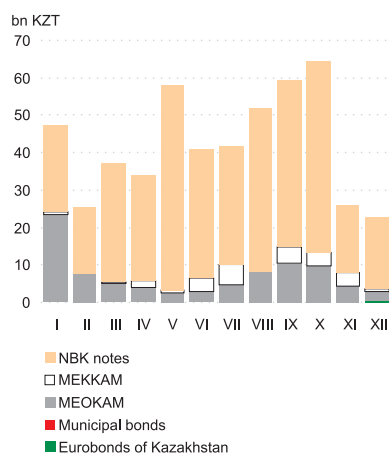
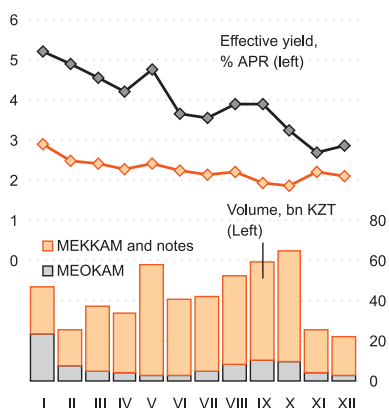


Fig. 22. Weighted average yield of MEKKAM and National Bank's notes on KASE's secondary market in 2005



change turnover for reporting year, or 0.099 per cent of the secondary market turnover of government securities on KASE. Negotiation-deals shared 38 per cent in quantitative terms and 18 per cent in terms of volume in this turnover. The deals were concluded in March (1), April (7), May (2), November (1) and December (2). The bonds' yield to maturity for buyers varied from 4.11 per cent to 5.01 per cent per annum and reached annual average of 4.61 per cent per annum.

These data allow to say that the liquidity on the exchange market of Kazakhstan Eurobonds was almost absent in 2005.

The Secondary government securities market continued to be controlled mainly by the banks²⁶. Their share in the gross turnover comprised 61.9 per cent (60.3 per cent in 2004, comparatively). Broker-dealer companies controlled only 8.5 per cent of the gross turnover (18.5 per cent as compared to 2004). The share of other trades participants did not exceeded 0.1 per cent. One can conclude that banks still represent the driving force behind the government securities secondary market in Kazakhstan by ensuring liquidity of government securities as opposed to accumulative pension funds that prefer to hold government securities in their portfolios until maturity.

In whole, 45 Category K KASE members participated in government securities trading on KASE in 2005 (46 in 2004). The level of monopolisation of this segment in 2005 is characterised by the following data. The trade share of the most active trade participant comprised 14.5 per cent (33.5 per cent)²⁷ of the gross turnover; the two most active participants occupied 27.3 per cent (46.0 per cent); the three most active participants - 37.7 per cent (53.8 per cent); five - 53.2 per cent (65.7 per cent). Thus, the monopolisation of the exchange secondary market of government securities apparently decreased as compared to 2004.

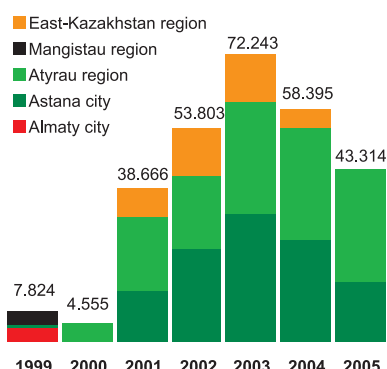
The most active participant in government securities trading was Halyk savings bank of Kazakhstan JSC (14.5 per cent of volume traded) in 2005. Accumulative pension fund of Halyk bank of Kazakhstan JSC held the second position (12.7 per cent), and Bank TuranAlem JSC - the third (10.4 per cent).

²⁶ In this case it is said about the trade participants, who are KASE members, but not real investors, whose bids were performed by the stock trades participants.

²⁷ The correspondent data of the previous year are shown in brackets.

THE MUNICIPAL BOND MARKET

Fig. 23. Dynamics of capitalization and structure of Kazakhstan municipal bond market for the last 7 years (in USD at the end of the period)



As it was mentioned in previous KASE annual report, the new Budget Code of the Republic of Kazakhstan put into force on January 01, 2005. In accordance with this Code, local executive bodies of oblast centres and capital cities can only borrow from the Government of the Republic of Kazakhstan. Other ways of borrowing are not stipulated, which means that municipal bond issuance is virtually prohibited.

For this reason, the new municipal securities were not issued during reporting period. Only earlier placed bonds of six issues floated on the market (Table 18). The securities of two issues, bonds of Akimat of East Kazakhstan Oblast KZF2KY030021 (KASE code VKU036.002) and bonds of Akimat of Astana city KZZ4KY030048 (AST036.004), were redeemed in 2005. According to the issuers, the bonds were redeemed on time and to the full extent. The redemptions resulted in the reduction of the total capitalization of the municipal bond market by 25.8 per cent (Figure 23).

During 2005 KASE regulatory framework, regulating municipal bond market, amended once. From July 1, the Amendment #2 to KASE internal Duties and Rights of Members of Kazakhstan Stock Exchange Inc. on Category K with a market-maker status on bonds of local Municipal Bodies became effective. Amendments provide for narrowing of a price spread between obligatory quotations of specialists and market makers for bid and ask quotes over bonds. For market makers on municipal bonds, spread between obligatory quotations bid and ask quotes (on difference in absolute terms between yield to maturity for bid and ask) has been lowered from three to two percentage points. Amendments are made with the purpose to enhance the liquidity of tradable bonds at KASE taking into account offers from securities market participants.

Trades in municipal bonds on KASE were conducted daily within the frames of the same trading session from 11:30 to 18:00 ALT. Municipal bonds were still required to be traded through market-makers. In 2005, the market did not differ in principal from 2004. According to Central Securities Depository all transactions with municipal bonds were conducted on the stock exchange. During reporting period 15 transactions to the amount of KZT 257.4 m or USD 1,934.3 thousand conducted on KASE. According figures for 2004 are KZT 5,878.1 m and USD 42,081.1 thousand, respectively. Out of six issues available on the market, bonds of five issues were traded. More detailed information is presented in Table 19.

In whole, this market segment was not well developed. This was conditioned by: 1) insignificant capitalization of the market, 2) relatively high risks that municipal bonds bore, 3) KZT appreciation against USD which affected par value of all municipal bonds without exception indexed to KZT/USD exchange rate, 4) little involvement of pension assets in the municipal bond market. The share of trades involving pension assets amounted 17.3 per cent of the gross volume of trades in municipal bonds in 2005. The market was mainly controlled by broker-dealer companies and their clients.

Tab. 18. Main parameters of municipal bonds, admitted to circulation on KASE in 2005

Symbol on KASE	NIN	Issue currency	issue	Date of maturity	Issue volume in issue currency	Coupon rate, % APR
VKU036.002	KZF2KY030021	USD	Aug 9, 02	Aug 8, 05	4,511,600	8.50
AST036.004	KZZ4KY030048	KZT	Oct 11, 02	Oct 9, 05	1,633,000,000	8.31
ARU060.003	KZE4KY050038	USD	Sep 25, 01	Sep 24, 06	5,887,100	8.60
AST048.005	KZZ4KY040054	KZT	Oct 11, 02	Oct 9, 06	967,000,000	8.50
AST048.006	KZZ4KY040062	KZT	Jun 26, 03	Jun 24, 07	1,299,978,300	8.50
ART060.004	KZE4KY050046	KZT	May 15, 03	May 13, 08	3,393,000,000	8.50

First two letters in KASE symbol are issuer's code: **AS** – Astana city akimat, **AR** – Atyrau region akimat, **VK** – East-Kazakhstan region akimat. All have semi-annual coupon, basis actual/365. Face value of tenge bonds is indexed on change of USD/KZT rate.

