

Executive summary

Official KZT/USD exchange rate as at 01.02.08r. was 120.22

Economy

- Major government priority for 2008 –[inflation control / stability]
- Government actively supporting investments into wider sectors of the economy

Banking sector

- Since the beginning of the year growth in the banking sector has been steady.
- Financial Supervision Agency considering four banking licence applications in Kazakhstan

Kazakhstan's Economy

Net international reserves changed the dynamics to the growth side

In January 2008 the consumer price index grew by 1.1 per cent. Inflation levels in January 2008 remained similar to December 2007 when prices for food products rose sharply. Prices for fruits and vegetables went up considerably, a result of the seasonal price growth factor.

The international reserves of the National Bank increased in January 2008 due to the purchase of currency on the internal currency market as well as currency receipt to the Government accounts in the National Bank. The gold assets grew as a result of the 11.5 per cent increase in the price of gold on global markets. The National Fund assets were \$21 556 million.

Macroindicators	Jan 08	Jan 08 to Jan 07
Inflation rate, %	1.1	18.7
Prices for food products	1.6	26.6
Prices for non-food products	0.8	11.0
Prices for paid services	0.6	14.9

	Jan 08	Growth for Jan 08
Net international reserves	19,155	10.2%
including		
Net assets in currency	17,144	10.3%
Gold	2,010	8.5%
International reserves	40,717	5.9%
Official KZT/USD exchange rate	120.35	-0.4%

Source: National Bank of Kazakhstan

In 2008 the National Bank will contain inflation within 7.9-9.9 per cent

The National Bank of Kazakhstan (NBK) approved the major directions of the monetary and credit policy of Kazakhstan for 2008-2009, considering both 'basic' and 'pessimistic' scenarios for economic development in the country. The major objective of the monetary and credit policy of NBK for 2008-2009 will be containment of the annual inflation rate within 7.9-9.9 per cent in 2008, and 7.5-9.5 per cent in 2009 in both basic and pessimistic scenarios.

It is expected, that **under the basic economic development scenario**, the real GDP growth in 2008 will be 5 per cent, and in 2009 – 6.3 per cent. The reduced economic growth will contribute to a decrease in the demand for imported goods and, in general, to the reduction of the internal demand, which, in turn, will adjust the payment balance in 2009. As a result, a balanced payment balance is expected in 2009, which will allow the international reserve volumes of NBK to be maintained at 2008 levels, as well as stabilizing the nominal KZT exchange rate. Moreover, it is expected that the significant deficit on the current operations (more than \$5 billion) will remain. At the same time, the banks won't be able to refinance their liabilities to non-residents due to mature in 2008 and 2009.

Based on the above, the growth of the monetary base in 2008 will be 14.8 per cent to KZT 1,681 billion, and in 2009 by 11.7 per cent to KZT 1,878 billion. The growth of the cash reserves will increase by 8.3 per cent in 2008 to KZT 4,998 billion, and 23.5 per cent in 2009 to KZT 6,173 billion. The average annual loan growth

will be 16-18 per cent (to KZT 8,220 billion in 2008, and KZT 9,848 billion in 2009). The average annual growth of bank deposits will be 15-17 per cent (KZT 4,167 billion in 2008, and KZT 5,124 billion in 2009).

It is assumed, that **under the pessimistic economic growth scenario** the fulfillment of the banks' liabilities to non-residents will be achieved through a reduction of the external banks' assets without attracting new funding from abroad, leading to a reduction in the volumes of internal investments and slow down in internal savings growth. The shrinkage of the internal investment and consumer demand will lead to reduced import expenditures, and will limit the current account deficit in 2008 and 2009.

If there is limited access to external funding, the necessity to repay the external debt will result in a net outflow of capital from the country. This would impact negatively on the KZT exchange rate potentially causing devaluation. This scenario anticipates no economic growth in Kazakhstan in 2008 and 2009.

There would be a tightening of cash reserves in 2008-2009 due to a reduction in both the internal and external assets of the banking system, and, consequently, outflow of deposits. The monetary base will reduce by 3.7 per cent in 2008 to KZT 1,410 billion, and by 0.6 per cent in 2009 to KZT 1,402 billion. This decrease will rise by 11.4 per cent in 2008 to KZT 4,088 billion, in 2009 the indicator won't change. The average annual reduction of the loans will be 4-5 per cent (to KZT 6,570 billion in 2008, and to KZT 6,656 billion in 2009), reduction in deposits will be by 3-4 per cent annually (to KZT 3,384 billion in 2008, and to KZT 3,438 billion in 2009).

