

**Executive summary**

Official KZT/USD exchange rate was 120.75 as of 01.07.08.

Economy	Banking sector
<ul style="list-style-type: none"> <li>• Net international reserves of NBRK grew by 3.0 per cent</li> <li>• Economic growth rates during 1H08 was 5-5.1 per cent</li> <li>• Investments in core capital in 1H08 increased by 12.4 per cent</li> </ul>	<ul style="list-style-type: none"> <li>• From July 1, 2008, the National Bank has reduced the refinancing rate to 10.5 per cent from 11 per cent</li> <li>• From July 29, 2008, the National Bank will lessen the minimum reserve requirements for second-tier banks</li> <li>• Term deposits saw a slight decrease</li> </ul>

**Kazakhstan Economy**
**International reserves of National Bank of Kazakhstan (including National Fund) increased by 3 per cent**

The consumer price index increased by 1.2 per cent during June 2008, meaning that the inflation rate during January-June 2008 increased by 5.7 per cent. Staple food products saw price rises in June with rice up by 35.4 per cent, flour by 2.1 per cent and bread products and cereals by 4.8 per cent. The cost of diesel increased by 6.8 per cent and petrol by 2 per cent.

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

Net international reserves of the National Bank based on current [exchange rates / prices?] (not including the National Fund) fell by 1.1 per cent. Foreign currency purchase operations in the domestic currency market and receipt of currency by Government accounts were partly counterbalanced by an increase in National Fund assets and repayments of the Government foreign debt as well as a reduction in currency balances of commercial banks' correspondent accounts with National Bank. As a result, net currency reserves decreased by USD 360.7 million, while assets in gold increased by USD 117.8 million due to a 6.1 per cent increase in global prices.

Industrial production volumes increased by 103.8 per cent in the first half of 2008 compared to the same period in 2007 due to the growth in mining production (106.7 per cent) and the production and distribution of electricity, gas and water (109 per cent). Growth of industrial production was noted in all regions of Kazakhstan, except Karaganda oblast and Kyzylorda oblast, as well as Astana and Almaty cities.

	June 2008	Jan-Jun 2008	Jun 08/ Jun 07
<b>Inflation rate</b>	<b>1,2</b>	<b>5,7</b>	<b>19,1</b>
Food products	1.8	8,1	27.6
Non-food products	0,8	3,8	11,4
Paid services	0,8	4,2	14,5
Industry physical volumes growth index	96,2	103,8*	104

\* Jan-Jun 08 to Jan-Jun 07, %

	June 2008	Growth in June 2008
<b>Net international reserves</b>	<b>21 230,2</b>	<b>-1,1%</b>
Including		
Net assets in currency	19 171,4	-1,8%
Gold	2 058,8	6,1%
<b>International reserves (including National Fund)</b>	<b>46 900,4</b>	<b>3,0%</b>
<b>Official KZT/USD exchange rate</b>	<b>120,75</b>	<b>0,23%</b>

Source: National Bank of Kazakhstan

## Major developments in Kazakhstan's economy

- According to the Ministry of economy and budget planning, economic growth in Kazakhstan was 5-5.1 per cent in 1H08. Industrial production growth was 3.8 per cent whilst agriculture grew by 4.1 per cent.
  - The Ministry of economy and budget planning is targeting macroeconomic sustainability and an inflation rate of 9.9 per cent during 2008.
  - Capital investment in Kazakhstan, between January and June 2008 amounted to KZT 1,510.2 billion (current KZT/USD exchange rate was 120.20), which was 12.4 per cent higher compared to the same period in 2007.
  - The prices for industrial products, including industrial services, increased by 7.3 per cent in June 2008, and by 29.6 per cent compared to December 2007.
  - According to the Agency of Statistics, 2,132 cars were produced in Kazakhstan during January-June 2008, which was 2.8 per cent lower than the first half of 2007.
  - According to the Agency of Statistics, communication companies of Kazakhstan provided services totaling KZT 198.5 billion (current KZT/USD exchange rate was 120.20) during January-June 2008, a 23.4 per cent increase on the same period in 2007.
  - According to the Agency of Statistics, the volume of construction works in Kazakhstan was KZT 657.3 billion (current KZT/USD exchange rate was 120.20) during January-June 2008, which was 10.7 per cent higher compared to January-June 2007.
  - According to the Agency of Statistics, 29,191.3 thousand tons of crude oil and 6,444.7 thousand tons of gas condensate was extracted in Kazakhstan during January-June 2008, up by 7.8 per cent and 4 per cent higher respectively when compared to the same period in 2007.
  - Unemployment in Kazakhstan stood at 6.7 per cent at the end of May 2008 with 568,000 people registered as unemployed. Real wages also decreased by 1.6 per cent.
  - Kazyna Fund has proposed the introduction of tax privileges for participants of the '30 corporate leaders' programme.
  - Kazakhstan expects to harvest 17 million tons of grain [in 2008? In June?] if favourable weather conditions remain.
  - 'Kazakhmys' copper company is in negotiations with Alisher Usmanov's 'Metalloinvest' regarding a possible merger. The market capitalization of the new company would be around USD 50 billion. [Lehman Brothers are acting for Kazakhmys on the transaction].
  - Kazakhmys Plc has started operations at a new USD 130 million sulphuric acid plant. The plant has a capacity to process 1.2 million tons sulphuric acid annually and joins the industrial corporation 'Balkhashcvetmet'
  - According to a recent press release, 'Ekibastuz GRES 2 Station' JSC (Pavlodar oblast) has authorized the Eurasian Development Bank (EADB) to arrange a EUR 400 million loan to finance the construction of a third energetic block at the station.
  - The national oil extraction company 'Kazmunaygas' has acquired a 51 per cent stake in oil extraction company 'Mangistaumunaygas' and plans to complete the transaction by the end of 2008.
  - 'Kazmunaygas' has placed five and ten year USD bonds totaling USD 3 billion. The company sold the five year bonds amounting to USD 1.4 billion with a coupon of 8.375 per cent and ten year bonds with a coupon of 9.125 per cent totaling USD 1.6 billion.
  - The Prime Minister of Kazakhstan has asked the Government to provide details on the planned cooperation between the Government of Kazakhstan and 'Arcelor Mittal Temirtau' JSC plant modernization programme at Karagand oblast, Central Kazakhstan
  - As part of the new Tax Code, the tax rate on extraction of minerals has increased from 4 to 20
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- per cent, depending on annual extraction volumes.
- Work has officially started on the construction of domestically produced, electric locomotives at the Atbasar electric locomotive plant of ‘Bayterek A’ JSC (Akmola oblast, Central Kazakhstan).
- The Kazakh-Japanese scientific research nanotechnology and electronic microscopy centre will be established in East Kazakhstan oblast.
- Kazakh motor company ‘Astana Motors’ (part of ‘Astana Group’ holding) is planning an IPO in 2009.