Tab. 19. Parameters of turnover of the secondary market of municipal bonds in 2005

Bond symbol on KASE	Deals volume		min.	Yield to maturity for buyer, % APR		Market stake, %
	m KZT	th USD		max.	WA	
VKU036.002	3.5	25.9	3.00	6.50	5.20	1.4
AST036.004	2	18	6.00	7.01	6.60	0.9
ARU060.003	200.6	1,499.4	4.75	10.17	7.73	77.9
AST048.006	51	391	10.05	10.05	10.05	19.7
TOTAL in 2005	257.4	1,934.3	3.00	10.17	8.14	100.0
Reference year 2004 on comparable exchange transactions:						
TOTAL	5,878.1	42,081.1	5.74	9.66	8.12	100.0

The most active municipal bonds traders on KASE were Almaty Investment Management JSC (37.1 per cent of the aggregate volume of trade), Accumulative pension fund SAPF JSC - 19.0 per cent, and TuranAlem Securities JSC - 18.0 per cent.

THE FOREIGN GOVERNMENT SECURITIES MARKET

This market segment was the youngest on KASE; Rules of Admittance of Foreign Government Securities to Circulation was approved by the Exchange Council on August 6, 2003, and came into force on August 7 of the same year.

Actually the market began functioning on August 11, 2004, when based on an application of TuranAlem Securities JSC and a letter from Central Securities Depository, the KASE Board admitted for circulation on the stock exchange two sovereign bonds issued within the frames of Russian Federation foreign debt: "Russia-2028" (XS0088543193, KASE trade code RU_01_2806) and "Russia-2030" (XS0114288789, RU_02_3003). TuranAlem Securities JSC acted as the market-maker of these bonds, the minimum amount of obligatory quote being USD 10,000 in nominal terms of the debt. Trades opened on August 11, 2004, when a new segment Foreign Government Securities Trading Sector was incorporated into the Trading system. Trades were conducted daily from 11:30 till 17:00 ALT. During 2005 this schedule was unchanged. There were no orders for admittance of other obligations to circulation on KASE.

Pursuant to the decision of the Exchange Council dated April 14, 2005 amendments to KASE internal Rules of admission of foreign government securities to circulation were made. Aforementioned amendment exclude from the text of the Rules regulations stipulating that procedures of admittance of foreign securities to trades on KASE are set equal to procedures on inclusion of corporate securities into official listing of the Exchange. Necessity in exclusion of those rules aroused when in 2003 amendments to the law of the Republic of Kazakhstan On banks and banking in the Republic of Kazakhstan were enacted. In accordance with those amendments second-tier banks obtained legal permission of making deals with international financial organization securities and foreign government securities. Amendments were introduced into effect after approval of Agency of the Republic of Kazakhstan for financial market and financial organizations regulation and supervision on May 25, 2005.

Unlike 2004, the reporting period was featured by the availability of trades in foreign government securities. There were 4 transactions held by negotiation-deals method involving only one participant, being the market-maker on these bonds. Therefore, it is impossible to insist on the market availability at this sector. Trade information is presented in Table 20.

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

Tab. 20. Parameters of deals with FGS on KASE in 2005

Date of deal	Symbol on KASE	Volume of debt at face value, USD	Net price, %	Forecasted yield, % APR	Amount of deal, KZT	Amount of deal, USD
Nov 7, 05	RU_01_2806	100,000	178.0000	6.26	24,512,429.50	182,996.86
Nov 7, 05	RU_02_3003	100,000	108.4861	6.53	14,623,440.00	109,170.88
Nov 24, 05	RU_02_3003	100,000	109.1950	6.54	14,732,630.00	109,945.00
Nov 24, 05	RU_01_2806	100,000	178.9819	6.20	24,695,449.60	184,294.40
TOTAL		400,000			78,563,949.10	586,407.15

THE IFO BOND MARKET

The order and the terms of admittance of international financial organization bonds to floating on KASE are regulated by KASE internal Rules of Admittance of Securities of International Financial Organizations to Circulation²⁸, which took effect on July 7, 2003. These Rules had been amended during 2003 - 2004 and mainly in order to avoid negative consequences of discrepancies between KASE standard documents and effective legislation.

During 2005 the KASE regulatory framework related to international financial organization bond market amended twice.

From May 25, 2005 the amendments were put into force, which resulted in exclusion from the text of Rules norms stipulating that procedures of securities of international financial organization (IFO) admittance to trades on KASE are set equal to procedures on inclusion of non government issue securities into official securities list of the Exchange. Necessity in exclusion of those rules aroused when in 2003 amendments to the law of the Republic of Kazakhstan On banks and banking in the Republic of Kazakhstan were enacted. In accordance with those amendments second-tier banks obtained legal permission of making deals with IFO securities and foreign government securities.

From July 1, 2005 the amendments KASE internal Duties and Rights of Members of Kazakhstan Stock Exchange Inc. on Category K with a market-maker status for bonds of International Financial Organizations, according to which the volume of obligatory quotations from market-makers should be not less than 10,000 units of the currency of the debt in nominal terms. At that, spread between obligatory quotations bid and ask quotes (on difference in absolute terms between yield to maturity for bid and ask) has been lowered from three to two percentage points. Amendments are made with the purpose to enhance the liquidity of tradable bonds at KASE taking into account offers from securities market participants.

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

Trades in IFO bonds were conducted on business days from 11:30 to 17:00 ALT in electronic trading platform holding open trades method. All participants traded via remote access.

Securities of the following issuers were admitted to trade in this sector: International Bank for Reconstruction and Development (IBRD), International Finance Corporation, European Bank for Reconstruction and Development, Inter-American Development Bank (IADB), Bank for International Settlements, Asian Development Bank (ASDB), African Development Bank, Islamic Development Bank, European Investment Bank, Scandinavian Investment Bank, European Council Development Bank.

Following the results of the year, one can say that IFO bond exchange market remained unattractive for investors. In the course of the reporting period, stock exchange members did not have any new IFO bonds admitted to KASE trades. For this reason, in 2005, the same securities were traded on KASE as in 2004

Tab. 21. Main parameters of IFO bonds, admitted to circulation on KASE in 2005

Security type	global note	global note	global note	debentures ²⁹
Issuer	IBRD	IADB	ASDB	IBRD
ISIN	XS0092711802	US4581X0AD07	US045167BH53	DE0001282705
KASE symbol	IBRDU251113	IADBU200912	ADB_U040912	IBRDD120405
Issue currency	USD	USD	USD	DEM
Issue volume	500 m	2,000 m	500 m	3 m
Issue date	Nov 25, 98	Sep 20, 02	Sep 4, 02	Apr 12, 95
Circulation period	15 years	10 years	10 years	10 years
Maturity date	Nov 25, 13	Sep 20, 12	Sep 4, 12	Apr 12, 05
Interest rate	5.500% APR	4.375% APR	4.500% APR	7.125% APR
Coupon payment	Nov 25, annually	Mar 20, Sep 20, annually	Mar 4, Sep 4, annually	Apr 12 annually
Time basis	30/360	30/360	30/360	30/360
Market-maker	TuranAlem Securities JSC			SAPF

²⁸ Hereinafter in this section, the Rules.

²⁹ A specific debt instrument.

Tab. 22. Parameters deals with IFO bonds on KASE in 2005 (IBRDD120405, ISIN – DE0001282705)

Date of deal	Number of bonds	Price, KZT per bond	Net price, % from face value	Yield to maturity, % APR	Amount of deal	
					KZT	USD
Mar 4, 05	12,000	139.3948	100.6152	1.22	1,120,729.19	8,601.81
Mar 4, 05	12,000	139.2643	100.5150	2.12	1,119,679.57	8,593.75

(Table 21), except for IBRD (ISIN - DE0001282705) Eurobonds that were redeemed on April 12, 2005.

For 2005 only two transactions with IFO bonds totalling KZT 2.2 m or USD 17.2 thousand were registered in KASE trade system (Table 22).

