

**Executive summary**

*Official KZT/US\$ exchange rate as at 01 March 2009 – KZT 150.26 / US\$ 1*

**Economy**

**Banking sector**

Inflow to the National Fund in 2009 is expected to be KZT 1.2 trillion (KZT151.35/\$1).

Losses at commercial banks in the first two months of 2009 amounted to US\$265 million

ADB and EBRD have invested US\$340 and US\$180 million, respectively towards the construction of auto highway “Western Europe – Western China”

National Bank retained refinancing rate of 9.5 per cent and reduced minimum reserve requirements

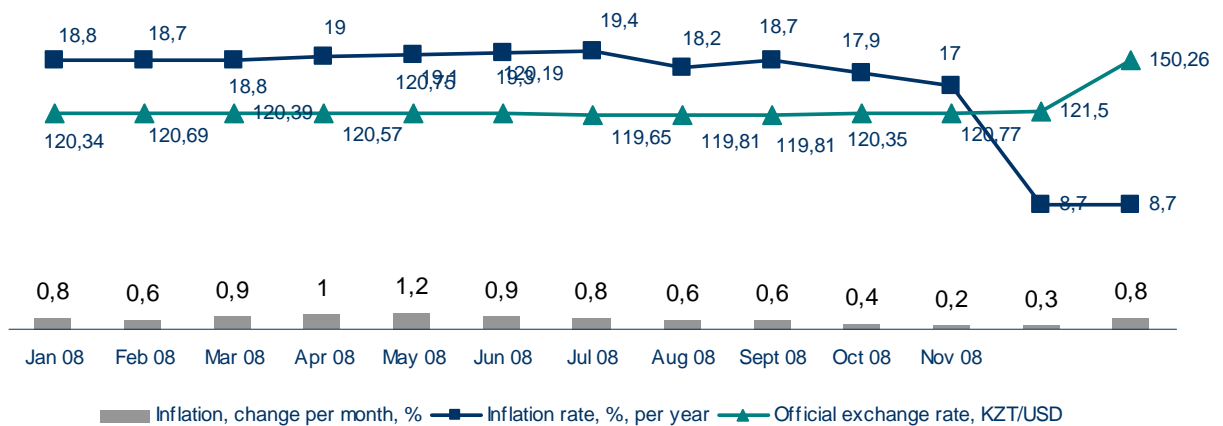
**Kazakhstan Economy**

**National Fund assets decreased by 20.17% as a result of implementing the Government’s anti-crisis programme**

In February 2009, inflation in Kazakhstan was 0.8%. February 2009 saw increase in prices for milk and meat products by 0.3%; sugar by 1.1%; fish and seafood by 1.2%; and fruits and vegetables by 1.5%. The price of seed oil decreased by 4.6%; eggs by 3.3%; and flour by 1.3%. Prices for cleaning products increased by 8%. Prices for health care services increased by 1.2%; for personal services by 1.0%; hotel and restaurant services by 1%; and cultural services by 0.7%.

The volume of industrial production in January-February 2009 was 103.2%, or KZT 1,014.4 billion, decreasing across 13 regions of Kazakhstan. Volumes of industrial production in the processing industry was 88.6%; in production and distribution of electric energy, gas and water 92.2%; and in mining industry 101.5%.

