



KAZAKHSTAN FINANCIAL OUTLOOK July 2008

Executive Summary

Official KZT/USD exchange rate was 120.75 as of 01.07.08

Economy	Banking sector
<ul style="list-style-type: none"> • NBRK international reserves (including National Fund) increased by 0.21 per cent • Stressed assets fund is planned to be established in Kazakhstan 	<ul style="list-style-type: none"> • Banking sector income made up USD 630.92 million from the beginning of the year • Term deposits increased by 4.4 per cent

Kazakhstan Economy

NBRK net international reserves (excluding National Fund) decreased by 0.95 per cent

The consumer price index was 0.9 per cent in July 2008, meaning that the inflation rate during January-July 2008 increased by 6.6 per cent. Staple food products saw price rises in July with bread products and cereals up by 1.8 per cent, rice up by 8.2 per cent, flour by 1.6 per cent. The prices for eggs were down by 6.8 per cent, for fruits by 2 per cent and for vegetables down by 11 per cent. The cost of diesel increased by 11.6 per cent and petrol by 7.3 per cent.

July 2008 also saw a slight decrease in the National Bank's net international reserves.

Net international reserves of the National Bank based on current prices (not including the National Fund) fell by 0.95 per cent. Foreign currency purchase operations in the domestic currency market and a reduction in currency balances of commercial banks' correspondent accounts with National Bank were partly counterbalanced by a receipt of currency by Government accounts. As a result, net currency reserves decreased by USD 283.7 million, while assets in gold increased by USD 81 million due to financial transactions and a 2.2 per cent decrease in global prices.

Net international reserves, including the National Fund, increased by 0.21 per cent to USD 46.9 billion. The decrease in the National Bank's net international reserves in July 2008 caused a reduction in the monetary base by 4.7 per cent.

	July 2008	Jan-Jul 2008	Jul 08/ Jul 07
Inflation rate	0.9	6.6	19.3
Food products	0.6	8.8	27.8
Non-food products	1.2	5.0	11.4
Paid services	1.0	5.2	14.6
Industry physical volumes growth index	100.1	103.3*	100

* Jan-Jul 08 to Jan-Jul 07, %

	July 2008	Growth in July 2008
Net international reserves	21,027.5	-0.95%
Including		
Net assets in currency	18,887.7	-1.48%
Gold	2,139.8	-3.93
International reserves (including National Fund)	46,998.7	0.21%
Official KZT/USD exchange rate	120.19	-0.46%

Source: National Bank of Kazakhstan



Industrial production volumes increased by 103.3 per cent in during January-June 2008 compared to the same period in 2007 due to the growth in mining production (105.8 per cent) and the production and distribution of electricity, gas and water (109.4 per cent). Growth of industrial production was noted in all regions of Kazakhstan, except Karaganda, Akmola and Kyzylorda oblasts, as well as Astana and Almaty cities.

Major developments in Kazakhstan's economy

- The national oil and gas company 'KazMunayGas' plans to sign \$2.5 billion loan at the end of August 2008. As it was stated earlier, in June 2008 the company started to arrange a \$2.5 billion syndication at a rate of LIBOR +1.55%. The loan will be signed for three years and will be amortized within two years.
- Kazakhmys Plc completed the acquisition of a 7.66 per cent share in Eurasian Natural Resources Corporation Plc (ENRC) from the Government of Kazakhstan.
- The average nominal monthly wage in June 2008 was KZT 62,998 per employee (current KZT/USD exchange rate 120.41) showing a 21.6 per cent increase compared to June 2007. According to the Agency of Statistics, the increase in real wages was 1.3 per cent.
- The Government of Kazakhstan suggests cutting corporate income tax rates.
- The Prime Minister of Kazakhstan made arrangements to create work group to elaborate a draft of a new Tax Code.
- The Prime Minister of Kazakhstan called the Minister of Finance, Minister of Economy and Budget Planning, Chairman of the National Bank and Chairman of the Financial Supervision Agency to discuss the possibility to establish a Stressed Assets Fund. The Fund will absorb the assets exposed to significant risks.
- Air Astana plans to purchase new Airbus and Boeing aircraft from newly raised funds. The company plans to raise USD 1.445 billion.
- KZT 46.4 billion (current KZT/USD exchange rate 120.71) will be allocated from the national budget till the end of 2008 to complete unfinished construction in Almaty. KZT 22.4 billion is already allocated from the national budget to complete a number of construction projects. According to Almaty municipality, two more tranches will be provided till the end of 2008, for KZT 17 and 7 billion.
- A new Commission to handle claims from individuals who prepaid for apartments in delayed construction projects will be established by the Government of Kazakhstan.
- Kazakhstan plans to raise KZT 472 billion (current KZT/USD exchange rate 120.20) for construction of its part of the international transit corridor Western Europe – Western China with a total length of 2.5 thousand kilometers. According to the Ministry of Transport and Communication, the national budget will allocate another KZT 167 billion, KZT 472 billion is planned to be raised and private investments will cover KZT 300 billion.
- According to preliminary data, the net profit of JSC Kazakhtelecom in January-June 2008 was KZT 17.6 billion ((current KZT/USD exchange rate 120.18), which was 8.2 per cent higher compared to January-July 2007.
- Ingosstrakh plans to complete the acquisition of one insurance company in Kazakhstan and two insurance companies in Russia.



