

Executive summary

Official KZT/US\$ exchange rate as at 01.04.09 – 151.4/US\$

**Economy**

National Bank reduced its 2009 inflation forecast to 9%

FMSA tightened the requirements for banks that take retail deposits

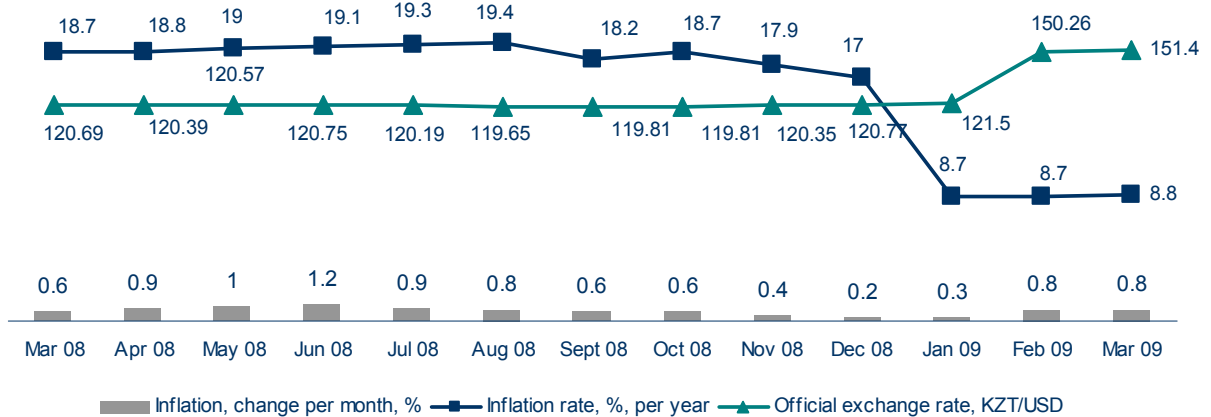
**Banking sector**

The external debt of the banking sector as at 1 April 2009 had reduced to 26% of GDP compared to 50% of GDP in 2007

**Kazakhstan's Economy**

In March 2009, inflation in Kazakhstan was 0.8%. March 2009 saw an increase in prices for meat products of 0.5%, fish and seafood of 1.1%, and fruits and vegetables by 2.1%. The price for seed oil decreased by 5.1% and for eggs by 4.4%. Prices for petrol decreased by 0.6%, diesel by 1.6%. Prices of hotel and restaurant services increased by 1.7%, transport by 1.4%, hairdressers by 1.3%, health care and pre-school education services by 1%.