Key developments in the economy of Kazakhstan

- **The Government prepares draft law on three-year budget for 2009-2011, and drafts new Tax and Budget Codes.** The draft Tax Code stipulates for limited tax burden for non-rough sectors of the economy.
- **Kazakhstan announced reduction in state expenditure.** In order to lower inflation, the Government will reduce all possible expenditures of local budgets, except from social expenditures.
- **Kazakhstan increased the costs of gas transit to Russia by 27 per cent.** The rate was increased from \$1.1 to \$1.4 per one thousand cubic meters per 100 km. As a result, Russia will pay an additional USD200 mln [per year?] for gas bleeding.
- **World Bank provides Kazakhstan with loans totaling USD 174 million to implement four projects.** A World Bank loan for USD 13.4 million was obtained for the first project, entitled "Commercialization of the technologies", with co-financing from the republican budget of USD 61.6 million. The projects aim to significantly improve the efficiency and commercial validity of scientific research conducted by groups of specialists from different spheres. A loan of USD 117.7 million was granted to finance a project entitled "Transfer of technologies and institutional reform in the public health in Kazakhstan", government co-funding will be USD 178.4 million. The objective is to introduce international standards of health care and promote the long-term institutional potential of the respective authorities and health organizations to support key reforms in public health. The other two projects include "Development of the customs service" and "Recovery of the Ust-Kamenogorsk environment".
- **The chartered capital of Kazakh Mortgage Company will be increased by 10 per cent.** Additional stock emission will be offered to the general public through placement on the special trading platform of the regional financial district Almaty. This measure aims to increase retail investment activity on the stock market. It is hoped that USD 22 million will be [raised / invested]. Currently, the chartered capital of KMC is KZT 26,4 billion (exchange KZT/USD rate 120,36).
- **Kazakhstan plans to finish the bilateral negotiations on WTO accession in 2008.** In 2007 Kazakhstan signed the memorandums on completion of the negotiations on WTO accession with Israel, Brasil and Malaysia. Currently Kazakhstan has finished negotiations with Canada, and is in the process of negotiations with USA, EU and Australia.
- **USD 2.6 billion is required to finish the construction objects in Almaty.** The work group of the city Akimat together with commercial banks and construction companies have defined the projects that will need government support to ensure completion.
- **Kazakhstan foreign trade turnover increased by 27.3 per cent to USD 78.8 billion in 2007.** The trade balance in 2007 was USD 13.8 billion, which is USD 800 million lower compared to 2006. The major cause of the reduced balance was not the import growth in absolute terms, but increased cost of import.
- **11 investment projects will be implemented in Kazakhstan in 2008** with participation of the

development institutions totalling USD 950 million. The investment will be channeled into energy projects including, the third stage of construction of the Moynak hydroelectric power station in Almaty oblast, expansion and reconstruction of Ekibastuz hydroelectric power station, construction of Almaty gas turbine station and other projects.

- **Kazakhstan has suspended all negotiations with investors on the new subsurface management contracts until adoption of the new Tax Code.** The Government is currently drafting a new Tax Code, which will see a reduction of tax privileges and a reduced tax burden on the non-rough sector enterprises, thus, increasing the fees for extractive industries. Tentatively, the moratorium on new contracts will last till January 1, 2009.

- **Kazakhmys, the largest copper extractor in Kazakhstan, is in the process of buying Ekibastuz hydroelectric power station and coal mine from AES corporation for USD 1.5 billion.** The deal will be financed from the borrowed funds attracted through a 5-year syndicated loan totaling USD 2.1 billion.

- **In 2007 the volumes of construction works in Kazakhstan totaled KZT 1,307 billion (KZT/USD exchange rate 120.47), which was 15.3 per cent higher compared to 2006.** The proportion of the construction works by private companies was the highest (74.8 per cent). The foreign subcontractors completed 24.6 per cent of works, and state companies – 0.6 per cent of construction works.

- **Kazakhstan plans to extract 70 million tons of crude oil in 2008.** The processing volumes will increase by 12.5 million tons compared to 2007.

- **The pension accumulations increased by 32.8 per cent [in 2007] and stood at KZT 1.2 trillion as of January 1, 2008.** The net investment profit on the pension assets as of 01.01.2008 was KZT 339.7 billion, increase for 32.86 per cent. The total volumes of pension assets in investment management increased in 2007 by 32.44 per cent and was KZT 1.2 trillion as of January 1, 2008 (KZT/USD exchange rate 120,22).

