

ISLAMIC FINANCE COUNTRY REPORT *for* KAZAKHSTAN

A Collaboration between



June 2024

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Foreword



His Excellency
MR RENAT BEKTUROV

Governor
Astana International Financial Centre (AIFC)

Ladies and gentlemen,

The Islamic Finance Country Report is a significant step forward in our journey to position Astana International Financial Centre (AIFC) as a prominent centre for Islamic finance in the region.

First and foremost, I express my sincere gratitude to the Islamic Development Bank for their unwavering support in the development of Islamic finance in Kazakhstan. Their collaboration has been instrumental in creating an environment conducive to the prosperity of Islamic financial institutions.

I would also like to express my heartfelt appreciation to all those who have contributed to the creation of this report, particularly the dedicated team whose hard work and expertise have made this publication possible.

This report not only serves as a comprehensive overview of the Islamic finance industry but also as a testament to our collective vision for the future. A key aspect showcased in the report is the favorable business and tax environment offered by the AIFC, complemented by a robust regulatory framework overseen by the Astana Financial Services Authority (AFSA). This ecosystem, bolstered by world-class institutions like the AIFC Court, International Arbitration Centre, and Astana International Exchange, entices both conventional and Islamic financial service providers to localize their activities in the region.

Furthermore, the AIFC is dedicated to promoting Islamic finance, evident in the favorable conditions it offers for Islamic financial institutions to operate in both retail and corporate sectors. Initiatives like the Fintech Lab underscores our commitment to fostering innovation in Islamic Finance.

The Astana International Exchange has also played a significant role in facilitating the issuance of Islamic securities, including sukuk, thereby further enhancing the attractiveness of the AIFC as a hub for Islamic finance.

This report offers valuable insights into the state of Islamic finance in our country, highlighting its growth, potential, and impact. It provides a comprehensive overview of the initiatives, challenges, and opportunities that define this thriving industry, offering invaluable guidance to investors, policymakers, and stakeholders.

Thank you.

Foreword



His Excellency
DR MUHAMMAD AL JASSER

President
Islamic Development Bank (IsDB)

I extend my warmest congratulations to the Astana International Financial Centre (AIFC) for delivering this insightful and timely report on the Islamic finance landscape in the Republic of Kazakhstan

This report arrives at a pivotal moment as the global Islamic finance industry explores new avenues for expansion. The Republic of Kazakhstan, a strategically positioned nation at the crossroads of cultures and trade routes in Central Asia, stands out as a market brimming with immense potential.

AIFC's report offers invaluable insights for investors, financial institutions, and all stakeholders with an interest in this dynamic and fast-growing market.

We, at the Islamic Development Bank (IsDB) Group, are confident that the Republic of Kazakhstan's unwavering commitment to Islamic finance will not only foster a thriving domestic industry but also position the country as a vital hub for the broader Central Asian and CIS region.

This perfectly aligns with the IsDB Group's longstanding partnership with the Republic of Kazakhstan, where we have proudly supported the nation's journey toward sustainable economic development.

Looking ahead, we wish Kazakhstan the best in its financial and economic aspirations. We look forward to continuing our collaboration with the AIFC to develop innovative Sharia-compliant financial solutions and unlock the full potential of this thriving market.

Acknowledgements

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Mr. Daniyar Kelbetov - Chief Product Officer Authority

H.E. Mr. Ghiath Shabsigh – Secretary-General of the Islamic Financial Services Board (IFSB)

Mr. Marat Sarsenbayev – Association of Halal Industry of Kazakhstan (AHIK)

Mrs Madina Tukulova – Head of Islamic Finance AIFC Authority

Tan Sri Dato' Dr Mohd Daud Bakar – Chairman, AIFC Central Shari'ah Advisory Board

Mr Serik Beisenov – Chairman of the Board of Directors of Alif Islamic Bank Ltd

Mr. Shazali Shauf – Hajj Finance Kazakhstan Limited

Association of Islamic Finance & Business

CSQ International Consulting Sdn Bhd

We extend our deepest gratitude to all contributors for their significant roles in the completion of this report.



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About This Report

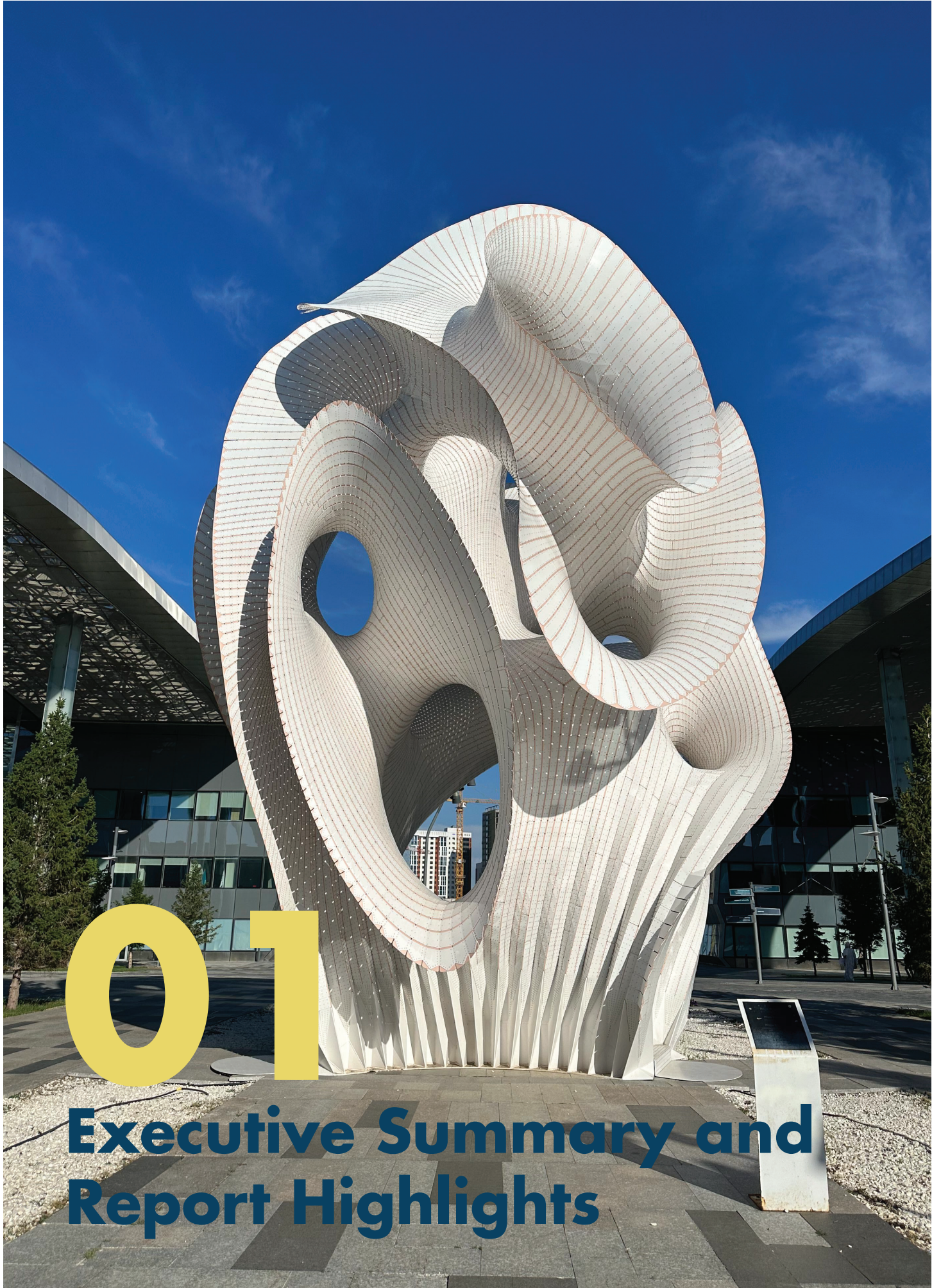
This report presents the latest stock-take and update of the continuing advancement of Islamic finance in Kazakhstan, which aspires to be one of the leading markets in the world.

The report carries on from where the other previous efforts left off (such as the Kazakhstan Islamic Finance Country Report 2016 supported by IsDB and IRTI, the Islamic Finance Country Index 2022 done by Cambridge-IFA and ICD-Refinitiv Islamic Finance Development Report 2022, just to name some examples), by further assessing the development of Kazakhstan's Islamic finance industry amidst the country's push to become a more diversified economy and to reduce its heavy reliance on the oil and gas sector. This is especially taking into consideration the post Covid-19 pandemic economic situation and the global uncertainties caused by prolonged conflicts around the world.

For the first time ever, the report benefits from the database developed upon an extensive market survey undertaken by CSQlaw Kazakhstan Branch to assess the potential market demand for Islamic financial products and services among the Kazakhstan public, involving more than 12,000 respondents.

It is hoped that this report will provide a deeper understanding and broader perspectives to readers on the stage of development of Islamic finance in Kazakhstan. If several series of Islamic Finance Country Report for Kazakhstan can be issued in subsequent years, each series can then further enrich the database available and expand the market analysis for Islamic finance in Kazakhstan with better accuracy. This will help key stakeholders of the Islamic finance sector to be able to develop data-driven policies that will only facilitate and spur stronger and more stable growth for the industry, moving forward.





01

Executive Summary and Report Highlights

This Islamic Finance Country Report for Kazakhstan 2024 attempts at providing more detailed examination of the landscape, challenges, opportunities, and future prospects of the Islamic financial services industry in this republic, which is increasingly 'ready for business' including in the areas of Islamic finance.

Ranked
22nd

Kazakhstan was ranked 22nd in the Islamic Finance Country Index by the Global Islamic Finance Report 2023.

17.55
overall
score

The Islamic Finance Development Indicator by ICD -Refinitiv 2021 underscored Kazakhstan's impressive performance, with an overall score of 17.55, surpassing the global average of 11.01.

These achievements prove that Kazakhstan is very well positioned to be a regional frontrunner in the Islamic finance industry.

Backed by a fresh market survey involving a very broad range of respondents, the report aspires to offer valuable insights to policymakers, financial institutions, investors, and other stakeholders especially the general public as to what have been done and what else needs to be done in order to unlock the full potential of the Islamic finance sector within the Kazakhstani market.

The information presented in this report regarding the market demand for Islamic financial services and products is based on a combination of primary and secondary research methodologies. Primary research includes a thorough review of existing literature, reports, regulatory documents, and market data related to Islamic finance in Kazakhstan and similar contexts. Secondary research stems from the Market Analysis on Islamic Finance in Kazakhstan, conducted as an integral component of this Country report. For detailed findings, stakeholders can access "The Islamic Finance: Kazakhstan Market Analysis" as a separate document downloadable from the AIFC website.'



In summary, the report highlights several key findings regarding the state of Islamic finance in Kazakhstan. These include:

- **Strengths** of Kazakhstan's potentials arise essentially from conducive legal environment offered by the government especially under the Astana International Financial Centre (AIFC) initiatives, Kazakhstan's growing economy, infrastructure development plans, and sizable Muslim population.
- **Weakness** to Kazakhstan's Islamic finance aspirations come primarily from low awareness levels about the economic value propositions of Islamic financial principles, the lack of clarity in certain areas of Islamic financial practices including regarding tax treatments and dispute resolutions, as well the avenues to seek for information. There is also a need for product innovation to cater to local market needs.
- **Opportunities** in the Islamic finance market in Kazakhstan center on the untapped market potential; since 85% of respondents from the retail sector and 84% of corporate respondents have never used Islamic financial products due to several reasons, among others unavailability and lack of awareness. This highlights untapped market opportunity for Islamic finance in Kazakhstan. Based on the survey results, it appears that if these products were available, they would garner substantial support from the practicing Muslim population, even without intensive marketing efforts. Another important aspect is that there is a non-Muslim and non-practicing Muslim population, and Islamic financial institutions should position themselves as inclusive financial solution providers, not limited to Muslims but available to all individuals. Islamic financial products have shown universal applicability in many countries where non-Muslim populations actively use these products.

- **Threats** against Islamic finance progress includes the under-promotion that contributes to the lack of awareness on the value propositions and availability of Islamic finance products and services, the under-development of local talents to participate in and contribute directly to the development of Islamic finance markets, as well as competition posed by other international and regional markets competing for funds.

We cordially invite readers to delve into the depths of this eye-opening report. We will be the first to admit that its content is far from being exhaustive and comprehensive; nevertheless, we hope this report will open up new discussions, hindsight and forethoughts to further broaden perspectives on this topic and contribute to new initiatives that can bring the Islamic finance markets and its stakeholders forward.

We welcome feedback from readers and would be pleased to receive any queries.





02

Kazakhstan Macroeconomic Outlook

Macroeconomic Outlook

Geography

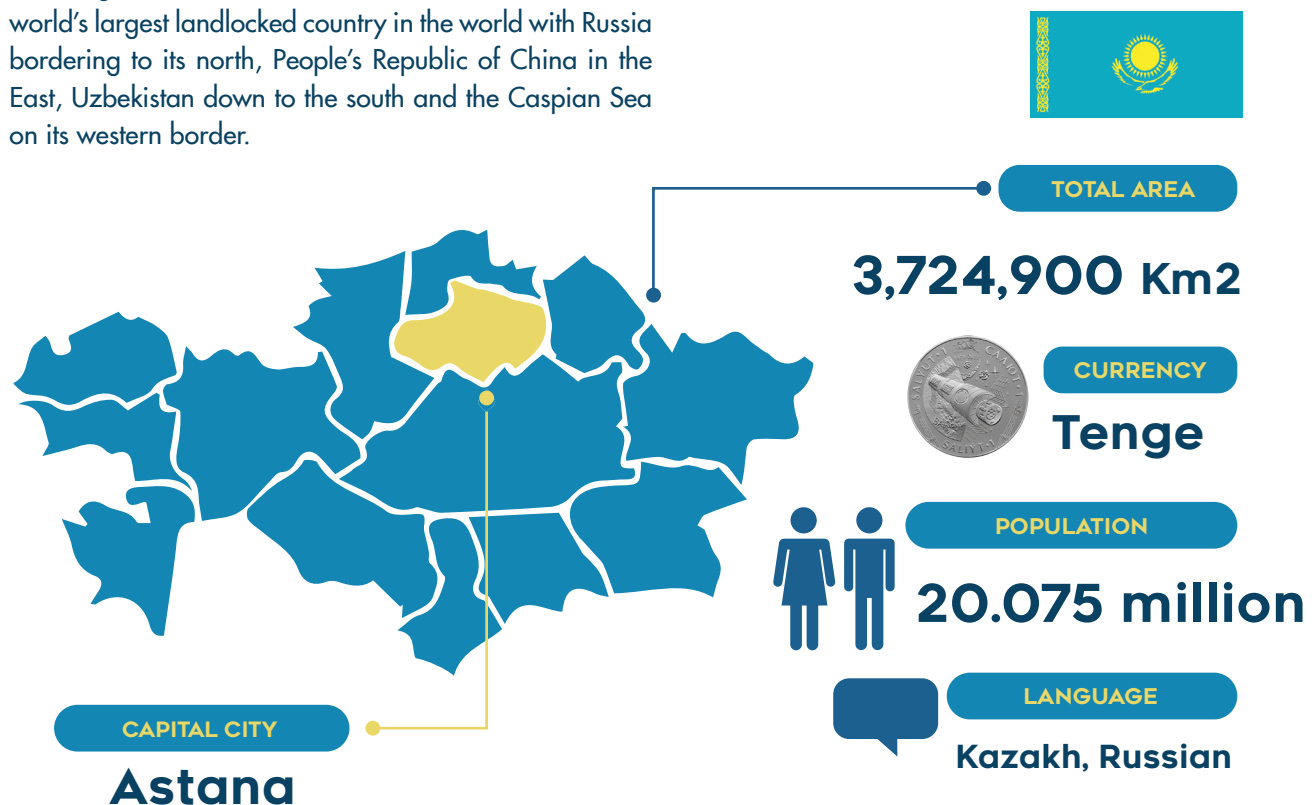
The Republic of Kazakhstan is a unitary state with the presidential system of government. Under the Constitution, Kazakhstan is a democratic, secular, legal and social state which recognizes the man, his life, rights, and freedoms as the supreme values of the country.

Kazakhstan achieved independence on December 16, 1991. Astana is the capital city of the country. Kazakh language is the official language of Kazakhstan. The Russian language has the status of the language of interethnic communication. The unit of currency used in Kazakhstan is tenge.²

Covering 2,724,900 km² of area, Kazakhstan is the world's largest landlocked country in the world with Russia bordering to its north, People's Republic of China in the East, Uzbekistan down to the south and the Caspian Sea on its western border.

Demography

According to the Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan ("Bureau of National Statistics"), the total population as of March 2024 is 20.075 million³ and 69.3% of the population practice Islam.⁴ According to the same data from the Bureau of National Statistics, there are currently 73 ethnic groups in Kazakhstan and the major group being Kazakhs, Russians, Uzbeks, Ukrainian, Uighurs and Germans.⁵



Trade route

Kazakhstan has been an active trading route for merchants and travelers from immemorial times. The country used to be the hub for economic and socio-cultural exchange between two major continents of the world, the Europe and Asia.⁶ Apart from that, Kazakhstan used to be part of the silk route and therefore have beautiful architectures that were built during the years of silk trade.⁷ Under the New Silk Project initiated by China in 2013 called 'Belt and Road Initiative' or BRI connecting Europe and Asia, Kazakhstan will be the key link for the strategy and this by no means accidental. According to Chinese leadership, Kazakhstan is the most stable republic in the region, which has both political and economic potential for the joint implementation of large-scale and capital-intensive infrastructure projects.⁸

Kazakhstan is strategically located between the large fast-growing markets of China, South Asia, Russia, and Western Europe. The country is accessible by road, rail, and a port at the Caspian Sea. Kazakhstan has an abundance of natural resources (especially oil and gas), which makes it the frontier of global investors and multilateral corporations.