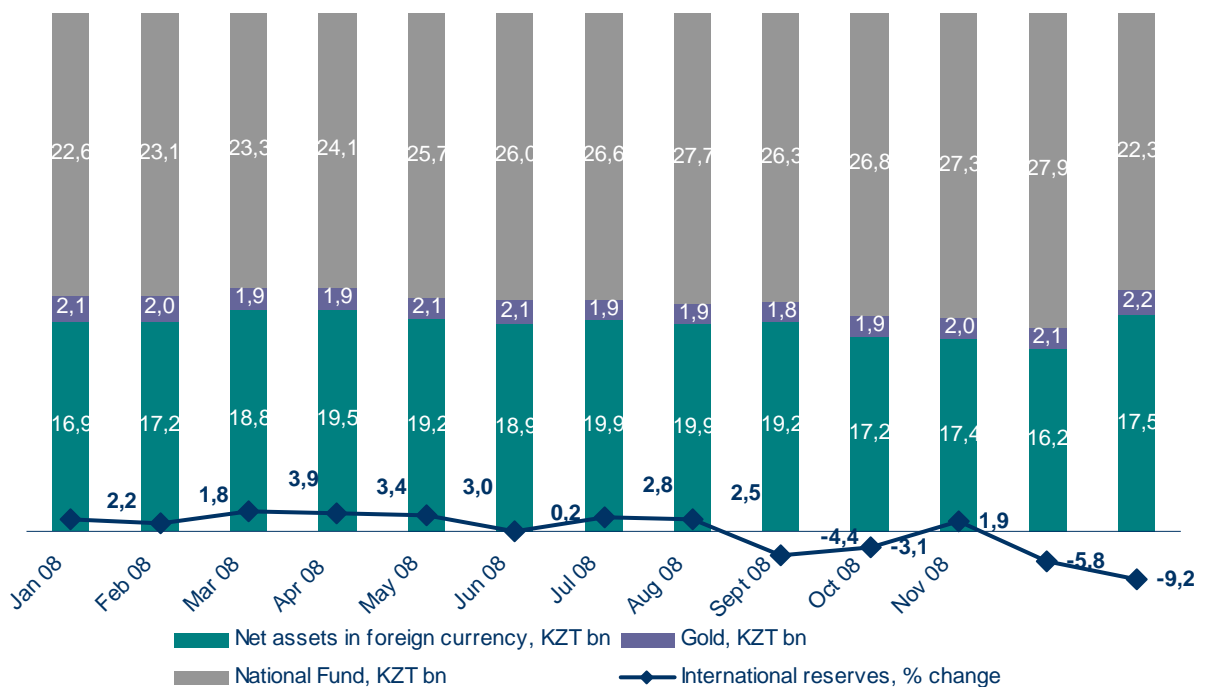
**Inflation and exchange rate**



Source: Statistics Agency

In February 2009 net international reserves of the National Bank based on current prices (excluding the National Fund) decreased by 9.2% to US\$ 42 billion (exchange rate of KZT 150.49/ \$1). The National Fund amounted to US\$ 22.3 billion. National Fund assets denominated in tenge totaled KZT 621.6 billion resulting from the purchase of debt securities of Samruk-Kazyna National Welfare Fund and KazAgro National Holding to the securities portfolio of the National Fund. Sales of foreign currency on the internal currency market and Government external debt service obligations were counterbalanced by receipt of funds to the Government account in the National Bank and conversion of the National Fund foreign currency assets. As a result, net currency reserves in February 2009 increased by 7.6% (YTD by 0.2%) to US\$ 19.6 billion, while assets in gold increased by 7.6% (YTD by 1.2%) to due to a rise in global prices. Increased net international reserves of the National Bank caused a widening of the monetary base by 10.8% to KZT 2,252.1 billion (YTD by 53.1%) due to increased balances at correspondent accounts of commercial banks in the National Bank from funds provided by Samruk-Kazyna Fund as well as increased balances at Samruk-Kazyna accounts in the National Bank. A widening of the narrow monetary base in February 2009 by 11.1% (YTD by 54.9%) to KZT 2,227.7 billion complied with changes in monetary base, as term deposits of commercial banks in the National Bank changed slightly.

International reserves



Source: National Bank of Kazakhstan

### Key Developments in Kazakhstan's Economy

- *March 2.* Minimum subsistence levels decreased by 0.2% in February 2009 compared to January 2009; y-o-y increase was 5.9%.
- *March 11.* Monetary credit operations from the Development Bank of Kazakhstan and Damu Entrepreneurship Development Fund were released from VAT.
- *March 12.* Net income at KazMunayGas Exploration and Production (a subsidiary of

KazMunayGas) in 2008 increased by 54% to KZT 241.3 billion (exchange rate of KZT 150.52/ \$1).

