

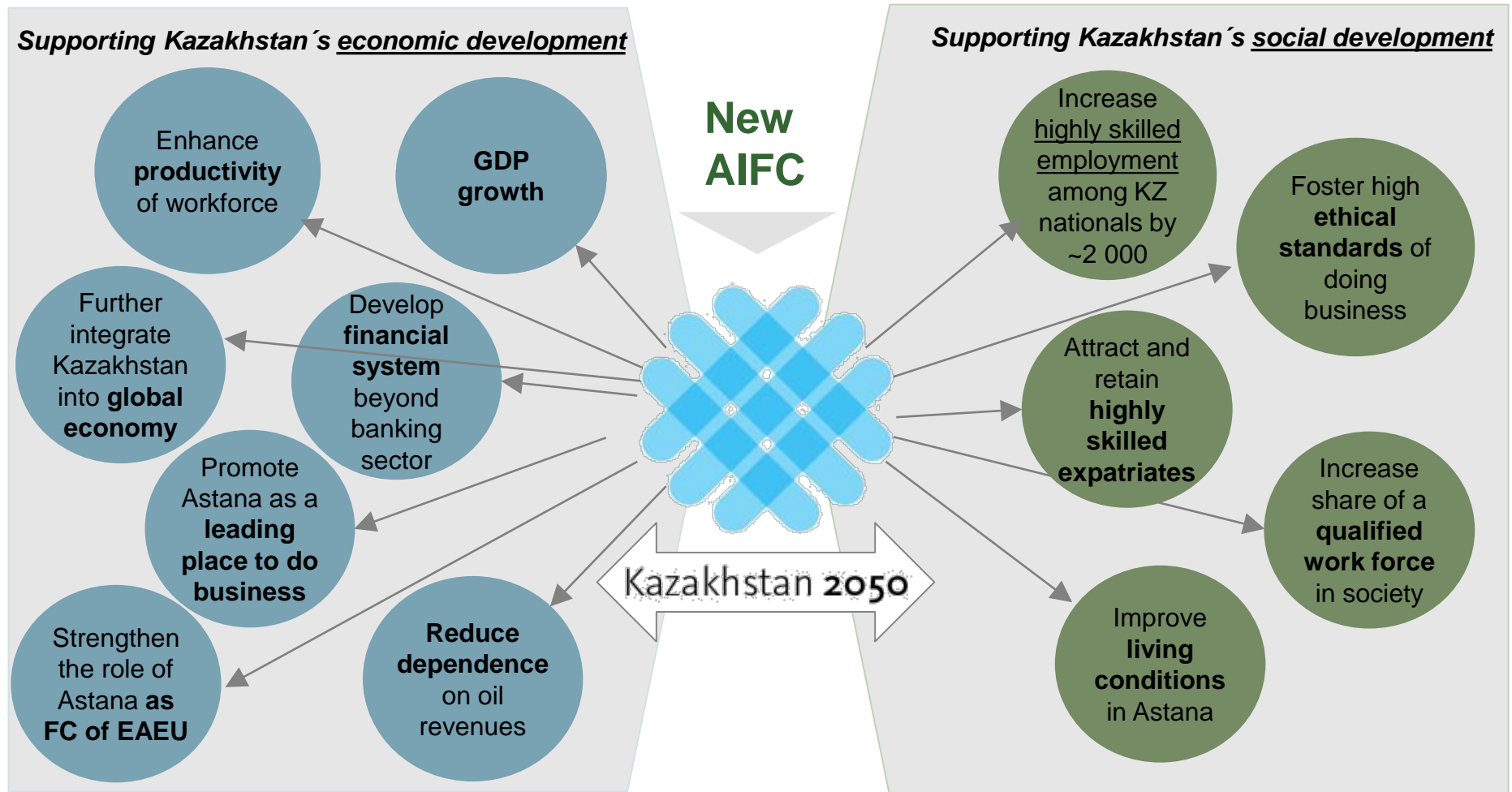


Astana International
Financial Centre

AIFC








































Astana 2016

Vibrant financial services sector in Astana will support Kazakhstan's Strategy 2050 economically and socially



Development of Capital Markets to start immediately with solid ambitions and specific deliverables over the 10 year horizon