Unique economic features and Key economic aspects

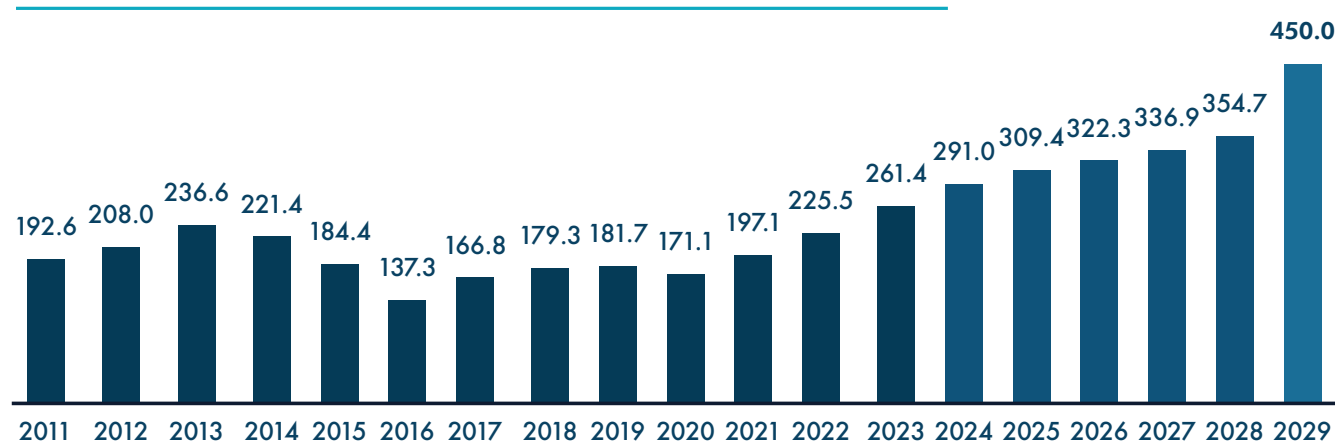
Since its independence, Kazakhstan has made significant progress towards creating a market economy by attracting many foreign investors to develop its abundant mineral, petroleum, and natural gas resources. While Kazakhstan's extensive hydrocarbon and mineral reserves remain the backbone of the economy, the government continues to make gradual progress toward diversification into other sectors.

Growth Rates

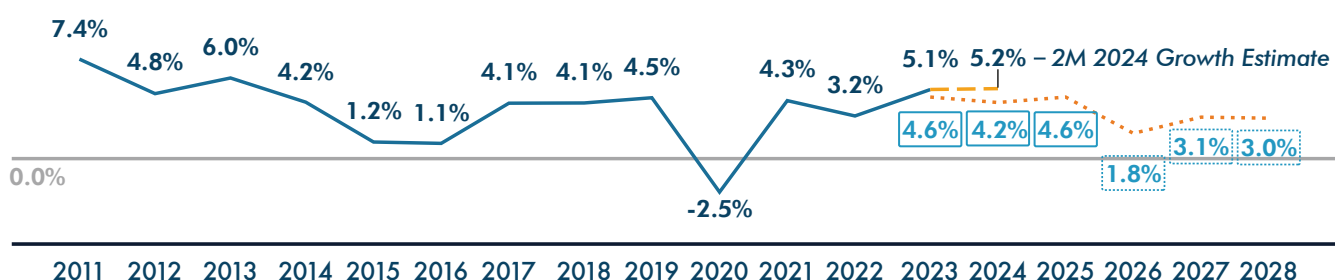
According to the World Economic Outlook Update issued by IMF on January 2024, the global growth, which was estimated at 3.1 percent in 2023, is projected to remain at 3.1 percent in 2024 before rising modestly to 3.2 percent in 2025.

For Kazakhstan, like other economies, the slow growth of economy in 2022 was because of temporarily interrupted oil production and delivery as a result of geopolitical situation in the world which led to a series of shocks in the food and energy markets. Kazakhstan's GDP estimation in 2023 was to rise by 5.1%, which is higher than the 3% average growth for the preceding ten years. According to IMF predictions, Kazakhstan's GDP grew by 4.6% in 2023, and the country's growth will slow down during the next five years. In particular, a 4.2% growth rate is anticipated by 2024.

Nominal GDP Actual (2011-2023) and IMF Projections (2024-2028)



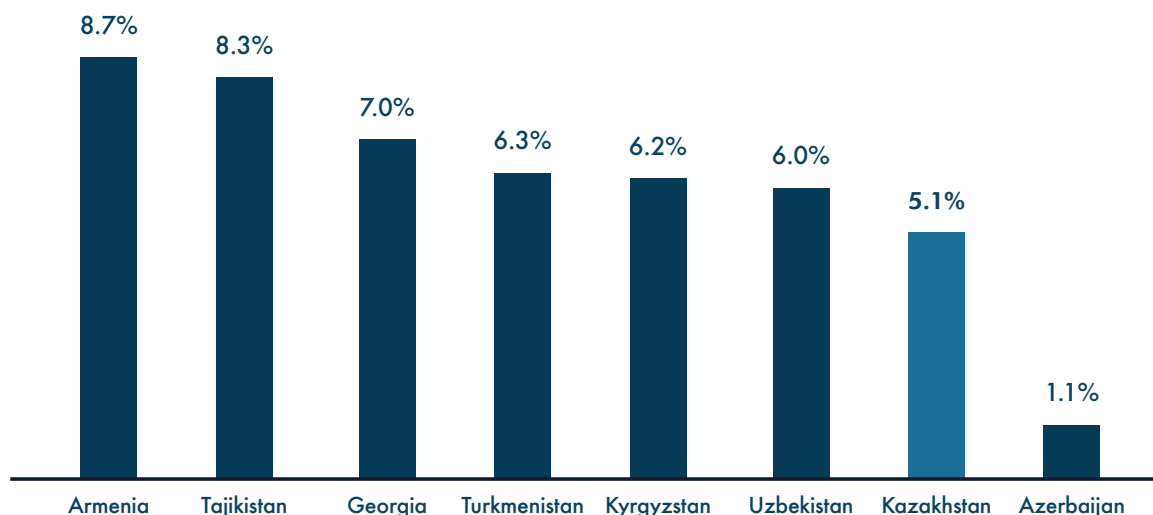
GDP Growth Actual (2011-2023) and IMF Projections (2024-2028)



Source: AIFC The Chartbook, Kazakh Economy in Charts and Figures, April 2024

In terms of regional economic performance (GDP growth for 2022) in Caucasus and Central Asia, the Asian Development Outlook April 2024 positioned Kazakhstan at the seventh rank among 8 economies as can be seen in the chart below.

GDP Growth (2023)



Source: Asian Development Outlook April 2024

Inflation Rates

According to the Bureau of National Statistics, the annual inflation in Kazakhstan in April 2024 slowed down for the year and amounted to 8.7% (in December 2023 – 9.8%). Within the inflation structure, prices for food products for the year increased by 6.3% (in December 2023 – 8.5%), for non-food products – by 7.6% (in December 2023 – 9.1%), for paid services – by 13.5% (in December 2023 – 12.4%).

Unemployment Rates

A series of unfortunate events in the past few years, notably the COVID-19 pandemic, inflationary pressures, and the crisis in Ukraine, have had an impact on the economy and household income in Kazakhstan. In 2021, employment returned to pre-pandemic levels, and real wages grew by 8% over the previous year. However, in 2022, inflation reached a peak of 20.3% year-on-year (y-o-y), the unemployment rate remained at around 5% while real wages increased by 2.8% y-o-y despite rapidly rising prices. In 2023, the inflation rate declined to 9.8% with growth of real wages of 2.3%.

The government has revised the minimum wage from KZT 70,000 to KZT 85,000 per month effective from 1 January 2024 to protect low-income households. According to World Bank simulations, the international poverty rate declined to 16% in 2022 and is predicted to improve further to 14.7% in 2023. Low-income households spend a larger amount of their budget on essential goods and services, with food alone accounting for 57% of consumption¹² for the bottom 20% of the population.

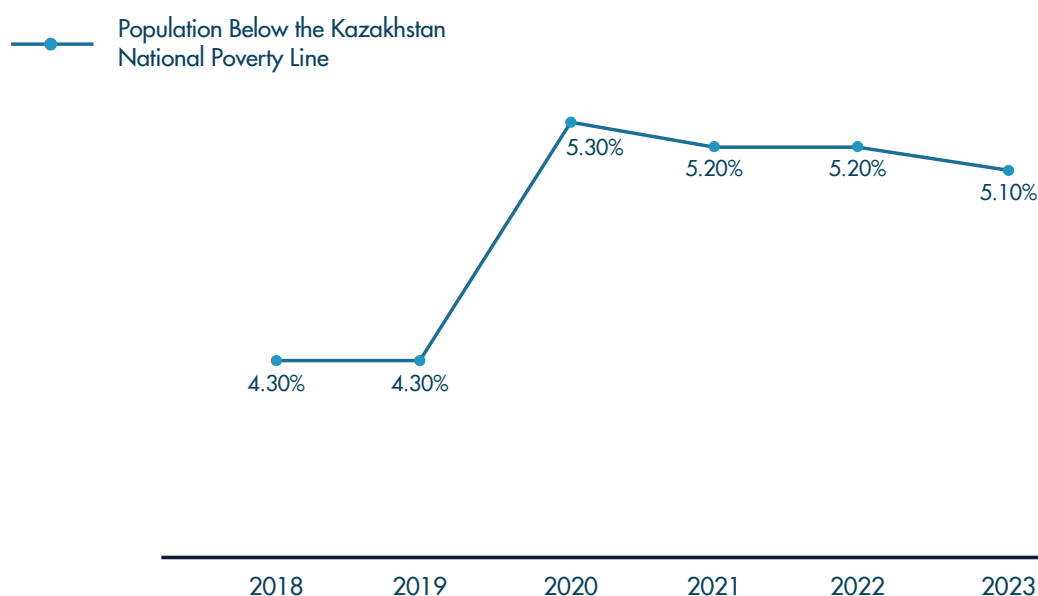
Kazakhstan continues to face an external economic pressure in 2023. Rising food costs, the current crisis in Ukraine, international sanctions against Russia and a weakening of global development all pose serious risks on poverty reduction. Inflation is predicted by the IMF to decline to 7.8% in 2024.

Socio-Economy of Kazakhstan

Share of Population Below the National Poverty Line (%)

Kazakhstan has achieved substantial reductions in poverty over the past two decades. National estimates of poverty as well as globally comparable rates of poverty—defined as the percentage of the population living in the nation on less than \$6.85 per day at the 2017 Purchasing Power Parity (PPP)—saw a significant drop. This can be gleaned from the statistics between 2006 and 2018 that saw the poverty rate fall from 18.2% to 4.3%. The internationally comparable poverty rate fell from 51% to 14% in the same period, driven primarily by rising incomes from wage employment. Statistics from 2018 to 2022 produced by the World Bank shows an increase of 1% from 4.3% in 2019 to 5.3% in 2020 and the number fell 0.1% to 5.2% in 2021 and remained in 2022.¹³ The latest figure (Q4 2023) produced by the Bureau of National Statistics shows another fall of 0.1% to 5.1%.from the year 2022 figure.¹⁴

Poverty Headcount Rate (2018-2023)

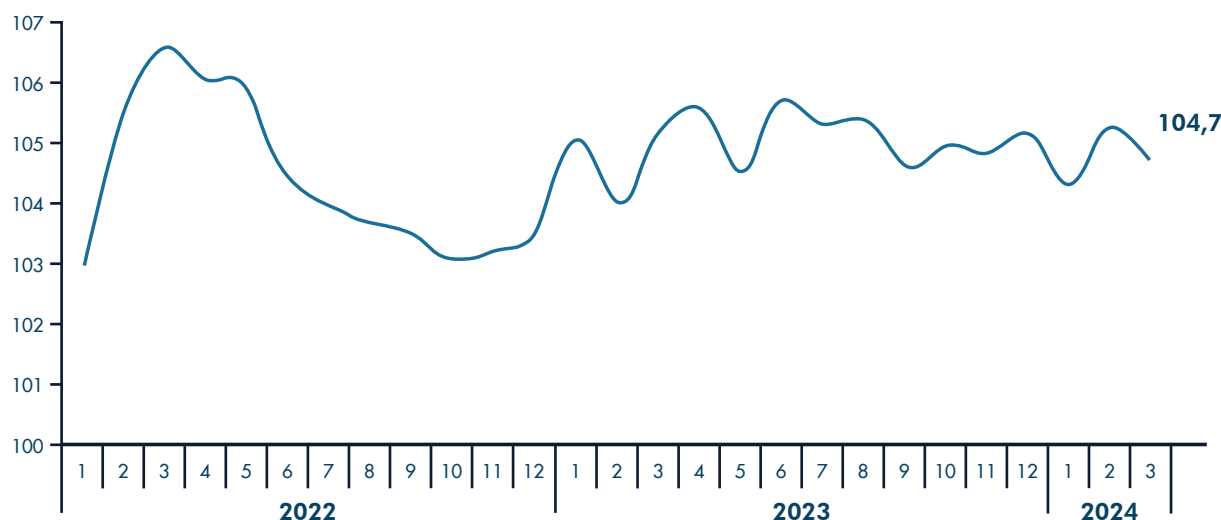


Source: The World Bank, Poverty and Inequality Platform and Bureau of National Statistics.

The Macro-Economy of Kazakhstan

Short Term Economic Indicator (STEI)

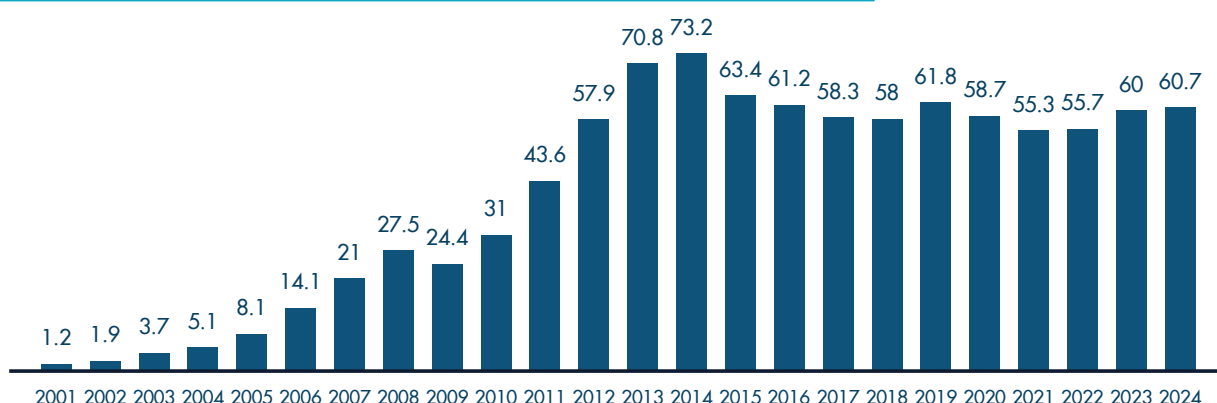
Based on the statistics released by the Bureau of National Statistics, the STEI for period of January to March 2024 (y-o-y) amounted to 104,7%. In terms of economic activities, the term of January to March 2024 recorded the highest growth rates of physical volume indices in the sectors of construction (115.9%), communication (109.3%), and transportation and storage (108.3%) compared to the period of January to March 2023. The lowest growth in physical volume indices occurred in the sectors of agriculture (101.6%), trade (103.3%), and industry (103.8%).¹⁵



Source: Bureau of National Statistics' website

International reserves of the country

As of March 2024, the National Bank of Kazakhstan reported that the sum of National Bank International Reserves and Assets of the National Fund amounted to 37.8 billion USD and 60.7 billion USD respectively. These latest figures saw an increase from the beginning of the year (\$36 billion and \$60 billion respectively) and the same period of year ago (36.2 billion USD and 58.4 billion USD respectively). The bar chart below displays the figures of gross international reserves and national fund assets from 2001 to 2024, covering the period of 24 years preceding.