Kazakh banking sector

Moderate growth is the outlook for Kazakh banks since the beginning of year

Aggregate equity capital of banks increased in January by 0.8% to \$11,914 million. The main reason for this capital growth was retained earnings from previous years held as reserve capital. The banks transferred \$3,427 million to owned capital allowing for an increase in reserve capital by 81.1%. Aggregate capital adequacy ratio was 12.3% as of 01.02.2008, share of immobilized assets is low at 13% of capital.

Aggregate liabilities of banks also increased marginally by 0.2% to \$85,220 million, a result primarily of client base and debt securities. Diversification of resource base by source type is as follows: 38.3% - customer accounts and deposits, 29.2% - debt securities, 20.4% - interbank deposits and loans (mostly syndicated loans), 4.5% - subordinated debt. The focus on external funding therefore remains.

Positive dynamics of term deposits growth continued in January: increasing by \$476.5 million with the share of client base at 76%.

In January fund attraction on interbank market decreased by 0.4% to \$17,344 million. Dependence on the resource base of interbank relations is at a comparatively high level with the ratio of attracted interbank funds to liabilities at 20.4%. The optimum level is 10-15%.

Aggregate assets of the banking system increased by only 0.2% to \$97,135 million. As a whole, loan activities of the banks slowed in January. The loan portfolio decreased by 0.3%, interbank fund attraction by 2.5%, securities portfolio by 8.5%. Transfer of mandatory reserves to the National Bank increased by 19.6%, and this partly compensated for the decrease in banks' balance sheet asset side. However these reserves are not liquid.

As a whole banks' asset quality is good because of low overdues and doubtful loans reserve adequacy. This as of 01.02.2008 the level of overdue amounts was 1.5% of total bank loans, reserves at 6.3%.

Major events in Kazakh Banking system

- Kazkommertsbank was number one in Top 50 best Kazakh companies of 2007. According to the survey conducted by Kazakh magazine “Exclusive” Kazkommertsbank was declared the “Best reputation company” for 4th consecutive year. More than 317 experts working in various fields participated in the survey.
- AFN granted permission to South Korean Shinhan Bank a permission to open a subsidiary bank in Kazakhstan.
- Kazkommertsbank financed the construction of heat-main and modernisation of Heat power plant #3 in Shymkent city. Total value of the project is about KZT4bn, of which KZT3.5bn was financed by bank. (current exchange rate – 120.24/\$1).
- Tajik Ministry of Justice registered a subsidiary of Kazkommertsbank – CJSC “Kazkommertsbank Tajikistan”. Charter capital of KKB’s 100% owned subsidiary bank is \$10 million.
- Development Bank of Kazakhstan plans to attract \$500 million on the international capital markets during 2008. In addition, the bank financed \$96 million for the construction of a transport-logistics center in Astana. As part of its stable social-economical development maintenance plan the bank is going to refinance 12 infrastructural investment projects of commercial banks. The total amount of refinancing is about \$250 million.
- Eurasian Development Bank is currently considering the possibility of investing \$1.5 billion to participate in projects with a total value \$4.9 billion. 43% of the projects under consideration are related to Russian Federation, 45% - Kazakhstan, 12% - other countries of Eurasian Economical Community. The Bank also plans to place its first eurobonds after Q1 for \$300 millions.
- National Bank of Georgia granted a license for banking activities to JSC “Khalik Bank Georgia”, a subsidiary bank of Kazakh Halyk Bank. Halyk Bank is also considering Islamic financing and entrance to Asian financial markets.
- Moody’s Investors Service confirmed long-term rating on deposits in national and foreign currencies of Kazakh commercial Nurbank.
- Standard & Poor’s confirmed its long and short term “B” ratings of Kazakh commercial “Kazinvestbank” (KIB).
- National Bank of Ukraine will grant in three months Kazakh commercial “TuranAlem Bank”(BTA) permission to purchase a controlling stake (more than 50%) in BTA Bank (Kiev). At present “Turanalem” owns 9.95% of the Ukrainian subsidiary.
- Alliance Bank (ALB) suspended new consumer loans and turned to issuance of credit cards to clients with a good credit history. These clients will be identified from ALB’s current customer database which consists of more than 2 million people. ALB’s assets increased by 26.9% to KZT1,167 billion, owner’s equity by 88.7% to KZT156.6 billion, and net income by 2 times to KZT37.2 billion in 2007. (current exchange rate 120,19/\$1).
- “Astana-Finance” is going to open its bank in July this year, after obtaining the required documents. In total, AFN is currently considering 4 applications for banking licences.
- National City Bank granted to Kazakh commercial “ATF Bank” a \$30 million loan. The term of the loan is for a period of 7 years with a 2 year grace period for repayment of principal amount. The funds will be directed to development of small and medium enterprises.
- ATF Bank is marketing a syndicated loan deal for amount of \$550 million. Arrangers of this loan are RZB and UniCredit. Margin to Libor for a new deal is 75 b.p., banks are offered shares of \$50 million and \$40 million for 55 b.p. and 50 b.p. respectively.
- Bank “Turanalem” is planning to increase assets by 20%, capital by 17% and loan portfolio by 21% in 2008. According to bank’s forecasts, loan portfolio quality in 2008 will be at the same level with 2006-2007, meaning the provisions to loan portfolio ratio will be not more than 5%. Bank “TuranAlem” is currently the 2nd largest bank by assets in Kazakhstan.
- Halyk bank as part of its 2008-2010 strategy, is planning to increase its share in its foreign subsidiaries to 30% from total volume of all main financial indicators. Over the next three years the Bank plans to