Relevant best practices in FC development are embedded in the new AIFC concept

Best practice	Where used?						In AIFC concept?
	London	Singapore	Dubai	Paris	Toronto	New York	
1 State has driver's seat in FC development							
2 Independent court based on English law							
3 Strong highly liquid capital market							
4 No excessive regulation & favorable tax regime							
5 Expat friendly living environment							
6 Leveraging SWF ¹ to localize asset managers							
7 Global connectivity							
8 Clear value proposition & implementation plan							

1. Sovereign Wealth Fund

Note: New York and London are long time established and highly developed hence numerous items mentioned applicable to new centres like Dubai are not applicable to them

Best practice: AIFC focuses on Dubai and Singapore in the market development

	 Dubai	 Singapore	 AIFC
Effective performance indicators	<ul style="list-style-type: none"> Ranked 1st for lowest corporate tax rate⁴ Recognized independent regulatory framework (based on the example of FSA in the UK) 	<ul style="list-style-type: none"> Ranked 1st for ease of doing business¹ Country with the lowest level of bureaucracy in Asia² 	<ul style="list-style-type: none"> Deregulation <ul style="list-style-type: none"> Simplified registration process in AIFC (without visa/entry fee) State support of market development <ul style="list-style-type: none"> IPO, SPO of SOE through the AIFC Stock Exchange Government funds - management by AIFC participants Favorable business environment <ul style="list-style-type: none"> Tax exemption for 50 years (CIT, PIT, land tax, property tax etc.) Free class A office rent for 2 years Visa-free regime for 5 years for AIFC participants Protecting interests of participants <ul style="list-style-type: none"> Independent legislation based on principles of Common Law Own commercial arbitration
What do they do right?	<p>Business opportunities: access to regional wealth (national welfare funds, HNWI, etc.)</p> <ul style="list-style-type: none"> Attractive tax and legal framework for AM <ul style="list-style-type: none"> 0% profit and income tax rates in DIFC 100% foreign ownership Flexible regulatory framework and low costs for institutional AM No obligation for interim financial statements (only annual) 	<ul style="list-style-type: none"> Asset management funds based in Singapore are exempt from taxation <ul style="list-style-type: none"> Offshore status is available to a wide range of legal entities Attractive tax regime for AM <ul style="list-style-type: none"> 10% tax rate on managers' fees and commissions Exemption from dividend tax 	
Result	~11 from 20 leading AM ²	~US\$ 900 bln ³ AUM	By 2025 – among 30 world's leading financial centers

1. According to the World Bank's doing business ranking for 2014. Ranking takes into account the ease of starting a business, obtaining necessary permits and paying taxes, labor law flexibility, ease of enforcing contracts, getting credit, investor protection, etc. 2. Consultations on the political and economic risks in 2007 3. Total localized assets under management 4. The overall tax rates for corporations in 2008

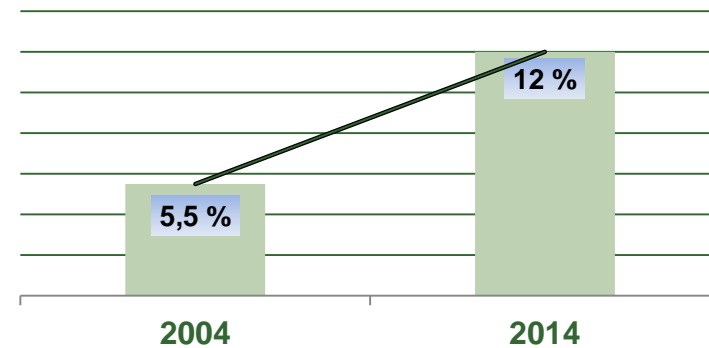
Source: Monetary authority of Singapore; EDB; World Bank; HBSP; Singapore; Inc (VETOR and Thomson); The City of London: the future of Asian financial centers

Dubai International Financial Centre (DIFC) – rapid development experience

Founded in 2004, the DIFC is a leading regional financial and business center, uniting the developing markets of Middle East, Africa and South Asia with the developed markets of Europe, Asia and America

