Official exchange KZT/US$ rate on 1 April 2010 – 146.98

Summary

- Inflation in March 2010 was 0.7%
- The new Road Map 2010 programme was adopted in Kazakhstan with a budget allocation of KZT 30 billion in 2010
- Alliance Bank completed its debt restructuring process.
- BTA Bank signed an agreement with the Creditors' Committee on the conditions of the restructuring.

News on Kazkommertsbank:

- **20 April.** Kazkommertsbank reports its full year 2009 results:
  - Net profit of KZT 19 billion (USD 129 mn)
  - Net interest margin before provisions for impairment losses of 7.8%
  - Net non-interest income increased to KZT 58.9 billion
  - Cost-to-income ratio decreased to 12.2%
  - Total Bank assets declined by 1%
  - Deposits increased 30.3% year-on-year
  - Retail deposits increased by 24.2%
  - Core Tier 1 ratio increased to 15.9%
  - Total capital ratio increased to 20.1%
  - Provisioning rate increased to 19% of gross loans
- **6 April**. Kazkommertsbank has increased the chartered capital of JSC Savings Pension Fund "Grantum" in accordance with its preemptive rights. On 11 February 2009, at the Extraordinary General Shareholders Meeting of JSC Savings Pension Fund "Grantum", a decision was taken to increase the charter capital of the Fund by issuing 2,200,000 new shares at KZT 1,000 per share, to support the financial stability of the Fund and to fulfill its capital adequacy requirements. As a result, the chartered capital of JSC Savings Pension Fund "Grantum" increased to KZT 3,200,000,000 (USD 21,782,043). The Board of Directors of Kazkommertsbank approved the purchase of 1,760,260 shares in accordance with preemptive rights. On 6 April 2010, Kazkommertsbank transferred KZT 1,760,260,000 as payment for the shares and exercised its preemptive rights in full.

Kazakh Banking Sector Developments

P&L

The net income of Kazakhstan's commercial banks amounted to US$ 1,783 million compared to a net loss of US$ -447 million in February 2010. This was mainly a result of US$ 2 billion income from the debt write-off by Alliance Bank during March.

Kazakh commercial banks' aggregate earnings amounted to US$ 7,841 million. The aggregate expenses of the banking system (including corporate tax) was US$ 6,058 million, the majority of which were provision charges, which constituted 59.6% share of total expenses.

CAPITAL

The Kazakh banking sector's aggregate capital remains negative and as of 1 April 2010 amounted to US$ –3,397 million (US$ -7,345 million as of 1 March 2010). Excluding the negative capital of the two banks under restructuring, the aggregate bank capital amounted to US$ 7,552 million (US$ 7,149 million as of 1 March 2010).

ASSETS

Aggregate bank assets stood at US$81,275 million (an increase of 1.9% MoM or US$ 1,549 million).

The share of loans to customers declined from 49.9% to 49.1% during March, continuing the trend which was seen during the whole of 2009 and first two months of 2010. The share of securities portfolio increased from 16.5% to 17.3%. The share of highly liquid assets (cash, precious metals and correspondent accounts) increased from 7.6% to 8.1% due to an increase in correspondent accounts by 11.1%. The share of funds placed with National Bank within total assets increased from 5.2% to 5.9% and the share of inter-bank loans and deposits decreased from 4.8% to 4.3%.

The continuing monthly deterioration of asset quality is still the major concern of the banks. According to the FSA, loans that were at least 90 days overdue represented 25.1% of the total loan portfolio as at 1 April 2010 compared to 24.6% as at 1 March 2010. Loans that were 90 days overdue, excluding BTA, Temir and Alliance Bank, amounted to 16.3% of the total loans as at 1 April 2010, compared to 16.8% as 1 March 2010.

The loan loss provisioning rate slightly decreased from 37.1% at February-end to 37.0% in March, according to the FSA.

LIABILITIES

Aggregate bank liabilities decreased slightly by 2.3% during March, to US$ 86,672 million.