- *March 13.* A Eurasian association of agricultural credit is to be established in CIS. According to a release from Rosselkhozbank, the decision was made at a meeting of the heads of CIS agricultural banks.
- *March 16.* The external trade balance of Kazakhstan in January 2009 was US\$ 0.8 billion compared to US\$ 2.9 billion in January 2008. External trade volumes in January 2009 decreased by 41.6% to US\$ 4.4 billion compared to January 2008, including exports of US\$ 2.6 billion (a 50.5% reduction, respectively) and imports of US\$ 1.8 billion (a reduction of 21.4%).
- *March 16.* 10,010,000 tons of crude oil and 1,938,200 tons of gas condensate was extracted in Kazakhstan during January-February 2009 compared to January-February 2008, representing a 7.5% increase and 8% decrease, respectively.
- *March 17.* As at March 12, 2009 Kazakhstan has 2.3 million troy ounces in gold reserves, of which 1.65 million troy ounces were deposited at external accounts and 663,000 troy ounces were deposited in the Republic's "Center of cash operations and valuables depository of the National Bank".
- *March 17.* The Ministry of Finance believes it may attract population funds to support the economy during the crisis via an issue of special government securities.
- *March 17.* According to the Statistics Agency, inward investment of capital in January-February 2009 reduced by 9.7% to KZT 343 million (exchange rate KZT 150.25/ \$1) compared to January-February 2008.
- *March 17.* Kazzinc plans to increase major products, except for silver, in 2009 compared to 2008.
- *March 20.* Bogatyr-Komir, a joint enterprise between Russian Aluminium and Samruk-Kazyna National Fund announced that it will invest US\$70.8 million to create waste dumps at the Bogatyr mine.
- *March 24.* Standard & Poor's rating agency gave a positive assessment of Kazakhstan's anti-crisis programme. Kazakhstan's sovereign rating is within investment grade, which is a reflection of the government's pro-active response to the global crisis. Kazakhstan has sufficient foreign currency reserves, sustainable fiscal and budget positions, continued GDP growth, "which is rare in the world where many countries are in complete recession", said Deputy Director of Financial Institutions Group.
- *March 24.* Samruk-Kazyna National Fund is considering 25 projects totaling to US\$ 19.8 billion, with requested government support of US\$ 3.7 billion
- *March 25.* KazMunayGas National Company plans to increase its transport capacities to 170 million tons on oil and 180 billion cubic meters of gas per annum within ten years. During this period, the company plans to increase reserves to 2 billion tons in oil equivalent.
- *March 25.* KazMunaGas national oil and gas company estimates that net income in 2009 will be KZT 88 billion (exchange rate KZT 151.31/ \$1). In line with its strategy to increase raw oil reserves, the company plans to continue merger and acquisition operations in neighboring countries and in CIS.
- *March 25.* KazMunaGas national oil and gas company plans to increase the share of Kazakhstani goods and services in its procurement to 14% with a further increase up to 90% or KZT 144 billion (exchange rate KZT 151.31/ \$1).
- *March 25.* Kazakh side is ready to sell KazTransGas-Tbilisi subject to compensation of its investments.
- *March 25.* The net income of Eurasian Natural Resources Corporation (ENRC), in 2008, increased by 3.3 times to US\$ 2.64 billion, compared to 2007. Sales increased by 66% to US\$ 6.8 billion, EBITDA increased by 2.2 times to US\$ 4.2 billion.
- *March 26.* According to the Ministry of agriculture, grain harvest in Kazakhstan in 2009 will increase by 10%, compared to 2008. In 2009 sown area will be increased by 1.1 million ha to 21 million ha.

- *March 26.* The European Bank for Reconstruction and Development (EBRD) has acquired an 18% stake in Central-Asian Electroenergetic Corporation (a subsidiary of Central-Asian Fuel Energy Company), for KZT 9.2 billion (EUR 46 million).
- *March 26.* European Bank for Reconstruction and Development (EBRD) has provided a loan to Kazakhstan for construction of transit highway “Western Europe – Western China”. The EBRD investment will be around US\$ 180 million.
- *March 26.* Increases to the minimum wage and a number of social benefits will be implemented in the second half of 2009.
- *March 27.* It is expected that National Fund earnings will be KZT 1,192.8 billion (exchange rate KZT 151.35/ \$1) in 2009, including KZT 1,190.5 billion inflow from oil sector and KZT 2.3 billion inflow from the sale of land by the Government. At the same time, according to the Ministry of Economy, guaranteed transfer from the National Fund to the republican budget will be KZT 843.1 billion in 2009 along with expenses on Fund operations totaling KZT 1.8 billion. An additional allocation of KZT 347.9 billion from the Fund is possible in 2009.