Kazakh banking sector

Commercial banks asset growth was 1.7% in the reporting period.

Aggregated capital of the banks increased during July by 1.6% to USD12,824 million. Banking sector current profit increased by 12.4% and as of 1 August 2008 was USD631.6 millions. Aggregated capital adequacy was 12.6%. Immobilized assets represented 15.2% of capital.

Aggregated bank liabilities increased insignificantly during the reporting month by 0.5% to USD88,574 million. The increase in liabilities resulted primarily from the increase in customer accounts by 4.3%; current accounts increased by 3.9%, term deposits by 4.4%. Individual deposits were 33% of customer accounts, increasing by USD 228.3 million.

The breakdown of the funding base by source of funds did not change significantly and stood as follows: 42.5% - customer accounts, 27.2% - debt securities, 18.2% - interbank loans and deposits, 5.1% - subordinated debt, 1.5% - Repo operations, 4.4% - other liabilities.

Interbank financing during the reporting period decreased by 3.7% or USD621.9 millions (since the beginning of 2008 by USD1,196 million). This means that Kazakh bank reliance on foreign liabilities is decreasing. The share of interbank financing in the funding base amounted to 18.2%.

Aggregated banking assets at reporting date equaled USD101,398 millions. Bank loan portfolios decreased slightly by 0.7% and reverse Repo operations decreased by 10.3%. Cash and precious metals, balances with commercial banks and the National Bank decreased by 4% and at the reporting date constituted 7.6% of aggregated banking assets. The securities portfolio did not change significantly during reporting period and amounted to USD7,280 million. Interbank financing increased by 6% and amounted to USD8,844.4 million.

Banking asset quality remains satisfactory. The share of loans with payment overdue at reporting date amounted to USD1,548 million or 2.1% of the aggregated loan portfolio of the banking sector. The Provisioning rate stands at 8.2%, increasing during the reporting month by 3.6%. Provisions fully cover overdue loans and the Provisions/Overdue Loans ratio is currently 384%.

Profit earned by banks since the beginning 2008, stands at USD630.92 million. Aggregated income amounts to USD12,581 million, out of which 55.2% is interest income. Aggregated expenses of the banks were USD11,950 million, out of which 31.6% is interest expenses.

The Cost/Income ratio of the banks was 21.8%. Current and short term liquidity ratios were 53.1% and 8.8% respectively. Highly liquid assets constitute 7.6% of aggregated banking assets.

Key events in Kazakh banking system

Halyk Bank is raising a syndicated loan for an amount of not less than USD200 million. Arrangers of this deal are BNP Paribas, ING Wholesale Banking, Landesbank Berlin AG, Standard Bank Plc, UniCredit Markets & Investment Banking and WestLB AG, London Branch. The loan will be raised for 370 days with the possibility to extend it for the same period with a margin of 1% per annum. The funds raised will be used to finance the bank client trade projects.

Bank Caspian is planning to raise external funding of USD150 million.



Moskommertsbank, controlled by Kazkommertsbank, repurchased its 2,994,999 bonds from investors at a par value of RUB1,000. The issuer purchased almost all the bonds of the 2nd issue for RUB2.9 billion. The value of the issue was RUB3 billion.

BTA Bank is thoroughly monitoring its projects in Georgia, taking into account the increased political risks. The Georgian BTA Bank (former Silk Road Bank) is BTA's strategic partner in that country. BTA increased its share in the capital of the Russian BTA Bank (former Slavinvestbank) from 15.6% to 52.84%. The Bank repaid the 2nd tranche of its Islamic financing loan for the amount of USD63 million. This loan was raised in 2006 for a 2 year period, with a margin of 70 b.p.

