Executive summary

Official KZT/USD exchange rate as at 01.09.08 – 119,65

Economy	Banking sector
International reserves of the National Bank (including the National Fund) increased by 2.8%	Minimum size of authorised capital of 2nd Tier banks from July 1, 2009 shall be not less than 5 billion tenge (current exchange rate 119.71/$1)
Inflation stands at 7.5% on a year-to date basis. NB forecasts inflation year on year rate of under 10%.	2nd Tier banks are required to repay before 01/09/2009 $12 billion of external loans

Kazakhstan Economy

Net international reserves of the National Bank (excluding the National Fund) have increased by 3.4%

The Consumer Price Index for August rose by 0.8%, representing year to date inflation of 7.5%. In August 2008 bread and grain product prices increased by 1.2%, rice prices increased by 3.4%, grain prices by 1.3% and flour prices by 1.1%. Prices fell for eggs by 1.1%, for fruits by 3.8% and for vegetables by 4.7%. Prices for communal services increased by 2.5% and the price for diesel fuel increased by 2.1%.

	Aug 2008	Jan.-Aug	Aug 08 to Aug 07
Inflation level	**0.8**	**7.5**	**19.4**
Products	0.0	8.7	27.8
Not distributed goods	0.7	5.8	11.,4
Chargeable services	2.2	7.5	15.0
Volumes of physical production	105.,5	103*	101

*in % for Jan. – Aug.2008. to Jan. – Aug.2007.

August 2008 saw an increase in the National Bank's international reserves.

Net international reserves of the National Bank based on current prices (not including the National Fund) increased by 3.4 per cent (or US$ 715.4 million). Foreign currency purchase operations in the domestic currency market and receipt of currency by Government accounts were partly counterbalanced by a reduction in currency balances of commercial banks' correspondent accounts with the National Bank and Government external debt service operations. As a result, net currency reserves increased by US$ 969.4 million, while assets in gold decreased by US$ 254 million due to financial transactions and a 8.8 per cent decrease in global prices.

	Aug 2008, USD millions	Changes For Aug 08
Net international reserves	**21 742.8**	**3.4%**
Including		
Net assets in FCC	19 857.1	5.1%
Gold	1885.7	-11.9
International reserves (including money of National fund)	**48 302.0**	**2.8%**
Official exchange rate KZT/USD	**119.65**	**1%**

source: National Bank of Kazakhstan

Net international reserves, including the National Fund increased by 2.81% to US$ 48.3 billion. The increase in the National Bank's net international reserves in August 2008 caused an expansion in the monetary base by 4.9 per cent (or KZT 81.1 billion).

The volume of industrial production in January-August 2008 in comparison to January-August 2007 increased by 3%, largely due to the growth in production and distribution of electric energy, gas and water (increasing by 9.0%)

as well as production in the mining industry (increasing by 5.3%). Production volumes increased in all regions of the republic, excluding Karagandinskaya (a decrease of 3.8%), Akmolinskaya (a decrease of 6.2%) and Kyzylordinskaya (a decrease of 1.5%) oblasts, as well as Astana city (a decrease of 16.1%) and Almaty city (a decrease of 9.8%).

Key Developments in Economy of Kazakhstan

- According to the forecast in the draft state budget for 2009-2011 inflation in 2009 will represent an average annual rate of between 8.5 and 10.5% .
- In 2009-2011 GDP growth for Kazakhstan will represent between 5 and 7%, according to the forecasts included in the state budgets for those years.
- In 2009 the state budget deficit is estimated at 3% of the forecast level of GDP for that year
- Passenger traffic carried by the Air Astana air company was 1.3 million people, increasing by 16% in 1H08 compared to the same period in 2007.
- The Damu enterpreneurship development fund allocated KZT 50 billion (current KZT/USD exchange rate 119.82) through the Kazyna state fund under the special stabilisation programme for small and medium business.
- Efes Breweries International and Heineken N.V. agreed to establish a joint venture in Kazakhstan. According to the joint release, Efes will have a 72% stake in the Kazakhstan project, whereas Heineken will have 28%. The joint venture will be established upon receipt of regulatory approval.
- The net income of Kazakhmys Plc decreased by 23.8% to US$ 610.5 million in the first half of 2008 compared to the same period in 2007.
- Gazprom Oil JSC expressed its interest in purchasing a stake in Mangistaumunaygas. However, it is still waiting for an official response from the Kazakh authorities.
- The three-year state budget for 2009-2011 envisages an increase in social assistance to the population. The average amount of state social benefits will be increased by 9% annually starting from 2009.
- According to the Statistics Agency, the subsistence minimum in Kazakhstan in August 2008 was KZT 13,322 (current KZT/USD exchange rate 119.54), showing a 5% increase compared to July 2008 and a 23.7% increase from the beginning of the year.
- The President of Kazakhstan, Nursultan Nazarbayev, suggested that the Government should increase the salaries of employees paid from the budget, especially employees of the courts and legal system.
- According to the National Bank, it is possible to hold annual inflation below 10 per cent.
- The National Bank has also stated that no capital outflow has been noted in Kazakhstan after negative news from abroad. The major speculative foreign capital, had already left the country last August - September.
- According to the FMSA release, Kazakh insurance companies received KZT 100.1 million (current KZT/USD exchange rate 119.548) in insurance premiums during the period January-August 2008, which was 1.4% lower compared to the same period in 2007.
- According to the FMSA release, as at September 1 2008, pension assets of pension funds represented KZT 1,383.3 billion (current KZT/USD exchange rate 119.48), showing a 0.65% increase in August 2008.
- The Astana authorities plan to bring to completion around 600,000 square meters of residential property. The annual plan for 2008 is 1.2 million square meters of residential property.
- This year almost 900,000 square meter of residential property will be completed in Almaty. The construction growth rates are lower compared to 2007.
- On Thursday, a seed oil production plant began operations in Kostanay (administrative centre of