## Kazakh banking sector

The aggregated capital of the banks as at 1 March 2009 amounted to US\$9,180 million, decreasing by 23% in dollar terms and 4% in tenge. Expenses at 2<sup>nd</sup> Tier banks were higher than income by US\$1,776 million. The aggregated capital adequacy ratio calculated from balance sheet equaled to 10%. Fixed assets made up 17% of capital.

The aggregated liabilities of the banks in the reporting period increased by 14% in tenge terms. As of 1 March 2009 2<sup>nd</sup> Tier banks liabilities amounted to US\$79,820 million. Customer accounts totaled KZT54 155 million as of reporting date, increasing by 17% in tenge terms, and decreasing by 5% in dollar terms. The share of retail deposits as a proportion of total deposits was 13.5% or US\$10,807 million. Debt securities decreased by 10%, amounting to US\$2,515 million. As part of the government's anti-crisis program there was a 52% increase in funds placed by Kazakh government. As of 1 March 2009 the government's share of total banks liabilities amounted to US\$323 million.

The aggregated banking assets amounted to US\$89,000 million decreasing by 9.32% as of the reporting date. The loan portfolio of banks decreased by 12%, its share in the banking assets amounted to 63.4% as of 1 March 2009. Share of cash and precious metals, banks correspondent accounts and funds placed with NBK comprised 10% of aggregated banking assets. Securities portfolios shrank by 6% in the reporting month and amounted to US\$5,330 million (of which US\$1,064 million are Repo operations). Repo operations increased by 2.6% and their share in total assets was 0.9%. Inter-bank accounts increased by 19.9% and comprised 7.2% of banking assets or US\$6,441 million.

Asset quality remains manageable, but the proportion of overdue loans continues to increase. As a result, loans with overdue payments stood at 18.0%, with loans above 90 days overdue comprised 6.41% of the banks; aggregated loan portfolio. In absolute terms loans overdue above 90 days increased by 24.4% according to AFN data. However, provisioning rates remain adequate at 14.64% and fully covers 90+ days overdue loans. Provisions have increased by 38% MoM.

Expenses at the banks in the first two months of the year exceeded income for the same period, resulting in losses of US\$1,766 million. Aggregated income amounted to US\$8,685 million of which 18.6% was interest income and 81.3% non-interest income. Within non-interest income recovered provisions comprised 67%. Aggregated expenses of the banks amounted to US\$10,451 million, of which 8.6% was interest expense and 91.4% non-interest expense. Provisioning comprised 75% of 2<sup>nd</sup> Tier banks' non-interest expenses. Net provisioning (new provisions minus recovered provisions) amounted to US\$2,432 million. Loan-to-deposit ratio amounted to 156%, with cost-to-income ratio at -30%.