Gross International Reserves, End of Period, \$ Billion (2001-2024)**Assets of the National Fund, End of Period, \$ Billion (2001-2024)**

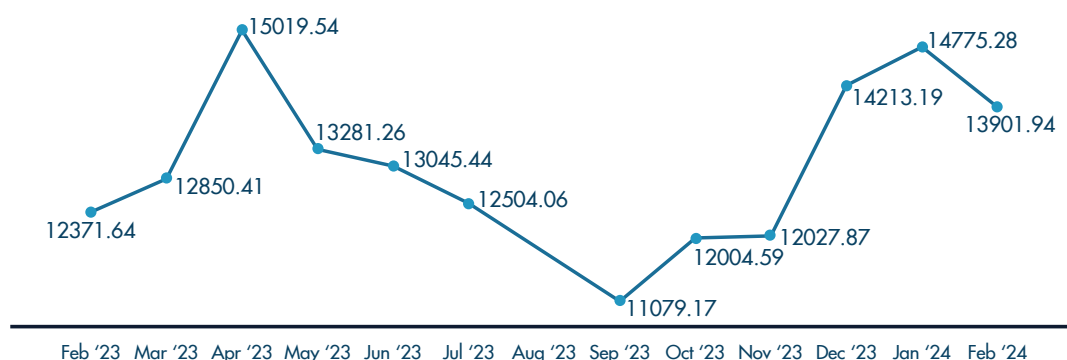
Source: AIFC The Chartbook, Kazakh Economy in Charts and Figures, April 2024

Gross Fixed Capital Formation

Kazakhstan's Gross Fixed Capital Formation was reported at 18.481 billion USD in September 2023. This records an increase from the previous number of 13.622 billion USD for June 2023. Kazakhstan's Gross Fixed Capital Formation data is updated quarterly, averaging 9.175 billion USD from March 2007 to September 2023, with 67 observations. The data reached an all-time high of 21.636 billion USD in December 2012 and a record low of 4.411 billion USD in March 2007.¹⁶

Foreign Exchange Reserves

Kazakhstan Foreign Exchange Reserves was measured at 13.9 billion USD in February 2024, compared with 14.8 billion USD in the previous month. This data is updated monthly, available from December 2002 to February 2024. The data reached an all-time high of 33.1 billion USD in April 2011 and a record low of 2.6 billion USD in December 2002.¹⁷

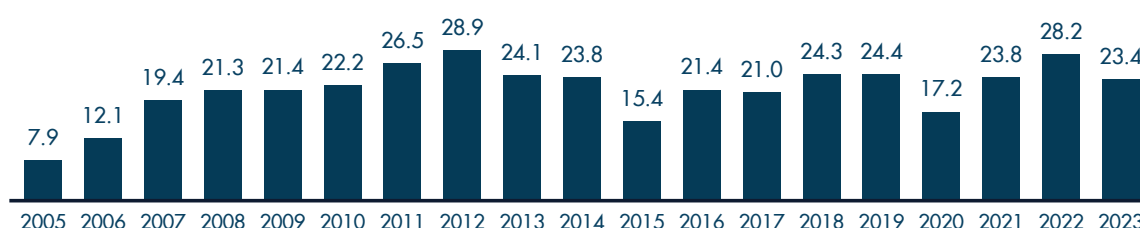
Foreign Exchange Reserves: USD mn: Monthly: Kazakhstan

Source: CEIC Data | www.ceicdata.com

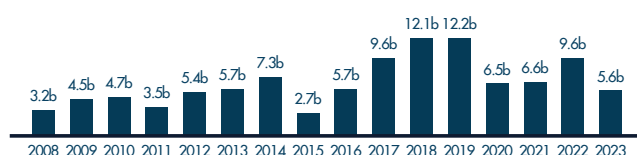
Foreign Investments into Kazakhstan

Kazakhstan has attracted significant FDI since its independence. This can be illustrated from the graph below showing the number of Gross FDI Inflow from 2005 to 2023. The latest figures in 2023 (23.4 billion USD) however show a decline from 28.2 billion USD in 2022. The decline was substantially contributed by the Oil and Gas sector which attracted 4 billion USD less than 2022. In terms of sectoral performance, Gross FDI to agriculture has achieved almost 50 million USD in 2023 where historically, it never exceeded 72 million USD. Trade contributed to the largest share of gross FDI inflow into the services sector of Kazakhstan amounted to 5.0 billion USD in 2023.

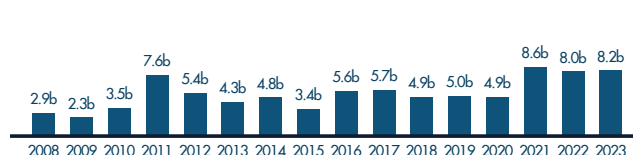
Gross FDI Inflow in 2023 Amounted to \$23.4 billion, 17% Less Than in 2022



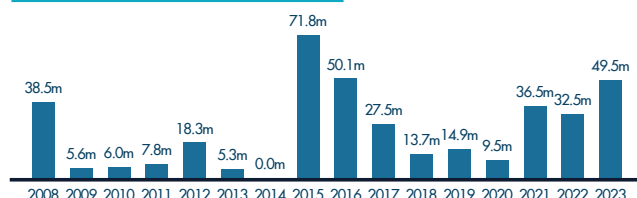
FDI Inflow, Oil and Gas Mining, USD Billion



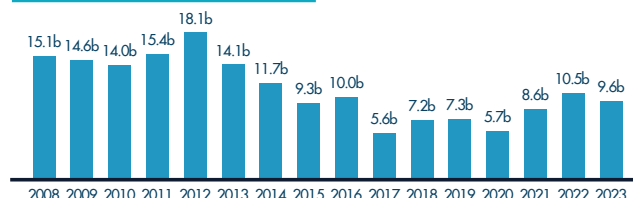
FDI Inflow, Non-Petroleum Mining and Manufacturing, USD Billion



FDI Inflow, Agriculture, USD Billion



FDI Inflow, Services, USD Billion

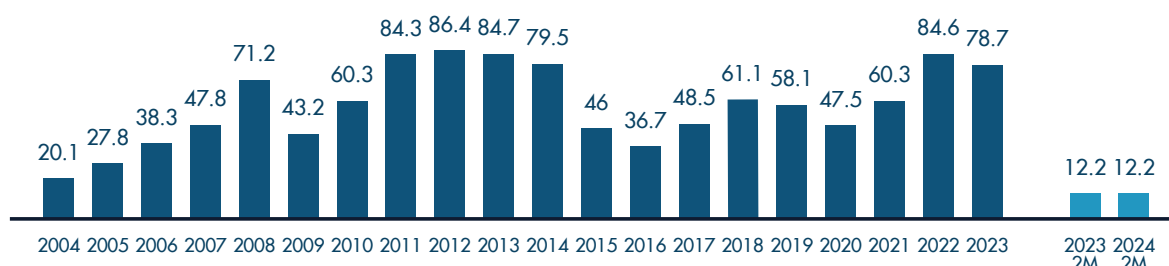


Source: AIFC The Chartbook, Kazakh Economy in Charts and Figures, April 2024

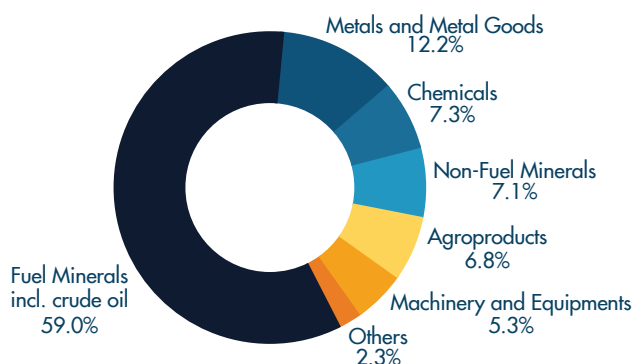
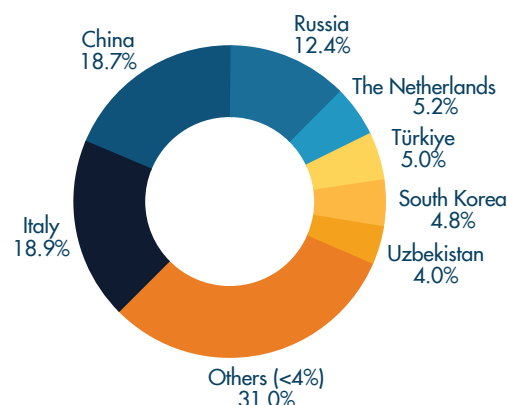
International trade: Export

In 2023, the statistics of exports recorded a decline of 7% compared to 2022 and amounted to 78.7 billion USD. The top three export categories are fuel minerals which made up of 59%, metals and metal goods which were 12.2% and chemicals which were 7.3%. For main export destinations, Italy (18.9%), China (18.7%), and Russia (12.4%) were the top three nations which recorded highest percentage of export volumes. The bar chart below illustrates the number of total exports (in billions) from 2004 to 2024, followed by two pie-charts depicting the export categories and export destinations.

Exports, \$ Billion (2004-2024)



Source: AIFC The Chartbook, Kazakh Economy in Charts and Figures, April 2024

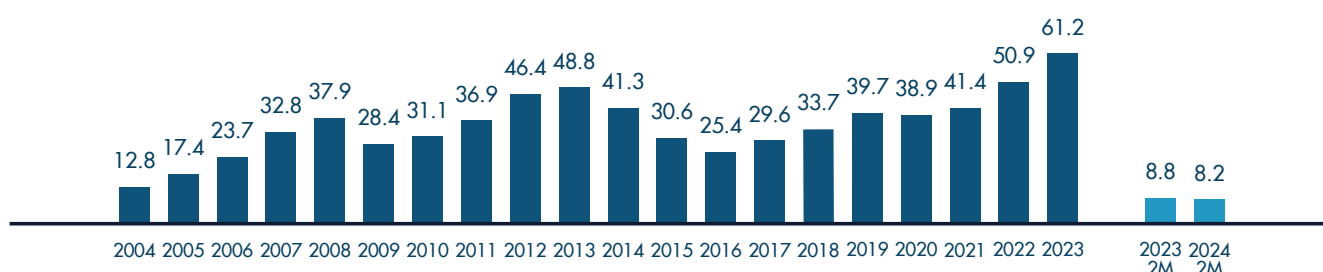
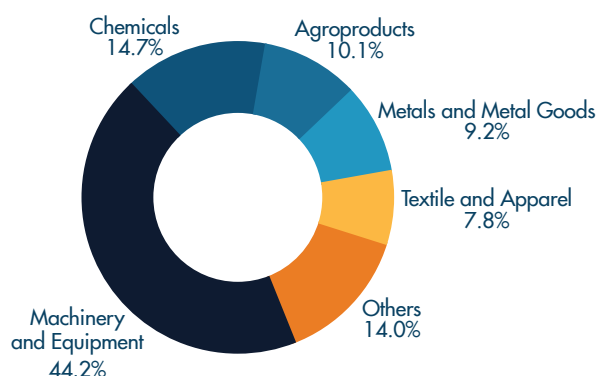
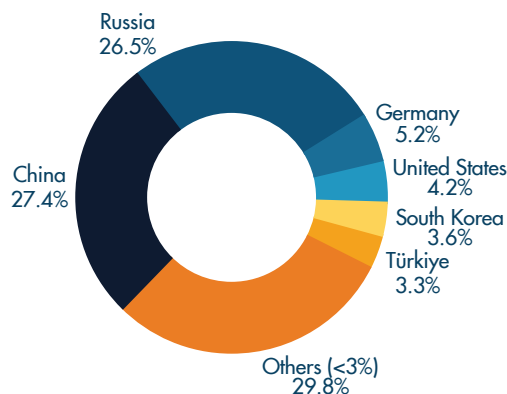
Export by Goods, %, 2023**Export by Trading Partners, %, 2023**

Source: AIFC The Chartbook, Kazakh Economy in Charts and Figures, April 2024

International trade: Import

Kazakhstan's import in 2023 increased by 20.1% compared to 2022 with the total amount of 61.2 billion USD as shown in the chart below.

In terms of import categories, the top three products were machinery and equipment (44.2%) followed by chemicals (14.7%) and agroproducts (10.1%). Two largest trading nations are China (27.4%) and Russia (26.5%). The total number of imports from these two nations has already made up more than half of total imports.

Imports, \$ Billion (2004-2024)**Import by Goods, %, 2023****Import by Trading Partners, %, 2023**

Source: AIFC The Chartbook, Kazakh Economy in Charts and Figures, April 2024

A nighttime aerial view of a city, likely Moscow, featuring a wide river in the foreground. A modern bridge with a glowing, lattice-like structure spans the river. In the background, several tall skyscrapers are illuminated with blue and yellow lights, reflecting on the water. The city skyline is visible under a dark sky with some clouds.

03

Financial Sector Landscape

Development of Financial Market

Kazakhstan, a middle-income country, saw its economy surge due to booming oil exports in the 2000s and early 2010s. This rapid economic growth has substantially led to the development of its financial sector.¹⁸ Finance is essential for achieving the goals of Strategy Kazakhstan-2050 and the 2030 Agenda. Towards achieving those goals, Kazakhstan has been mobilizing a balanced combination of public and private, domestic and international resources for its financial development while ensuring maximum synergy and minimal risk. This section will outline recent developments in the key financial sectors: banking, securities, and insurance.¹⁹

Banking

As of January 1, 2024, the banking sector comprises 21 banks, including 11 with foreign participation (8 of which are subsidiaries) and 2 banks with full state ownership.²⁰

Retail loans accounted to 23 billion USD with the share of 34,5% of the loan portfolio (at the beginning of 2022 – 17.1 billion USD or 31,7% of the loan portfolio), and increased for 2023 by 34,2%.

Asset

In terms of bank assets, the major asset category in the total banking assets is loan portfolio (58,0% of total assets) amounted to 66.6 billion USD (at the beginning of 2023 – 54.1 billion USD) and increased for 2023 by 23,1%. The growth of the loan portfolio to the loan portfolio indicator from 2020 is 89,0%.

Loans to SMEs comprised to 17.1 billion USD with the share of 25,6% of the loan portfolio (at the beginning of 2023 – 14.2 billion USD or 27,3% of the loan portfolio), and increased for 2023 by 19,9%.

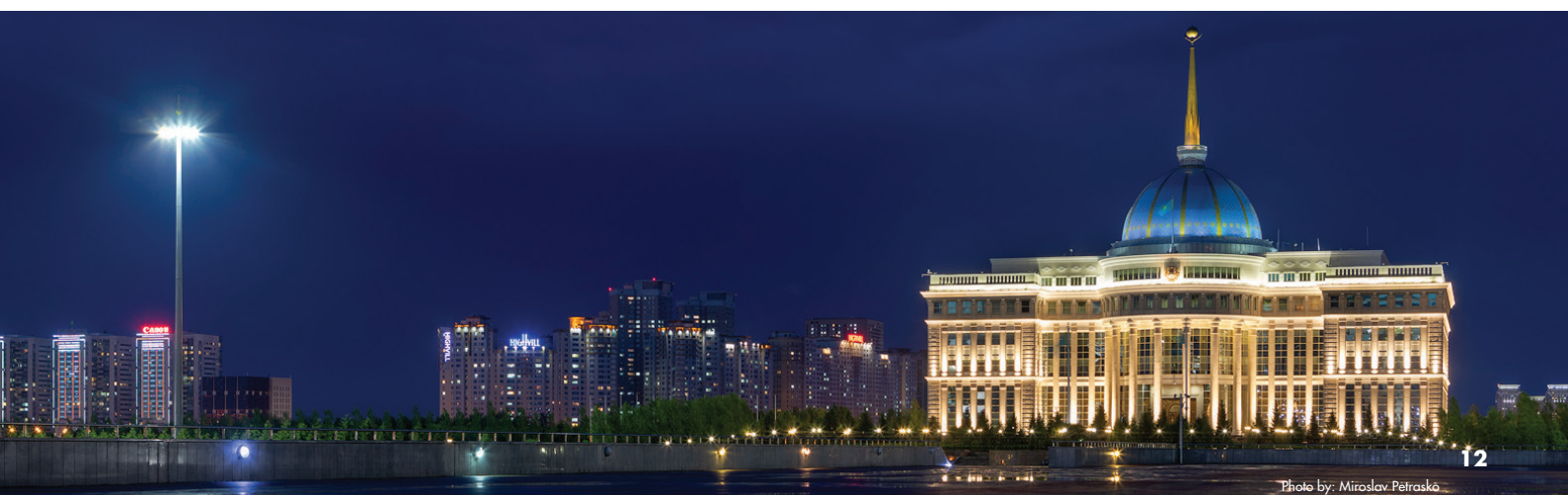
Corporate loans comprised to 10.8 billion USD with the share of 16,1% of the loan portfolio (at the beginning of 2023 – 9.7 billion USD or 18,0% of the loan portfolio), and increased for 2023 by 10,7%.

Loans with overdue debt amount to 3.3 billion USD or 5,0% of the loan portfolio (at the beginning of 2023 – 3.01 billion USD or 5,6% of the loan portfolio).

Loans to individuals constituted to 37.2 billion USD with the share of 55,9% of the loan portfolio (at the beginning of 2023 – 29.4 billion USD or 54,4% of the loan portfolio), and increased for 2023 by 26,7%.

NPL - non-performing loans (loans with overdue of more than 90 days) amounted to 1.9 billion USD or 2,89% of the loan portfolio (at the beginning of 2023 was 1.8 billion USD or 3,36% of the loan portfolio).

Provisions for loan portfolio formed to 3.8 billion USD or 5,7% of the loan portfolio (at the beginning of 2023 was 3.7 billion USD or 6,8% of the loan portfolio).



Liabilities and Deposits

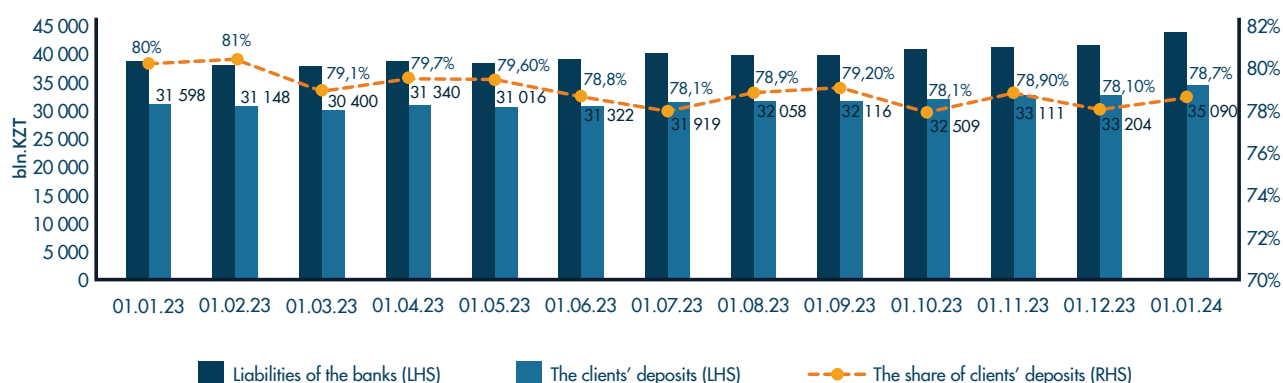
As of the beginning of 2024, the liabilities of Kazakhstani banks totalled 99.4 billion USD, up 13.3% from 87.7 billion USD at the start of 2023. Customer deposits accounted for the largest portion of total liabilities at 78.7%. Liabilities to non-residents amounted to 9.2 billion USD, representing 9.3% of the total liabilities.

