

Executive summary

Economics

- Sustainable GDP and industry growth rates
- Government measures aimed at real sector support
- Acceleration of inflation rate to two digit number
- S&P lowered Kazakhstan's sovereign ratings

Banking sector

- Banks continue to attract and pay off external funding despite "liquidity crunch" in global markets
- Growth of profitability indicators
- Major indicators growth rates slowed down from the beginning of the year
- Slight flow-out of client resources

Economics of Kazakhstan

Dynamic growth of major economic indicators

• **Real sector indicators grew up compared to the beginning of the year**, as a result of the high investment activity and increased consumption. Proportion of the manufacturing in GDP was 44.5 per cent, proportion of the services made up 48.6 per cent. Construction, financial services and trade sectors showed comparatively high growth rates. Favorable conditions at the global raw material markets contributed to the export growth, while increased internal demand led to the fast growth in import.

Macroindicators	January-September 2007	
	USD Mln.	% to Jan-Sept 2006
GDP	72 847	9.7
Agriculture	3 833	8.1
Industry	21 076	4.8
Construction	7 539	30.4
Services	35 417	8.8
Export	33 788	19.0
Import	23 711	43.6

Source: Agency of statistics

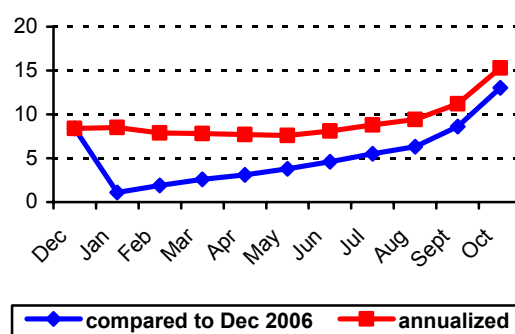
Macroindicators	Oct 2007	Jan-Oct 2007	Jan-Oct 2006
Inflation rate, %	4.4	13.4	6.6
Prices for food products	6.5	18.6	4.9
Prices for non-food products	1.5	7.6	6.0
Prices for paid services	4.2	11.9	10.6
Net international provisions, USD mln.	-5.4	-8.5	99.8
Official exchange rate, KZT/USD	-0.06	-4.8	-4.1

Source: National Bank of Kazakhstan

• **Inflation rates accelerated** mainly due to the increased prices for food products. Price growth peaked in October 2007 caused by growth in prices for sunflower-seed oil for 59.1 per cent and for flour for 21.2 per cent. Prices for bread and milk products grew as well.

Starting from October 20, 2007 Government of Kazakhstan prohibited sunflower oil export till February 1, 2008. Additionally, custom duties for oil import were abolished. These measures allowed for stabilization of oil prices. Moreover, accelerated inflation rates were caused by increased internal demand due to the general economic growth and increased social expenditures.

Inflation dynamics in 2007



Source: National Bank of Kazakhstan

Inflow of foreign currency and increased prices for raw materials were among external factors affecting inflation growth. In October 2007 annualized inflation rate was 15.3 per cent.

- **Net international reserves of the National Bank reduced compared to the beginning of the year** due to the sell of the foreign currency at the internal currency market to support tenge rate, conversion of National Fund assets as well as due to the outflow of non-residents' funds from Kazakh market. The volume of gold and foreign exchange reserves was USD 17,247 mln. Assets of the National fund grew by 42.8 per cent in Jan-Oct 2007 and made up USD 20 billion due to the increased export earnings based on the favorable prices at the global raw materials markets.

- **Situation at the internal foreign exchange market was stable.** In October 2007 exchange rate KZT/USD was between 120.55 to 120.88 tenge per 1 USD. KZT/USD exchange rate made up 120.84 tenge per USD as of the end November 2007. The volumes of the National Bank's interventions at the foreign exchange market was reducing in the last months. Thus, volume of foreign currency sales by National Bank was USD 1.6 billion in September, and USD 1 billion in October. In November National Bank was net buyer of the foreign currency, it's purchase volume was USD 300 mln in two weeks of November.