The structure of liabilities has not changed significantly. The major funding sources remain customer accounts (52% of total liabilities).

Due to the completion of Alliance Bank's debt restructuring and the change of the issuer on Centercredit's Eurobonds, there was a decrease in the shares of deposits of SPVs (to 6.6% from 11.1% in February) and an increase in issued securities and subordinated debt (to 19.3% from 18.0%).

Customer accounts increased by 3.7% to US$ 44,021 million, due to the increase in corporate accounts by 5.0%. A major inflow of total deposits was seen in ATF, Halyk and KKB (6.1%, 2.9% and 1.7%, respectively).

The sector's net loans-to-deposits ratio decreased from 95.3% in February 2010 to 90.6% in March 2010, due to the increase in deposits.

Major events in the banking sector

- **26 April.** Alliance Bank, BTA and its subsidiaries Temirbank and BTA Ipoteka accepted procedures for working with mortgages. These procedures were accepted in order to improve the quality of the banks' mortgage portfolios and help the clients to service their loans through providing a grace period, purchasing the dwelling from the borrowers and renting it to them, and decreasing the interest rate and increasing the loan tenor.
- **26 April.** BTA Bank reinstated its 50% stake in its Ukrainian subsidiary – BTA Bank (Ukraine).
- **22 April.** Development Bank of Kazakhstan (DBK) recorded KZT 39.5 billion net loss in 2009 compared to KZT 2.1 billion of income in 2008. DBK is a 100% subsidiary of Samruk-Kazyna.
- **21 April.** The Head of the National Bank of Kazakhstan, Mr. Grigoriy Marchenko, held an online conference on 21 April. These are main takeaways:
  - The recovery of the Kazakh economy will be a lengthy process. Currently, the lending market is in stagnation with the growth of lending amounting to only 2.5% in 2009. However, after the completion of restructurings in some of the banks, he expects positive developments in the financial sector of the country.
  - The National Bank will try to prevent the KZT exchange rate from suffering from sharp fluctuations.
  - Mr. Marchenko does not expect a second wave of the crisis. However, it could happen if there is a sharp decline in oil prices to US$ 30 per barrel and if they remain at these low levels for a long time.
  - Mr. Marchenko believes that mobile banking and e-banking services should be provided by the banks only, as they have correspondent accounts with National Bank.
  - The foreign debt of the banks has sharply decreased during the last 2.5 years and amounts to c.US$2 billion. After the completion of restructuring of BTA, Alliance Bank and Temirbank, it will decrease by another US$ 10.5 billion. As a result, the National Bank believes that the problem with the banks' foreign debt is resolved.
  - The inflationary effect of the KZT devaluation in February 2009 was insignificant. The acceleration of inflation was seen only in February and March 2009. After this the consumer market stabilized and the year-end inflation in 2009 amounted to 6.2%, three times lower than it had been in 2008.
- **21 April.** After the completion of restructuring process, BTA Bank will focus on working with the rating agencies to reinstate its ratings. The bank says that it has sufficient liquidity to start lending and that its deposits started growing from November 2009.
- **21 April.** AFN (FMSA) applied to special financial court to complete the restructuring process of Alliance Bank. As a result of restructuring, the capital of the bank amounted to KZT 47,037,246 thousand as of 1 April 2010. This was a result of the partial write-off of the Bank's debt by the creditors, conversion of the bank's debt into preferred shares, and the investments of Samruk-Kazyna.
- **21 April.** BTA Bank signed an agreement with the Creditors' Committee on the conditions of the restructuring. The volume of debt to be restructured is US$ 12.2 billion. After the completion of restructuring, 18.5% of the bank's shares will be owned by creditors of the bank, 81.5% - by Samruk-Kazyna and the foreign debt of the bank will decrease to US$ 4.4 billion.
- **19 April.** Standard & Poor's says that there are a few indications of a banking sector recovery in Kazakhstan, but they still expect weak asset quality, vulnerable funding, and low capitalization to remain, at least for the next two years. S&P estimates that problem loans are likely to peak in the second half of 2010 and therefore expect limited ratings upside potential for Kazakh banks in the

near term, at least until economic pressures ease considerably and fundamental imbalances highlighted by the ongoing domestic banking crisis are resolved.