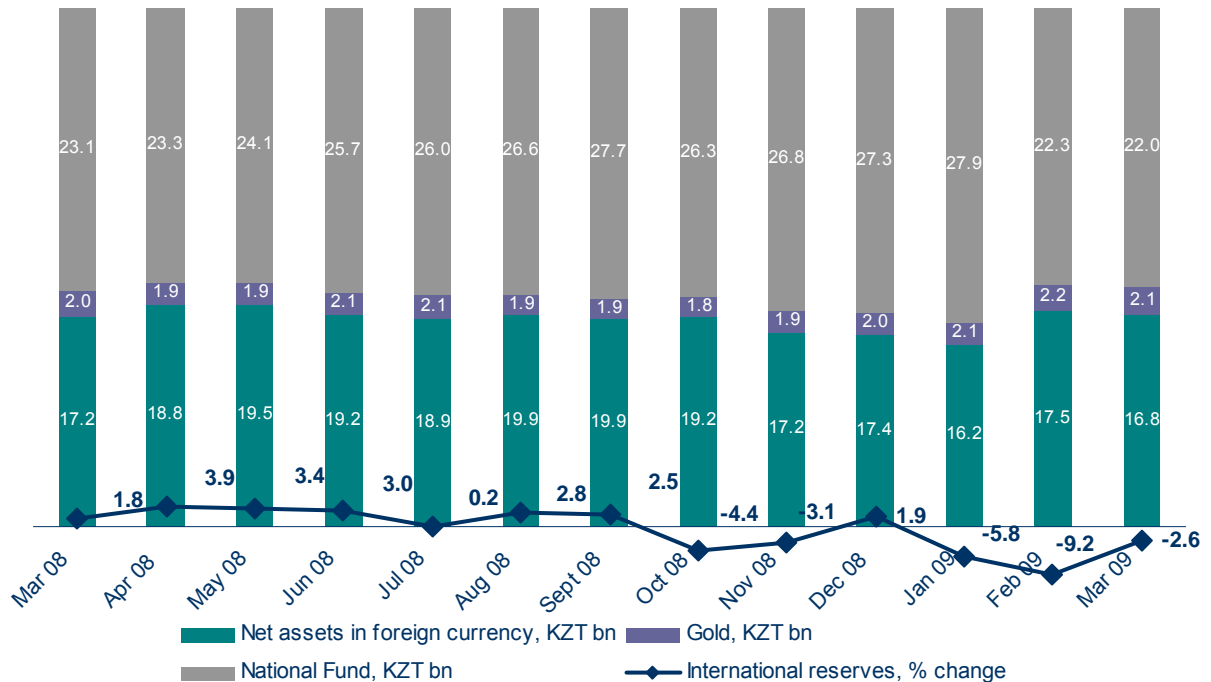
Inflation and exchange rate



Source: Agency on Statistics

The volume of industrial production in January-March 2009 was 95.4%, the volume of production was KZT 1,595.3 billion; it decreased all over the country. The volume of industrial production in the processing industry was 88.2%, in the production and distribution of electric energy, gas and water it was 93.3%, and in mining it was 99.8%.

International reserves



Source: National Bank

In March 2009 the net international reserves of the National Bank based on current prices (including the National Fund) decreased by 2.6% (YTD by 13.7%) to US\$ 40.9 billion. The National Fund amounted to US\$ 22 billion. National Fund assets denominated in tenge equaled KZT 6,336 billion, including a purchase of debt securities issued by KazAgro National Holding for an amount of KZT 600 billion for the securities portfolio of the National Fund (at an exchange rate of KZT150.83/1\$). The sale of foreign currency on the internal currency market, Government external debt service operations and reduced balances on the foreign currency correspondent accounts of commercial banks were counterbalanced by the receipt of funds by the Government account in the National Bank and re-conversion of the National Fund assets in foreign currency to foreign currency assets of the National Bank. As a result, net currency reserves in March 2009 decreased by 4.2% (YTD by 6.4%), while assets held in gold increased by 2.3% to due to a decrease in global prices. As a result, net international reserves decreased by 4% to US\$18.8 billion (YTD decrease of 5%). Decreased net international reserves at the National Bank caused a tightening of monetary base by 0.7% to KZT 2,236.8 billion (YTD increase of 46.7%).

Key Developments in Kazakhstan’s Economy

- April 21. Ministry of Finance notes a decline in major inflows to the Republic’s budget. In 1Q09 inflows from corporate income tax decreased by KZT 11.9 billion to KZT 194.7 billion compared to the same period in 2008. This was caused by a slowdown in business activity that resulted from the complicated economic situation in the country (exchange rate of KZT 150.33 per 1US\$).
- April 21. In 1Q09 Ministry of Finance placed state securities amounting to KZT 100.3 billion (exchange rate of KZT 150.33 per 1US\$).
- April 21. According to projections by the Ministry of Economy and Budget Planning, Kazakhstan

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might raise US\$10 billion in gross direct foreign investments in 2009.