THE REPO MARKET

MARKET OVERVIEW

Fig. 24. Dynamics of TONIA index in 2005

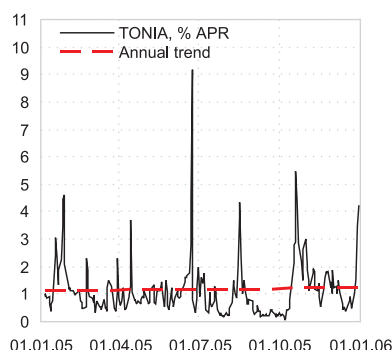
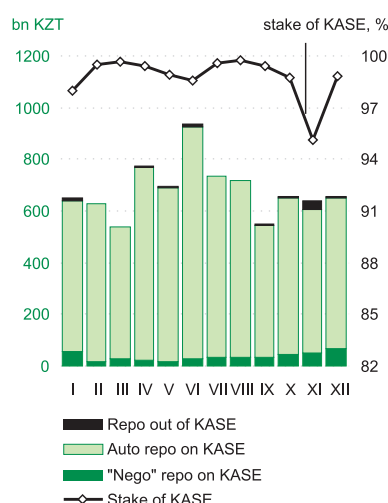


Fig. 25. Volume of repo market, turnover structure and stake of KASE in 2005



In 2005, this sector continued to be the leading one on Kazakhstan financial market in terms of trade volume. This sector remained, firstly, the main source of "short money" to deal with short-term liquidity problems, secondly, an investment object for temporarily free money, and, thirdly, the National Bank of Kazakhstan monetary policy instrument.

As in 2004, during whole reporting year the excessive liquidity of Kazakhstan Tenge existed on the financial market causing continuous decline of cost of the "short" money. The TONIA index³⁰ demonstrate apparent periodicity in its dynamics which had depended on the schedule of budget payments. The specific distinction of 2005 from 2004 was the cease of further reduction of the repo "overnight" rates. On one hand, this was determined by the tightening of monetary policy from the National Bank of Kazakhstan, on the other hand - very low level of rates. It is enough to note, that during reporting period money was placed for 24 hours at 0.001-0.01 per cent per annum.

The main events of 2005 comprise the refusal of the National Bank of Kazakhstan from July 1, 2005 from performing direct repo transactions, which was officially announced by Anvar Saidenov, the Chairman of the National Bank of Kazakhstan. The shortage of securities in the National Bank's portfolio and weak effect of such transactions on repo rate were stated as the reasons for that.

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

In the reporting year, two sectors operated on KASE: the "direct" repo sector, for conducting transactions in which the trade participants agree in advance the parameters of the transaction and then conclude it on KASE, and the automatic repo sector, where money lots are openly traded and the repo rates are used as a basis for supply and demand prices. The government and corporate securities could be used as objects of repo operations. More detailed description on these sectors is presented in previous KASE annual reports.

Over-the-Counter repo operations with government and corporate securities were conducted by means of direct trades with registration them with the CD. Operations of this type were declared by the parties and registered with the CD as repo and mortgage operations (mortgage opening and closing operations), as well as pledge operations.

According to the KASE data, the total volume of Kazakhstan's repo market reached KZT 8,189.0 bn, and grew 40.3 per cent³¹ compared to 2004. Due to the fact that reliable information on the over-the-counter repo market is obviously not available in Kazakhstan, the over-the-counter volume is not taken into consideration.

The share of repo operations conducted on KASE in 2005 kept increasing. Following the results of reporting period this indicator reached 98.8 per cent, while in 2004 it was 97.3 per cent, and in 2003 - 94.6 per cent (Figure 25, Table 23).

THE STOCK EXCHANGE REPO MARKET

This market segment was regulated by the KASE internal documents Rules of Conducting Repo Operations and Specification of the automatic repo sector, put into force on December 24, 2002. Evaluation of stock and bonds used in repo operations was carried out in accordance with the KASE internal Methodology of evaluation of securities used in repo operations.

For the reporting period the Specification of automatic repo market amended twice.

³⁰ Tenge OverNight Index Average is "overnight", an average weighted repo rate, formed at the share market of automatic repo of state securities.

³¹ The CD data on repo over-the-counter market of government securities and total turnover of the repo market with corporate and government securities on KASE.

Tab. 23. Volume and sectoral structure of repo market turnover on KASE in 2005, stake of exchange market

Month	Volume of opening and closing deals, bn KZT (unless otherwise specified)							Stake of exchange market, %
	"nego" repo			auto repo			TOTAL	
	CS	GS	total	CS	GS	total	m USD	bn KZT
January	16.578	37.479	54.057	9.654	575.114	584.8	4,910.0	638.824
February	13.260	4.148	17.408	8.844	599.276	608.1	4,807.8	625.529
March	17.240	10.999	28.238	7.957	500.923	508.9	4,110.5	537.119
I quarter	47.078	52.626	99.703	26.455	1,675.313	1,701.8	13,828.3	1,801.472
April	19.012	6.093	25.105	17.815	727.954	745.8	5,869.3	770.873
May	13.958	5.569	19.526	10.208	660.234	670.4	5,248.6	689.968
June	23.429	6.107	29.536	12.683	883.188	895.9	6,903.9	925.407
II quarter	56.398	17.769	74.167	40.705	2,271.376	2,312.1	18,021.8	2,386.248
July	28.881	3.176	32.058	18.337	681.892	700.2	5,397.9	732.287
August	30.773	1.277	32.049	29.526	656.587	686.1	5,299.7	718.163
September	29.531	4.249	33.781	18.400	492.134	510.5	4,054.2	544.315
III quarter	89.185	8.702	97.888	66.264	1,830.614	1,896.9	14,751.8	1,994.765
October	38.737	4.946	43.683	29.988	576.119	606.1	4,854.1	649.789
November	46.448	6.159	52.607	33.030	522.342	555.4	4,534.0	607.979
December	62.392	3.596	65.988	73.642	510.539	584.2	4,858.2	650.169
IV quarter	147.577	14.701	162.279	136.660	1,609.000	1,745.7	14,246.3	1,907.938
Total in 2005	340.239	93.798	434.037	270.084	7,386.302	7,656.4	60,848.2	8,090.423
Structure	4.21%	1.2%	5.4%	3.34%	91.3%	94.6%		100.0%

Reference year 2004:								
TOTAL	97.606	489.016	586.622	60.853	5,036.036	5,096.9	42,012.0	5,683.512
Structure	1.72%	8.6%	10.3%	1.07%	88.6%	89.7%		100.0%
Trend 2005 to 2004 :								
as money	+242.6	-395.2	-152.6	+209.2	+2,350.3	+2,559.5	+18,836.2	+2,406.9
percentage	+248.6%	-80.8%	-26.0%	+343.8%	+46.7%	+50.2%	+44.8%	+42.3%

From January 28, 2005 the amendment #2, which was earlier approved by the Board of KASE on February 7, 2005, became effective. By this amendment MEUJKAM were delisted from the list of authorised subjects of repo operations.

On December 26, by the decision of the Board of KASE the amendment #3 was approved, which was intended to put into force from February 1, 2006. This amendment stipulated, that total number of repo transactions on corporate equity security, included in KASE's official A listing category and used as subject of repo operation, shall not exceed five (independent from number of periods, given in bids of KASE members, and number of such bids), and maximum period of repo operation on this security shall not exceed 90 days.

There were no other amendments significantly affected the stock exchange repo market environment and specifics.

In whole, 250 (252)³² trade sessions were conducted on KASE in 2005. Trades were carried out on the daily basis from 11:30 to 18:00 ALT for repo operations with government securities and from 11:30 to 17:00 ALT for repo operations with corporate securities. All trades were held in KASE electronic trading platform. All participants traded via remote access. During the year 37,103 (35,524) transactions³³ were conducted on KASE with 126,198,780,024 (73,058,733,724) securities to the amount of KZT 8,090.4 bn (KZT 5,683.5 bn), or USD 60,848.2 m (USD 42,012.0 m), including:

✦ "nego" repo market

2,826 (2,260) opening repo operations to the amount of KZT 215.0 bn (KZT 313.4 bn), or USD 1,613.5 m (USD 2,324.5 m)

2,686 (2,029) closing repo operations to the amount of KZT 219.0 bn (KZT 273.2 bn), or USD 1,648.8 m (USD 2,018 m)

✦ automatic repo market

15,826 (15,615) opening repo operations to the amount of KZT 3,836.8 bn (KZT 2,559.6 bn), or USD 28,854.5 m (USD 18,921.7 m)

15,765 (15,620) closing repo operations to the amount of KZT 3,819.6 bn (KZT 2,537.3 bn), or USD 28,731.8 m (USD 18,746.9 m)

³² Here and in this whole section comparable data of year 2004 are given in brackets, unless otherwise specified in the context.