- **19 April.** Development Bank of Kazakhstan (DBK) is ready to provide long-term loans to commercial banks at an interest rate of 8%, with an average tenor of 10 years. The volume of the loans is expected to be between US$ 5 -50 million. The total volume of the program is US$ 400 million and there is a possibility that the volume may be increased. The bank is launching this programme to provide long-term funding to the banks, as the domestic sources of funding in Kazakhstan are mainly short-term.
- **6 April.** Moody's Investors Service started to reconsider the long-term FX and KZT ratings of Alliance Bank (Caa3) with a possible upgrade. The financial stability rating and non-prime ratings of short-term deposits were confirmed. Long-term FX debt ratings related to bonds cancelled during the restructuring process were recalled.
- **7 April.** Fitch Ratings assigned a long-term issuer default rating of BBB-, outlook stable, to the banking subsidiary of Sberbank in Kazakhstan.
- **7 April.** The National Bank maintains a refinancing rate of 7% as of 1 April 2010.
- **6 April.** Halyk Bank and Samruk-Kazyna are discussing the possibility to returning the funds received from Samruk-Kazyna during the anti-crisis programme.
- **5 April.** Eurasian Bank completed the purchase of 99.99% of the shares of Russian Troika Dialogue Bank.
- **1 April.** Temirbank announced that their Restructuring Plan has approved by creditors.
- **1 April.** Fitch Ratings changed its outlook on Eurasian Bank's rating from Negative to Stable.
- **1 April.** Fitch Ratings has downgraded the long-term issuer default rating of Kaspi Bank from B to B-, outlook stable. This was a result of the decrease in the financial flexibility of the bank due to a decline in capitalization, continuing asset quality deterioration and weak operational profitability.
- **1 April.** Halyk Bank announced its full-year 2010 financial results. The bank's assets increased by 22.5%, customer accounts by 46.9%, capital by 47.1% while loans to customers decreased by 4.6%.
- **31 March.** AFN (FMSA) granted permission for the issuance and placement of Eurobonds nominated in KZT and US$ to Alliance Bank.
- **30 March.** Alliance Bank completed its debt restructuring process. As a result, its capital amounted to KZT 50 billion in compliance with capital adequacy requirements. The volume of its debt decreased from US$ 4.5 billion to US$ 1.1 billion. 67% of Alliance Bank's shares are owned by Samruk-Kazyna and 33% by the bank's creditors. Alliance Bank is aiming to be profitable in 2010 and is looking for a strategic investor to purchase up to 50% of the bank's shares.

Major developments in Kazakhstan's economy:

INFLATION

In March 2010, inflation in Kazakhstan was 0.7%. The prices of food products in March 2010 increased by 1.2%, non-food products saw a rise of 0.4%, while paid services increased by 0.2%. Annual inflation (March 2010 to March 2009) was 7.2%, and the prices for food products increased by 5.4%, for non-food products by 6.7%, and for paid services by 10.2%.

INDUSTRIAL PRODUCTION

The volume of industrial production in January-March 2010 compared to January-March 2009 increased by 11.5%. The real volume index was 107.8% in the mining industry, 118.7% in the processing industry.

UNEMPLOYMENT

The unemployment rate in March 2010 was 6.1%. The number of unemployed people in March 2010 was 524,300. The number of unemployed people registered with authorised employment bodies in March 2010 was 0.9% of the economically active population. The hidden unemployment rate in March 2010 was 0.6% of the economically active population.

INTERNATIONAL RESERVES

In March 2010 the net international reserves (including the net international reserves of the National Bank and National Fund's assets in foreign currency) decreased slightly by 0.4%, to US$51.9 billion. The assets of the National Fund increased by 0.8% in March 2010 to US$25.3 billion. The net international reserves of the National Bank based on current prices decreased by 1.5% to US$26.5 billion. The net currency reserves in March 2010 decreased by 2.0% to US$24.5 billion, while assets held in gold increased by 4.1% to US$2.6 billion.