- *April 20.* KazMunayGas Exploration and Production (a subsidiary of the KazMunayGas national oil and gas company) announced a buy-back of its shares and GDRs during the lock-up period.
- *April 20.* The Ministry of Economy and Budget Planning forecasts a reduction of GDP by 2% in the first quarter of 2009.
- *April 20.* The Prime Minister of Kazakhstan believes it is possible to reduce interest rates on loans in innovative sectors of economy.
- *April 17.* According to preliminary data, the volume of production of oil and gas condensate by the KazMunayGas group of companies increased by 0.3%, to 4,436,000 tons in January-March 2009, compared to January-March 2008. In 2009 consolidated production of oil and gas condensate by the KazMunayGas group of companies is forecast to be 19,062,000 tons.
- *April 14.* Oil processing in Kazakhstan decreased by 16.2% to 2,486,490 tons in January-March 2009 compared to January-March 2008. Processing of oil in March 2009 was 933,795,000 tons.
- *April 14.* According to the Agency on statistics, 2,215 kg of refined gold and 161,590 kg of refined silver were produced in Kazakhstan in January-March 2009. That was 12% and 3.8% higher than January-March 2008, respectively.
- *April 14.* Kazakhstan had a positive external trade balance in January-February 2009 of US\$ 1.5 billion compared to US\$ 5.7 billion in January-February 2008. According to the Statistics Agency, foreign trade turnover decreased by 38.8% to US\$ 9.1 billion in January-February 2009 compared to January-February 2008, including US\$ 5.3 billion of exports (down by 48.4%) and US\$3.8 billion of imports (down by 17.4%). In January-February 2009 exports to CIS countries totalled US\$ 1.0 billion (down by 36.5% in January-February 2008), while imports equalled US\$ 1.6 billion (down 26.6%). According to the Statistics Agency, during the above-mentioned period, the major buyers of Kazakh products were Italy, Switzerland, China, and Russia, while the major importers included Russia, China, and Ukraine.
- *April 14.* In January-March 2009 capital investments decreased by 4.9% to KZT 639.3 billion (exchange rate of KZT 150.83 per 1US\$). According to statistical data, a decrease in capital investment was noted in five regions of the country: Astana by 63.3%, Almaty by 45%, Akmola oblast by 22%, East Kazakstan oblast by 14.8%, and Karaganda oblast by 1.9%.
- *April 14.* The National Bank might has once again revised its inflation forecasts for 2009. Annual inflation rate estimates for 2009 will be revised from 11% to 9%.
- *April 14.* The unemployment rate in 1Q09 was 6.9% compared to 6.6% in 4Q08.
- *April 10.* According to the National Bank, the net inflow of direct foreign investment into Kazakhstan in 2008 was US\$ 14.5 billion. In 2008 net direct foreign investments were equal to 12% of GDP.
- *April 8.* According to the Ministry of Finance, the cost of the repayment of the Government's external debt in 2009 will be US\$ 50 million. In 2010-2011 it will be US\$ 155 million.
- *April 3.* According to preliminary data, KazTransOil increased transportation volumes by its own oil pipelines to 12,075,000 tons in January-March 2009 compared with 11,573,000 tons in January-March 2008.
- *April 2.* ArcelorMittal, a world leader in the production of steel, raised US\$ 1.2 billion in additional funds during the second part of the implementation of existing agreements on a syndicated loan. According to the company's press release, the credit lines were extended until 2012.
- *April 1.* In March 2009 the subsistence minimum wage in Kazakhstan was KZT 12,243 (exchange rate of 151.08 KZT per 1US\$).

## Kazakh Banking Sector

*Aggregate banking assets increased by 4.6% in March.*

The aggregate capital of the Kazakh banking industry as of 1 April 2009 amounted to US\$ 9,161 million, a decrease of 0.2% MoM due to incurred net losses of US\$ 1,959 million. Capital constituted 9.8% of the sector's assets. Capital adequacy ratios calculated in accordance with the AFN's requirements as of 1 April 2009 were: k1 ratio (Tier 1 Capital) – 0.10; k2 ratio (Total Capital) – 0.13 (as of 1 April 2008 – k1 – 0.12; k2 – 0.15). The fixed assets to capital ratio was 17.5% of capital.

The aggregate liabilities of the banks increased by 5.2% during the reporting month and amounted to US\$ 83,976 million as of 1 April 2009. FX-denominated liabilities constituted 61% of total liabilities. Customer accounts constituted 42.5% of total liabilities, a decrease of 1.1% during March. Retail deposits constituted 12% of total liabilities or US\$ 9,989 million. Issued debt securities and subordinated debt increased by 75.8%, to US\$ 11,439 million. Loans from government and international financial institutions at US\$ 1,096 million constituted 1.3% of liabilities.