- **Prognosis of real GDP growth for 2008 is lower compared to 2007.** According to the Government of Kazakhstan estimates, economic growth rate will be 9.7 per cent in 2007 due to the unchanged fundamental economic development factors, high oil prices and the global markets, good volumes of corn crops as well as stable financial system in Kazakhstan despite global liquidity crisis. GDP growth prognosis for 2008 is 5-7 per cent.

According to the National Bank data, annual inflation rate in 2007 will be 15 per cent. Splash in prices for goods and services in October and November 2007 is considered as one-time situation due to the external shocks (inflation import). Thus, in 2008 National Bank forecasts inflation rate to be between 8-9 per cent.

National Bank's forecasts show that there won't be any drastic fluctuations at the national foreign exchange market till the end of the current year. Such prognosis is based on the expected significant inflow from export earnings due to the high global prices for major export goods of Kazakhstan, such as oil, metals and corn.

Economy's stable growth is the main priority of Government

- **Sovereign credit ratings of Kazakhstan were lowered by Standard and Poor's:** long-term credit rating of foreign currency liabilities was lowered from «BBB» to «BBB-», long-term and short-term ratings of national currency liabilities were lowered from «BBB+/A-2» till «BBB/A-3». Lowering of ratings show limited access to refinancing international liabilities in accordance with low liquidity on global market and investors' decision not to make investment solution in these conditions, and the foreseeable growth impairment of Kazakhstan's economy as a whole.

- **“30 Corporate Leaders of Kazakhstan” state program was approved** by Government. Its main goal is to realize progressive macroeconomical projects to modernize and to diversify country's economy. 30 large enterprises which production will become brand were named. 97 projects were approved so far within the frames of the program. Their general cost is 60 billion US dollars. These are the projects in machine-building, mining and smelting, petrochemical industry, logistics, agricultural production processing, and building materials production.

- **Refinancing rate of National Bank of Kazakhstan was fixed on the level of 9% in October**, which will help to solve the problem with banks' liquidity. Besides of that National Bank had extended the dates of introduction the Minimal Reserve Requirements (MRR) in commercial banks from October 9, 2007 to January 15, 2008. The MRR for internal liabilities was fixed at the rate of 5%, and for other liabilities, which include liabilities to non-residents and on debt securities regardless of residency at the rate of 10%. At present time the standard monthly calculation tariffs are 6% and 8% accordingly.

- **Stabilization methods on three directions were anticipated in Government's Action plan in maintaining stability of social economic development of Kazakhstan:**

1. Government will support construction companies through 'Kazyna' fund in order to keep pace of construction constant and to secure completion of construction objects, that are planned to enter into force in 2007-2008. The fund will submit the information on the unfinished objects to the state commission, which will make a decision on the objects, financing volumes, and the limits on money allocation in banks. Then the Fund will allocate this money on banks' deposits at the rate 9% for 3 years. For these purpose USD 400 million will be assigned to 'Kazyna' for capitalization this year, and USD 1 billion next year. At present time the state commission approved 74 inquiries for government financial support.
2. The following scheme was elaborated to support investment projects in industry, financing of which was stopped by the second tier banks. Second tier banks present the list of investment projects financing of which

was stopped, to the Development Bank of Kazakhstan. Development Bank of Kazakhstan reviews the projects, forms the list and submits it to the government fund 'Kazyna', that accordingly submits the list to the state commission. After the state commission approves the funds (which are assigned from state budget) they will be given as a loan to Development Bank of Kazakhstan at the rate of 2%, then these funds will be used to refinance the debt in second tier banks and to further finance investment projects. USD 200 million is planned from budget for this purpose.

3. 'Kazyna' fund will assign a loan to the Fund of Small Enterprises Development at the rate of 2% annually, the Fund will assign these funds to partner banks at the rate of 8%. Banks should secure financing of SME at the rate of 12% for the term of 7 years. The necessary level of capitalization of 'Kazyna' will be equal to USD 400 million in 2007.