GDP

GDP growth in January-March 2010 was 6.5%.

MONEY SUPPLY

March 2010 saw an increase in the money supply of 1.4% to KZT 7,758 billion. The amount of currency in circulation increased by 1.8% to KZT 898.2 billion. The reserve money in March 2010 increased by 3.17% to KZT 2,736 billion. The narrow reserve money (money supply less term deposits of the banks with the National Bank) decreased by 0.7% in March 2010 to KZT 2,027 billion.

News on Kazakhstan's economy:

- **26 April**. Kazakh national atomic company, Kazatomprom, plans to conduct a road show in May 2010 on the placement of its Eurobonds. BNP Paribas and JP Morgan have been appointed as lead arrangers and book runners of the deal, and Halyk Finance as Kazakh lead manager on the first issue of Eurobonds under Reg S/144A. Earlier, the planned issue of Eurobonds was assigned a BBB- rating by Fitch.
- **21 April**. The Chairman of the National Bank, Grigoriy Marchenko, believes that the recovery of the domestic economy will be a long process as there is some stagnation in the dynamics of the credit market. At the same time, he noted that the restructuring of some banks is nearing its finish, and the development of Kazakhstan financial system will be a further positive. Mr. Marchenko believes that there won't be another turn of the crisis, however, he hasn't ruled out this possibility in case the oil prices fall to US$30 per barrel and stay at that level for a long period of time.
- **20 April**. The Republican budget for 2010 was executed with a deficit of KZT 65,885 billion during January-March 2010. According to amendments introduced to the Law on Republican Budget for 2010-2012, the budget deficit in 2012 is planned to be KZT 803.6 billion, which would be 4.1% of expected GDP (KZT 17,411.9 trillion).
- **13 April**. The Prime-Minister of Kazakhstan, Karim Massimov, said that the government will not support the importers. The position of the government is to support Kazakh entrepreneurship, which really produces goods and services in Kazakhstan.
- **13 April**. The new Road Map 2010 programme was adopted in Kazakhstan. It is a pilot programme with budget allocation of KZT 30 billion in 2010. The programme has three objectives: support of new business initiatives and expanding existing projects, the recovery of entrepreneurship and the provision of support to export-oriented industries. In 2010 KZT 9.2 billion will be allocated for the first and the second objectives, and KZT 16 billion will be allocated for the third objective of the programme. Another KZT 4.8 billion will be spent on infrastructure support. The implementation of the Road Map 2020 also includes subsidizing interest rates on the loans of commercial banks to the entrepreneurs working in the projects, which are a priority for the economy of Kazakhstan. The subsidizing of interest rates will include new loans on the implementation of new investment projects as well as loans aimed at the modernization and enlargement of the production facilities. The banks participating in the programme will reduce the interest rates for a borrower to 12%, of which 7% is paid by a borrower and 5% is compensated by the government. Under the second objective of the programme, interest rates on existing loans from banks will be subsidized and the borrower will get a grace period on taxes and other budget payments for three years without fines. The interest rates of the banks under the third objective will not exceed 12%, of which the borrower will pay 4% and the government will compensate 8%. The loan amount eligible for subsidizing cannot exceed KZT 3 billion.
- **9 April**. Prices for new housing stock in Kazakhstan increased by 0.3% m-o-m in March 2010. The price for 1 square meter of secondary housing stock was KZT 101,200, and KZT 139,500 for new housing.
- **1 April**. KazMunayGas Trade House (subsidiary of KazMunayGas national company) plans to export crude oil to the North America and China until 2015. The company plans to establish transport divisions as well as to involve other KazMunayGas subsidiary – Kazmortransflot.
- **31 March**. The President of Kazakhstan, Nursultan Nazarbayev, has approved a state programme for the industrial and innovative development of Kazakhstan for 2010-2014. The major priority of the policy on industrialization will be implementation of large investment projects in traditionally export-oriented sectors of the economy with multiplication of new business opportunities for small and medium enterprises via the targeted development of Kazakh content, further repartition and processing. At the same time, the programme targets the establishment and strengthening of non-commodity sectors of the economy oriented at domestic as well as, in future, regional markets.