- location – Dubai Free Economic Zone (FEZ),
- area – 44,5 ha,
- 1 039 active companies and financial entities (2014),
- 22 of world's 30 top banks,
- 11 of the world's top 20 money managers
- 6 of the world's top 10 insurance companies,
- 7 of the world's top 10 law firms

DIFC contribution to Dubai GDP
2004-2014



AIFC institutions

1

AIFC Management Council

Approval of main development pillars;
Coordination of the other bodies' activities;
Maintenance of control over project implementation

AIFC Management Council is the top AIFC executive body led by the President of Kazakhstan



2

AIFC Authority

Developing overall strategy and policies;
Promotion of AIFC on global markets;
Attraction of potential participants

AIFC to be governed by foreign professionals with working experience in financial centres



3

Astana Financial Services Authority

Financial supervision;
Registration and licensing of companies and individuals;
Development of rules, regulations

All placements and trading of stocks are concentrated on one platform – AIFC Stock Exchange



4

AIFC Courts

Independent jurisdiction, based on the principles of Common Law, different from laws in Kazakhstan

AIFC court judges are granted full independence. Foreign professionals to be brought



5

Arbitration Centre

International Arbitration Centre adjudicates in case of arbitration agreement between parties









Amendments into KZ Constitution to be put enforcing Common law within AIFC and independence of judicial system