³³ Only deals on which settlements have been fulfilled were registered.

Tab. 24. Instrumental structure of turnover in CS auto repo sector in 2005

Code of repo subject	Repo terms, days	Volume of opening, bn KZT	Number of deals	Market stake, %
ALKS	28	362.0	4	0.2
ASFib2	1,2,7	650.0	13	0.4
BTASb2	28	1,640.0	5	1.1
CCBN	1,7,14,30	15,602.0	48	10.5
HRLT	1,3,7,14,28	2,260.0	41	1.5
HSBKb	7,14,28	1,330.1	24	0.9
KZASb2	14	40.0	1	0.0
KZIKb1	1,3,7,14,28,3003	2,578.1	23	1.7
KZIKb2	7	349.0	1	0.2
KZIKb4	7	1,610.0	2	1.1
KZTCb1	7,14,28	1,122.0	22	0.8
NRBNb2	28	340.0	1	0.2
ORDB	1,3,7,14,28,365	4,903.0	46	3.3
ORDBb1	1,7	730.0	13	0.5
ORDBp	1,3,7,14	1,590.0	17	1.1
RGBRb3	1,7	440.0	4	0.3
TEBN	10,20,30	366.0	16	0.2
TXBNb1	1,7,14	388.0	13	0.3
TXBNb2	1,7,28	1,161.0	16	0.8
VTBN	1,7,14,28	4,056.0	62	2.7
VTBNb1	1,14,28	337.1	11	0.2
VTBNp	7,28	413.0	7	0.3
ASBNb3	1,3,7	2,487.0	17	1.7
ASBNb4	1	783.0	9	0.5
ASFI	28,180	596.0	7	0.4
ASFib5	7,14,28	1,755.0	7	1.2
ASFib7	1,3,7,14,28	7,765.0	35	5.2
ATFBb3	3,7	90.0	2	0.1
ATFBb4	1,3,7,30	10,724.0	73	7.2
ATFBb5	1,3,7	486.0	4	0.3
ATFBp	3,7,14	144.0	3	0.1
ATFBp8	30	46.0	2	0.0
BTAib4	3	176.0	1	0.1
BTAib5	3,30	421.0	2	0.3
BTAib6	1,3,7	7,560.0	39	5.1
BTAib8	3	550.0	1	0.4
BTAS	1,3,30,180	12,779.2	18	8.6
BTASb1	1,3,28	2,631.1	12	1.8
BTASb4	1,7,14,30	20,476.4	91	13.8
CSBNb5	1,3,7,14,30	3,366.2	29	2.3
CSBNb6	1,3,7,14,30	1,667.2	23	1.1
HSBKb3	3,7	150.0	2	0.1
HSBKb5	7,28	1,482.0	15	1.0
HSBKb7	7	35.0	1	0.0
HSBKb9	3,14	288.0	2	0.2
HSBKp	7,28	630.0	5	0.4
KKGBb2	1,3,7,28	2,114.0	12	1.4
KKGBp	1,7,14	5,095.0	28	3.4
KZIKb3	7	447.0	2	0.3
KZIKb5	7	154.0	1	0.1
KZIKb6	3,7	880.0	3	0.6
KZTK	1,7,180,360	3,313.1	19	2.2
KZTOe1	1,7	66.0	4	0.0
NFBN	1,3,7,28	1,901.0	36	1.3
NRBNp6	1,3,7	284.0	3	0.2
PRKRb1	3,7	132.0	9	0.1
ROSA	7,14,30,360	1,359.0	12	0.9
TEBNb4	14	247.0	1	0.2
TEBNp	7,28	154.0	6	0.1
TSBNb1	1,3,7,14,28	2,145.0	31	1.4
TSBNp	28	35.0	1	0.0
UTMK	1,7,14	6,199.0	20	4.2
VTBNb3	1,7,14,28	4,133.0	23	2.8
VTBNb4	1,3	170.0	2	0.1
ZIG b1	28	244.0	1	0.2
Total:	X	148,427.6	1004	100.0

All trade sessions resulted in actual operations. The daily volume varied from KZT 14.3 bn (USD 107.0 m, September 29) to KZT 76.0 bn (USD 584.3 m, January 05) and reached an annual average of KZT 32.4 bn (USD 243.4 m). Average monthly volume reached KZT 674.2 bn, or USD 5,070.7 m.

Totally, 52 (45)³⁴ KASE members participated in repo transactions on KASE in 2005. Banks accounted for 67.2 per cent (79.1 per cent) of the gross turnover, broker-dealer companies - 8.4 per cent (9.4 per cent), pension market subjects - 23.2 per cent (10.4 per cent), other trade participants - 1.2 per cent (1.2 per cent).

The level of the repo market monopolisation in 2005 was characterised by the following data. The share of the most active trade participant (with an exception of the National Bank) comprised 11.4 per cent (15.7 per cent) of the gross turnover, the share of the two most active participants - 20.0 per cent (23.5 per cent), three - 26.8 per cent (29.2 per cent), five - 37.9 per cent (39.5 per cent). Thus the level of monopolisation slightly declined in comparison with 2004.

The most active participant of the repo market on KASE in 2005 was Bank TuranAlem JSC (11.4 per cent of the total operations). The second and third positions were held by BANK CASPIAN JSC (8.6 per cent) and Pension assets investment management organization ABN AMRO Asset Management JSC (6.8 per cent).

The automatic repo sector

The principle of operation of this sector is described above and more detailed in previous KASE annual reports. There were no any apparent changes in this sector. Table 23 illustrates the leading growth of the volume of transactions in the automatic repo sector in 2005 in relation to the entire repo market which was observed in the previous reporting period as well. The volume of repo operations in 2005 slightly rose but the share of this sector in the total volume of this market continued to fall.

Assuming data provided in Table 23, during the reporting period the market participants preferred to work, as before, mostly with overnight repo instruments. Their share at the automatic repo market remained approximately constant during the entire year (Figure 26).

As for subjects of repo transactions, trade participants used mostly government securities, constituting the major share of the government debt: MEOKAM, notes of the National Bank of Kazakhstan and partially MEKKAM (Figure 27). In respect to 2004 there have occurred no cardinal changes here since the public debt structure issued as government securities, being the main subjects of automatic repo operations, had little changed.

The continuing involvement of corporate securities in automatic repo transactions should be particularly noted. Noted in late 2002, this trend received a powerful thrust in 2003 as well as in the reporting period. If in 2003 the number of instruments involved in repo operations increased to 45, and in 2004 up to 85, in 2005 it reached 176 (Table 24). The volume of respective transactions grew up from KZT 18.2 bn tenge in 2003 to KZT 60.9 bn tenge in 2004, and up to KZT 270.0 bn in 2005 (Table 23).

The dynamics of yields in the automatic repo sector (Figure 28) was relatively steady. This was explained due to lack of the deficit of Kazakhstan Tenge at the

Tab. 25. Instrumental structure of turnover in GS auto repo sector in 2005

Symbol	Weighted average rate, % APR	Volume of opening, bn KZT	Number of deals	Market stake, %
REPO_KZT_001	1.31	3,045.1	12,361	82.6
REPO_KZT_002	1.12	146.7	336	4.0
REPO_KZT_003	1.23	98.7	303	2.7
REPO_KZT_007	1.70	259.7	940	7.0
REPO_KZT_014	1.92	82.7	401	2.2
REPO_KZT_028	2.25	55.5	481	1.5
Total:	X	3,688.3	14,822	100.0

Note: Symbol comprises repo transaction currency, repo transaction term as days

³⁴ The represented data in this paragraph are calculated without position of the National Bank.