- **26 March**. Sollers Group plans to start assembling automobiles of the Ulyanovskiy Automobile Plant JSC using its Asia Auto capacities in Kazakhstan in the 2nd quarter of 2010. According to the Sollers representative, Asia Auto may assemble 3,000-5,000 UAZ automobiles per annum.
- **26 March**. Damu Entrepreneurship Development Fund will finance ten small and medium enterprises for a total amount of KZT 3 bn as part of the Damu-Koldau programme. These projects are in line with the major criteria of the programme: creation and modernization of the processing industries; development through a cluster approach and the transfer of new technologies; production of competitive import-replacing and export-oriented goods and services; franchising of successful domestic and foreign business models; creation of socially important initiatives to create new jobs.

Annex 1

Kazakhstan's key macroeconomic indicators

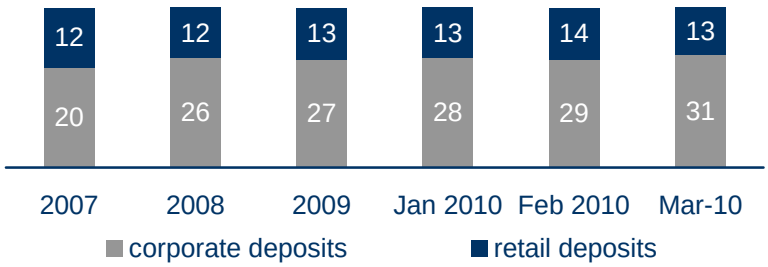
	2005	2006	2007	2008	2009	1Q10
Domestic economy and financial system						
Real GDP growth, %	109.7	110.7	108.9	103.2	101.2	106.5
GDP, US$ million	**58 392**	**76 355**	**106 816**	**131 713**	**107 197**	**n/a**
Production, % YoY	104.6	107	104.5	102.1	101.7	111.5
Unemployment rate, %	8.1	7.8	7.3	6.6	6.5	6.1
CPI, %	107.7	108.4	118.8	109.5	106.2	107.3
Monetary supply M3, US$ million	15 887	27 492	38 486	51 894	49 754	52 786
Monetary base (reserve money), US$ million	5 100	11 223	12 171	12 629	16 510	18 617
Real exchange rate	130.00	133.77	120.30	120.77	148.46	146.98
Official refinancing rate, %*	8.0	9.0	11.0	9.5	7.0	7.0
State finance						
State budget balance, % of GDP	0.6	0.5	-1.7	-2.1	-3.1	n/a
Total sovereign debt, % of GDP	3.7	4.1	2.0	1.6	2.5	n/a
Sovereign foreign debt / State budget income, %	13.5	17.9	8.7	6.5	11.4	n/a
Sovereign foreign debt, US$ million	2 175	3 125	2 099	2 167	2 218	n/a
Balance of payments						
Current account balance, US$ million	-1 056	-1 999	-8 226	6 978	-2 833	n/a
Current account balance, % of GDP	-1.8	-2.6	-7.7	5.3	- 2.6	n/a
Capital and finance account balance, US$ million	912	16 201	8 366	1 219	5 554	n/a
Capital and finance account balance, % of GDP	1.6	21.2	7.8	0.9	5.2	n/a
Imports, US$ million	17 979	24 120	33 260	38 452	28 672	n/a
Exports, US$ million	28 301	38 762	48 351	71 971	43 886	n/a
Foreign assets and liabilities						
Gross foreign debt, US$ million	43 429	74 014	96 914	107 713	111 730	n/a
Gross foreign debt, % of GDP	76.0	91.4	92.4	81.3	104.1	n/a
National Bank's Gross International Reserves, US$ thousands	7 069	19 127	17 629	19 872	23 218	26 595
National Fund	8 074	14 092	21 006	27 486	24 368	25 356
National Fund and international reserves	15 143	33 219	38 635	47 358	47 586	51 951