As of 1 April 2009 the aggregate assets of the banking sector amounted to US\$ 93,137 million, a decrease of 4.6% (though an increase of 5.4% in KZT) from 1 March 2009. During the reporting month gross loans to customers decreased by just 0.3%; their share within total banking assets equaled 60.1%. Inter-bank loans increased by 11.3% to US\$ 7,169 million and constituted 7.7% of the banks' assets. Loans to non-residents (including inter-bank loans) constituted 18.6% of customer loans (18.4% as of 1 April 2008). FX-denominated loans constituted 59.8% of the aggregate loan portfolio. Standard category loans accounted for 35.5% of the banks' loan portfolios as of 1 April 2009 (42.9% as of 1 April 2008), Doubtful category loans – 57.9% (55%), Loss category loans – 6.6% (2.1%). The highly liquid assets decreased by 17.4% MoM, their share in the banks' total assets was 8%. The securities portfolio almost doubled, up 92.9% to US\$ 10,282 million. The major reason for this was an increase of 129.4% in securities held for trading. The share of the securities portfolio within total assets increased from 6% to 11% MoM.

The relative weight of loans with overdue payments continues to increase. As of 1 April 2009 the share of loans with 1 day overdue payments was 20.41%, and that of loans more than 90 days overdue was 7.64% of the aggregate loan portfolio of the banks. The 90-day overdue amount increased by 19.4% in absolute terms, according to data from the Regulator. However, the provisioning level remained adequate at 15.22% and the provision coverage of 90-day overdue loans was 199%. Total provisions increased by 4% during March. The coverage ratio of loans by collateral is 178%.

During January-March 2009 Kazakh commercial banks generated a net loss of US\$ 1,959 million compared to US\$ 228.8 million of net income in 1Q08. The loss was due to an increase in provisioning. The aggregate income of the banks was US\$ 12,177 million, aggregate expenses US\$ 14,126 million (excluding US\$D 10.8 million of corporate income tax). Net income before provisions increased by 1.9% compared to 1Q08, while provisions amounted to US\$ 2,938 million.

### Major events in the Kazakh Banking Sector:

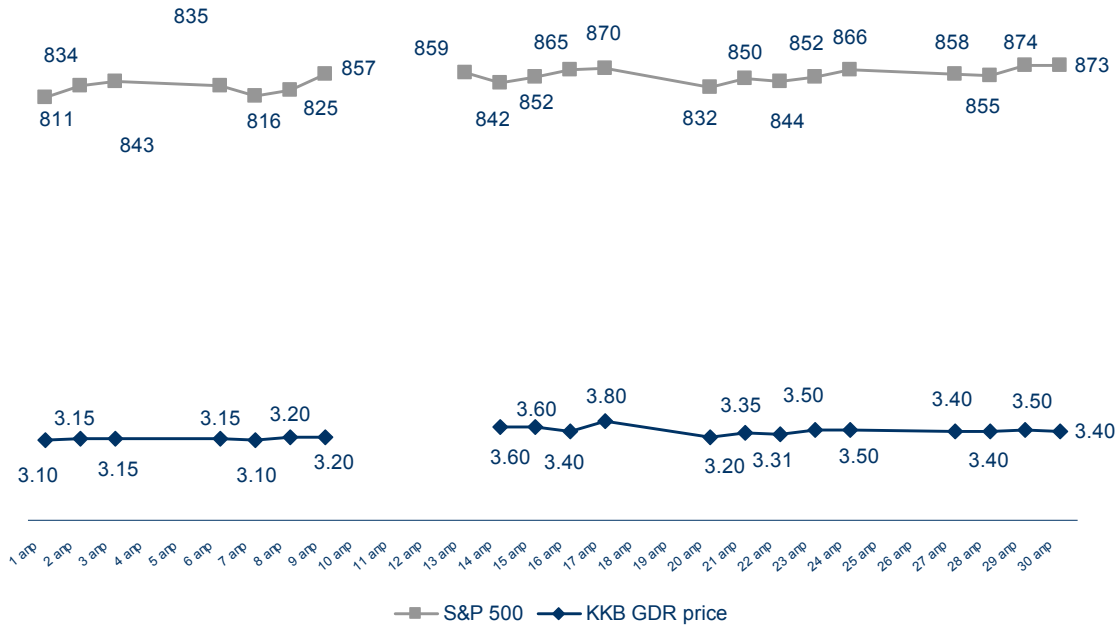
- *April 28.* Russia's Sberbank is in the process of negotiations regarding the purchase of Kazakh BTA Bank, Sberbank representatives said during an analysts' conference call.
- *April 28.* The Fund for Stressed Assets (FSA) will start its activities in the second half of 2009, according to the head of National Fund Samruk-Kazyna.