Fig. 26. Dynamics of instrumental structure of automatic repo sector turnover in 2005 (% from repo opening deals volume)

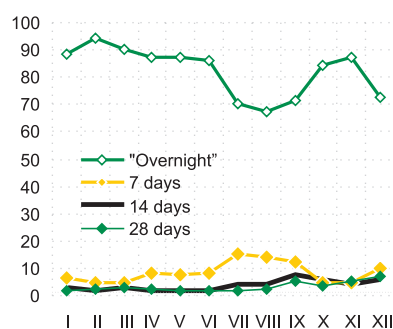


Fig. 27. Subjects of automatic repo transactions in 2005

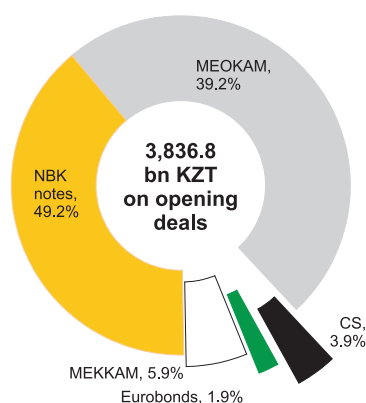
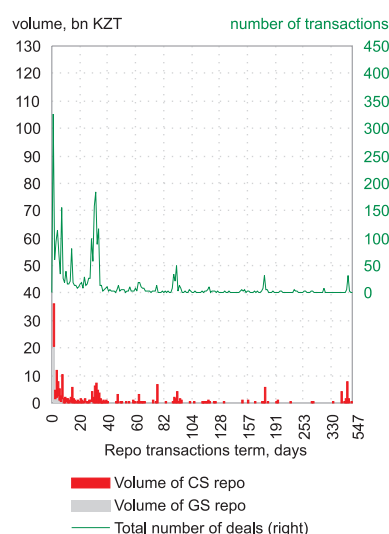


Fig. 30. Division of volume and number of "nego" repo transactions by transaction terms in 2005



market. Infrequently "overnight" repo rates turned out to be higher than the price of long-term money as the banks and their clients experienced shorter time lags.

As earlier, the second-tier banks approved themselves as the mostly active in the automatic repo sector in 2005 acting as both dealers and brokers. Their share (exclusive the National bank) accounted for 68.1 per cent of the gross market turnover (98.0 per cent in 2004, comparatively). Broker-dealer companies and their clients controlled 6.8 per cent of the turnover (7.1 per cent), pension sector market participants - 24.6 per cent (11.2 per cent), other - 0.5 per cent (1.3 per cent).

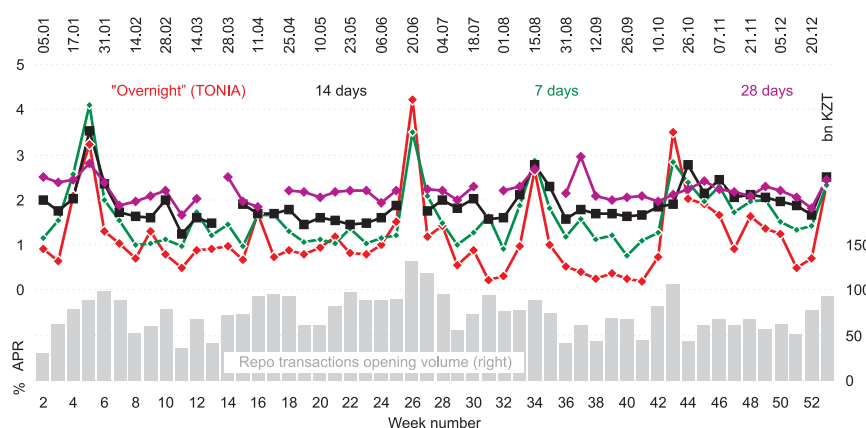
The "nego" repo sector

Participants in this sector used overnight repo most frequently as in the automatic repo sector (Figure 30). Its share was in the reporting year (44.3% in 2004) in the total repo opening deals and 11.6% (20.7%) in the total number of deals. As in the automatic repo sector, the largest volume of transactions was carried out by participants within the period up to 30 days, with mainly government securities used as repo lots. For more extended time periods, funds were mostly attracted using corporate securities as pledge. The same behaviour was typical for previous periods as well. However, during reporting period the market participants borrowed for shorter periods using corporate securities as pledge. During the year "nego" repo sector deals were opening for 215 (180)³⁵ various periods from 1 to 547 (1,095) days.

The instrumental structure of the "nego" repo sector turnover is illustrated at Figures 31 and 32. It was notably different from the automatic repo sector both by a set of instruments and shares of their participation which was primarily determined by wider use of corporate securities as repo lots. In relation to 2004, a sudden drop of the share of transactions in the notes of the National Bank of Kazakhstan (from 46.4 per cent to 4.6 per cent) was recorded in the instrumental structure of the "nego" repo market, given a rise in the trade volume share for corporate securities (from 18.4 per cent to 84.7 per cent). The MEKKAM, Eurobonds and municipal bonds portion remained at the same level. The presented data show that "nego" repo sector became apparently oriented on the deal with corporate securities in 2005. At that, the range of corporate securities used widened notably. If 89 corporate securities instruments were involved in "nego" repo deals in 2004, then in the reporting year their number was 131.

Rates of return at the "nego" repo market in general far from frequently repeated the behaviour of the automatic repo rates, especially in the second half-2005. This is explained by that brokers more frequently used "nego" repo market as the specific source of funds, enabling creation of speculative demand on the share market. The latter, as it was described in according section, for the first time in Kazakhstan history enabled to participants to receive much gain from price difference. For that reason, during reporting period the automatic repo

Fig. 28. Dynamics of weekly weighted average rates on automatic repo market on liquid instruments in 2005 (% APR, on the left)



³⁵ The correspondent data of 2004 are shown in brackets.

Fig. 31. Subjects of "nego" repo transactions in 2005

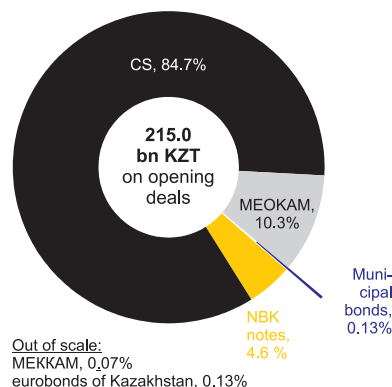


Fig. 32. Subjects of repo transactions in CS "nego" repo sector in 2005

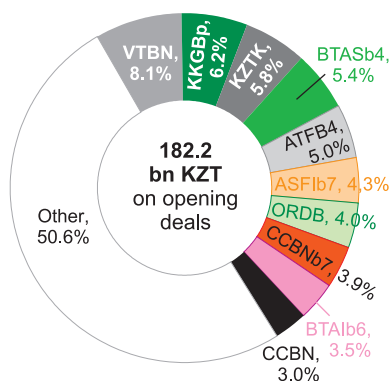
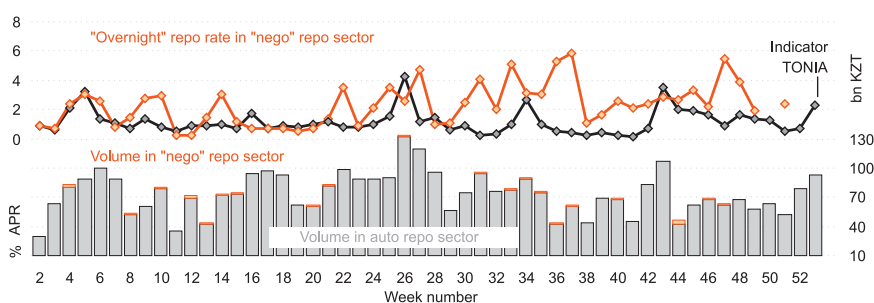


Fig. 29. Dynamics of weekly weighted average "overnight repo" rates (on the left) in various sectors of exchange market and volume of corresponding repo transactions on repo opening deals (on the right) in 2005



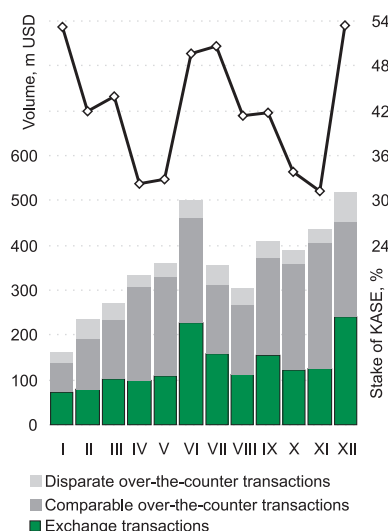
sector was mainly used by exchange market participants for traditional purposes while "nego" repo sector - for new and rather specific purposes. In this sector, dynamics of the rates was determined by many factors, including the cost of repo subject in purchase-and-sale sector on the open market and negotiation-deals market.