The assets of Nurbank as of the beginning of July 2008 stood at KZT224.4 billion (current exchange rate 120.14/USD1) compared to KZT204 billion, according to the bank's financial statements published on the Kazakhstan Stock Exchange website.

The assets of Alfa Bank's Kazakh subsidiary as at the end of June 2008 stood at KZT31,892 billion (current exchange rate 120.18/USD1) compared to KZT25,365 billion as at the beginning of 2008, according to the bank's non-consolidated financial statements, published on the KASE website.

The assets of ATF Bank as at the beginning of July 2008 were KZT1,008 billion compared to KZT969.1 billion (current exchange rate 120.18/USD1) at the beginning of 2008, according to the released unaudited non-consolidated financial statements of the bank.

ATF Bank sold its share of 75.1% of the Tajik Sohibhorbank.

The assets of Temirbank as at 30 June 2008 were KZT321.3 billion (current 120.19/USD1) compared to KZT334.2 billion in the beginning of 2008, according to unconsolidated financial statements of the bank.

The net profit of Kazkommertsbank increased by 32% from KZT 12.5 billion in the first quarter 2007 to KZT 16.5 billion in the first quarter 2008, resulting primarily from the 22% growth in average interest-earning assets and an increase in Net Interest Margin from 5% in the first quarter of 2007 to 7.1% in the first quarter of 2008.

The assets of Centercredit Bank as at the end of 1H08 were KZT900.5 billion (current exchange rate 120.19/USD1) compared to KZT880.9 billion at the beginning of 2008, according to non-consolidated financial statements of the Bank

The assets of Eurasian Bank as at the end of June 2008 amounted to KZT231.6 billion compared to KZT183.8 billion (current exchange rate 120.16/USD1) at the beginning of the year, according to unaudited non-consolidated financial statements. Eurasian Bank and its subsidiaries are rebranding in line with changes to the group's strategy.

Kazakhstan Mortgage Company (KMC) is planning to purchase an operating mortgage company in Kazakhstan in order to enter the market for direct lending.

HSBC, formerly owning only a representative office in Almaty, opened its first branch in Astana, increasing its representation in Central Asia.

The international rating agency Moody's Investors Service lowered its long-term deposit rating ("Ba2") and the senior and subordinated debt ratings ("Ba2"/"Ba3") of Alliance Bank. The rating of the financial sustainability of the bank (E+) and its short term ratings are confirmed at the same level. According to its announcement, Moody's may lower the default rating for local and foreign currencies of the bank's major shareholder, Seimar Alliance Financial Corporation (SAFC).





KAZAKHSTAN FINANCIAL OUTLOOK
July 2008

Annex 1

USD million

	Assets		Equity		Loans to customers		Deposits		Retail deposits		Reserves	
	31.07.08	Jun/Jul	31.07.08	Jun/Jul	31.07.08	Jun/Jul	31.07.08	Jun/Jul	31.07.08	Jun/Jul	31.07.08	Jun/Jul
KKB	21 345	-1,0	2 277	2,5	17 920	-0,8	7 633	0,0	2 423	1,4	-2 320	3,3
BTA	24 718	1,5	3 504	0,7	18 563	3,3	5 844	10,3	2 351	1,4	-1 191	1,9
Halyk	14 611	3,8	1 435	1,1	9 699	1,5	8 387	4,6	2 922	0,9	-777	9,0
Alliance	8 845	-2,0	1 399	0,9	5 887	-3,7	1 716	3,5	665	0,1	-485	4,2
ATF	8 736	0,8	861	4,4	6 655	2,0	3 157	3,9	1 151	3,7	-333	-1,1
BCC	7 502	0,6	632	1,0	5 131	0,1	3 491	13,4	1 264	3,5	-337	3,8
Temir	2 656	2,8	475	0,8	2 101	0,1	627	13,6	209	2,2	-93	3,4
Caspian	2 084	-1,3	261	-1,1	1 551	-0,2	694	-0,7	312	0,7	-110	6,6
Nurbank	1 840	-1,0	315	1,1	1 305	4,6	892	-7,4	121	-5,3	-139	6,8
Eurasian	1 790	-6,7	206	0,6	3	-0,4	685	-5,6	155	6,4	-46	2,1
Subtotal	94 128	0,6	11 366	1,4	68 815	0,8	33 126	4,6	11 573	1,6	-5 831	3,7
Other banks	7 235	0,8	1 443	0,8	3 485	2,4	4 519	0,8	856	2,5	-110	-1,3
Total	101 363	0,6	12 809	1,3	72 300	0,9	37 645	4,1	12 429	1,7	-5 941	3,5

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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