Customer deposits totalled 78.2 billion USD, making up 78.7% of total liabilities, compared to 7.4 billion USD or 80.3% at the beginning of 2023, reflecting an 11.1% increase over the year.

Corporate deposits totalled 32.8 billion USD, representing 41.8% of customer deposits, compared to 32.7 billion USD or 46.4% at the beginning of 2023, marking a 0.1% increase. The share of foreign currency deposits by legal entities decreased from 39.9% at the start of the year to 30.1% by the reporting date.

Individual deposits reached 45.5 billion USD, accounting for 58.2% of customer deposits, up from 37.7 billion USD or 53.6% at the beginning of 2023, reflecting a 20.6% increase over the year. The proportion of household deposits in foreign currency declined from 34.0% at the start of the year to 26.5% by the reporting date. The graph below displays the dynamics of the liabilities of banking sector of Kazakhstan from January 1, 2023, to January 1, 2024.

Liabilities of the Banking Sector of Kazakhstan



Source: Agency for Regulation and Development of the Financial Market of the Republic of Kazakhstan

Capital Adequacy

Regulatory capital stood at 16.6 billion USD. The capital adequacy ratios were as follows: k1 – 19.2%, k1-2 – 19.2%, and k2 – 21.5%. Highly liquid assets totalled 33.6 billion USD, or 29.3% of total assets, up 12.0% from 30.01 billion USD at the beginning of 2023.

Profitability of the banking sector

Net income of the banking sector amounted to 47.4 billion USD

Return on Assets (ROA) is – 4,70% (3,68% at the same date last year);

Return on equity (ROE) is – 36,69% (30,44% at the same date last year).

Insurance

The insurance sector comprises 25 insurance organisations, including 9 specializing in life insurance.²¹

Assets

As of January 1, 2024, the assets of Kazakhstan's insurance organisations totalled 5.6 billion USD, reflecting a 20.7% increase from 4.6 billion USD at the beginning of 2023. Securities, the largest asset category, accounted for 70.2% of total assets, amounting to 3.9 billion USD, which is a 14.4% increase from 3.4 billion USD at the start of 2023. Deposits of insurance organizations in banks amounted to 251.8 million USD, representing 4.5% of total assets, and increased by 50.4% since the beginning of 2023 (167.4 million USD or 3.6% of total assets at the start of 2023). Reinsurance assets totalled 198.5 million USD, accounting for 3.6% of total assets, and grew by 35.1% from the beginning of 2023 (147 million USD or 3.2% of total assets).

Liabilities and Reserves

As of January 1, 2024, the liabilities of insurance organizations totalled 3.6 billion USD, up 23.2% from 2.9 billion USD at the beginning of 2023. The largest component of these liabilities, insurance reserves, accounted for 85.3% of the total, amounting to 3.02 billion USD, which represents a 23.5% increase from 2.5 billion USD at the start of 2023.

Insurance Premiums

As of January 1, 2024, the total volume of insurance premiums was 2.2 billion USD, a 29.6% increase compared to the same period the previous year. Premiums from direct insurance contracts amounted to 2.0 billion USD. The largest portion of premiums came from voluntary property insurance, totaling 1.0 billion USD or 44.9% of the total. Premiums from compulsory insurance were 432 million USD, accounting for 19.4% of the total, while voluntary personal insurance premiums were 796.5 million USD, representing 35.7% of the total.

Capital adequacy

Regulatory capital has amounted to 1.4 billion USD and has increased by 15,7% since the beginning of 2023 (as of the beginning of 2023 – 1.2 billion USD). Solvency margin equalled to 4,8 (as of the beginning of 2023 – 5,19). Highly liquid assets have amounted to 4.6 billion USD or 83,2% of the total assets and have increased by 20,5% since the beginning of 2023 (as of the beginning of 2023 – 3.8 billion USD).

Profitability of the insurance sector

As of January 1, 2024, the net income of the insurance sector was 407.9 million USD, a 33.0% increase compared to the same period the previous year. The return on average total assets (ROA) for the past 12 months was 8.0%, while the return on average total equity (ROE) was 21.8%.

Macroeconomic indicators

The insurance sector's total assets represent 2.19% of GDP. Insurance premiums account for 0.88% of GDP. The insurance premium per capita is 114 USD.

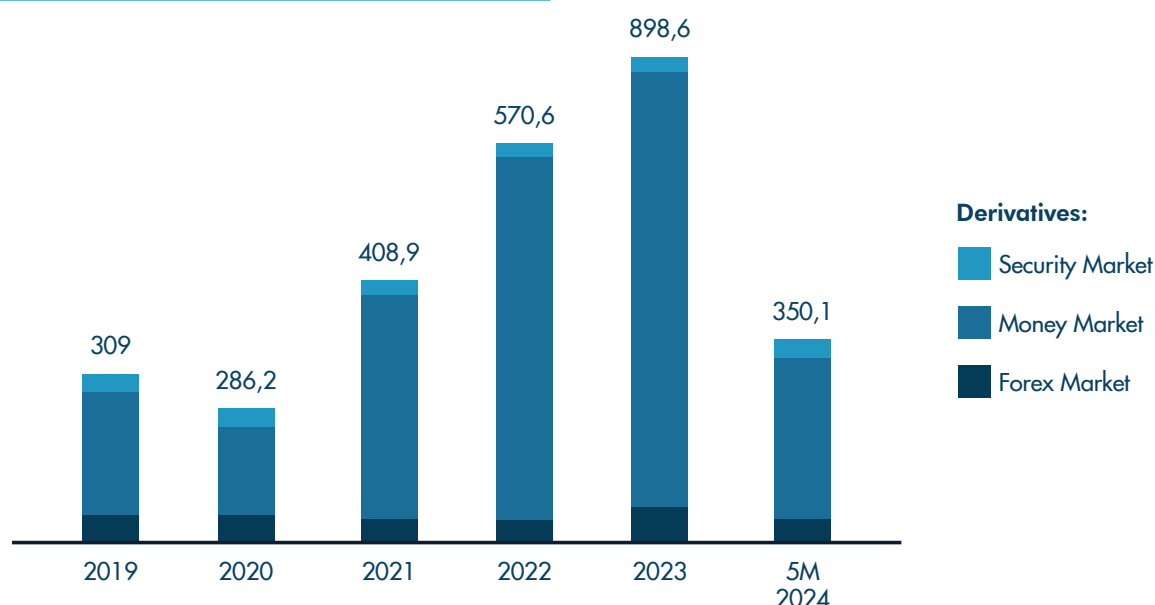
Securities

Currently, Kazakhstan hosts two stock exchanges: the Kazakhstan Stock Exchange (KASE) in Almaty and the Astana International Exchange (AIX) in Astana. KASE was established November 17, 1993, as the Kazakhstan Inter-bank Currency Exchange. That year, it conducted its first foreign currency trade with the US dollar, and in 1995, it began trading state treasury obligations and National Bank notes. The Astana International Exchange (AIX) was established in 2017 as part of the creation of the Astana International Financial Centre (AIFC). Unlike KASE, AIX operates under a regulatory framework based on common law, specifically English law.

Volume and structure of the market

The trading volume at KASE from 2019 to 2023 consisting of the Forex market, Money market, Securities market and Derivatives can be seen from the chart below;

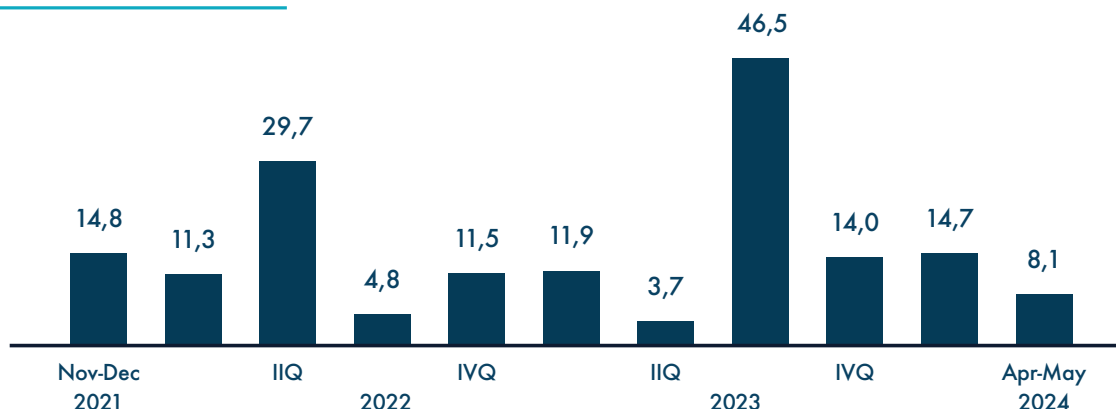
Trading Volume Dynamics by Sectors, USD bn



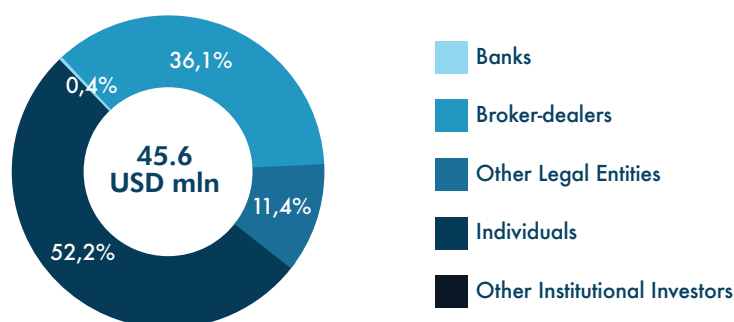
Source: KASE Market Overview as of January 01, 2024

The comparison of the total trading volume in 2022 and 2023 as well as shares of main types of investors in 5M 2024 for KASE are displayed in the two charts below;

Trading Volume, USD mln



Shares of Main Types of Investors in 5M 2024*



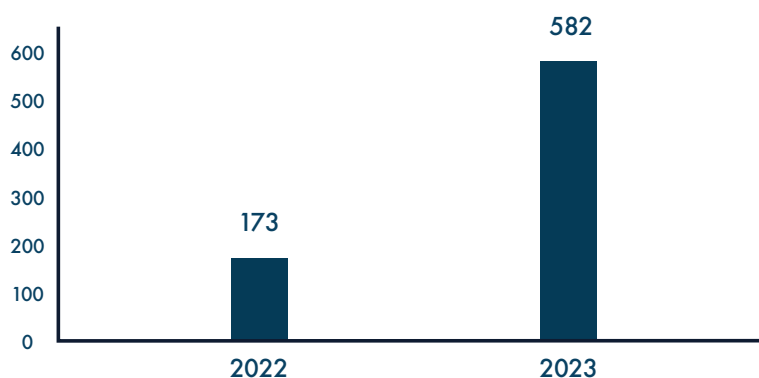
*of the total gross turnover of trading in KASE Global sector

Source: KASE Market Overview as of January 01, 2024

For AIX, despite the high market interest rates, 2023 has been an exceptional year for the AIX, with notable increases in the number of listings, trading volume, and capital raised by issuers. A wide range of debt instruments has been listed on the AIX, leading to businesses drawing in more than 2 billion USD. The year has seen record-breaking trading²² activity and a remarkable surge in the number of investor accounts. AIX 2023 results are summarised as follows:

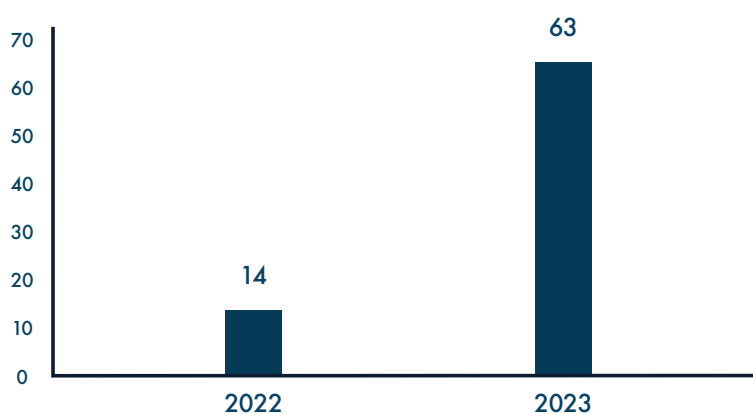
- 94 different issuers listed 150 securities on the AIX.
- Debt capital raised since inception amounts to 4.2 billion USD and equity capital – 365 million USD.
- Total trading turnover (stocks, bonds, ETNs, ETFs) more than tripled from 173 million USD in 2022 to 582 million USD in 2023. Equity trading also returned impressive results over the year, almost doubling to 130 million USD.

Total Trading Turnover (in USD m)



- The 37 trading members include brokers from Kazakhstan, China and European countries.
- More than 1.5 million investor accounts in the AIX Central Securities Depository (AIX CSD).
- AIX new listings numbered 63 (56 debt securities and 7 equity securities) in 2023, compared to only 14 securities in 2022.

Number of Listings



- 2.0 billion USD of debt capital was raised in 2023, which is 3.5 times that raised in 2022 (557 million USD). The companies with debt instruments listed on the AIX represent a range of industries such as banking, mining, logistics, construction and fintech.
- Issuer geography is also expanding, with companies from the UAE, Luxembourg, the UK and Cyprus joining the official AIX listing in 2023.

Market Structure

Kazakhstan has a two-tiered banking system. The first tier is comprised of the National Bank of Kazakhstan (NBK). All other banks represent lower (second) tier of the banking system, excluding for the Development Bank of Kazakhstan, which has a peculiar legal status.²³ The legal basis for operation of the second-tier banks is the law "On Banks and Banking in the Republic of Kazakhstan" from August 31, 1995, nr. 2443. According to this law, a second-tier bank in Kazakhstan is a corporate entity which, irrespective of the form of ownership, carries on business for achieving its main goal of earning profits.²⁴

Although prohibited from creating retail banking branches in Kazakhstan until 2020, foreign banks may establish subsidiaries, joint ventures, and representative offices. As of April 2019, 20 foreign banks have representative offices in Kazakhstan. Legislation mandates equal treatment for foreign and Kazakhstani investors, a position reinforced in 2005 by legislative amendments that lifted restrictions on the participation of foreign capital in the banking sector. Notably, no individual may own more than 10% of a bank's shares (unless that bank is a subsidiary of another bank) without permission from the National Bank.²⁵

Foreign individuals and companies can open bank accounts in local banks as soon as they present identification documents and confirmation of local registration, including taxpayer registration.

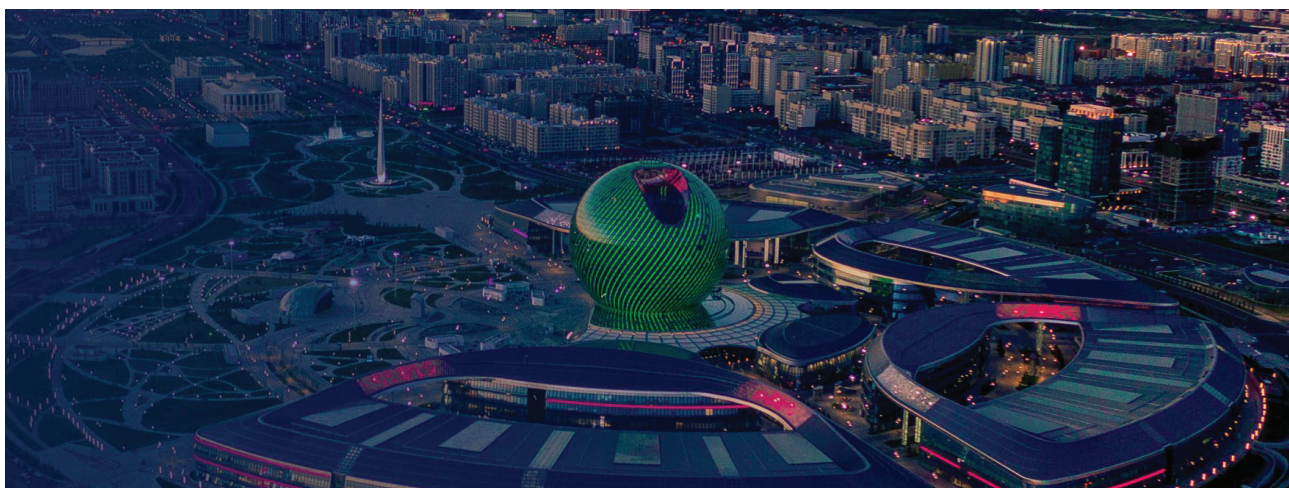
Legal and Regulatory Framework

Kazakhstan has a robust legal and regulatory framework for capital market and financial services in the country. This is due to the support by the Government in actively formulating policies, enacting legislations and protecting all parties involved in business and trade activities.

The list of agencies and institutions that regulates, administers, and enforces the laws for capital market and financial services are found herein;

AIFC

Kazakhstan has sought to position itself as the "Dubai of Central Asia" since the advent of the so-called "Dubai model" over a decade ago, with its capital Astana figuring as a global financial hub connecting Western Europe with Eastern Asia and serving as a gateway to China.²⁶ In May 2015, President Nursultan Nazarbayev issued a decree pursuant to the "100 Concrete Steps Plan" (a national development plan intended to achieve the country's admission to the top 30 developed countries by 2050) that established the Astana International Financial Centre (the "AIFC") free economic zone for the purposes of cultivating foreign direct investment, developing the local capital markets and facilitating their integration into the international markets, and developing the local banking, insurance, and Islamic financing sectors.²⁷



The AIFC was created to become a hub for Central Asia, the Caucasus, the EAEU, the Middle East, Western China, Mongolia and Europe²⁸.