The new feature for the "nego" repo market appeared in that the first fiddle was not played by banks, but broker-dealer companies. 49.6 per cent of the gross turnover was attributed to the portion of these KASE members, and 37.5 per cent was controlled by banks operating on behalf of themselves and their clients, with 12.9 per cent resting with the remaining participants. The respective indicators for 2004 are 34.4 per cent, 65.6 per cent, and 0.03 per cent. Interesting feature of the reporting year was the emerging of the exchange market of "nego" repo with corporate securities of Pension assets investment management organization among participants. These KASE members shared 3.3 per cent of the gross turnover of this sector in 2005. However, assuming custody accounts involved into deals of KASE members of this category, repo transactions were run not in the account of pension contributions of accumulative pension fund depositors, as far as it is prohibited by acting legislation.

THE FOREIGN EXCHANGE MARKET

MARKET OVERVIEW

Fig. 33. Sectoral structure of currency market turnover and stake of KASE in 2005



According to available statistics in 2005, KASE estimated the whole volume of foreign exchange market in Kazakhstan to USD 32,063.5 m (USD 18,462.5 m)³⁶, including: USD 12,044.1 m (USD 9,449.5 m) on KASE, USD 16,689.7 m (USD 7,511.2 m) on over-the-counter market among the resident banks, and USD 3,329.7 m (USD 1,501.8 m) on over-the-counter market among non-resident banks. The specified values take into account the balanced trade among Kazakhstan resident banks (on KASE and over-the-counter market) and the sum of transactions on purchase and sale currency in deal of Kazakhstan resident banks and non-resident banks.

These indicators significantly exceed market turnover of 2004, despite 2004 was a record year for KASE in terms of KASE exchange and over-the-counter currency turnover.

During 2005 the Kazakhstan exchange market, as before, was mainly presented by transactions with US Dollar. This currency was exactly the absolute leading on local market.

Considering average-weighted rate of the main (morning) KASE trade session, Kazakhstan Tenge devalued toward US Dollar in nominal terms by 2.91 per cent during reporting period, while the nominal strengthening of Kazakhstan Tenge against US dollar was 9.3 per cent in 2004. Average-weighted exchange rate of US Dollar in reporting period reached KZT 133.39 on the main (morning) sessions and KZT 133.37 on all exchange trading sessions for the year. In 2004, the corresponding indicators were KZT 134.19 and KZT 134.46 for USD 1.0. At the end of 2005, one US dollar was 133.77 against Kazakhstan Tenge on KASE (130 at the end of 2004, comparatively).

Devaluation of Kazakhstan Tenge against US Dollar, fixed at the end of reporting year, did not imply principal changes on foreign currency exchange market environment in Kazakhstan. It was consequence of the variety of factors, the main of them were as following:

- ✦ tightening of the monetary policy from the National Bank of Kazakhstan
- ✦ measures towards reducing inflow of US Dollar into Kazakhstan (except direct foreign investing) undertaken by the National Bank and Financial Supervision Agency
- ✦ reaction from local market as the response to globally strengthening US Dollar, caused by increasing interest rate in USA
- ✦ active expansion of capital abroad from Kazakhstan banks
- ✦ growth of geopolitical risks in the region

In 2005 Kazakhstan Tenge appreciated against Euro by 5.69 per cent in nominal terms at average-weighted exchange rate. In 2004 Kazakhstan Tenge nominally strengthened versus Euro by 0.77 per cent on KASE. Average-weighted exchange rate of Euro in reporting period was KZT 169.62. On KASE at the end of reporting year, Euro versus Kazakhstan Tenge was 167.40, at the end of 2004 - 177.47, comparatively.

Toward Russian Ruble as third foreign currency tradable on KASE, Kazakhstan Tenge strengthened by 0.53 per cent (4.29 per cent) in nominal terms. Average-weighted exchange rate of Russian Ruble versus Kazakhstan Tenge during reporting period was 4.6930. At the end of 2005 on KASE one Russian Ruble was worth KZT 4.6650, at the beginning - KZT 4.6900.

In 2005 the share of exchange turnover of foreign currencies on comparable transactions on Kazakhstan market varied from 31.2 per cent (November) to 53.5 per cent (December), and reached annual average of 41.9 per cent (Figure 33). In 2004 this share was 55.4 per cent, and in 2003 - 48.9 per cent, comparatively. In calculation of the given indicators it was taken into consideration that

³⁶ Hereinafter comparable data of year 2004 are given in brackets, unless otherwise specified in the context.

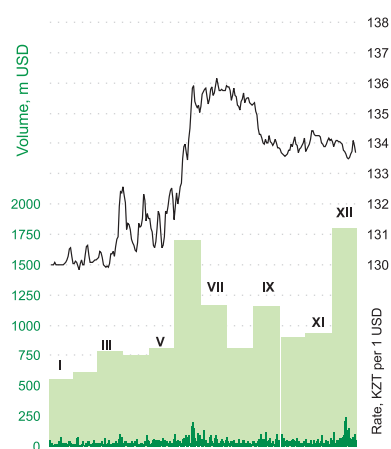
only Kazakhstan resident banks could deal with foreign currencies. Therefore the comparison of the exchange turnover is correct only to the volumes of over-the-counter transactions among Kazakhstan resident banks.

MAIN EVENTS

According to KASE specialists, Kazakhstan foreign currency market environment in 2005 was mainly influenced by changes in procedure of calculation of the reserves requirements to second-tier banks, undertaken within overall tightened monetary policy of the National Bank of Kazakhstan, which from February 1, 2005 increased refinance rate from 7 per cent to 7.5 per cent per annum, and from July 11, 2005 - up to 8.0 per cent per annum. The new rules for calculating reserve requirements for banks took effect from October 1, 2005. However, the main influence on the market came not from these rules, but from intention of regulators to change them.

The first official announcement in this regard was from Arman Dunayev, the Minister of Finance, on May 30, 2005. Addressing to the Lower Chamber of the Parliament, he announced that measures related to increasing reserve requirements to the second-tier banks will be introduced to reduce the volume of external debt. On June 16, 2005 it was reported that the new rules will take effect from October 1, 2005 with unchanged reserve rate (6.0 per cent of current liabilities). On the same day Bolat Zhamishev, the Head of Financial Supervision Agency, explained the nature of innovations, according to which from October 1, 2005 the basis for calculating reserve requirements to the banks would be extended in the account of inclusion of the external liabilities. The new regulations would provide changes in the list of reserve assets, in which second-tier banks should place their assets to comply with minimal reserve requirements. Earlier prescribed deposits with the National Bank of Kazakhstan, "overnight" loans from the National Bank of Kazakhstan, and affined gold were excluded from this list. By this, the new list of reserve assets would comprise cash in Kazakhstan Tenge and cash with correspondent accounts in the National Bank of Kazakhstan.

Fig. 34. Indicators of exchange USD market in 2005



According to regulating authorities, those innovations should have made external borrowings less attractive for Kazakhstan banks.

As seen from Figure 34, the market responded on information received by dramatic increase in demand for US Dollar in June and, partially, in July 2005. Together with other factors, this led to rapid appreciation of US Dollar versus Kazakhstan Tenge.

However, as the further events showed (including those of the first quarter 2006), the expectations of the market regulators were met merely in part. The influence on the market from described factor, although determinant in 2005, but it could not reserve the long-term trend in dynamics of the exchange rate of Kazakhstan Tenge to US Dollar.

There were no any amendments to KASE regulatory framework, which significantly affected foreign currency exchange market environment during reporting year.