## Kazakh Banking Sector

Assets at commercial banks grew by 1.7% in the reporting period

The aggregated capital of banks increased in June by 0.8% to USD12.6 billion. However, bank profits fell in the month by 23% to USD373.6 million. The aggregated capital adequacy ratio is equal to 12.5% and the share of immobilized assets is 15.3% of capital.

The aggregated liabilities of banks increased by 1.8% to USD88.1 billion due to increases in clients’ current accounts by 6%, and subordinated debt by 14.7%. Other liabilities rose by 19.2%.

The breakdown of the funding base did not change much over the reporting period: 41.0% - customer accounts (deposits), 27.9% - debt securities, 19.0% - inter-bank loans and deposits, 5% - subordinated debt, 1.5% - Repo operations, 4.4% - other liabilities.

Customers’ term deposits decreased by 1.2% or USD318.5 million in June, out of which individual deposits decreased by 1.5%, or USD183.3 million. Individual deposits account for 13.9% of the funding base. Inter-bank financing also decreased by 2%, or USD349.3 million.

During the reporting period, aggregated banking assets increased by 1.7% to USD100.7 million. Bank loan portfolios decreased slightly by 0.4%, inter-bank financing decreased by 4.3%, while securities portfolio and reverse Repo operations increased by 21.2% and 34.9% respectively.

The asset quality of banks remains satisfactory. The share of loans with overdue payments during June 2008 increased by 9.5% to USD 1,284.5 million, or 1.8% of the banks’ aggregated loan portfolio. Provisioning levels stand at 7.9%, increasing by 2.4% during [the month]. Provisions are fully covering overdue loans and the Provisions/Overdue Loans ratio is currently 448%.

Bank profits since the beginning of 2008 amount to USD373.6 million. This indicator decreased by 23% in June compared to the first 5 months of 2008 mainly as a result of a fall in interest income, namely the income from the loan portfolio, by 11% and inter-bank loans by 6%. Another factor was the increase in reserve expense on the loan portfolio, which increased by 2% or USD64.8 million.

The operational efficiency ratio (C/I) is 23.3%. Current and short term liquidity ratios are 9.2% and 57% respectively. The share of highly liquid assets is 8.1% of aggregated banking system assets.

### Key events in Kazakh banking system

- Kazakh commercial banks representatives do not expect significant volumes of loan write-offs
  - The National Bank has decided to increase the charter capital of “JSC Kazakhstan Deposit
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Guarantee Fund” by KZT14 billion (120,77/USD1) to KZT30 bn.