### Major events in Kazakh banking system:

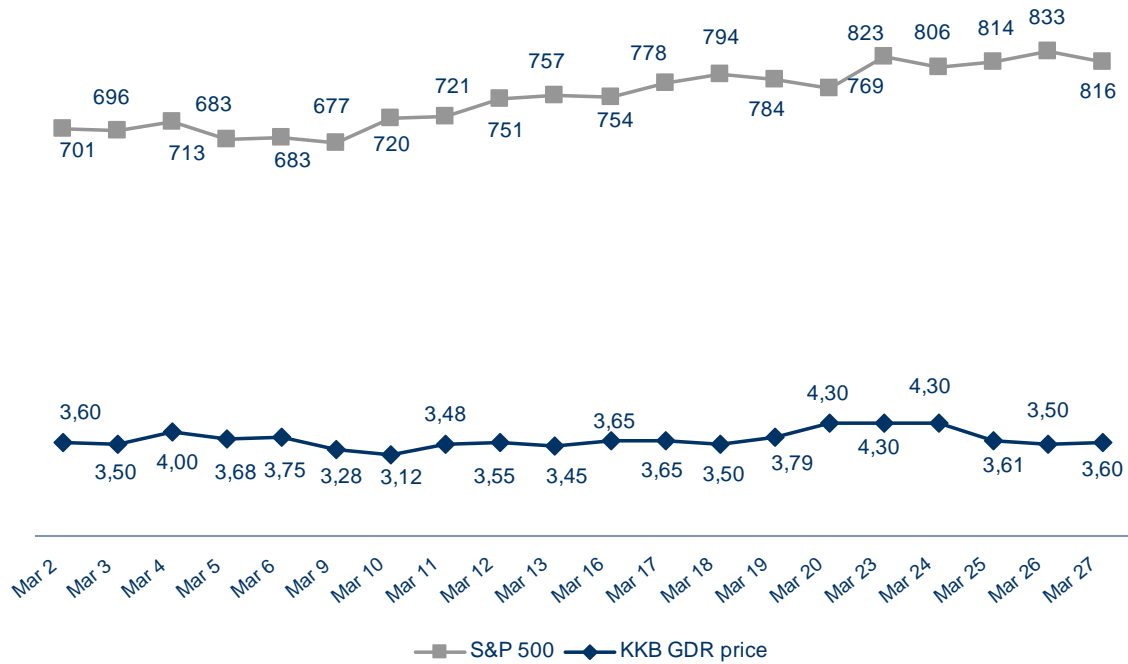
- 3 March. National Bank of Kazakhstan lowered the Minimum Reserve Requirements for 2<sup>nd</sup> Tier banks from 2% to 1.5% for domestic liabilities and from 3% to 2.5% for other liabilities. According to the National Bank this will release up to KZT50 billion of liquidity (KZT 150.60/ \$1) for the banks.
- 27 March. National Bank maintains 9.5% refinancing rate.
- 20 March. According to AFN the pension assets accumulated in pension funds in Kazakhstan amounted to KZT1,499.8 billion as of 1 March 2009 (KZT150,93/ \$1), increasing by 6.6% since the end of 2008. Inward investment to funds increased by 1.9%, or KZT1,228 billion as of March 1. Net investment income (excluding fees and commissions) from pension assets investments distributed to clients accounts increased by 14% in February amounting to KZT351.8 billion, or 23.5% of total pension funds (25.5% in March).
- 10 March. The head of the Islamic Bank for Development has said that they are ready to support

Kazakhstan in developing Islamic financing in the country.