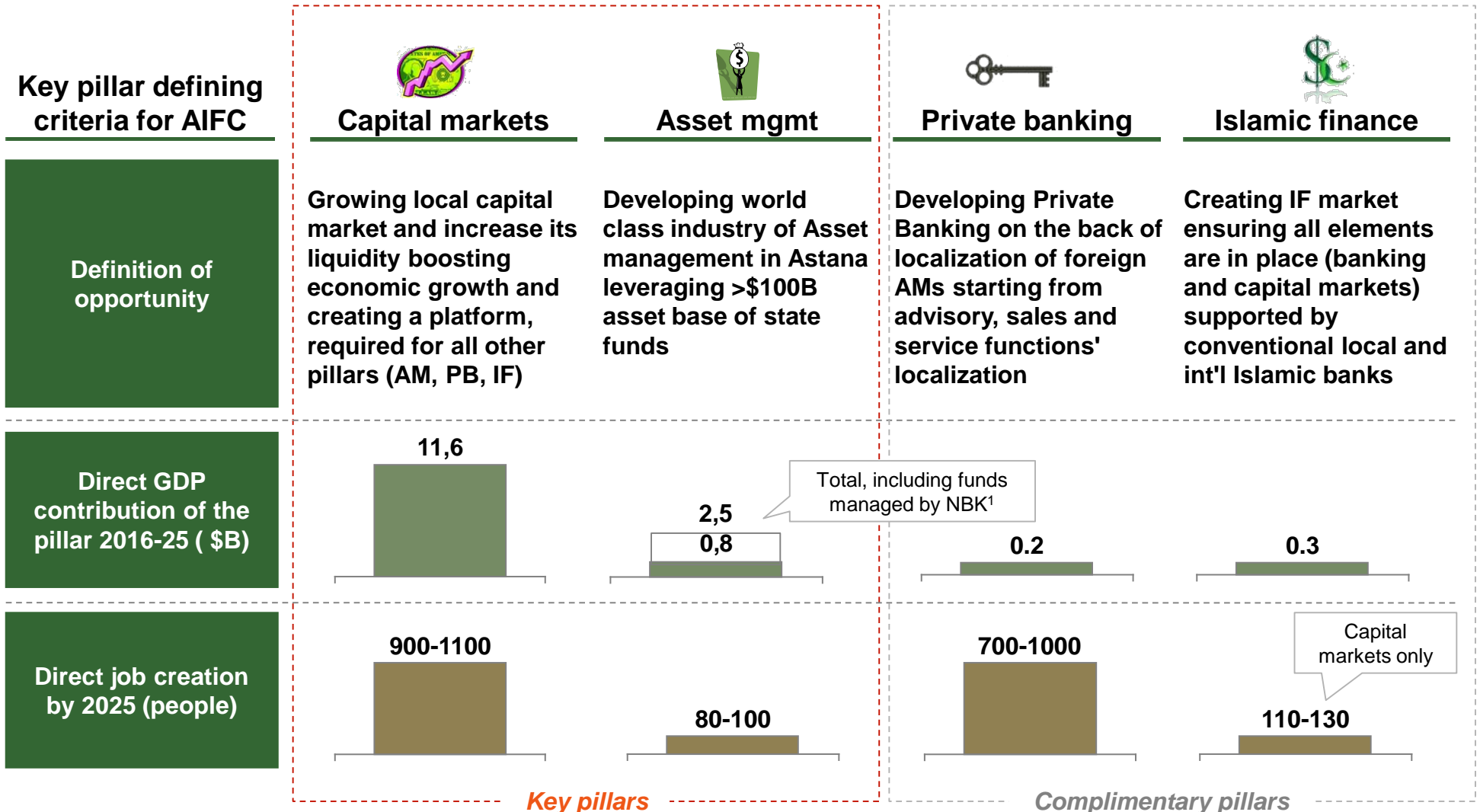
AIFC 2015 Concept

Best practice

AIFC must become a national priority with firm commitment across stakeholders and rigorous program management

Government Entity	Principal Responsibilities	
	<p>President of Kazakhstan</p>	<ul style="list-style-type: none"> • Heading the AIFC Management Council gathering at least twice a year • Overseeing signing of agreements with key international investors and partners of AIFC • Promoting AIFC at global political events
	<p>Prime-Minister of Kazakhstan</p>	<ul style="list-style-type: none"> • Coordinating implementation of AIFC build-up plan with KZ Ministries and authorities involved • Championing, resourcing, and monitoring progress of AIFC implementation • Overseeing investment programs of Astana and critical objects of infrastructure (e.g. Airport)
	<p>Governor of Central Bank, AIFC Authority</p>	<ul style="list-style-type: none"> • Driving overall agenda of AIFC with rigorous program management • Driving Capital Market development - upgrading regulations, market structure and minimum float • Upgrading AIFC Stock Exchange's capabilities and infrastructure • Allocating investment funds to seed international institutions localizing in AIFC • Negotiating partnerships with international financial institutions
	<p>Minister of Finance</p>	<ul style="list-style-type: none"> • Ensuring stable issuance of government bonds • Conducting regular placements of Sukuk bonds at the local and international markets • Maintaining liquidity of the secondary market for government bonds
	<p>Minister of National Economy</p>	<ul style="list-style-type: none"> • Helping to introduce privatization through AIFC Stock Exchange of Samruk's assets (blue chips) – privatization of national companies through case floating min 25% of capital • Providing legislative support especially concerning taxation (if required)
	<p>Minister on Investments and Development</p>	<ul style="list-style-type: none"> • Supporting creation of favorable investment climate for AIFC participants, conducting joint promotion activities with AIFC to generate new prospects for localization • Assisting AIFC to enable localized companies to quickly start operation
	<p>Akimat of Astana</p>	<ul style="list-style-type: none"> • Creating and funding the infrastructure investment program of Astana city (all forms of financing)) • Upgrading airport infrastructure • Teaming with AIFC stakeholders as part of investor promotion campaign for the city
	<p>Samruk Kazyna and Air Astana</p>	<ul style="list-style-type: none"> • Privatizing controlled SOEs at the local stock market • Ensuring implementation of new standards of corporate governance in all Samruk companies • Conducting road shows of IPOs of each SOE with AIFC investors, promoting AIFC and AIFC Stock Exchange • Air Astana to develop regular, convenient and reasonably priced connections with the other FCs, locations of future regional clients of AIFC and "sourcing" locations of professional staff

Capital markets and asset management are the 2 key pillars of the AIFC



1. Funds managed by NBK are not accounted for as those not creating incremental value and assumed to be part of residual GDP growth

2. \$120 B out of total fund base \$416B by 2025 ie \$293B– managed by NBK (majority like today), \$100B by foreign AMs out of KZ of which ~\$20B invested in the local CM, \$23B by local