FOREIGN EXCHANGE TRADES

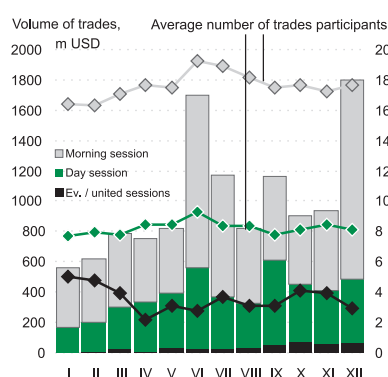
In 2005 in the KASE foreign exchange sector the following currencies were traded:

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

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

- ✦ morning (10:15 - 11:00 ALT), the main for USD_TOD instrument
- ✦ day (11:30-15:30 ALT), the additional for USD_TOD instrument and the main for EUR_TOD, RUB_TOD

Fig. 35. Division of the volume of US dollar trades on KASE by sessions and months in 2005



evening (14:00-18:00 ALT), the main for USD_TOM, USD_SPT and EUR_TOM instruments

In case a session was the main for an instrument, its fixed average-weighted rate for this instrument against Kazakhstan Tenge was used as the market exchange rate for this instrument. KASE announced a closing rate by results of additional session.

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

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

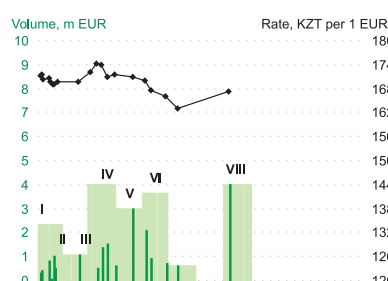
In 2005 all foreign exchange sessions, without exception, were held in the KASE trading system on the basis of open trade method. All of participants operated with KASE trading system in the remote access regime.

In total, in 2005 the participants held foreign exchange quoting on KASE at 633 (550) trade sessions³⁷. In the trading system there were made 46,840 (41,777) deals with USD, 26 (57) ones with EUR and 75 (49) ones with RUB. Detailed data on the volume of foreign exchange trades in 2005 is given in Table 26.

Morning trades traditionally were characterised by the highest activity of traders in 2005. Barely 38.4 per cent of registered on KASE deals in foreign currencies amounts (in 2004 - 25.8 per cent, in 2003 - 31.6 per cent, in 2002 - 28.6 per cent, comparatively) made a share of a day trade session. However, the day USD trades remained exclusively important for the market participants, because they determined prices for the next day. Therefore, the average number of the Exchange Category B members taking part in the day trade sessions remained relatively stable during the reporting year (Figure 35).

The turnover settlement structure in the described sector of the share market almost did not change during the year. In 2005 the deals with settlement at the day of transaction accounted for 94.6 per cent (compared to 96.1 per cent in 2004 and 96.5 per cent in 2003), with settlement on T+1 scheme - 3.7 per cent (3.9 per cent), with settlement on T+2 - 1.6 per cent (0 per cent). At the same time the overwhelming amount of deals with settlement on T+1 was carried out on KASE during USA holidays, when banks were unable to fulfil settlements at the day of transaction. Based on the results of the year it is possible to conclude that Kazakhstan stock currency market in 2005 did not move forward in the direction towards extending USD trades with forward settlement.

Fig. 36. Indicators of exchange EUR market in 2005

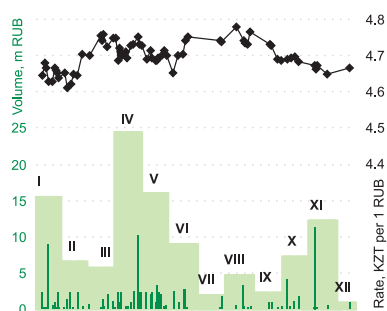


Tab. 26. Volume of foreign currency trades on KASE and turnover structure in 2005

Month	Trade volume, th units			Trade volume, th KZT	Turnover equivalent, th USD	
	USD	EUR	RUB		in 2005	relative to 2004
January	557,855	3,090	15,400	73,181,252.3	562,445.9	-95,584.3
February	616,035	1,065	6,600	80,361,780.1	617,656.8	+126,414.3
March	782,065	3,970	5,600	103,160,418.5	787,508.9	+252,530.3
Total in QI	1,955,955	8,125	27,600	256,703,450.8	1,967,611.6	+283,360.3
April	750,630	3,000	24,300	99,171,424.3	755,404.9	+209,264.9
May	818,530	3,650	16,000	108,186,102.9	823,786.8	+227,914.1
June	1,699,925	625	9,000	228,541,144.1	1,701,006.5	+1,133,861.5
Total in QII	3,269,085	7,275	49,300	435,898,671.2	3,280,198.2	+1,571,040.5
July	1,170,770	0	1,900	158,938,186.7	1,170,836.4	+671,893.1
August	813,795	4,000	4,600	110,968,917.5	818,895.8	+387,893.5
September	1,160,425	0	2,200	155,673,723.9	1,160,502.4	+564,740.5
Total in QIII	3,144,990	4,000	8,700	425,580,828.0	3,150,234.6	+1,624,527.0
October	904,975	0	7,200	121,148,412.8	905,227.5	-259,300.9
November	939,640	0	12,200	126,052,599.6	940,063.4	-844,981.7
December	1,800,775	0	800	240,925,382.5	1,800,802.9	+220,005.1
Total in QIV	3,645,390	0	20,200	488,126,394.8	3,646,093.8	-884,277.4
Total in 2005	12,015,420	19,400	105,800	1,606,309,344.7	12,044,138.2	+2,594,650.3

³⁷ Trades, on which quotations and deals were absent, are not counted in this indicator, because such sessions are not registered in KASE archive database.

Fig. 37. Indicators of exchange RUB market in 2005



There were no significant changes in the currency structure of KASE turnover as well. When evaluating this structure in USD equivalent in 2005, one can see that 99.76 per cent (98.59 per cent) of the total volume of the exchange deals fell at USD, 0.20 per cent (1.37 per cent) at EUR (Figure 36) and 0.03 per cent (0.04 per cent) at RUB (Figure 37). In the inter-bank over-the-counter market the currency structure of the turnover was slightly different from KASE. In transactions among Kazakhstan resident banks the USD share was 99.07 per cent (97.64 per cent), that of EUR was 0.65 per cent (1.69 per cent), and RUB was 0.28 per cent (0.68 per cent). In transactions between Kazakhstan resident and non-resident banks the share of the deals with USD was 89.06 per cent (89.24 per cent), that of EUR was 1.74 per cent (1.43 per cent), and RUB share was 9.21 per cent (9.33 per cent).

The share of the most active (according to volume of deals made) second-tier bank amounted to 14.3 per cent (16.0 per cent) in the foreign exchange trades gross volume on KASE in 2005. The general monopolisation of the this market segment in the reporting year almost did not change, since the four second-tier banks controlled 45.7 per cent (compared to 46.4 per cent in 2003), eight controlled 68.7 per cent (62.6 per cent), eleven controlled 77.8 per cent (70.2 per cent), fifteen controlled 85.3 per cent (77.0 per cent). At that 27 (28) second-tier banks participated in trades in 2005.

Halyk Saving Bank of Kazakhstan JSC (14.7 per cent of gross turnover in Kazakhstan Tenge equivalent) was recognised the most active participant of foreign exchange trades among second-tier banks on KASE by the results of 2005. It is followed by Subsidiary Joint-stock Bank ABN AMRO Bank Kazakhstan JSC (14.3 per cent), then Bank TuranAlem JSC (10.0 per cent) and Kazkommertsbank JSC (6.7 per cent).

THE FUTURES MARKET

No principal changes occurred in the normative base of KASE futures market in 2005. Only drafting amendments regulating this sector which could not influence the market or behaviour of its participants were introduced into internal documents of KASE.

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

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

All contracts were delivery free. The trades on KASE were conducted on business days from 10:30 to 17:00 ALT.

The exchange market participants showed no interest to the futures contracts during reporting period. There were neither any orders nor exposed positions in KASE trading platform during reporting year.