The AIFC operates within a special legal regime based on Common Law, which regulates the legal relationships between AIFC participants and third parties and is aimed at the development of the financial market and legal system which is based on the Common Law System²⁹.

The Constitutional Statute of the Republic of Kazakhstan "On the Astana International Financial Centre" defines the AIFC as an area within the City of Astana determined by the President of the Republic of Kazakhstan where the special legal regime in the financial sphere established by the Constitutional Statute applies³⁰. It has specific acts and regulations in relation to Islamic finance services. AIFC also imposes different and specific tax treatments on its participants. AIFC also has its own taxation regime, dispute regulation forum such as courts and arbitration which is separate from the general legal system of Kazakhstan.

The acting law of the AIFC is based on the Constitution of the Republic of Kazakhstan and consists of the Constitutional Statute, the AIFC Acts based on the principles, legislation and precedents of the law of England and Wales and the standards of leading global financial centres, which has been developed under the guidance of the AIFC Legal Advisory Council, and the acting law of the Republic of Kazakhstan, which applies in part to matters not governed by the Constitutional Statute and the AIFC Acts.³¹

Regulatory Bodies

Agency for the Development and Regulation of Financial Markets (ARDFM)

Decree was issued by the President of the Republic of Kazakhstan dated 11 November 2019 №203

"On further improvement of state administration system of the Republic of Kazakhstan", a new state body of the Republic of Kazakhstan, the Agency for Regulation and Development of the Financial Market of the Republic of Kazakhstan (hereinafter referred to as the Agency), has been operating since January 1, 2020.³²

The Agency is a state body, which provides a sufficient level of protection of the rights and legitimate interests of consumers of financial services. It also contributes to the stability of the financial system and the development of the financial market, carries out state regulation, control and supervision of the financial market and financial organizations, as well as other people within their competence.

Agency determines the approaches and methods of regulating the financial market within the framework of the main directions of state policy in the development of the financial system of the Republic of Kazakhstan, taking into account international standards (Basel Committee on Banking Supervision, International Association of Insurance Supervisors, International Organization for Pension Supervision, International Organization of Pension Supervisions, International Organization of Securities Commissions, European Union, Islamic Financial Services Board), provides assistance to the development of financial market of the Republic of Kazakhstan, financial products, and also provides equal conditions for the functioning of financial organizations on the principles of fair competition, carries out the fight against abuse in the financial market.

According to the Law "On the State Regulation, Control and Supervision of the Financial Market and Financial Organizations", one of the key tasks of the Agency is to ensure an adequate level of protection of the interests of consumers of financial services, completeness and accessibility of information for consumers on the activities of financial organizations and financial services provided by them, as well as to increase the level of financial literacy and financial accessibility for the population.

National Bank of Kazakhstan (“NBK”)

NBK represents, within the limits of its authority, the interests of the Republic of Kazakhstan in the relationship with the central banks, with banks of other countries, in the international banks and other financial-credit organizations and is not guided by the aim of gaining profit in performing its tasks.³³ NBK reports to the President. Nevertheless, within the limits of authority granted by the legislation, it is independent in its activity.

It coordinates its activity with the Government of the Republic of Kazakhstan, in its activity takes into consideration the economic policy of the Government and facilitates its implementation, if doing so is not in conflict with the realization of its main functions and implementation of monetary policy. NBK has a common centralized system with a vertical administrative scheme. Its highest administrative authority is the Board, the authority of the executive management is the Board of Directors.³⁴

The primary goal of the National Bank is to ensure the stability of prices in the country.³⁵ For this, NBK is mandated with the following tasks:

- a) development and implementation of the state’s monetary policy;
- b) ensuring the functioning of payment systems;
- c) implementation of foreign exchange regulation and foreign exchange control;
- d) promotion of the stability of financial system;
- e) carrying out statistical activities in the area of monetary statistics and external sector statistics.

In accordance with the assigned tasks, NBK including its territorial branches exercises the functions as specified in the Statement laying down the National Bank’s operation, namely the Statement as approved by Kazakhstan Presidential Decree dated December 31, 2003, number 1271.³⁶



Main organizations, accountable to NBK:

- a) The Republican State Enterprise with the right of the economic activity "Kazakhstan Mint of the National Bank of Republic of Kazakhstan",
- b) The Republican State Enterprise with the right of the economic activity "The Banknote Factory of the National Bank of Republic of Kazakhstan"

The NBK is a shareholder of the joint-stock companies:

- a) Kazakhstan Deposits Insurance Fund;
- b) Centre of activities' maintenance of the National Bank of Kazakhstan.
- c) National Investment Corporation of National Bank of Kazakhstan;
- d) The State Credit Bureau;
- e) Central Securities Depository;
- f) Payment and Financial Technology Development Centre of the National Bank of the Republic of Kazakhstan;
- g) Bank Service Bureau of the National Bank of Republic of Kazakhstan;
- h) Kazakhstan Sustainability Fund;
- i) National Payment Corporation of the National Bank of the Republic of Kazakhstan.

Astana Financial Services Authority (AFSA)

The Astana Financial Services Authority (AFSA) was launched on 1 January 2018 as the independent regulator of the AIFC. AFSA is a legal entity and statutory body of the Republic of Kazakhstan and is established in accordance with the Constitutional Law of the Republic of Kazakhstan "On the Astana International Financial Centre". AFSA is a regulator of both financial and non-financial services activities. It regulates Centre Participants carrying out financial and ancillary services and capital markets activities within the territory of AIFC.³⁸

AFSA is also the regulator of companies registered by the AFSA that carry out non-financial services activities. AFSA acts independently of AIFC bodies and state bodies within the limits provided for by applicable legislation and is accountable to the Management Council and the Governor of the AIFC.³⁹ In carrying out its functions, AFSA pursues the following objectives:

- a) the regulation, control and supervision of financial activities in the AIFC by Centre Participants with a view to the maintenance of the safety and soundness of the financial system within the AIFC;
- b) ensuring that financial markets in the AIFC are fair, efficient, transparent and orderly;
- c) creating fair, transparent and non-discriminatory conditions for Centre Participants;
- d) fostering and maintaining confidence in the AIFC's financial system and regulatory regime;

Kazakhstan Stock Exchange (KASE)

Kazakhstan Stock Exchange (KASE or the Exchange) operates four main markets namely: the foreign exchange market, the stock (securities) market, the money (repo and swap transactions) market and the derivatives market, as well as an established trading and clearing and settlement infrastructure. The Exchange started with humble beginning in 1993 and to date has diversified its business extensively.

The Exchange generates and calculates the country's stock index – the KASE Index. To maintain the current positions of Kazakhstan's stock market in the international arena and improve these positions, it is extremely important to maintain the existence of this index and increase its representativeness by expanding the list of securities included in its calculation and increasing the liquidity of such securities. The versatility of the KASE platform gives trading participants maximum convenience when concluding deals, since the majority of trading participants are actively conducting transactions in several markets. Ability to work with various types of financial instruments provides the best conditions for liquidity management and implementation of investment strategies of trading participants and their clients.³⁷

- e) fostering and maintaining the financial stability of the AIFC's financial services industry and capital markets, including the reduction of systemic risks;
- f) preventing, detecting and restraining actions that may cause damage to the reputation of the AIFC or to the financial activities carried out in the AIFC by taking appropriate measures, including by imposing sanctions;
- g) protecting interests of investors and users of financial services;
- h) implementing in the AIFC a regulatory regime that complies with international standards in the sphere of regulation of financial services; and
- i) fostering the development of financial technologies in the AIFC.

The AFSA's mission is to establish an environment that delivers fair and transparent financial and capital markets, in which individuals and institutions act with integrity. Its vision is to be a globally respected regulator of financial services in Eurasia delivering a legal and regulatory framework that demands high standards of behaviour, inspires innovation and creates a fair and safe environment in which investors have confidence and business is trusted.⁴⁰

The AFSA team strives to act in an ethical, transparent and accountable manner, to deal with businesses and individuals fairly, impartially and professionally, and to promote the highest standards of corporate governance.

AIFC Authority

AIFC Authority is the Centre's body that provides necessary needs for the other body's activities, structural units, participants, and employees of the Centre. The Board of Directors is the administrative body of the AIFC. Management of the current activities of the Centre's Authority is carried out by a board, headed by its Acting Chairman of the Management Board, Temirlan Mukhanbetzhanov. The Board of Directors is the administrative body of the AIFC. Management of the current activities of the Centre's Authority is carried out by a board, headed by its Chairman of the Management Board, Yernar Zhanadil.

The AIFC Authority is a company limited by shares established by the National Bank of the Republic of Kazakhstan. The AIFC Authority supports the activities of the other AIFC Bodies and their organisations as well as the AIFC Participants and their employees and represents their interests to the extent of its competence.

The AIFC Authority has a budget derived from funds of the republican budget, in the form of targeted transfers in accordance with the budget legislation of the Republic of Kazakhstan, from fees and payments contributed by AIFC Participants, as well as from other sources not prohibited by AIFC Acts.

The AIFC Authority may create reserves from savings prescribed by this paragraph. Procedures and conditions for the creation of reserves, as well as their use, are to be determined by AIFC Acts.

The AIFC Authority has the following powers⁴³:

a) to provide the Council with advice, agreed with the Astana Financial Service Authority, on the development strategy of the AIFC, except for the regulation of financial services and related activities in the AIFC;

b) to report to the Council on the implementation of the approved development strategy of the AIFC and to provide the Council with an annual report on the activities of the AIFC for approval by the Council;

c) to undertake measures in relation to AIFC Participants, on the basis and according to the procedure determined by the Council;

d) to develop draft Council resolutions, agree draft resolutions with Astana Financial Services Authority, publish draft resolutions for public consultation, and present draft resolutions to the Council for approval;

e) to adopt Acts, in the form of regulatory provisions, on matters not related to the regulation of financial services and related activities in the AIFC;

f) to prepare and approve the annual and mid-term budgets of the AIFC;

g) to provide the Council with advice about the establishment of ancillary and other bodies necessary for the purposes of the AIFC, as well as the termination or reorganisation of ancillary and other bodies that have been established;

h) to establish and develop relationships with other international and regional financial centres, development institutions and other organisations, and to further the objectives of the AIFC and better organise its operations, by entering into agreements and contracts, other than agreements and contracts related to the functions of other AIFC Bodies;

i) to assist Employees of AIFC Bodies and AIFC Participants to obtain visas, and to assist AIFC Participants in attracting labour;

j) to exercise other powers determined by resolutions of the Council.

Astana International Exchange (AIX)

Astana International Exchange (AIX) was established in 2017 as part of the Astana International Financial Centre, AIFC. AIX's mission is to develop trusted and liquid capital markets in Central Asia and beyond by providing innovative products and services for businesses and investors.

AIX operates in AIFC regulatory environment, a constitutionally separate jurisdiction within Kazakhstan, which is based on English common law principles. AIX is regulated by the Astana Financial Services Authority, an independent regulator established within the AIFC.

AIX operates an industry standard trading system with T+2 settlement through an ecosystem of over 30 local and international trading members.⁴⁴



Taxation

Legislation

The main legislation that regulates taxation in Kazakhstan is the Code of the Republic of Kazakhstan on Taxes and Other Obligatory Payments to the Budget (the “Tax Code”).⁴⁵ The tax code is relatively new since it was adopted on 10 December 2008 and came into effect on 1 January 2009. Its framework is based on a self-assessment regime with tax inspections and taxpayer audits undertaken according to a risk-based sampling approach.⁴⁶

There is no extra statutory guidance available in the country as to the appropriate interpretation of both national and international tax laws and the landscape is also characterised by inconsistent application of provisions between various tax authorities and regions. As a result, maintaining consistent and predictable tax compliance in Kazakhstan remains a difficulty for both domestic and foreign investors.

Authority

The Ministry of National Economy of the Republic of Kazakhstan provides leadership in the area of tax budget policy. The taxation authority in Kazakhstan is vested in the State Revenue Committee established under the Ministry of Finance of the Republic of Kazakhstan. The State Revenue Committee performs, within the competence of the central executive body, regulatory, implementation and control functions in the field of customs, to ensure the completeness and timeliness of taxes, customs and other obligatory payments to the budget, calculations, deductions, transfer of social security payments, state regulation of production.⁴⁷



Types of Taxation in Kazakhstan

1 Corporate Income Tax

The corporate income tax (rate amounts to 20% and is accrued for the calendar year, both for resident legal entities and non-resident legal entities operating in Kazakhstan through a registered permanent establishment (PE).⁴⁸

Resident companies in Kazakhstan tax worldwide profits, while non-resident companies operating through PE in Kazakhstan are subject to Kazakhstan income tax only on profits attributable to that PE.

In addition, taxpayers operating in Special Economic Zones (SEZs) may be fully exempt from income tax if certain conditions are met.

2 Branch Profit Tax

Foreign legal entities operating in Kazakhstan through PE are subjected to a branch profit tax of 15% and have to be paid on the net income after the corporate income tax.

The branch profit tax rate can be reduced if a Double Tax Treaty is in place between Kazakhstan and the country in which the branch's head office/mother company is resident.⁴⁹

3 Personal Income Tax

All Kazakhstan citizens are tax residents in Kazakhstan along with any foreign nationals ("non-residents") who are present in Kazakhstan for at least 183 days in any consecutive 12-month period ending in the current tax year. Kazakhstan tax residents are subject to personal income tax on worldwide income, while non-residents are taxed on their Kazakhstan-source income only.⁵⁰

The rate for Personal Income Tax is 10% for residents and 15% for non-residents. Additionally, there is a dividends income tax at is 5% rate that applies if the dividends are received in Kazakhstan.

4 Income tax withheld at the source of payment

Income tax withheld at source of payment is levied on the income of non-residents from Kazakhstani sources. The tax rate is currently 15% in most cases. For residents of "tax havens" the tax rate is 20%. A lower tax rate of 5% applies to income from insurance premiums payable in accordance with reinsurance risk agreements and to income from international transportation services.

5 Value added tax

The value-added tax rate is 12% and applies to sales turnover in Kazakhstan and to imports of goods and services to Kazakhstan. However, the export of goods is not subject to value-added tax.

There is a list of goods, works and services that are exempt from VAT: e.g. sales of medicines, financial services of financial institutions, financial leasing services, notary and lawyer services, operations with financial securities and investment gold, and credit operations.⁵¹

6 Excise

Excise tax applies to alcohol (up to EUR 3 per litre), liquors (up to EUR 2,5 per litre), tobaccos (up to EUR 0,5 per piece), gasoline (up to EUR 25 per ton), crude oil (EUR 0 per ton), gas condensate (EUR 0 per ton) vehicles with engine volume of over 3 litres (EUR 0,5 per cubic centimetre of engine volume) produced in Kazakhstan or imported to Kazakhstan.

7 Rental tax on exports

The rental tax applies to the export of crude oil, gas condensate and coal. The tax rate depends on the market price, from 0% when the market price is USD 20 per barrel to 32% when the market price is USD 200 or higher per barrel.

8 Social tax

The social tax rate is paid by legal entities and amounts to 11% of salaries and in-kind benefits of employees.

9 Subsurface use taxation

The subsurface use taxes include signature bonus and commercial discovery bonuses, payments to compensate historic costs, tax on the production of minerals and an excess profit tax.

10 Property tax /Real Estate Tax

Immovable property tax is assessed annually at a flat rate of 1.5% on the average net book value of immovable property. Immovable property tax applies to buildings and structures that are in actual use even if they are not registered with the justice authorities.⁵²

11 Vehicle tax

The vehicle tax is levied based on engine volume, vehicle weight or quantity of seats.

12 Land tax

Land tax applies to legal entities possessing plots of land or the right to use them.

13 Other taxes, state fees and dues

Other taxes include among others special taxes for gambling businesses. The state further levies different kinds of fees on registration, licensing, environmental pollution, for the use of water resources, forests etc.

International Tax Treaties

Kazakhstan has concluded 57 Double Tax Treaties (DTCs) with the following jurisdictions: Armenia, Austria, Azerbaijan, Belarus, Belgium, Bulgaria, Canada, China, Cyprus, Egypt, Georgia, Germany, Hungary, India, Iran, Ireland, Italy, Qatar, Korea, Kyrgyzstan, Kuwait, Latvia, Lithuania, Luxembourg, Macedonia, Spain, United Kingdom and Northern Ireland, Vietnam, Malaysia, Moldova, Mongolia, Netherlands, Norway, Pakistan, Poland, Qatar, Romania, Russia, Saudi Arabia, Serbia, Singapore, Slovakia, Slovenia, Sweden, Switzerland, Tajikistan, Turkey, Turkmenistan, Ukraine, United Arab Emirates, United States, Uzbekistan, Croatia, Estonia, Finland, France, Japan.⁵³

In addition, Kazakhstan has signed and ratified the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI). The Multilateral Convention entered into force for Kazakhstan on October 1, 2020.



Tax Regime under AIFC

The tax framework within the AIFC is governed by the Tax Code, except for exclusions specified in Article 6 of the Constitutional Law. These exclusions pertain to tax advantages granted to AIFC participants⁵⁴:

1. Corporate income tax, Value Added Tax (CIT, VAT): on income received from the provision of financial services within the AIFC (if there is a license obtained from the AIFC Committee for Financial Services Regulations):

- a) Islamic bank banking services;
- b) reinsurance services and insurance brokerage services;
- c) investment asset management services of investment funds, their accounting and storage, as well as issuance, placement, circulation, redemption and repayment of securities of investment funds;
- d) brokerage and/or dealer, underwriting services; and
- e) other financial services defined by a joint act of the AIFC and the Ministry of National Economy and the Ministry of Finance.⁵⁵



2. Corporate income tax (CIT): on income received from legal, auditing, accounting, consulting services provided to AIFC bodies, as well as AIFC participants providing financial services, the list of which is specified in paragraph 3 of Article 6 of the Constitutional Law (see above).