Source: National Bank of Kazakhstan, working group analysis

Efforts to make AIFC succeed go beyond individual pillars

Key specific and cross-pillar enablers

**Asset
mgmt** 

**Capital
markets** 

**Private
banking** 

**Islamic
finance** 

Cross-pillar

Large scale initiatives

- **Conduct reverse auctions for partnership with AMs**
- Part of **State funds are mandated** to localized Ams
- **Open Pension fund assets** to local(ized) AMs at a later stage upon certification

- Increase volume of **gov't debt** issues in excess of planned deficit
- **Core SOE IPOs at AIFC Stock Exchange**
- **Float min 25%** of capital of privatized companies
- **New instruments** eg ETFs

- International **PB** brands **localized** as part of reverse auctions of AMs
- **Strengthen banking secrecy rules** for AIFC-regulated entities

- Separate **legal framework** for IF adopted
- Local banks incentivized to **offer Islamic products - IF windows**
- **Int'l IF institutions localized**

- **Independent court and Common law**
- **Sizeable investments into upgrading Astana** as a place to live and travel

Enablers for AIFC

- **Local legislation aligned** with global standards
- **One-stop shop** entity for AM localization created
- **Access** to infrastructure for localized AMs

- High **corporate governance standards** introduced
- **Minority investor rights** protected

- **Privacy** and personal **wealth** legally **protected**
- **Local client relationship managers** with global exposure **certified**
- Local **PB code of conduct** set

- **Level playing field (tax, regulation, etc)** for Islamic and conventional finance **created**
- **IF promoted** in local media to raise awareness
- **IF in KZ** globally **promoted**

- **Modernized Astana** airport
- **Frequent flights** to main locations of regional clients
- **Hassle free registration**, and migration
- **Stable IT connectivity**, developed financial infrastructure

- **Financial inclusion and literacy** programs

Several business levers will help start and grow the local market on Islamic Finance



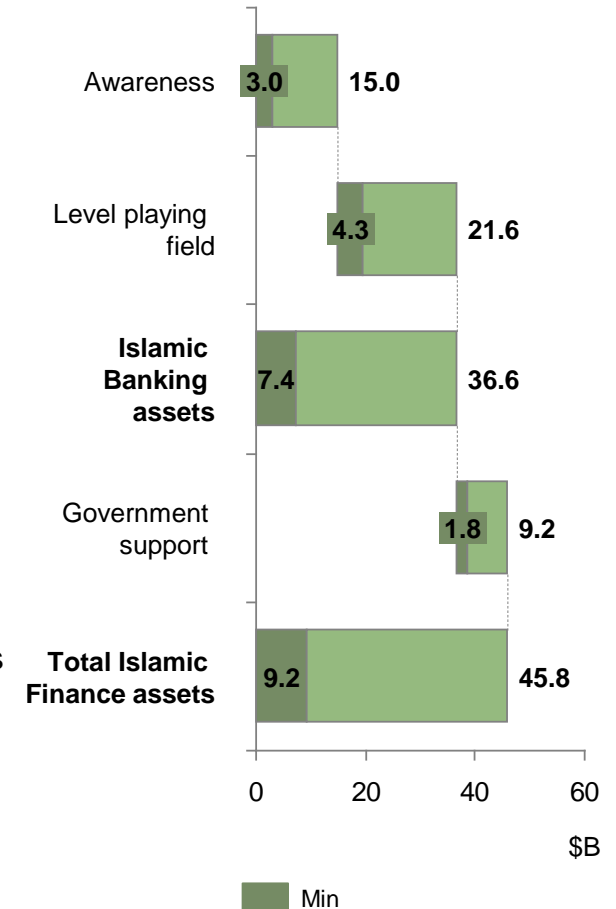
Key success factors

Business levers

Incentives and enablers

1 State-led strategy on IF development	Develop strategy and ensure implementation	<ul style="list-style-type: none"> Define goals: IF in KZ to reach 10% of the banking industry by 2025 Develop actionable strategy, set KPIs
	Signal and create awareness of IF in KZ	<ul style="list-style-type: none"> Promote awareness about IF products locally not only among Muslims Make roadshows to IF Centers
2 Activate demand	Invest state funds to Sukuks	<ul style="list-style-type: none"> Allow National fund and pension fund assets to be invested into Sukuks
3 Supply of assets & services	Attract global IF institutions	<ul style="list-style-type: none"> Provide temporary incentives to first 1-2 localized IF institutions Facilitate localization process
	Incentivize local banks to offer IF products	<ul style="list-style-type: none"> Allow banks to offer IF products through Islamic windows Subsidize banks' marketing expenses
	Use gov't to provide assets for Sukuks	<ul style="list-style-type: none"> Issue up to \$ 1.5B of sovereign Sukuks in local capital market in 2016
4 Developed IF infrastructure	Ensure level playing field with conventional bank	<ul style="list-style-type: none"> Ensure parity of treatment between conventional and Islamic finance Develop separate regulatory framework Establish single Sharia compliance board