Banking Sector of Kazakhstan

The pace of growth in major indicators is slowing down within the current financial year

US. \$ millions

<i>Banking system's indicators</i>	<i>01.01.2007</i>	<i>01.11.2007</i>	<i>% Oct.</i>	<i>% for Jan.-Oct. 2007</i>	<i>% for Jan.-Oct. 2006</i>
Assets	69 879	94 703	0,1	35,5	62,9
Loan portfolio	44 622	71 641	1,7	60,6	70,7
Deposit base	24 978	29 575	-1,5	18,4	78,2
Retail deposits	8 143	11 572	-0,2	42,1	58,2
Bank borrowings	15 558	25 382	-0,7	30,7	55,8
Capital	6 925	11 442	3,5	65,2	49,5

- **Growth in banking funding base was slowing down**, due to the limited access to external borrowings caused by the global liquidity crisis. Thus, for the first 10 months of 2007 bank borrowings (securities, inter-bank loans, loans from International financial organizations and subordinated loans), deposit base including retail deposits grew with less pace compared to January-October 2006. As of October 2007, there was a certain outflow of deposits including retail deposits. However, there is no sign of significant outflow in deposits. Deposits as a percentage of total funding composition still account for up to 30-35%. In August and September, commercial banks experienced issues with short-term liquidity. In the aforesaid market conditions, the National Bank of Kazakhstan has lent the amount of US\$10 billion in August and US\$8 billion in September to second-tier banks in the form of short-term funding. Due to the insufficiency of international funding assets and loan portfolio of the banking sector did not change essentially. However, taking into consideration the dynamic growth of banks in the first half of 2007, results for the 10-months period end are quite satisfactory.

- **Assets quality of the whole banking system is satisfactory** due to the maintained small share of overdue loans. So, the overdue loans as a percentage of the loan portfolio decreased from 1.4% since early this year to 1.1%. Provisioning is sufficient and increased from 5.3% to 5.5%. That means that banks do not suffer any significant problems with loan repayments. As of November 1, 2007, up to 30% of loan portfolio of banking sector was represented by consumer loans. The growth in consumer loans from early 2007 amounted to 3%. During 2007 the banks had sufficiently improved their profitability mostly as a result of growth in current profit. So, in average among Kazakh banks, ROA increased from 1.5% to 2.3%, and ROE from 17.8% to 22.7%.

The banks continue to borrow and repay syndicated loans.

- Alliance Bank repaid two tranches of the syndicated loans for the total amount of US\$ 239 million
- JSC “Bank Caspian raised funding from EBRD for the amount of US\$59 million for 5 years to support SME business in Kazakhstan
- State owned JSC “Kazakhstan Mortgage Company” is planning to sign an agreement with Credit Suisse for the amount of US\$100 million by the end of 2007. There are plans to borrow another US\$200 million in 2008.
- “Centercredit bank” paid back a syndicated loan for US\$ 266.1 million
- JSC “Kazkommertsbank” acquired 50% of “Investment Company East Capital” LTD. (Russian Federation, Moscow)
- The National Bank of Kazakhstan announced its plans to increase the capital of state deposits insurance fund by KZT 10 billion aiming to rise confidence of population to banks.
- Within 10 months of 2007 mortgage loans of second-tier banks increased twice up to US\$ 27.4 billion.
- Bank Austria Creditanstalt, a subdivision of UniCredit Group, has purchased 91.8% of “ATF Bank”. According to reliable sources the amount of the deal was US\$ 2.117 million. As a result of the deal, Fitch Ratings upgraded ATF Bank to long term rating of issuer default in foreign currency from “BB-” to “BBB+”, short term rating of issuer default from “B” to “F2” and support rating from “3” to “2”. Besides, JSC “ATF Bank” has fully repaid the syndicated loan in the amount of US\$ 550 million.
- TuranAlem Bank has closed a securitization of its international bonds for the amount of US\$750 million. In October, BTA acquired 25% + 1 share of NASK "Oranta" (Ukraine) for US\$99,2 million, and in the I half of 2008 has an intention to own 100% of Ukrainian "BTA Bank". As of today BTA holds 49% of that institution. Since November 2007, BTA controls CJSC «Ineximbank» (Kyrgyzstan) as a result of a deal which took place between BTA and Temirbank. The deal amounted to US\$20,3 million.
- Moody’s has changed ratings and forecasts for 6 banks in Kazakhstan, pointing to the negative consequences of world liquidity crisis to creditability of banks. According to Moody’s, high level of dependence from market funding leads to significant refinancing risks to banks and the whole banking sector.