For exemption from CIT, AIFC participants must keep separate records in accordance with the Regulations on Keeping Separate Accounting of Income Subject to Exemption of Corporate Income Tax and Subject to Taxation, and Expenses Subject to Allocation to Deductions by the participants of AIFC.

3. Property tax and land tax on objects located within the AIFC for AIFC participants who provide financial and support services, the list of which is specified in paragraphs 3 and 4 of Article 6 of the Constitutional Law (see above).

4. Foreigners who are employees of an AIFC participant are exempt from individual income tax on income from activities in the AIFC under an employment contract concluded with an AIFC participant providing financial and support services, the list of which is specified in paragraphs 3 and 4 of Article 6 of the Constitutional Law.

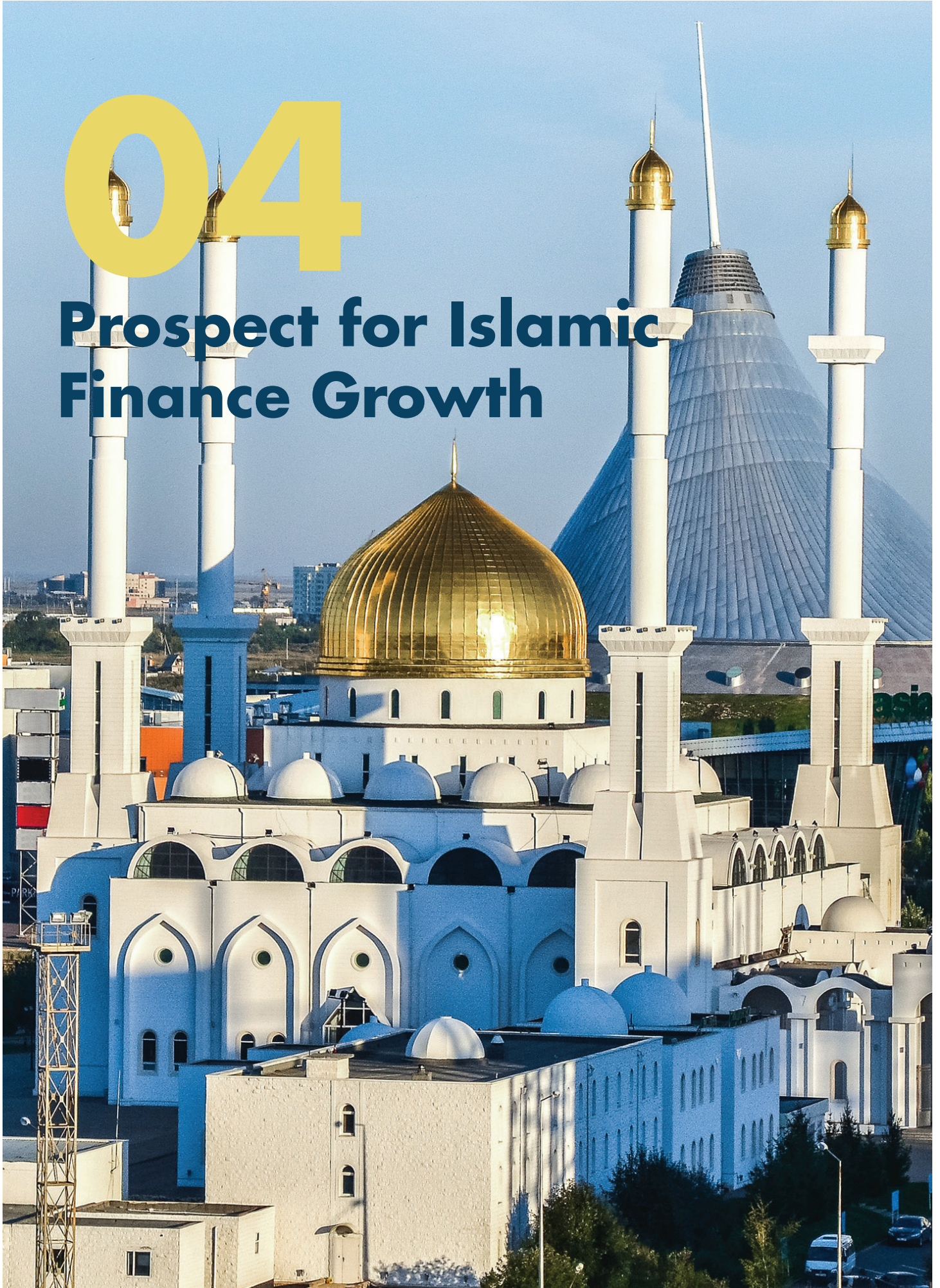
5. For individuals and legal entities from corporate and individual income taxes on income:

- a) from the increase in value when selling securities that are on the date of sale in the official lists of the stock exchange;
- b) in a form of dividends and remuneration on securities that are on the date of accrual of such dividends or remuneration in the official lists of the stock exchange;
- c) from the increase in value when selling shares or partnership shares in the authorized capitals of participants-legal entities;

as well as in a form of dividends on shares of participants-legal entities or on partnership shares in the authorized capitals of participants-legal entities that are registered in accordance with the current law of the AIFC.

04

Prospect for Islamic Finance Growth



Key Findings from the Market Survey Analysis

1 Respondent Samplings

The market research focused on Kazakhstan's practising Muslim population from the age of 18 up until 61 and above. The population of practising Muslims is estimated to be at around 2.2 million people or 19.5% out of the total population within the same age bracket.

To ensure that only practising Muslims would partake in the survey, a mobile application for checking a prayer time and influential practising Muslim bloggers were engaged and utilized to influence the respondent samplings. For the offline method, roll-up banners with QR codes in mosques were deployed.

2 Questionnaire Focus Areas

The survey was aimed at evaluating and identifying public opinions about key aspects of Islamic financial services, such as familiarity of the respondents with Islamic financial products, perception of awareness, impact of advertising, importance of compliance with Islamic principles from the respondent's point of view, preference and usage of financial products, and accessibility of Islamic financial products from both individuals and corporate respondents.

From here, the primary aim was to assess market demand for Islamic financial products more specifically among retail and corporate customers in Kazakhstan; identify gaps that exist in the product offerings; and explore product diversification opportunities.

A specialized methodological approach was developed to investigate the complex dynamics of practising Muslims' banking relationships, emphasizing their engagement with conventional banking products and their receptiveness to Islamic financial products in Kazakhstan. This was achieved by asking respondents specific questions about their use of conventional banking services, such as active bank deposits, installment plans, mortgages, consumer loans, car loans, insurance policies, and investments in securities.

3 Extrapolating Potential Demands

The responses were then categorized into four distinct groups. Following each inquiry about conventional products, Islamic finance alternatives were presented to assess the respondents' awareness level and interest in these options. This strategy provided insights into both current banking relationships and the potential for the customers switching to Islamic financial products.

To calculate the immediate market demand for Islamic financial products, the following two groups were taken into consideration:

- 1) Practising Muslims with conventional financial products but with conscious preference toward Islamic financial deposits (Group A).
- 2) Practising Muslims without conventional financial products because they are considered as contravening the principles of Islam (Group B).

Based on the results of the very large samples of respondents, the following are the key highlights in terms of potential market size for Islamic financial products of a retail segment in Kazakhstan:

A. Islamic Deposits: Up to approximately 6.3 billion USD (2 billion USD from Group A + 4.3 billion USD from Group B);

B. Islamic Installment Plans (BNPL): Up to roughly 516 million USD (355 million USD from Group A + 161 million USD from Group B);

C. Islamic Unsecured Financing: Up to 2.3 billion USD (1.3 billion USD from Group A + 1 billion USD from Group B);

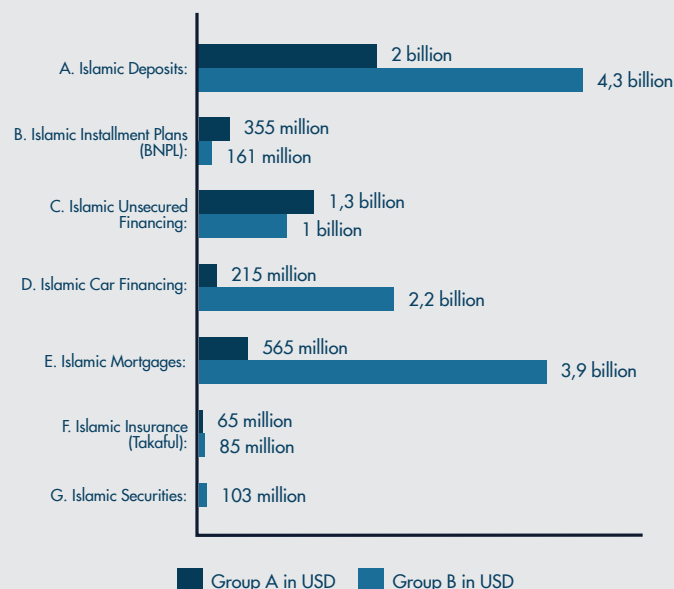
D. Islamic Car Financing: Up to 2.4 billion USD (215 million USD from Group A + 2.2 billion USD from Group B);

E. Islamic Mortgages: Up to 4.5 billion USD (565 million USD from Group A + 3.9 billion USD from Group B);

F. Islamic Insurance (Takaful): Up to 150 million USD (65 million USD from Group A + 85 million USD from Group B); and

G. Islamic Securities: Estimated annual investment in Islamic securities is 103 million

Market Demand for Islamic Financial Products in Kazakhstan



It is evident that implications of quenching the thirst (of demand) for Islamic financial products in the retail segment of Kazakhstan would be enormous and will significantly contribute to economic diversification. The development of Islamic finance would correspond to the strategic development plans of the country as set out in the National Development Plan until 2025, namely on the formation of new industries and the development of service sectors, since this is the third driver according to the National Development Plan.

Islamic finance can contribute significantly to economic diversification with a total potential market size of over 6,800 billion KZT or 15.2 billion USD across various financial products.

Due to the lack of statistics on the number of businesses owned by practicing Muslims, we could not apply the same methodology as with the retail segment to estimate the market demand for corporate Islamic finance. However, we conducted interviews with key market players in Islamic finance in Kazakhstan. According to existing Islamic financial institutions, the current market demand from the corporate segment exceeds 760 billion KZT, or approximately 1.7 billion USD, annually. The interviews revealed that this demand is unmet due to a shortage of corresponding financing.

Current Available Products

Currently, the three most popular and developed Islamic finance instruments in Kazakhstan are Murabaha (Commodity Murabaha), Mudarabah, and Ijara, with over 90% of the market demand being through Murabaha and Ijara instruments. The top industries representing clients and potential clients of existing Islamic financial institutions include Trade, Construction, Transport and Logistics, Agriculture, and Mining. Additionally, Islamic finance instruments related to Tourism (Hajj) are gaining more interest. It is notable that the Services category is not included in this list, despite being the second most popular industry among survey respondents, indicating a probable unmet demand in this sector as well.

Enhancing Economic and Financial Opportunities through Islamic Finance

Islamic finance has the potential to revolutionize Kazakhstan's financial landscape by expanding economic and financial opportunities. This expansion is primarily driven by increased financial inclusion and the promotion of social finance, both of which contribute to higher growth for the financial sector and the broader economy. The expansion and strengthening of the economy via financial inclusion will manifest itself through bringing a significant portion of the unbanked or underbanked population from both retail and corporate sectors into the financial system.

This increased participation will certainly lead to several positive outcomes:

- **Higher Government Revenue:** As practicing Muslim business owners, who previously avoided conventional finance, expand their businesses, the government will earn more taxes as well as from newly integrated entities. This expanded tax base will enhance public revenue, allowing for increased public spending on infrastructure, education, and healthcare.
- **Increased Consumer Spending:** With access to Islamic financial products, individuals will have higher buying capacity especially for those who are currently unbanked. This increase in consumer spending will lead to more profits for companies, which in turn increases tax income for the country again.
- **Greater Investment:** The availability of Sharia-compliant financial products will encourage greater investment in the economy. Practicing Muslims, who previously avoided conventional investments, will now participate, leading to a more vibrant and diversified economic landscape.
- **Enhanced Access to Financing:** Islamic finance will provide individuals and businesses with enhanced access to financing.
- **Reduced Public Stress and Social Inequality:** Currently, those who are unbanked due to religious reasons experience stress from economic and social inequality. The lack of access to Islamic financial instruments may lead to increased economic and social inequality for Kazakhstanis practicing Islam, as they find themselves excluded from wealth associated with the ownership of homes, cars, and other necessary goods. This exclusion can undermine social stability in the long term. By providing Islamic financial alternatives, the government can reduce this stress, promote social cohesion, and ensure a more inclusive economic environment.
- **Social Finance:** Islamic finance emphasizes ethical investing and social justice. Instruments such as Zakat (charitable giving), Qard Hasan (benevolent loans via Waqf cash funds), Sadaqa cash funds have shown a great interest among the survey respondents. These instruments are integral to Islamic finance, promoting wealth distribution and financial support for those in need, reducing poverty and income inequality, and fostering social cohesion.

Gaps in Products Offering and Market Awareness

Weakness/Threats

Although Kazakhstan has made very commendable strides in the development of Islamic finance especially if compared with its regional peers, there are still plenty of areas that require improvements for the industry to truly thrive and bloom in an even greater ways. Addressing these gaps requires coordinated efforts between industry stakeholders and various regulatory bodies, including the Astana Financial Services Authority, the National Bank of Kazakhstan (NBK), and the Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market. Based on various deep-dive interviews undertaken with focus group respondents, we observe that the following are some of the key areas where more initiatives would be needed:

Expansion of Services

Currently, Islamic banks authorized by the AIFC's regulator - AFSA - lack authorization to offer related financial services such as money exchanges using the national currency, making payments for the services, money transfers, to carry out currency transactions, related to export or import of goods (works, services). To remedy this limitation, the AIFC and the NBK need to reach an agreement that would permit Islamic banks to engage in these essential services. This would align Islamic banks with their conventional counterparts in terms of service offerings, enhancing their competitiveness and appeal to a broader customer base.

Shifting strategies to retail segment

Islamic banks need to adjust their strategic focus from primarily serving corporate segment towards expanding into the retail segment. Market research has highlighted that the retail sector holds the key to more sustainable future growth and is fundamental for fostering shared prosperity. To date, the challenge of effectively engaging not only with ordinary practising Muslims but also with the broader public remains a pressing issue within the Islamic finance industry in Kazakhstan. It highlights that financial instruments like Musharakah mutanaqisah for home financing, Murabaha for consumer installment financing, and Ijara for car financing, among others, are anticipated to be in high demand.

The total underutilization of the retail segment has been a key factor hindering the optimal development of Islamic finance in Kazakhstan. This strategic realignment towards the retail market will also solve the long-standing problem with the general lack of awareness, misconceptions and unfamiliarity with Islamic financial products. As more individuals gain exposure to Islamic finance through everyday banking interactions and consumer financing options, familiarity and trust in these financial products are expected to increase. This heightened exposure will naturally enhance public understanding and acceptance of Islamic finance principles, contributing to the broader adoption and success of Islamic banking in the region.

Islamic Investment Deposits

Another significant gap is that Islamic banks lack a Shariah-compliant deposit guarantee mechanism. This gap affects consumer trust and willingness to deposit funds in Islamic banks. In contrast, depositors in conventional banks are assured of guaranteed compensation in the event of the bank's forced liquidation. This assurance is backed by a reserve fund, which is maintained through quarterly contributions from the banks and used to provide guaranteed compensation. The lack of a similar, Islamically acceptable guarantee mechanism for Islamic banks puts them at a competitive disadvantage. To address this issue, the Kazakhstan Deposit Insurance Fund (KDIF) should implement a Takaful-based deposit guarantee scheme similar to those offered by the Malaysian Deposit Insurance Corporation. This requires regulatory support and possibly new legislation to ensure that the guarantees provided are both financially viable and compliant with Islamic law.

Furthermore, an example of a Takaful arrangement to protect investment deposits is mentioned in AAOIFI Shariah Standard No. 45, paragraphs no. 4/1, 4/2 and 4/3, which state cooperative insurance can help protect investment deposits through Shariah-compliant capital protection methods.

Enabling Islamic Windows in Conventional Banks

Conventional banks in Kazakhstan currently face regulatory restrictions that prevent them from offering Islamic banking services through "Islamic windows." To address this, it is essential for the National Bank of Kazakhstan and the Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market to facilitate the establishment of Islamic windows. This can be achieved either by amending the current law on Banks and Banking Activities in Kazakhstan or by leveraging the regulatory authority of the AIFC - AFSA.

Allowing local banks to operate Islamic window businesses would introduce more players into the Islamic banking sector, thereby encouraging the growth of Islamic finance through existing banking channels and enhancing the diversity of the financial sector. This approach has proven successful in many countries; for example, the significant growth of Islamic finance in Malaysia is largely attributed to the implementation of Islamic windows. Other countries, such as the UK, also offer models that Kazakhstan can refer to in establishing a similar framework.

Interbank Borrowings (Liquidity issue) and Fintech Integration

There is an absence of a robust framework for Shariah-compliant liquidity management tools in Kazakhstan, which hampers the operational efficiency of Islamic banks. Liquidity management in Islamic finance is crucial but challenging, as interest-based instruments are prohibited. The development of interbank lending markets that comply with Islamic principles (like Tawarruq) could resolve this issue. There is also another issue with Islamic banks in Kazakhstan; they are currently not as integrated with advanced fintech solutions as their conventional counterparts, which limits their ability to offer accessible, user-friendly services. Fintech innovations like mobile banking and smart contracts are transforming the banking sector globally. Islamic banks should either develop its internal capacity or partner-up with fintech companies to develop tailored solutions that address the unique needs of Islamic banking customers. Additionally, investments in digital infrastructure and continuous staff training are crucial to keep pace with technological advancements and to improve customer experience.