Total assets in Islamic Finance can reach \$46B by 2025



To transform AIFC and deliver on its potential, several core initiatives must be implemented effectively

- 1 Set ambitious targets**


AIFC needs to target **delivering 1% of non-hydrocarbon GDP of Kazakhstan, creating a minimum of 2 000 highly skilled jobs**
- 2 Focus on "big moves"**


Committing and confidence through big visible steps e.g. **channeling most of privatization through IPOs, increasing float of all blue chips to a min of 25%, free access of foreign investors**
- 3 Ensure competitiveness**


Without real differentiation Astana can stay behind the main regional competitor Moscow, so introducing **Common law and independent commercial court** will give a significant advantage
- 4 Bet on core pillars creating value**


Development of **capital markets will make other pillars sustainable** and ensure economic impact, hence need to start together with another core pillar AM as both will have considerable multiplier effects
- 5 Achieve wins in every step**


Embarking on ambitious program will need a **plan with phases**, each plan should have **measurable objectives (KPIs)** and **rigorous program management** with frequent senior reviews
- 6 Ensure the best team in charge**


The program will succeed when a **highly professional international team** is appointed to run the project, which includes non-residents – cannot compromise on having the best talent . Responsibilities need to be clearly assigned
- 7 Partner with Government**


The **Government needs to drive and show visible support** of change throughout ensuring sponsorship by top government officials and their active monitoring of the implementation program, participating in rigorous program management
- 8 Find an execution partner**


Partnerships with successful international entities can accelerate development, AIFC, its rating agency, its academy etc. need to consider exploring partnerships with other FCs – e.g. Dubai (DIFC), Singapore (MAS)

Benefits of setting up in AIFC

TAX incentives

AIFC participants, bodies and their staff will enjoy zero rates for the term of 50 years (!) on a range of taxes including corporate and individual income, land and property taxes.

Common law

AIFC legal system will be based on the principles of **Common law**. Justice in AIFC will be administered only by the AIFC Court, consisting of international judges. The International Arbitration Centre shall review disputes which the parties have agreed to be settled by arbitration.

Registration regime

Introduction of a simplified regime for the registration of a "**one-stop-shop**" in the issuance of visas, work permits and other requests on AIFC territory.

VISA regime

Visa-free regime up to **30 days** for citizens of member countries of the Organization for Economic Cooperation and Development (OECD), the United Arab Emirates, Malaysia, Monaco and the Republic of Singapore will be introduced. AIFC participants, bodies and their staff will enjoy a special visa regime for a term of up to **5 years**.

Bold moves to be propelled from day 1 by the Government particularly in developing the capital markets

Action

What needs to be done



Increase and diversify government bond issues



Foster expansion of people's IPO program



Stimulate SOEs privatization on AIFC Stock Exchange



Increase free float of SOEs to be privatized to 25%



Enhance AIFC Stock Exchange's offer and infrastructure

- **Increase primary government bond issues** - in excess of planned budget deficit and with different maturities from 3 months to 30 years
- **Channel current transfer payments** from the National Fund to government entities requiring financing through **capital markets by issuing bonds** at AIFC Stock Exchange
- **Keep implementation** of the People's IPO program **on original track** bringing back to plan IPOs of KMG, KTG, Kaztelecom, Air Astana, Kazatomprom
- **Promote financial education** of retail investors about investments and retirement savings
- Carry out policy-driven privatization of **additional 10-15 SOEs via AIFC Stock Exchange**
- Require companies **already privatized via auctions to be listed on AIFC Stock Exchange** within 2-5 years after privatization
- Enhance requirements on **corporate governance and transparency**
- Introduce legal changes providing **incentives to increase free float of listed companies to 25%**
- Require **minimum listing** requirements of **25% free float for all equities listed**
- Increase product offer via relevant **ETFs and cross-trading**
- Provide preferential taxation for KZ companies raising capital **only through AIFC Stock Exchange and promote IPOs of local companies on AIFC Stock Exchange**
- **Remove barriers for foreign investors** access to the capital market
- **Upgrade trade and post-trade system** to international standards