<i>Change of ratings</i>	<i>Finance stability</i>	<i>Deposits in tenge</i>	<i>Deposits in foreign currencies</i>
Kazkommertsbank	from D to D-/ from stable to negative	From Baa2 to Ba1	Ba1
Bank TuranAlem	D-/ from stable to negative	from Baa3 to Ba1	Ba1
Halyk-bank	D/ from stable to negative	from Baa2 to Baa3	Ba1
Alliace-bank	E+/ stable	Ba2/negative	Ba2/negative
Bank CenterKredit	D-/ from stable to negative	Ba1/negative	Ba1/negative
Temirbank	E+/ stable	from Ba1 to Ba2	from Ba1 to Ba2

Source: REUTERS, Moscow

- Fitch Ratings has affirmed ratings to Kazakh commercial banks – Kazkommertsbank, TuranAlem and Temirbank..

Please note that the information provided in the current document is based on data from different sources including, without limitation, published announcements made by various state authorities and other organizations.

The majority of the 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 on regulation and supervision of financial market and financial organizations 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: Main index of second tier banks

thousands of USD

	Assets		Capital		Loans to customers		Deposit base		Population deposits		Expiration	
	01.11.07	oct./s ept.	01.11.07	oct./s ept.	01.11.07	oct./sept.	01.11.07	oct./s ept.	01.11.07	oct./sept.	01.11.07	oct./sept.
Kazkommertsbank	21 516 937	-5,2	2 156 163	0,8	18 787 233	0,6	6 222 138	-2,0	2 462 090	1,0	309 947	56,0
TuranAlem	21 763 915	4,9	3 231 741	1,7	16 608 817	2,7	4 605 612	-2,8	2 051 761	-4,1	100 098	38,1
Halyk Bank	11 742 776	2,8	1 174 139	3,0	8 003 221	5,5	6 038 833	-2,5	2 905 855	0,1	88 669	8,7
Alliance Bank	10 083 310	-0,8	1 259 779	1,7	7 332 414	0,2	1 900 887	0,1	861 398	11,4	133 221	18,0
ATFBank	8 789 103	1,5	677 727	-0,3	6 643 841	2,4	2 876 518	0,2	963 165	-2,7	20 615	24,5
CenterCredit	7 249 115	-3,2	540 559	1,7	5 501 197	-0,1	2 520 586	3,8	1 064 234	1,1	21 229	1,8
Temirbank	2 739 486	-2,4	438 128	-0,4	2 282 571	-0,8	464 732	-23,9	170 655	-8,4	39 388	35,9
Caspian	2 101 752	8,6	258 771	0,0	1 501 899	3,9	583 390	4,7	243 450	-3,0	18 388	2,2
Nurbank	1 583 931	-5,5	313 782	1,0	1 181 046	-2,6	433 318	19,0	77 855	6,8	28 470	-16,6
Total (large banks)	87 570 326	0,0	10 050 791	1,4	67 842 240	1,7	25 646 013	-1,4	10 800 463	0,0	760 025	30,1
Other banks	7 132 609	1,3	1 391 217	21,8	3 799 107	2,0	3 928 984	-2,5	771 370	-3,0	40 855	19,0
Total (second tier banks)	94 702 935	0,1	11 442 008	3,5	71 641 347	1,7	29 574 998	-1,5	11 571 834	-0,2	800 880	29,5

International Banks' Ratings

	Standard&Poor's		Moody's		FitchRatings	
Kazkommertsbank	BB+	Stable	Ba2	Negative	BB+	Stable
TuranAlem	BB	Stable	Ba1	Stable	BB+	Stable
HalykBank	BB+	Stable	Ba1	Negative	BB+	Stable
Alliance Bank	B+	Stable	Ba2	Negative	BB-	Stable
ATFBank	BB+	Stable	Ba1	RUR	BBB-	Stable
CenterCredit	-	-	Ba1	Negative	BB-	Stable
Temirbank	B+	Stable	Ba2	Negative	BB-	Stable
Caspian	-	-	Ba3	Stable	-	-
Nurbank	B	Stable	-	-	-	-
Eurasian Bank	-	-	B1	Stable	B-	Stable