Collaborative Efforts

The evolution of Islamic finance in Kazakhstan is poised for significant growth, given the strategic adjustments and regulatory enhancements proposed in this report. By expanding service offerings, realigning strategies to target the retail segment, implementing a Shariah-compliant deposit guarantee mechanism, allowing conventional banks to establish Islamic windows, and addressing liquidity and fintech integration issues, Islamic finance can leverage its unique principles to meet the diverse financial needs of Kazakhstani consumers.

Collaborative efforts among the AFSA, the NBK, and other regulatory bodies are crucial to creating a conducive environment that not only promotes the competitiveness of Islamic finance but also its acceptance and trust among the general populace. The integration of these recommendations will not only fortify the financial landscape in Kazakhstan but also set a robust example for Islamic finance globally, showing its potential to foster economic inclusivity and sustainable development. Through these concerted actions, Kazakhstan can unlock the full potential of Islamic finance, thereby contributing significantly to the economic prosperity and financial stability of the nation.

Islamic Financial Sector Landscape

Strengths/Opportunities and the Market Depths

The genesis of Islamic finance in Kazakhstan dates as far back to the 1990s. The pivotal moment came with the presidential decree No. 5 in January 1992, which led to the creation of Albaraka Kazakhstan. This move positioned Sheikh Saleh Kamel as the initial foreign investor in the freshly sovereign state, injecting US\$100 million into its economy. In the same year, another esteemed investor from the United States, Dr. Yahia Abdul Rahman, opened the interest-free LaRiba Bank in Almaty, offering a range of Islamic financial products. In 1995, Kazakhstan had joined the Islamic Development Bank (IsDB), and in 1998, it hosted the first (and currently the only) IsDB Regional Office for Central Asia and the CIS in Almaty.

The IsDB assumed a pivotal role in the inception and growth of Islamic finance in Kazakhstan, with its numerous projects and initiatives enabling the nation to surmount significant economic and social hurdles.

A major leap in the development of Islamic finance occurred in 2009, when Kazakhstan was the first of the CIS countries to adopt the law “On amendments and additions to certain legislative acts of the Republic of Kazakhstan on the organization and activities of Islamic banks and the organization of Islamic finance,” which marked the beginning of the legal regulation of the activities of Islamic banks in the Republic of Kazakhstan and the opening of JSC Islamic Bank Al Hilal (UAE) in 2010.

In the same year, the MIS Takaful, the first Islamic insurance company in Kazakhstan was established as a Mutual Insurance Society. However, MIS Takaful encountered significant challenges when in 2010, Kazakhstan implemented significant amendments to the “Law on Insurance Activities.” According to the revised law, MIS Takaful was explicitly prohibited from acting as reinsurer or seeking self-reinsurance from re-Takaful companies. This change directly impacted the operational capabilities of MIS Takaful company within the country. MIS Takaful continued its operations after the above amendments for some period of time but as a consequence of the above problem and low public demand in MIS Takaful products, MIS Takaful eventually ceased operations, leaving Kazakhstan without any Takaful providers until now.

The 7th World Islamic Economic Forum (WIEF) was hosted in Astana in 2011, a year that also saw legislative amendments to foster the Islamic securities market. In 2012, the Development Bank of Kazakhstan JSC issued the first Islamic securities “Sukuk al-Murabaha” in the amount of 240 million Malaysian ringgit on the Malaysian stock exchange. At the same time, 62% of the issue was distributed among Malaysian investors, and 38% - on the Kazakhstan market. This transaction proved that with the right approach and strategy, it is possible for Kazakhstan corporation to raise funds from international Sukuk market even in different currencies. Unfortunately this was not followed up with subsequent issuances.

In 2012, retail Islamic financing was launched for the first time in Kazakhstan under an agreement between a subsidiary of the National Managing Holding KazAgro, JSC Fund for Financial Support of Agriculture, and the IsDB. The \$10 million provided by the IsDB was fully utilized in 2012-2013. In the period 2012-2015, 972 projects were financed using the Murabaha loan product. With the allocated funds, Kazakh farmers were able to purchase agricultural machinery and equipment, and cattle assets.

In 2013, the Islamic Corporation for the Development of the Private Sector (ICD) acquired stakes in Zaman Bank, transforming it into an Islamic bank. Legislative amendments in 2015 aimed to enhance the ecosystem for Islamic banking, insurance, and leasing, paving the way for successful operations of entities like Kazakhstan Ijara Company and Al Saqr Finance, along with Islamic banks Al Hilal and Zaman Bank.

On 5th of July 2018, the AIFC was officially launched. By strategically developing both soft and hard infrastructure, coupled with fostering a competitive environment, the AIFC has forged a robust value proposition conducive to the internationalization of its key sectors, particularly in attracting foreign investors and stakeholders to participate in Islamic Finance industry of Kazakhstan. The rationale behind crafting a novel legal framework within the AIFC stemmed from the recognition that international investors and enterprises seek to operate within familiar and reliable legal frameworks. This ensures a seamless and conducive environment for global investment and business operations, bolstering confidence for all parties involved.

The government was keen to make Kazakhstan the regional hub of Islamic banking for the CIS and Central Asia. This ambition was formalized by the President in 2015 by the signing of the decree which set up the framework for the establishment of the Astana International Financial Center (AIFC) as a special financial zone with its own judicial system based on English law and with Islamic finance as one of the five core pillars.

Currently, the AIFC, taking into account the importance of developing the Islamic finance industry, created a conducive environment for the operation of Islamic financial institutions in both the retail and corporate sectors. With the support of international organizations such as the Asian Development Bank (ADB), IsDB, IFSB (Islamic Financial Services Board), AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) and CIBAFI (General Council for Islamic Banks and Financial Institutions), a favourable legal and regulatory framework has been created in accordance with best Islamic financial practices and standards. Since 2017, the AIFC has been a member of AAOIFI, IFSB and CIBAFI.

Islamic banks, Islamic financial companies, asset management companies, Islamic brokerage dealer companies, Islamic insurance companies (takaful and retakaful) can become AIFC participants. To spur Islamic finance infrastructure development, a roadmap has been devised with the IsDB's support, outlining strategic directions until 2025, including banking, capital markets, takaful, and fintech, among others.

The Shariah Council supports the AIFC jurisdiction in maintaining high international standards in the field of regulation and business ecosystems. The Council consists of first-class international experts in the field of Islamic finance, and is headed by the highly respected Tan Sri Dato' Dr Mohd Daud Bakar a former chairman of the Shariah Advisory Councils at Bank Negara Malaysia and Securities Commission of Malaysia.

To further enhance the appeal of the AIFC to companies and businesses, a strategic reduction in the minimum authorized capital requirements for Islamic financial institutions has been implemented, valid until November 2024. Specifically, Islamic banks are now required to maintain a minimum authorized capital of 5 million USD, while Islamic financial companies need only 100 thousand USD.

In addition, through a collaborative effort between the Ministry of Finance, the Ministry of National Economy, and the AIFC a joint order have been issued, granting exemption from corporate income tax (CIT) and value-added tax (VAT) for financial services authorized by the AIFC regulator i.e. AFSA. This includes services related to Islamic banking, as well as non-banking, Islamic insurance (takaful), and reinsurance activities. Islamic banks, financial companies, and insurance entities operating within the AIFC are permitted to offer their services to Kazakhstan's residents, both corporate and individual, in various currencies, including the Kazakh Tenge.

In a forward-thinking move by the AIFC in 2023, aimed at bolstering the issuance of sukuk (Islamic securities) by Kazakh entities, DAMU i.e. the Government of the Republic of Kazakhstan has revised the guidelines concerning the subsidization of coupon rates on bonds. These adjustments are part of a broader national strategy designed to foster entrepreneurship between 2021 and 2025. The revised rules now extend to cover the subsidization of coupon rates for Islamic securities, thereby enhancing the financing options available to businesses. This pivotal change levels the playing field between Islamic securities and their conventional counterparts, ensuring equal treatment in the financial ecosystem and broadening the spectrum of financing sources for Kazakh enterprises.

Expanding the Diversity of Players

The Astana International Financial Centre (AIFC) has attracted a diverse array of companies within the Islamic finance sector from across the globe, including the UK, USA, Malaysia, Bahrain, Qatar, Tatarstan, and Kazakhstan itself.

In a notable development, Al Rayan Bank from Qatar was officially registered with the AIFC in February 2020, marking a significant milestone. The following year, in 2021, two prominent local entities, Al Saqr Islamic Bank Limited and Kazakhstan Islamic Finance Company, were granted licenses, further expanding the Islamic finance landscape within the region. In the spring of the same year, Kazakhstanis had witnessed the birth of a groundbreaking fintech solution - Tayyab, the country's first fully digital Islamic financial service. Continuing this trend, 2022 saw the licensing of Alif Islamic Bank.

By the end of 2022, Kazakhstan took 24th position in the Global Islamic Fintech Rating according to the Global Islamic Fintech Report.

The AIFC boasts participation from a wide spectrum of consulting firms specializing in Shariah consultancy, both from Kazakhstan and around the world. Esteemed companies such as Amanie Advisors from Malaysia, Sharia Review Bureau from Bahrain, Usmani and Co from Pakistan, Sahih Systems from Tatarstan, and the boutique law firm CSQlaw, also from Malaysia, are key players within the AIFC ecosystem. Additionally, the International Islamic Rating Agency, distinguished as the sole rating agency dedicated to servicing the Islamic financial market, has been granted a license to operate within the AIFC.

Within the territory of the AIFC there is an opportunity to test your activities within the “sandbox” of the AIFC regulator “Fintech Lab”.

Exchange and Trading Platforms

The AIFC Exchange (Astana International Exchange - AIX) has created conditions for the issuance of Islamic securities. In March 2020, the AIX officially listed sukuk debt instruments issued by Qatar International Islamic Bank (QIIB) that meet Islamic finance requirements.

On June 27, 2022, the first Shariah-compliant exchange-traded notes were listed on the AIX. The underlying asset of the Islamic ETN is the shares of the iShares MSCI World Islamic UCITS ETF. The issuer of the notes is iX Islamic SPC Limited, a special purpose vehicle whose sole asset is the shares of ISDW, one of the largest Islamic funds investing in accordance with Shariah norms.

With the support of the Hub, a Sharia compliance opinion was provided to the iX Gold ETN note. For retail investors, the notes are available in the AIFC Exchange application “Tabys”.

The international trading platform ITS (AIFC participant) launched the ITS Shariah Index on August 10, 2023. ITS Shariah Index was created jointly with an independent Shariah expert - Sahih Invest (AIFC participant). The index includes shares of the 30 largest Shariah-compliant companies listed on the ITS. The company analysis methodology is developed in accordance with AAOIFI standards.

In June 2023, the Islamic Corporation for the Development of the Private Sector (ICD) made history by issuing the first sukuk in the national currency on Kazakhstan Stock Exchange (KASE). The ICD successfully raised KZT 2 billion through the auction of a five-year amortizing Sukuk, which was accorded an ‘A+’ rating by Fitch Ratings. The proceeds from the sukuk issuance were strategically deployed for onward financing to JSC “Leasing Group,” a company specializing in offering leasing products tailored predominantly for small and medium-sized enterprises (SMEs) spanning a multitude of industries. These ultimate beneficiaries received financing through the innovative Ijarah product.

By the close of 2023, Kazakhstan had achieved the 22nd rank in the Islamic Finance Country Index, as reported by the Global Islamic Finance Report.

The year 2024 heralds another milestone in the Islamic finance industry with the unveiling of an in-depth market research conducted in partnership between the IsDB and the AIFC. This significant research initiative was spearheaded by the Kazakhstani branch of the Malaysian law firm CSQlaw, a participant of the AIFC, led by Mr. Diyas Moldabayev. The findings from this study were formally unveiled on March 1, 2024, drawing attention from leading financial institutions across Kazakhstan. The insights gained from this analysis are poised to significantly impact and drive the growth of the Islamic finance sector within the country, marking a pivotal step towards its development and maturation. Additionally, on May 20, 2024, Lesha Bank LLC, formerly known as Qatar First Bank (QFB), the first independent Shari’ah-compliant bank from Qatar, acquired the entire share capital of Bereke Bank in Kazakhstan.



05

Interviews with Key Stakeholders

Interviews



H.E. Mr Ghiath Shabsigh,

**Secretary-General
Islamic Financial Services Board (IFSB)**

Q1: Can you explain a bit about yourself and the role of the IFSB

The IFSB is an international standard-setting organisation for prudential regulations of the global Islamic financial services industry – I was appointed as the fourth secretary-general, effective 1 April 2024 succeeding Dr Bello Lawal Danbatta.

Prior to my appointment as the secretary general of the IFSB, I served as assistant director at the International Monetary Fund (IMF)'s Monetary and Capital Markets Department where I played a pivotal role in driving IMF's central banking and fintech initiatives; whereby within the 25 years of my experience in the area of Islamic finance, I was involved in shaping international institutions, formulating policies and standards, conducting analytical work, and providing technical assistance in Islamic banking regulatory frameworks, central banking operations, and sukuk markets for IMF member countries.

I hold a PhD in Monetary and International Economics, an MA in Economic Development, a BSc. in Economics and Business, and several professional qualifications in banking and securities market operations.

Q2: How do you see the direction of the global Islamic finance industry and its contribution to economic development in Kazakhstan?

Islamic finance now has matured globally and there are large number of countries applying it – including Kazakhstan. We can see that demand is there, and is increasing although the pandemic and some uncertainties affect its pace. Certainly it is contributing to the economic development of these countries including Kazakhstan. The framework is there: we have regulations, standards and they can be easily implemented.

We really look forward to have Kazakhstan to continue adopting and implementing these standards and develop its Islamic financial industry; especially since the AIFC is one of our members.

The IFSB can help regulators such as AFSA and the NBK adopt Islamic finance standards, including improving the laws and regulations to incorporate these standards. That will help the industry and allow them to operate in a safe way and in a prudent way.

Q3: Should we remain optimistic about the potentials of Islamic finance?

On a global scale Islamic finance has grown by about 14 percent over the past five years annually. That's a huge growth. In our membership among non-Muslim countries we have UK, China, Germany, Japan. Islamic banking operates very profitably in non-Muslim countries as well. Hence there is every reason to be cautiously optimistic about its potentials.

It can easily be noted that when countries adopt Islamic finance, they deepen the market, as they have more options, more instruments, open up new segment of customers and competitiveness.

Furthermore, Kazakhstan has a largely young talented and promising population that can contribute to the talent pool in the Islamic finance industry.



Tan Sri Dato' Dr Mohd Daud Bakar,

**Chairman
AIFC Central Shari'ah Advisory Board**

Q1: Can you explain a bit about yourself and the role of the Shariah Board?

The Shariah Board is established to provide a reference point for the AIFC on internationally recognized Shariah solutions for various issues in Islamic finance.

I hold a PhD from the University of St Andrew, United Kingdom and did my Shariah degree at the University of Kuwait. Besides the AIFC Shariah Council, I have also served in the Shariah Advisory Councils of Bank Negara Malaysia and the Securities Commission of Malaysia, as well as many other Shariah committees.

Q2: How do you see the prospects of Islamic finance in Kazakhstan?

The time has come for Kazakhstan and in particular the AIFC/Astana to be a catalyst not just for the development of Islamic finance but also the other segments of the financial markets. Kazakhstan have all the ingredients to be a leading hub not only for its own progress but also for the Central Asia region.

This includes having good physical and soft infrastructures, proper national vision and mindset, and readiness to grow the business.

Q3: How do you compare Kazakhstan with other leading countries in Islamic finance; what's your personal view?

I started coming to Kazakhstan since more than 15 years ago; and therefore I have seen tremendous achievement and development in this market over those years.

While a lot can and still need to be done to grow the Islamic finance industry here even further, I must give credit to the Kazakhstan government especially through its AIFC initiatives, whereby you can observe firm and dedicated commitment to embrace high standards of legal and regulatory framework, Shariah governance framework as well as market best practices. The talent pool is young and promising, eager to learn and very motivated to drive the growth. This is really good for Kazakhstan.

Q4: What can you suggest to increase Kazakhstan's competitiveness as an Islamic finance hub?

I would like to see more extensive training, research and academic collaboration between Kazakhstan institutions and other countries like Malaysia, Indonesia and the GCC. Kazakhstan can really take advantage of its young talent pool and their accessibility to training, research and academic facilities, in order to enhance and provide new thought leaderships in Islamic finance, probably in ways that have not been done by other countries.

Certainly, initiatives can be undertaken to expand the Islamic finance literatures and make them available in Russian, Kazakh, Kyrgyz and Uzbek languages for example; which Kazakhstan can play a leadership role and be a hub for talent development in this part of the world, i.e. former CIS countries.



Mr Aidyn Tairov,

**Member of the Management Board,
Chief Financial Officer of Al Hilal Islamic Bank**

Q1: Can you tell us a bit about your company?

Al Hilal Bank is first Islamic bank on CIS country that operates since 2010. Al Hilal is a part of ADCB Group that majority of shares belongs to Abu Dhabi government.

The strategy of the Bank is corporate and SME financing. The total assets is about 250-300 mln USD. The main products – commodity Murabaha, reverse tawaruq, wakala (unrestricted/restricted), mudaraba, FX.

Q2: How do you see the potential of Kazakhstan to be a good market for your bank?