AIFC to be located in EXPO zone from 2018



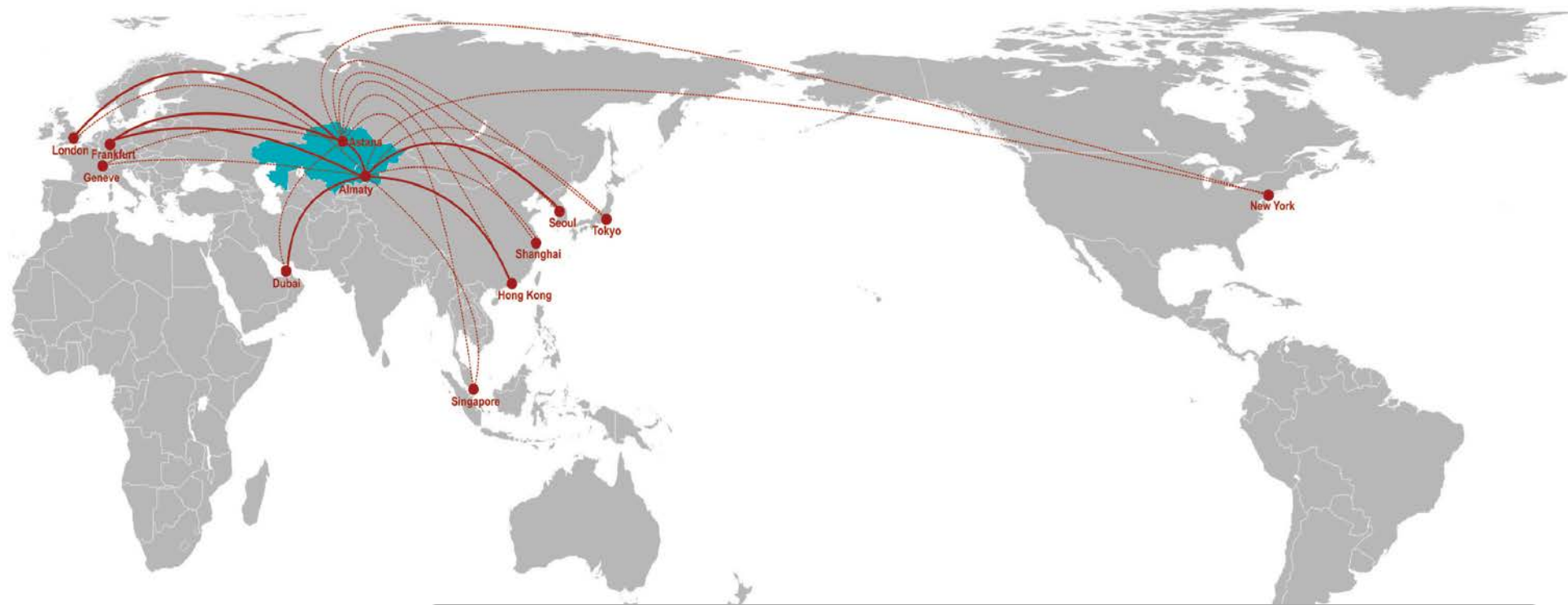
Available office space in international pavilions:
200 000 sq. m.

Average cost of renting in Astana:
USD 25 - 40 per sq. m/month

Free rent for two years for AIFC participants

Location of AIFC entities, international financial institutions, **AIFC Stock Exchange, Islamic Finance institutions, AIFC Academy**

Flight connections with Astana



— Actual flights
- - - Potential flights

Regular and convenient flights between Astana and major world financial centres through a phased liberalization of air traffic at Astana airport to foreign carriers on the principle of "open skies"



Lufthansa