THE PROMISSORY NOTES MARKET

Promissory notes trades were opened on KASE on March 04, 2002 and had been conducted between 11:30 and 17:30 ALT on working days. In 2005 this order did not change. The regulatory framework for this market sector was not modified.

Regardless of the fact that in the reporting period the status of the first-class promissory notes of the Kazakhstan National Bank issuer, by KASE data, was received by Corporation Ordabasy JSC (January 6, for one calendar year with rediscount of bill limit of KZT 1.3 bn), Food Contract Corporation JSC (January 19, for one calendar year with rediscount of bill limit of KZT 10.0 bn), ROSA JSC (February 3, with rediscount of bill limit of KZT 300.0 m), and Mining-smelting concern Kazakhaltyn JSC (November 4, with rediscount of bill limit of KZT 500 m), the list of payers on promissory notes was not changed by the Exchange in 2005. No any appropriate applications on any of these companies were submitted to KASE.

By the end of 2005 the list of KASE payers included the following six companies:

- ✦ Kazakhtelecom JSC (commercial code of promissory notes N_KZTK)
- ✦ National Atomic Company KAZATOMPROM JSC (N_KATP)
- ✦ National Company Kazakhstan Temir Zholy JSC (N_TMJL)
- ✦ Kazakhstan Electricity Grid Operating Company JSC (N_KEGC)
- ✦ Sokolovsko-Sarbaiskoe Production Unit JSC (N_SSGP)
- ✦ ALMATY KUS JSC (N_ALKS)

During 2005 not a single application for purchase or sale of promissory notes was submitted to the KASE trading system. Kazakhstan share market was idle.

Tab. 27. Average monthly indicators of interbank deposit market in 2005

Mon-th	Indicator	7 days	14 days	Mon-th	Mon-ths	Mon-ths
				2	3	
I	KIBOR	4.21	4.92	5.62	6.34	7.07
	KIBID	1.01	1.87	2.55	3.25	3.91
	KIMEAN	2.62	3.40	4.09	4.80	5.50
II	KIBOR	3.16	3.62	4.49	5.39	6.13
	KIBID	1.28	1.77	2.28	2.78	3.40
	KIMEAN	2.22	2.69	3.38	4.09	4.77
III	KIBOR	2.74	3.22	4.17	4.94	5.67
	KIBID	1.08	1.42	1.95	2.37	2.97
	KIMEAN	1.91	2.32	3.06	3.66	4.32
IV	KIBOR	2.59	3.04	4.28	5.07	5.72
	KIBID	1.02	1.35	1.96	2.42	2.95
	KIMEAN	1.80	2.20	3.12	3.75	4.34
V	KIBOR	2.56	3.04	4.37	4.95	5.67
	KIBID	1.01	1.40	1.99	2.46	2.98
	KIMEAN	1.79	2.22	3.18	3.71	4.33
VI	KIBOR	2.60	3.19	4.58	5.20	5.88
	KIBID	1.01	1.43	2.00	2.49	2.91
	KIMEAN	1.81	2.31	3.29	3.84	4.40
VII	KIBOR	2.74	3.38	4.72	5.20	5.91
	KIBID	1.01	1.48	2.00	2.48	2.96
	KIMEAN	1.88	2.43	3.36	3.84	4.44
VIII	KIBOR	2.80	3.40	4.67	5.40	6.12
	KIBID	1.00	1.36	1.99	2.48	2.96
	KIMEAN	1.90	2.38	3.34	3.94	4.54
IX	KIBOR	3.07	3.91	4.91	5.97	6.77
	KIBID	1.11	1.53	2.03	2.52	3.02
	KIMEAN	2.09	2.72	3.47	4.25	4.90
X	KIBOR	3.86	4.21	5.19	6.56	7.14
	KIBID	1.68	1.88	2.25	2.67	3.17
	KIMEAN	2.77	3.04	3.72	4.61	5.15
XI	KIBOR	4.31	4.65	5.38	6.55	7.40
	KIBID	1.85	2.05	2.31	3.00	3.66
	KIMEAN	3.08	3.35	3.85	4.77	5.53
XII	KIBOR	4.03	4.62	5.22	6.13	7.11
	KIBID	1.62	2.05	2.37	3.23	3.91
	KIMEAN	2.83	3.33	3.80	4.68	5.51

INTERBANK DEPOSITS INDICATORS

A regulatory framework of the system of formation of inter-bank market deposit indicator did not change in the reporting year. The Memorandum on Formation of an Inter-Bank Deposits Market Indicator and The Inter-Bank Deposits Market Indicator Formation Procedure, approved in the July of 2000, remained the basis of it.

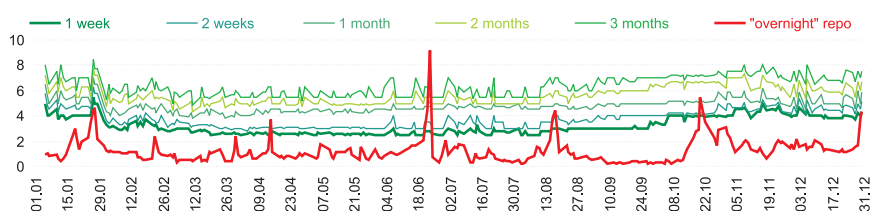
In accordance with these documents, the parties of the mentioned Memorandum announced in KASE trading system the indicative KIBOR, KIBID, and KIMEAN quotations. Fixation of these rates took place on KASE daily at 16:00 ALT.

Notable, that not all the parties of the mentioned Memorandum thoroughly committed their obligations. In connection with this, with a view to ensuring representation of calculated indicators values, by the resolution of the KASE Board, the restrictions on the number and requirements to financial condition of the participants of this Memorandum were eliminated on February 15, 2005. Besides, if earlier the KASE member banks of Category B from ten largest Kazakhstan banks only might be admitted as participants of the Memorandum, then from that day any KASE member bank of any Category could join this Memorandum. At that, the number of banks - participants of the Memorandum had been not restricted.

However, this measure did not lead to significant extension of the list of the Memorandum participants. During reporting year only Subsidiary Bank HSBC Bank Kazakhstan JSC joined this list. At the end of 2005 besides this bank the participants of the Memorandum were 10 second-tier banks: Bank TuranAlem JSC, Citibank Kazakhstan JSC, Halyk savings bank of Kazakhstan JSC, Bank CenterCredit JSC, Subsidiary Joint-stock Bank ABN AMRO Bank Kazakhstan JSC, Kazkommertsbank JSC, ATFBank JSC, DEMIR KAZAKHSTAN BANK JSC, Eurasian Bank JSC, Temirbank JSC.

In 2005 every day quotation of inter-bank deposits was produced by five - seven banks, in average by six (ATFBank JSC, Bank TuranAlem JSC, Halyk savings bank of Kazakhstan JSC, Bank CenterCredit JSC should be noted among them). Correspondingly in 2004 there were three-five banks, in average four. Therefore, a conclusion about low representation of the rates formed by the Exchange in this segment could be made. The same decision is forced by the low paired coefficient of correlation between "overnight" repo rates values (the most representative sampling) and weekly KIBOR rates equalled to 0.3052 during the reported year. In 2004 the corresponding indicator was equal to 0.3727, in 2003 - to 0.2506, in 2002 - to 0.3665, in 2001 - to 0.6187, in 2000 - to 0.7281, accordingly.

Fig. 38. Dynamics of KIBOR rates and actual "overnight" repo rates in 2005 (% APR)



SETTLEMENTS

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

KASE continued cooperation with the following correspondent banks: Deutsche Bank Trust Company Americas (settlements in USD; New York, USA); The Bank of New York (USD; New York, USA); Citibank N.A. (USD; New York, USA); Commerzbank AG (EUR; Frankfurt am Main, Germany); Saving Bank of Russia (Russian ruble; Moscow, Russia) on carrying out settlements on foreign currency trades results in the reporting year. Starting from March 1, 2004 KASE activated a new correspondent account with Citibank N.A. (London, United Kingdom), which was used as a reserve one while fulfilling settlements on trades in Euro.