Annex 2

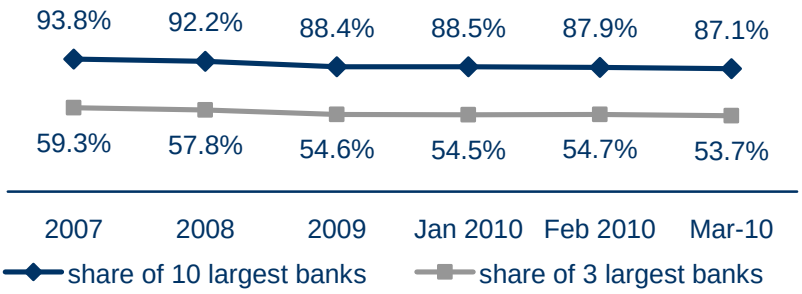
Banking sector indicators*

	2005	2006	2007	2008	2009	March 2010
Commercial banks (number)	34	33	35	37	38	39
Bank branches (number)	1 730	1 813	2 381	2 546	2 299	2 214
Major indicators of the banking sector, US$ million						
Assets	**33 701**	**69 859**	**97 129**	**98 432**	**77 837**	**81 275**
Capital	3 297	6 854	11 846	12 026	-6 601	-3 397
Loans	**22 869**	**47 181**	**73 718**	**76 534**	**64 926**	**64 443**
Provisions for loans	1 276	2 342	4 337	8 491	24 458	23 817
- % of total loans	*5.6*	*5.0*	*5.9*	*11.1*	*37.7*	*37.0*
Deposits	**12 471**	**24 979**	**32 451**	**38 084**	**40 441**	**44 021**
Net profit	**538**	**801**	**1 806**	**89**	**-19 225**	**1 784**
Profitability ratios, %						
NIM	3.7	3.3	5.2	5.8	3.1	2.6
RoAA	1.6	1.1	1.9	0.1	Loss	Loss
RoAE	16.3	11.7	15.3	0.7	Loss	Loss
Banking sector and the economy, %						
Assets / GDP	60.6	87.5	90.9	74.6	71.4	68.1
Loans / GDP	41.1	59.1	69.0	58.0	59.5	54.0
Deposits / GDP	22.4	31.3	30.4	28.9	37.1	36.9