- National Bank has reduced the refinancing rate from 11% to 10.5%.
- The National Bank will also lessen the Minimal Reserve Requirements (MRR) for 2nd Tier banks. As of 29 July, the rate will be reduced from 6% to 5% on domestic liabilities and from 8% to 7% on other liabilities. According to the National Bank the decrease of MRR will release around KZT90 billion (120,77/USD1), which can support loan activities of banks.
- Alliance Bank’s assets, as at end March 2008, decreased by 2% to KZT 1,137 billion, according to their audited consolidated IFRS report.
- Kazakh commercial Nurbank increased its charter capital by KZT6.5 billion (120,77/USD1) to KZT33.6 bn, by placing an additional 650 thousands common shares.
- Fitch lowered Alliance Bank’s individual rating to "D/E" and confirmed ratings of other Kazakh banks. The lower rating reflects the continuing deterioration of asset quality, deposit outflow, and serious limitations of funding, which is constraining the bank’s financial flexibility, combined with uncertainty about customer base stability and future model of Alliance Bank
- Fitch reviewed its outlook on rating of Temirbank, to “Evolving” and confirmed BTA Bank (Russia) and BTA-Kazan in the list rating watch "Positive". However, if BTA (Kazakhstan) retains its 60% majority share in Temirbank and if BTA’s own credibility deteriorates, Temirbank’s ratings may also be lowered.
- Standard & Poor’s in its report dated June 30, 2008 says the Kazakh Banks’ asset quality deterioration is becoming the determinant factor for rating. "Government financial support, high prices for commodities, problem loans restructuring by banks, and also several regulatory indulgences should decrease banking sector’s problems, but cannot remove their cause."
- Kazakh commercial Temirbank repaid Standard Bank’s USD130 million loan as well as interest USD 4 million.
- JSC “Kazakhstan Mortgage Company” (KMC) is going to refinance mortgage loans, given out in the frames of 1<sup>st</sup> residential state program.
- Kazakh commercial Centercredit bank (BCC) received 5-year USD50 million loan from European Bank for Reconstruction and Development (EBRD).
- Kazakh commercial ATF Bank raised USD100 million medium term loan. Loan consists of 2 tranches with tenors of 3 and 5 years with different type of insurance coverage of Export-Credit Italian Agency (SACE - Servizi Assicurativi del Commercio Estero).
- Raiffeisen banking group is coming to Kazakhstan. New bank will start its activities in 2009. It will be based in Almaty and mainly dealing with corporate clients. This is a 4<sup>th</sup> subsidiary of Raiffeisen in CIS. Bank already has subsidiaries in Russia, Ukraine and Belorussia.

Annex 1

USD million

	Assets		Equity		Loans to customers		Deposits		Retail deposits		Overdue loans		Reserves	
	30.06.08	Jun/ May	30.06.08	Jun/ May	30.06.08	Jun/ May	30.06.08	Jun/ May	30.06.08	Jun/ May	30.06.08	Jun/ May	30.06.08	Jun/ May
KKB	21 559	0,6	2 221	0,2	18 057	0,0	7 636	0,7	2 391	-5,1	434	-17,9	-2 247	5,2
BTA	24 345	4,3	3 482	1,3	17 970	3,3	5 300	-1,4	2 318	3,2	144	-14,1	-1 169	-5,8
Halyk	14 079	0,3	1 420	0,5	9 551	1,1	8 019	-0,4	2 897	-5,1	162	-21,0	-713	3,9
Alliance	9 024	-1,5	1 386	-0,3	6 112	-2,9	1 658	1,2	665	-0,9	191	4,3	-465	4,2
ATF	8 669	1,2	824	5,1	6 523	0,4	3 039	-4,7	1 110	2,8	70	9,2	-337	-0,7
BCC	7 457	2,6	626	0,1	5 126	-0,4	3 078	6,6	1 221	4,2	43	-16,2	-325	2,5
Temir	2 583	-3,8	472	0,5	2 099	-3,3	552	7,2	204	3,5	97	116,9	-90	2,7
Caspian	2 112	-5,0	264	-0,6	1 554	-3,0	699	-2,5	309	-0,8	15	-29,0	-103	-3,0
Nurbank	1 858	7,8	311	0,2	1 248	0,7	963	38,0	127	-29,9	69	2,1	-130	47,3
Eurasian	1 918	30,0	204	19,7	3	0,1	726	2,0	145	-1,9	10	7,9	-45	3,6
<b>Subtotal</b>	<b>93 605</b>	<b>1,9</b>	<b>11 210</b>	<b>1,2</b>	<b>68 243</b>	<b>0,6</b>	<b>31 669</b>	<b>1,0</b>	<b>11 388</b>	<b>-1,6</b>	<b>1 236</b>	<b>-8,0</b>	<b>-5 624</b>	<b>2,4</b>
Other banks	7 175	0,2	1 431	0,3	3 404	0,2	4 482	-0,2	835	3,0	49	-36,6	-111	1,8
<b>Total</b>	<b>100 780</b>	<b>1,7</b>	<b>12 641</b>	<b>1,1</b>	<b>71 647</b>	<b>0,6</b>	<b>36 151</b>	<b>0,8</b>	<b>12 222</b>	<b>-1,3</b>	<b>1 284</b>	<b>-9,5</b>	<b>-5 736</b>	<b>2,4</b>

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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Analyst: Gulzhan Arystangulova, tel. +7 727 2585-286, [GArystangulova@kkb.kz](mailto:GArystangulova@kkb.kz)