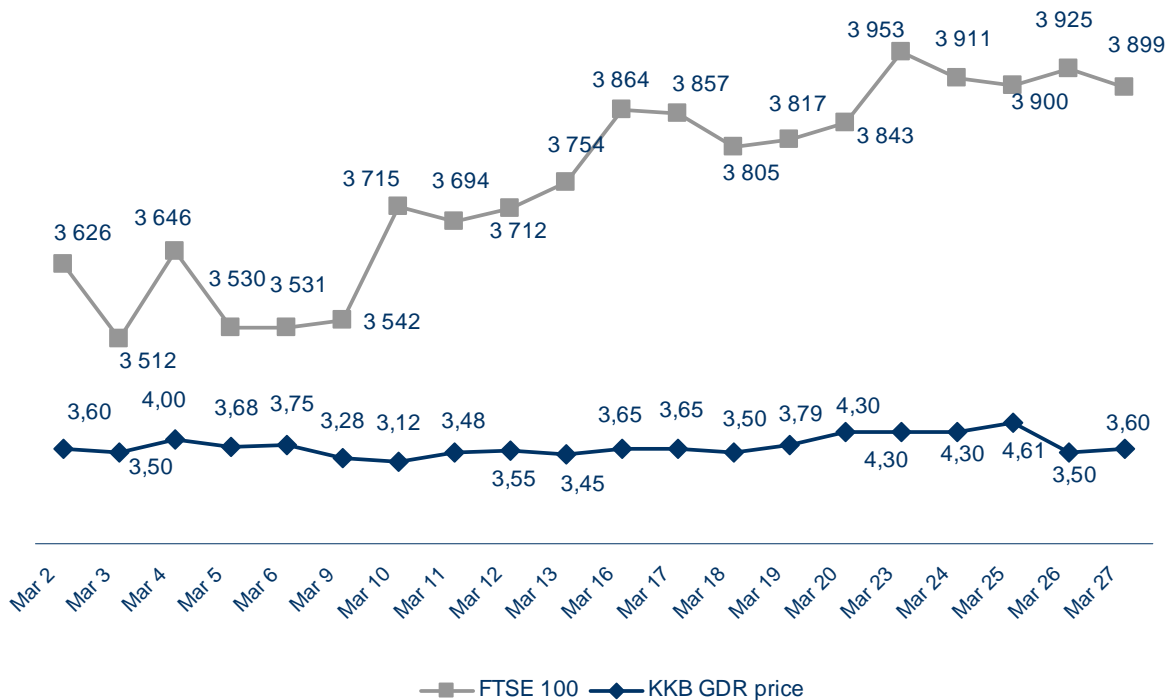
- 14 March. Kazakh parliament members believe that the creation of specialist Agrobank will help provide financing to the agricultural sector.
- 19 March. Halyk bank places 2 issues of domestic bonds totaling almost KZT18 billion (KZT150.58/ \$1). These issues registered by AFN are 4<sup>th</sup> and 5<sup>th</sup> in the framework of their 3<sup>rd</sup> notes program for a total amount of KZT200 billion.
- 18 March. Notes of BTA bank, issued as part of their 2<sup>nd</sup> note program, were included in the official listing of Kazakhstan Stock Exchange (KASE). The volume of the 2<sup>nd</sup> note program, registered by AFN on 17 March 2009, is KZT345 billion (KZT150.38/ \$1).
- 20 March. National Bank became one of Delta bank's shareholders (according to KASE). National Bank owns 11.98% stake of Delta bank, as of 6 March 2009.
- 25 March. Temirbank (BTA Bank's subsidiary) repaid, on schedule, a US\$150 million 9.25% Eurobond. The Bank repaid this amount from its own funds. The issue was originally placed on 23 March 2006, through TemirCapital B.V.
- 26 March. Standard & Poor's has downgraded its counterparty credit ratings for Alliance Bank (C/C from B/B), BTA Bank and its two subsidiaries Temirbank and BTA Ipoteka (to C from CCC+/C).
- 26 March. Fitch Ratings downgraded its long-term issuer default rating of Alliance Bank to CCC from B.
- 24 March. Fitch downgraded its long-term issuer default rating in foreign currency of BTA bank and its subsidiary Temirbank from B+ to CC.

## Kazkommertsbank

S&P 500 and KKB GDR price



FTSE and KKB GDR price



There were no significant fluctuations in Kazkommertsbank's GDR price in March 2009, increasing slightly overall by 2.86% M-o-M.

- *March 23.* Kazkommertsbank announced Dutch Auction Tender for seven Series of Notes issued by Kazkommerts DPR Company up to US\$175,000,000 in aggregate principal amount of the Notes (the "Target Principal Amount") for purchase by KKB for cash. The purpose of the Offer is to allow Noteholders an opportunity to divest their Notes, while reducing the level of KKB's consolidated indebtedness and debt service under the Notes.
- *March 25.* Kazkommertsbank increased the chartered capitals of JSC "Kazkommerts Securities" and JSC "Life insurance company "Kazkommerts Life", through the purchase of additional issues of shares in these companies in accordance with its preemptive rights. Kazkommertsbank purchased 900,000 newly issued shares from Kazkommerts Securities at a price of KZT1,000 per share. As a result, the chartered capital of Kazkommerts Securities increased by KZT900 million to KZT1,475,180,000; Kazkommertsbank's stake has not changed and remains at 100%. In addition the Bank has also purchased 292,000 newly issued shares from Kazkommerts Life at a price of KZT1,000 per share. As a result, the chartered capital of Kazkommerts Life increased by KZT292 million to KZT1,382,000,000; Kazkommertsbank's stake remains at 100%. The planned capital injection was made in order to maintain the financial stability of these subsidiaries and to comply with capital adequacy requirements.
- *March 30.* Kazkommertsbank announced a new share offering for its existing shareholders and DR holders to execute their pre-emptive rights within 30 days after the day of the announcement. After that, shares from the offer remaining unplaced after execution of pre-emptive rights by existing shareholders, in the number equal to exactly 25 per cent of placed common shares including current offer will be offered directly to the Samruk-Kazyna Fund as part of the government stabilization programme.
- *March 24.* Kazkommertsbank won Global Finance magazine award for "Best Bank in Kazakhstan" According to official release from the magazine ([www.gfmag.com](http://www.gfmag.com)), Kazkommertsbank was noted among the Best Emerging Market Banks in Asia. Major criteria included asset growth, profitability, client service quality, pricing and application of innovative technologies.
- *March 21.* The new Sputnik shopping mall, jointly financed by Kazkommertsbank, was opened in Almaty. The shopping mall has a total area of 27,849 square meters includes shops, hypermarket, cinemas, café and restaurants, entertainment facilities and underground parking. The mall cost US\$ 40.8 billion, of which Kazkommertsbank financed US\$ 23.5 billion. "Despite the global financial crisis, Kazkommertsbank continues to finance key construction projects. In the near future our clients will launch a number of construction objects in Almaty, including large residential complexes, financed as part of a joint programme with Samruk-Kazyna Fund", commented Executive Director of Kazkommertsbank Mr. Sergey Mokrousov.