Trends in the deposit base, US$ billion



Concentration of banking system assets

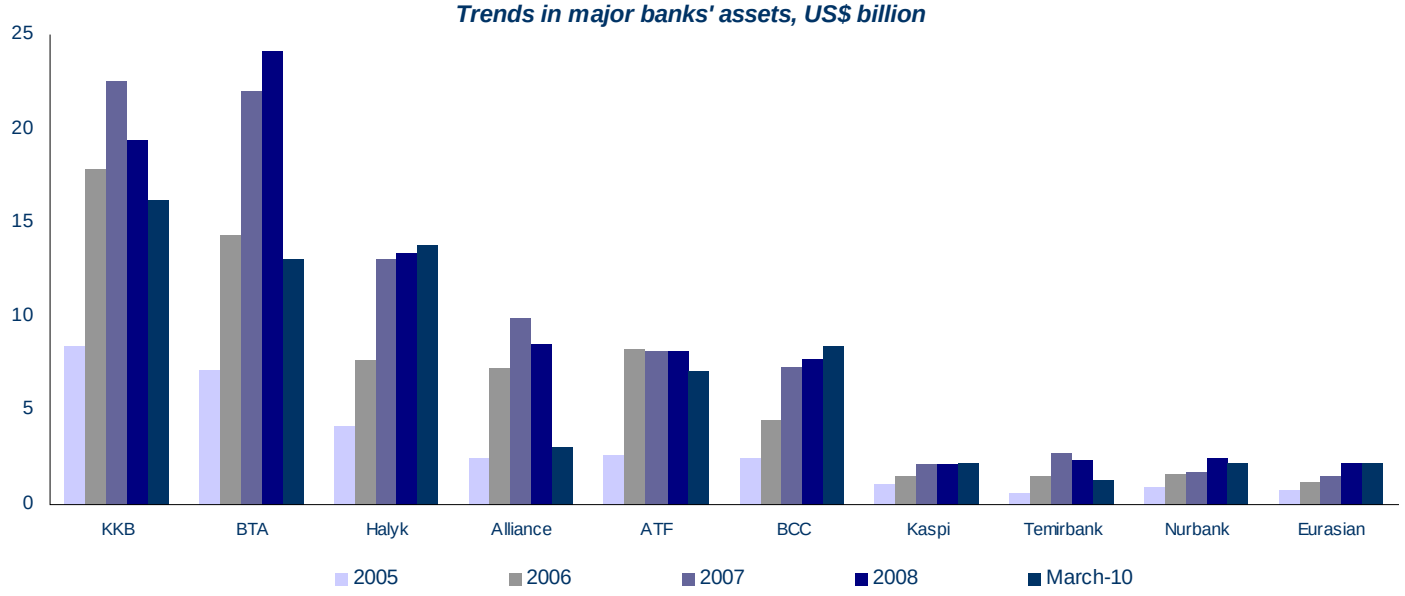


Annex 3

Major indicators of the largest Kazakh banks as at 1 April 2010

Bank	Assets		Capital		Loans		Deposits		Deposits (w/o SPV)		Retail dpeposits		Net income	Provisions
	USDm	Mar / Feb	USDm	Mar / Feb	USDm	Mar / Feb	USDm	Mar / Feb	USDm	Mar / Feb	USDm	Mar / Feb	USDm	% of loans
KKB	16,246	0.8%	1,844	-0.1%	15,699	1.0%	9,043	1.7%	9,043	1.7%	2,380	2.2%	2	27.8%
Halyk	13,843	0.9%	1,667	1.7%	8,214	-0.2%	9,105	2.9%	9,105	2.9%	2,744	-0.5%	40	20.2%
BTA	13,096	-2.5%	-10,262	2.4%	15,329	-4.4%	9,251	-0.6%	3,995	0.5%	1,120	2.3%	-320	77.3%
BCC	8,422	1.5%	719	0.2%	4,522	-1.1%	5,109	-14.3%	4,948	-0.5%	2,050	-3.7%	7	10.6%
ATF	7,113	2.3%	688	10.9%	5,602	-0.1%	3,059	6.1%	3,056	6.1%	1,491	-2.8%	5	13.4%
Alliance	3,078	-2.4%	206	-106.2%	3,887	-1.8%	977	-70.8%	974	-7.8%	365	3.1%	2,043	72.5%
Eurasian	2,217	2.8%	155	-6.0%	1,326	-0.3%	1,495	-1.8%	1,495	-1.8%	623	-1.3%	-10	11.8%
Nur	2,199	4.8%	305	-0.9%	1,600	-0.9%	1,540	6.9%	1,392	7.7%	222	2.4%	0	8.6%
Kaspi	2,179	2.5%	211	2.1%	1,697	0.6%	1,357	5.0%	1,357	5.0%	788	8.8%	1	12.2%
Temir	1,244	2.8%	-579	0.1%	1,726	-0.7%	1,090	1.8%	1,090	1.8%	164	3.2%	-10	49.3%
Top 10	69,637	0.5%	-5,044	-40.19%	59,601	-1.2%	42,026	-5.7%	36,455	1.8%	11,947	0.1%	1,760	39.0%
Other	10,828	9.9%	1,681	5.65%	4,199	3.8%	7,131	9.5%	7,131	9.5%	1,374	-8.8%	15	7.4%
Total	80,464	1.7%	-3,363	-50.85%	63,801	-0.9%	49,157	-3.8%	43,586	3.0%	13,321	-0.9%	1,774	37.0%

Trends in major banks' assets, US$ billion



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