- set up a business on trade financing with Russia as well as continuing its activities in Central Asia, Georgia, Azerbaijan, Mongolia and China.
- “Fund for sustainable development “Kazyna” published on its website a “Report on progress of Plan of primary actions of Government for further social and economical development of Republic of Kazakhstan.” According to Kazyna, KZT36.7 bn were deposited with commercial banks for further loan distribution to construction companies and KZT48.8 bn for SME support via “Fund for development of small-scale enterprises”. Kazkommertsbank received KZT16.8 bn and KZT12.2 bn, respectively. The full version of Kazyna report can be found at:
<http://www.kazyna.kz/index.php?id=55&PageLevelID=415>

Please, note that information provided in the current document is based on the data from different sources including published announcements made by various state authorities and other organizations.

The majority of information contained herein has been extracted from different publications released by the National Bank of Kazakhstan, the Agency of Statistics of the Republic of Kazakhstan, the Agency of the Republic of Kazakhstan for regulation and supervision of the financial market and financial organisations and official web-sites of Kazakh banks and none of the managers or directors involved into preparation of this documents has independently verified the information contained herein. Accordingly, no responsibility or liability is accepted by Kazkommertsbank and its employees and directors as to the accuracy of the information provided herein.

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Appendix 1

	Assets		Capital		Loans to customers		Deposits		Retail deposits	
	31.01.08	Jan/ Dec	31.01.08	Jan/ Dec	31.01.08	Jan/ Dec	31.01.08	Jan/ Dec	31.01.08	Jan/ Dec
<i>KKB</i>	22 256 647	-1,2	2 271 358	1,9	18 212 174	-1,0	6 543 504	-5,8	2 492 544	-1,6
<i>BTA</i>	22 381 021	1,9	3 381 633	0,8	17 420 989	0,6	4 824 984	1,9	2 141 481	-1,0
<i>Halyk</i>	13 138 740	1,1	1 217 231	3,9	8 957 826	2,1	8 061 132	6,7	2 927 786	1,4
<i>Alliance</i>	9 678 609	-2,1	1 330 138	3,0	6 848 622	-1,8	1 670 344	12,9	778 536	-3,7
<i>ATF</i>	8 125 586	-1,3	565 181	13,6	6 260 573	-0,4	2 799 058	-7,5	1 139 032	-1,1
<i>Centercredit</i>	7 043 187	-3,6	585 505	0,8	5 329 663	-0,1	2 446 506	-3,6	1 152 082	2,4
<i>Temir</i>	2 742 256	1,4	452 065	0,1	2 253 220	1,3	520 767	3,6	223 650	28,9
<i>Caspian</i>	2 138 846	0,2	248 554	0,6	1 605 393	1,0	629 508	-2,1	262 593	0,6
<i>Nurbank</i>	1 626 380	-3,9	304 397	-5,1	1 223 323	-1,2	454 143	15,4	137 875	57,4
<i>Eurasian</i>	1 506 191	-1,3	167 559	1,2	2 929	-0,4	770 194	4,4	155 891	3,5
Subtotal	90 637 463	-0,4	10 523 621	0,6	68 114 712	0,0	28 720 140	-1,0	11 411 468	0,6
<i>Other banks</i>	6 497 208	9,9	1 390 621	2,65	2 984 077	2,3	3 910 523	15,5	697 895	4,4
Total	97 134 671	0,2	11 914 242	0,8	71 098 789	0,1	32 630 663	0,8	12 109 364	0,8