## Annex 1

US\$ million

	Assets		Equity		Loans to customers		Deposits		Deposits (without SPV)		Retail deposits		Net income	Reserves
	28 Feb	Feb/Jan	28 Feb	Feb/Jan	28 Feb	Feb/Jan	28 Feb	Feb/Jan	28 Feb	Feb/Jan	28 Feb	Feb/Jan	28 Feb	% of loans
BTA	20,065	-13.82%	2,437	-29.4%	17,342	-6.54%	10,649	-9.06%	5,1567	-15.53%	1,488	-33.70%	-1,749	20.05%
KKB	18,596	-5.35%	1,207	-21.4%	16,473	-7.56%	13,225	-2.68%	8,084	-3.06%	1,967	-9.45%	1.8	19.44%
Halyk	13,036	-10.46%	1,080	-23.0%	8,854	-11.57%	10,084	-5.50%	7,851	-7.22%	2,465	-8.21%	-40.7	12.50%
Alliance	7,624	-6.79%	1,058	-18.3%	4,693	-15.10%	3,855	3.52%	1,671	9.68%	529	-25.28%	8.7	11.04%
ATF	7,180	-10.45%	511	-19.2%	6,074	-7.41%	2,646	-16.65%	2,193	-19.44%	916	-0.95%	14.7	10.98%
BCC	6,696	-8.80%	611	-19.3%	4,721	-10.30%	3,935	-7.06%	2,786	-8.55%	1,475	-7.72%	2.6	9.17%
Temirbank	2,145	-13.83%	269	-35.4%	1,910	-10.86%	1,363	-7.32%	452	-18.60%	164	-21.44%	-61	7.18%
Nurbank	2,106	-11.91%	295	-20.5%	1,710	-14.30%	1,323	-15.60%	1,173	-17.27%	152	-7.09%	3.3	5.14%
KASPI	2,079	-8.45%	214	-12.8%	1,488	-7.90%	980	-4.20%	980	-4.20%	430	-8.04%	17.0	8.15%
Eurasian	1,909	0.62%	189	-8.9%	989	-8.28%	1,161	9.61%	1,161	9.61%	361	21.20%	0.3	4.10%
<b>Subtotal</b>	<b>81,436</b>	<b>-9.59%</b>	<b>7,873</b>	<b>-23.68%</b>	<b>64,254</b>	<b>-8.95%</b>	<b>49,222</b>	<b>-5.75%</b>	<b>31,231</b>	<b>-8.02%</b>	<b>9,948</b>	<b>-13.29%</b>	<b>-1,802</b>	<b>15.40%</b>
Other banks	7,564	-6.33%	1,308	-16.69%	3,919	-12.59%	4,935	1.34%	4,830	2.15%	860	-7.49%	35.3	4.80%
<b>Total</b>	<b>89,000</b>	<b>-9.32%</b>	<b>9,180</b>	<b>-22.76%</b>	<b>68,173</b>	<b>-9.17%</b>	<b>54,157</b>	<b>-5.14%</b>	<b>36,068</b>	<b>-6.78%</b>	<b>10,807</b>	<b>-12.85%</b>	<b>-1,766</b>	<b>14.64%</b>

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