There is great demand from SME and Retail customers for shar'iah compliant products, however regulatory and tax framework too bureaucratic, creates difficulties in conducting of Islamic finance. In my opinion, there are some great opportunities in leasing (ijara), marketplace industry and Islamic funds.

Islamic banking is a quite complicated due to regulatory restrictions and duality of shariah compliant products (trading vs lending, Islamic deposits vs conventional deposits)

Q3: What can you suggest to increase Kazakhstan's competitiveness as an Islamic finance hub?

- Create Regulatory Councils that includes FinReg, NBK, Tax authority, experts in Shariah, Legal and Islamic Finance to revise local Islamic banking law;
- Allow Islamic window;
- Deposit insurance program for Islamic retail depositors;
- Islamic products in banking law should be treated as a principle, not as specific banking operations.



Mr Serik Beisenov

**Chairman
Board of Directors of Alif Islamic Bank Ltd.**

Q1: Can you tell us a bit about your company?

Alif Islamic Bank Ltd. – the first Islamic bank operating on the territory of the Astana International Financial Center (AIFC) since the end of 2022. The Bank provides financing to clients in the retail and corporate segments, including micro-business financing. Within the framework of corporate financing (medium and large business clients) more than 3.6 billion tenge was issued. Micro-business financing (individual entrepreneurs): about 120 clients were financed for a total amount of over 870 million tenge.

A number of investment products based on “Restricted Wakala” principles are available to clients. In particular, clients can now open “Prime Invest” investment accounts with the Bank to invest their funds with high returns. The Bank directs the funds attracted within the framework of “Prime Invest” product to the construction of residential real estate located in Dubai, UAE. Clients can also open other investment accounts, the funds from which are directed by the Bank to finance its business clients.

Within the framework of retail financing it is planned to launch a new product “Islamic mortgage” on the terms of partnership between the Bank and the client (individuals). In order to attract additional liquidity it is planned to issue Islamic securities such as Sukuk-Murabaha, etc. on the floor of the stock exchange of AIFC – Astana International Exchange (AIX).

Q2: How do you see the potential of Kazakhstan to be a good market for your bank?

The market of Islamic finance in Kazakhstan, in our opinion, is characterized by increased demand from consumers for Islamic financial products. Thus, according to the Report on the market for the development of Islamic finance in Kazakhstan, prepared by AIFC with the support of the Islamic Development Bank together with the consulting company CSQLaw (hereinafter – the Report), the number of practicing Muslims in Kazakhstan is more than 2.2 million people. If we consider the prospects for the development of Islamic finance in the context of existing or planned to be launched products of the Bank, the following data can be given. According to the Report, the potential volume of Islamic retail finance, including the volume of Islamic mortgages, consumer finance, auto finance, installment payments, etc., is estimated at more than 3.9 trillion tenge. Current market demand from the corporate segment exceeds 760 billion tenge annually. According to the Report, the volume of new Islamic deposits in Kazakhstan may reach 2.8 trillion tenge.

Thus, the results of the above study indicate that the demand for Islamic financial products is quite high. The Bank, following its Development Strategy, will strive to maximize its product line in order to meet the existing demand.

Q3: What has been the major challenge for you when you start Islamic banking business in Kazakhstan?

We do not observe any significant problems hindering the development of Islamic banking business. Currently, Islamic banks of the AIFC can carry out almost the entire range of standard banking products and services. The current problems related to the Bank's transaction services are discussed with the management of AIFC and, upon our request, are clarified by the Regulator in accordance with the established procedure. In addition, the Bank works closely with the Association of Islamic Finance and Business of Kazakhstan (AIFB). Together with the Association, we prepare expert opinions on topical issues of prudential regulation of Islamic banks of AIFC.

In general, working in partnership with the AIFC, the Bank looks forward with confidence to the future of Islamic finance in Kazakhstan and beyond.



Mr Shazali Shauf,

**Founder Shareholder
Hajj Finance Kazakhstan Limited**

Q1: Can you tell us a bit about yourself and your company?

I am a fund analyst and fund manager by profession, and for more than 15 years I have led the establishment of Hajj Finance Company Limited in Bangladesh. Before that I have led several fund management companies in Malaysia.

I became interested to obtain a finance company licence in Kazakhstan after the common law legal framework was established in the AIFC. In my view this is a very good opportunity to replicate the business model of Hajj Finance Company Limited in Bangladesh into the AIFC and hopefully replicate the success in terms of financial returns too.

Furthermore, the company intends to carve a niche in developing hajj and umrah business as its value-added services to its customers, as it is one of Muslim's religious obligations to perform hajj and umrah at least once in our lifetime.

Q2: How do you see the potential of Kazakhstan to be a good market for your finance company?

I am confident with the proper legal framework and the talent availability in Kazakhstan. In fact I do not see Kazakhstan as a single market; to me Hajj Finance Kazakhstan Limited would be able to tap other markets in the region including Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan if we apply the right strategies. I see Kazakhstan as a good gateway for my company to expand into the regional markets and tap its huge potentials.

I obtain good advice from my fellow Malaysian lawyers, CSQlaw, who has also established their branch office in the AIFC. We are keen to work together with our Kazakh counterparts and grow this Islamic finance market together.

Q3: What has been the major challenge for you when coming into Kazakhstan?

I notice that while the country and the AIFC authority are generally welcoming to foreign company like us, we sometimes get different understanding and interpretation as to how the law and regulations work. Sometimes it is just the communication that caused the misunderstanding but sometimes we require clearer guidance and more effective discussions. No foreign investors like to deal with legal uncertainties and ambiguity as these all expose us to risks, which raise our cost and may affect our profitability.

For Kazakhstan and the AIFC to be a competitive and preferred hub for Islamic finance, it should continue to engage market players before they adopt certain regulations and not after – if any market player finds the legal and regulatory requirements quite prohibitive for efficient business, they may simply consider to exit the market.

Hajj Finance Kazakhstan Limited is very committed to become a player that contribute to the positive development of Islamic Finance in the AIFC, therefore we look forward to your authorities' facilitation as we still have not yet managed to receive our licence; after lengthy consultation process.



Mr Akber Khan,

**Acting Chief Executive Officer
Al Rayan Investment LLC**

Q1: Can you tell us a bit about yourself and your company?

I am a 25-year veteran of the investment industry, having worked in London, Frankfurt, New York and Doha. I spent more than 11 years at Deutsche Bank, based in London, starting my career in UK equities, moving to European equities and then emerging market equities. I enjoyed various roles, ranging from being a trader to equity strategist for Central & Eastern Europe, Middle East & Africa (CEEMEA) and Latin American equities. In 2009, I moved to Al Rayan Investment (ARI) in Doha, to head up and launch asset management. ARI is a 100%-owned subsidiary of the second largest Islamic bank in Qatar, Masraf Al Rayan, whose assets are approximately \$45 billion.

ARI's multi award-winning asset manager boasts one of the world's largest, sharia-compliant, equity ETFs (listed in Qatar) and the largest sharia-compliant GCC equity fund in the world. With individual and institutional client assets having reached \$1.5bn across public equities, fixed income and money markets, in 2023, I was promoted to Acting Chief Executive Officer of ARI.

ARI also offers a full-service investment banking business. We are currently working with several companies to take them public on the Qatar Stock Exchange; are a regular arranger and book-runner of US Dollar public sukuk, globally; and advise mostly local companies on strategy and M&A transactions.

Q2: How do you see the prospects of Islamic finance in Kazakhstan?

Islamic finance is the fastest growing sub-set of global finance. Within this, Kazakhstan offers an almost entirely untapped opportunity, both rare and extremely exciting. Despite 70% of the population being Muslim, Islamic finance is in its infancy in the country. Typical banking products and services, life and non-life takaful (insurance); and wealth & asset management all offer tremendous potential in Kazakhstan, especially given the growing wealth of the country and its people.

For new players, the Astana International Finance Centre (AIFC) is an excellent platform from which to offer products and services to cater to a population where demand for Islamic finance is starting to grow rapidly.

Q3: What can you suggest to increase Kazakhstan's competitiveness as an Islamic finance hub?

Impressively, in just a few short years, the AIFC has come a long way as a domicile. Local and foreign entities should continue to be targeted while recognising some of the requirements to attract them differ. Further enhancements to solutions on offer may arise from comparing initiatives in other jurisdictions and working closely with target companies to better understand impediments they face throughout the process of establishment at the AIFC, and, after set up. The goal is to be the go-to domicile -- cost effective, hassle-free, well-regulated -- seen as a superior alternative to other options.



Mr Marat Sarsenbayev,

**Chairman
Association for Halal Industry Kazakhstan**

Q1: Can you tell us a bit about yourself and your association?

The association "AHIK" was established in 2006 as a halal certifying authority not only in Kazakhstan but also the CIS countries. We are recognized by JAKIM, the halal certification body in Malaysia as we adopt their standards for our halal certifications. We are also an associate member of the International Halal Alliance.

AHIK participated in the work of Technical Committee No. 57 under the Committee on Technical Regulation and Metrology of the Ministry of Industry and Trade that managed to issue state standards on "Cooked Halal sausages, ST RK 1353-2005" and "Tourist and excursion service of the Halal Hotel, ST RK 1632-2007".

Since then, we have grown and certified many outlets; we even have our own halal test laboratory.

Q2: How do you see the Halal business having synergies with Islamic finance, as part of Kazakhstan national plan?

The halal F&B sector is ripe for the picking as the country has a large agricultural industry, for producing halal food products. With a growing demand for meat and dairy products, one can see the potential for developing halal food processing facilities.

Kazakhstan citizens have also been interested in halal cosmetics and personal care products. With the increasing demand and popularity for these products within the country, comes opportunity. Even pharmaceuticals are in growing demand in Kazakhstan, especially when Covid-19 hit in 2020. One can see the potential for developing manufacturing facilities for halal medicines and supplements in Kazakhstan. To compliment these activities, we need halal financing i.e. Islamic finance.

Q3: How do we increase public awareness that halal food and halal finance are not just for Muslims; non Muslims can use and benefit from them as well?

Indeed, halal is not just for Muslims. Halal is a verification of high hygiene standards and practice; more should be done to promote this to everyone whether Muslims or non Muslims.

In Malaysia they have successfully promoted halal as a label of good manufacturing industry standard and practice just like the ISO validation. We should try to replicate them. In Kazakhstan not just halal business, Islamic finance is also under-promoted although the AIFC generally receives support from the government. We should intensify the awareness programmes to reach the wider public.

While Kazakhstan offers vast opportunity, it's central Asian neighbours make the potential even more compelling. Nations like Uzbekistan have a considerable larger population and demand for Islamic finance is already more developed.

The AIFC's ongoing outreach and awareness initiatives in global financial centres are commendable. I suggest expanding the cities these are conducted in and showcasing Kazakhstan and its economic potential, the Islamic finance industry and the quality of AIFC itself as a hub. Highlighting the AIFC as the most practical base to access the considerable Central Asia opportunity would pay dividends.

Conclusions

This report's goals and motivations align with previous country report and Islamic Finance Master Plan 2020-2025 for Kazakhstan, aimed at serving the Islamic finance industry's needs and providing high-quality intelligence to financial institutions, governmental bodies, associations, customers, and other stakeholders. It seeks to offer insights into the Islamic finance opportunities in Kazakhstan, enabling all parties to make informed decisions and observations without assuming any misconceptions about the stage of play of Islamic finance in the country.

This document is the culmination of efforts from a diverse group of experts, reflecting a comprehensive and multifaceted analysis.

The future of Islamic finance in Kazakhstan is indeed bright and promising, with significant growth potential driven by strategic adjustments and regulatory enhancements. By addressing current gaps and leveraging identified opportunities, Kazakhstan is well-positioned to unlock the full potential of Islamic finance, thereby contributing significantly to the nation's economic prosperity and financial stability. This report serves as a foundational document for stakeholders to further navigate the evolving landscape of Islamic finance, ensuring that Kazakhstan remains at the forefront of this dynamic industry.

The continued development of Islamic finance in Kazakhstan will not only enhance economic diversification but also align with the country's broader strategic goals, fostering a resilient and inclusive financial ecosystem.

Islamic finance is for everyone – its value propositions are meant not only to practicing muslims but for non-muslims as well. Many countries, including Malaysia and the UK, have experienced robust demand from corporates and non-Muslims for Islamic finance solutions. In these regions, non-Muslims actively use Islamic financial products, cementing the fact that its applicability and appeal are extensive and inclusive.

Foreseeable Challenges and Recommendations

In addition to the list of observations made earlier, there are still certain segments of the Islamic finance industry that should also be developed in Kazakhstan in order to further strengthen the fabric of this industry in meeting its stakeholders' needs.

(a) Islamic cooperative societies

Cooperative societies is another vehicle that are often used to facilitate access to microfinancing especially for farmers in the agriculture sector. If an Islamic cooperative society is established to facilitate cooperative members who are keen to obtain Shariah compliant financing, it can improve financial inclusions in Kazakhstan.

Since a cooperative is not highly profit motivated, benefits in many forms can be introduced to provide services to members. These may take the form of rebates on transactions, welfare schemes, specially priced financial schemes, benevolent funds, educational funds, and in the end, any profit balances may be given out in the form of dividends. In fact when a member withdraws from the cooperative, he or she will only be entitled to the face value of the capital provided in the cooperative. Any benefits would have been distributed during his tenure as a member of the cooperative.

Similarly, this would require legislative intervention on existing microfinancing legal framework as well as capacity building among the Islamic cooperative societies and their regulatory body, to ensure the necessary safeguards are put in place to protect both the cooperative society and their customers fairly.

(b) Islamic private equity

Sophisticated, high net-worth investors in Kazakhstan who are able and can afford to access investments with higher risk-reward profile may wish to invest into private equity funds (without limiting it to sukuk). However, without the proper legal and regulatory framework on Islamic private equity it would be difficult to grow this segment of the market. The disclosure requirements for offering Islamic private equity fund should provide adequate transparency to investors which commensurate with the risk profile of the investment.

It would be useful for the authorities in Kazakhstan to consider strengthening the private equity legal framework especially with regard to its Shariah governance.

(c) Zakat and (Islamic) Gift-Economy

In many countries where the Islamic identity, credential and adherence are upheld dearly by the individual Muslim, a collective source of wealth in the form of zakat (tithe) payment, infaq and sadaqah (charitable gifts) and waqaf (endowment) could be channeled by using them as an additional form of Islamic financial products in banks as well as mobilizing these funds for income generation.

To give stakeholders a reason to consider this recommendation let us have a quick look on the interest gauged among the respondents of ISLAMIC FINANCE: KAZAKHSTAN MARKET ANALYSIS for the above products. The following findings were revealed:

According to the survey, 37% of practicing Muslims want Islamic banks to offer financial products like Sadaqa Cash Funds, while 18% want them to incorporate Zakat Funds. The Sadaqa Cash Fund facilitates donations to assist the needy on a gratuitous basis, while Zakat Funds involve obligatory financial deductions for the benefit of the poor.

28% of practicing Muslims want Islamic financial institutions to offer Hajj Funds, a savings scheme that supports Muslims intending to perform Hajj or Umrah, with investments made in Islam-compliant enterprises to aid in their pilgrimage.

Both Waqf Cash Fund and Islamic Trust Fund appeal to 9% of practicing Muslims. While the traditional Waqf is generally known as a trust, the Waqf Cash Fund might be new to some readers. The Waqf Cash Fund allows clients to donate to a fund that provides interest-free loans (Qard al Hasan) to vulnerable social groups, offering a unique way to support those in need.

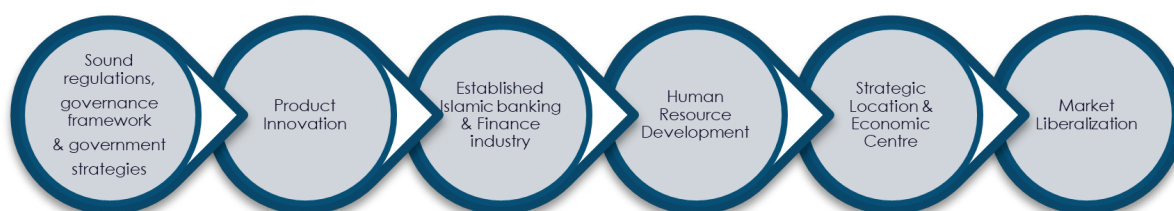
While Kazakhstan does not have a formal government-driven legal framework in controlling and managing activities relating to zakat (tithe) payment, infaq and sadaqah (charitable gifts) and waqaf (endowment), it would be useful to find ways to mobilize these sources of funds more responsibly and strategically so that they can be used to support the formal financial sector activities (instead of the non-formal ones which are often open to abuse).

Evidence from the experience of Malaysia, which have a formal government-driven and controlled legal framework for Zakat mobilisation, shows that Zakat collections in Malaysia have steadily risen over the years, multiplying by about 37 times over the last 22 years. From the Zakat collection data it is clear that Malaysia undertook a major push of its Zakat collection strategy over the last two decades and the positive results may be easily seen in terms of the exponential growth in zakat collection. The last two years have also witnessed a steady annual growth of about 17%.

Zakat, infaq and sadaqah funds most often are kept in Islamic deposits as offered and operated by Islamic banks – which means Islamic banks directly benefited from better organised zakat, infaq, sadaqah and waqf funds.

(d) *Becoming Islamic finance hub*

The following are several foundations and building blocks for any country to rise as an Islamic finance hub.



While Kazakhstan certainly can continue developing all these foundations and building blocks at its own pace and plan, it should also realize that others (competitors) are also looking at developing their own; and hence, Kazakhstan must not take for granted the importance of all these components in consolidating its own competitiveness.



Endnotes

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Kaz: https://aifc.kz/wp-content/uploads/2024/05/islamic-finance-kazakhstan-market-analysis-_kz.pdf
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