Kostanay Oblast, North Kazakhstan).

- The US$ 31 million Apple City Food meat production plant began operations in Astana. The investment in the plant was made by Kazakh Apple City company.

The Banking sector in Kazakhstan

For the reporting period the increase of commercial banks assets was 3.5%.

The total equity capital of the banking sector has increased from 1.4% to US$13,001 million during August. The current profit of the banks has increased by 9.1% during the reporting period and as of 1st September 2008 amounted to US$689 million. Aggregate capital adequacy was 12.4%. The share of immobilised funds amounted to 15.1% of capital.

The aggregate liabilities of banks for the reporting period increased slightly by 3.8% to US$91.959 billion. The increase in liabilities was caused to a large extent by the 10.3% increase in client deposits, during which time deposits have increased by 16.0% and current accounts have decreased by 4.6%. Deposits as of the reporting date represented 31.3% of clients' funds and in absolute terms for the analysed period increased by US$ 574.5 million.

Diversification of resources according to sources of financing for the reporting period did not change greatly: the proportion of customer funds increased insignificantly to 45.2%, debt securities represented 25.9%,interbank credits and deposits 17.1%, subordinate debt 4.9%, Repo transactions 1.6% and other liabilities 4.3%.

Interbank finance for the reporting period increased by 2.7% or by US$ 437 million, demonstrating that reliance on external liabilities has been decreasing at Kazak banks. The ratio of dependency on resources from interbank borrowings was 17.1%.

Aggregate assets of the banking system for the reporting period represented US$104,960 million. For the reporting period assets increased by 3.5%. The loan portfolio of the banks remained at the same level, representing 63.6% for 2nd Tier banks, while funds invested in Repo transactions decreased by 47.3% and their share of assets became insignificant, at approximately 1%. Cash and affinated valuable metals, sums on correspondent accounts and deposits on correspondent accounts of the National Bank decreased by 3.6% and for the reporting period made up 7.1% of the aggregate assets of the banking system. The portfolio of securities increased for the reporting month by 9.1% and represented US$ 7,942 million. Inter-bank funds increased significantly by 25.5% and for the reporting date stood at US$ 11,099 million.

The quality of bank assets remains satisfactory. The share of loans with overdue payment remained at the same level and for the reporting date was $1,563 million or 2.1% of the aggregate loan portfolio of the banks. The level of reserving was 8.5%, increasing for the reporting month by 3.9%. The full amount of the reserves covers overdue payables. Coefficient of provisions covering bad loans makes up 395%.

Profit earned by 2nd Tier banks from the beginning of 2008 was US$688.45 million. Aggregate incomes amounted to US$14,458 million, out of which 55.5% represented interest income. Total expenses of banks amounted to US$13 770 milion, out of which percentage expenditures made up 31,7%. The ratio of credits to deposits is 1.756, falling rapidly from 1st July 2008, when it stood at 1.982, demonstrating the growth of the deposit base at 2nd Tier banks and the declining rate of growth of the credit portfolio.

Average cost-to-income ratio of banks made up 38,6%. Current and short term liquidity rates stood at 8.1% and 52.8% respectively. Highly liquid assets represent 7.1% of the total assets of the banking

system.

Main events of the banking system in Kazakhstan:

- On September 2 2008 the Financing Supervision Agency adopted the decree "On minimal size of the authorised and owned capital of the banks of the second level ". In accordance with this decree newly opened banks shall increase the minimum size of their authorised and owned capital capital to 5 billion tenge (at the current exchange rate of 119.48/$1). In addition,banks shall increase the minimum size of their owned capital from July 1, 2009 to 2011 up to 10 billion tenge.
- Kazyna Sustainable Development State Fund was awarded financial agency status.
- Kazyna Sustainable Development Fund is planning to become an independent investment fund.
- Kaspiyskiy Commercial Bank plans to change its name.
- The Korean Kookmin Bank completed an acquisition of a 23% share in the capital of Bank CentrCredit JSC for 59.9 billions tenge (US$500 million). For this transaction Kookmin Bank received all necessary regulatory approvals, including permission from the Financial Supervision Agency (FSA) and Competition Protection Agency of Kazakhstan.
- Vneshtorgbank (VTB) of Russia received a permit from the Financial Supervision Agency (FSA) for opening a subsidiary bank in the republic.
- Eurasian Development Bank (EDB) signed an agreement on providing a credit line to Eurasia Logistics LLC for financing the creation of an industrial logistic parks network in large cities in Russia. The credit line stands at US$100 million with a term of 3 years.
- Eurasian Bank KCB has received the status of the principal member of the international payment system Visa International.
- Eurasian Bank plans to achieve a 7% share of the Kazakh market for banking services by the end of the year 2010. The bank intends more actively to work with individual customers.
- Eurasian Bank intends to establish their own leasing and factoring company.
- Eurasian Bank is planning to develop business in CIS countries and intends in future to be an international financial institution.
- Turkiye Is Bankasi (Isbank), one of the largest banks in Turkey engaged PricewaterhouseCoopers for consultancy services to consider market entry in Ukraine, Russia and Kazakhstan.
- Consolidated assets of the Kazakh commercial Bank BTA Bank as of July 1 represented US$27.8 billions, increasing by 9.5% in comparison with the beginning of the current year. One of the main reasons for the growth in assets was the increase in domestic deposits.

- The Financial Banking Council (FBC) of the CIS is considering the creation of an Insurance Risk Fund on the inter-bank crediting market.
- The supervisory board of the Russian state corporation Vneshekonombank (VEB) has established a target credit limit for the Kazakhstan Development Bank for opening a credit line of US$300 million with a maturity of 15 years. Resources will be granted for support of industrial exports and services of Russian enterprises in Kazakhstan.
- BTA Bank plans to open representative offices in South East Asia before the end of the current year
- BTA Bank will repay before the end of the current year US$637.4 million of external borrowings.
- The Chairman of BTA Bank, Roman Solodchenko, announced that, as predicted, the size of the net profit of the bank in 2008 remains at the level of the previous year.
- Roman Solodchenko also stated that the timing of the Bank's IPO for early 2009 may no longer be appropriate.
- Kazakhstan banks need to liquidate $12 billions of external loans before September 1 2009
- Between January and August 2008 commercial banks in Kazakhstan achieved a net profit of 82.4 billion tenge (current exchange rate of 119.48 / $1), 46.5 % lower than in the relevant period of

2007, as stated in the recent announcement by the Financial Supervision State Agency.

- The assets of Narodnyi Bank as of the end of June 2008 constituted 1,708.3 billion tenge (current exchange rate of119.48 / $1), exceeding the rate at the beginning of the year by7 %
- Kazkommertsbank has carried out the planned settlement of a syndicated credit for the sum of US$600 million. Settlement of the basic debt and the sum of the accrued charges has been carried out using the bank's own funds.

Appendix 1

mln. US Dollars

	Assets		Capital		Loans		Deposits		Retail Deposits		Reserves	
	29.08.08	**Aug / Jul**	**29.08.08**	**Aug / Jul**	**29.08.08**	**Aug / Jul**	**29.08.08**	**Aug / Jul**	**29.08.08**	**Aug / Jul**	**29.08.08**	**Aug / Jul**
KKB	22 735	6,5	2 334	2,5	17 481	-1,1	9 436	23,6	2 454	1,3	-2 447	5,5
BTA	26 069	5,5	3 569	1,9	18 664	3,6	7 001	19,8	2 387	1,5	-1 211	1,7
Halyk	14 726	0,8	1 461	1,8	9 782	0,9	8 399	0,1	2 956	1,2	-820	5,5
Alliance	8 728	-1,3	1 401	0,2	5 879	0,1	1 750	2,0	671	0,9	-507	4,5
ATF	8 520	-2,5	884	2,7	6 704	1,0	2 713	-14,1	1 168	1,5	-323	-3,0
BCC	8 071	7,6	637	0,8	5 077	-0,6	4 116	17,9	1 684	33,3	-353	4,8
Temir	2 575	-3,0	478	0,6	2 042	-0,3	673 27	7,4	214	2,6	-99	7,6
Caspian	2 249	7,9	258	-1,0	1 548	-0,1	812	16,9	316	1,3	-114	4,0
Nurbank	2 318	26,0	320	1,8	1 416	8,5	1 339	50,1	126	4,5	-141	1,7
Eurasian	2 318	-4,2	206	0,1	828	-5,0	723	5,6	158	2,2	-47	0,5
Total for top 10	**98 311**		**11 551**		**69 422**		**36 963**		**12 134**		**-6 063**	
Other banks	7 210		1 467		3 521		4 573		878		-115	
Total	**105 521**		**13 018**		**72 942**		**41 5356**		**13 012**		**-6 178**	

Please, note that information provided in the current document is based on the data from different sources including, without limitation, 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 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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