- *April 27.* BTA Bank's restructuring of its liabilities will result in the reallocation of its customer deposits to other local banks, according to the Head of Economic Research of the Kazakhstan Strategic Research Institution under the President of Kazakhstan.
- *April 24.* Kazakh BTA Bank stopped payments on the principal amounts of its due liabilities, after receiving early repayment requests from several creditors.
- *April 23.* The Kazakh banking sector is able to service its foreign liabilities, said the Head of the National Bank.
- *April 22.* Kazkommertsbank's Board of Directors recommended its shareholders not to pay dividends on common shares for 2008.
- *April 22.* Eurasian Bank became a leader among the Top-10 local banks by retail deposit growth in January-March 2009. According to AFN data, retail deposits of the bank increased by 84.6% in 1Q2009.
- *April 22.* The loan portfolio of Kazakhstan's mortgage companies amounted to KZT 92.5 billion as of 1 April 2009 compared to KZT 170.4 billion at the beginning of 2009, said the AFN.
- *April 21.* Kazkommertsbank's assets amounted to KZT 2,624.8 billion at year-end 2008, according to its consolidated audited financial statements, compared to KZT 2,997.2 billion at YE2007. Net income in 2008 decreased YoY by 65.1%, to KZT 20.2 billion, compared to KZT 57.8 billion in 2007.
- *April 21.* The AFN toughened its requirements for the banks that take retail deposits. From 1 January 2010 Kazakh commercial banks that do not have a major shareholder cannot take retail deposits.
- *April 21.* Astana-Finance is going to purchase a major stake in the Ularumit Pension Fund in the first half of 2009.
- *April 21.* The Head of the AFN said that commercial banks' provisions will reach 25% of their loan portfolios.
- *April 20.* Halyk Bank's deposits increased by 33% in 1Q09.
- *April 20.* Halyk Bank decides to close its subsidiary in Mongolia.
- *April 16.* Export-import Bank of China will provide a 20-year, US\$ 100 million credit line to the Development Bank of Kazakhstan. The loan will be provided for financing investment projects in various sectors.
- *April 15.* Fitch Ratings granted a long-term BBB rating to index-linked interest notes issued by Eurasian Development Bank for the amount of KZT 15 billion and maturing in 2014. This rating is in line with issuer's rating (EDB - BBB). These securities are issued under an MTN programme that totals US\$ 3.5 billion.
- *April 14.* International Islamic Trade Finance Corporation (a subsidiary of the Islamic Development Bank) provided USD 5 million loan to Nurbank for the bank's clients' trade finance transactions.
- *April 13.* Kazakh commercial bank Alliance Bank has proposed a restructuring to its creditors. This decision was made by the bank to maintain stable operations and fulfill its liabilities to clients and depositors.
- *April 10.* The external debt of the Kazakh banking sector as of 1 April 2009 was US\$ 35 billion, according to preliminary data from the National Bank. The amount due in the 1Q09 was US\$ 3.6 billion. According to the National Bank, in 2Q09 and 4Q09 the amounts due are US\$ 2.5 billion each quarter. In 2Q10 the Kazakh banking sector have to repay around US\$2.5 billion. Repayments during other periods are less than US\$1 billion. The ratio of external debt to GDP peaked in 2007 at 50%, decreasing to 26.5% as of 1 April 2009.
- *April 09.* Nurbank repaid a US\$ 100 million syndicated loan in due time. The arrangers of the loan were Deutsche Bank, Raiffeisen Zentralbank Bank and UniCredit Group. Thirteen banks participated in the two-year syndicated loan which was priced at Libor+1.65%. The syndicated loan's repayment was Nurbank's only external liability due in 2009. The repayment was made from the bank's own funds, without refinancing or additional borrowings.
- *April 06.* Armenia became a shareholder of Eurasian Development Bank (EDB). The country paid US\$100,000 for its share of the bank's capital, fulfilling all requirements and becoming the bank's third shareholder. As announced in December 2008, the Board of Directors of EDB approved the participation in the bank's capital of Tajikistan and Belarus.

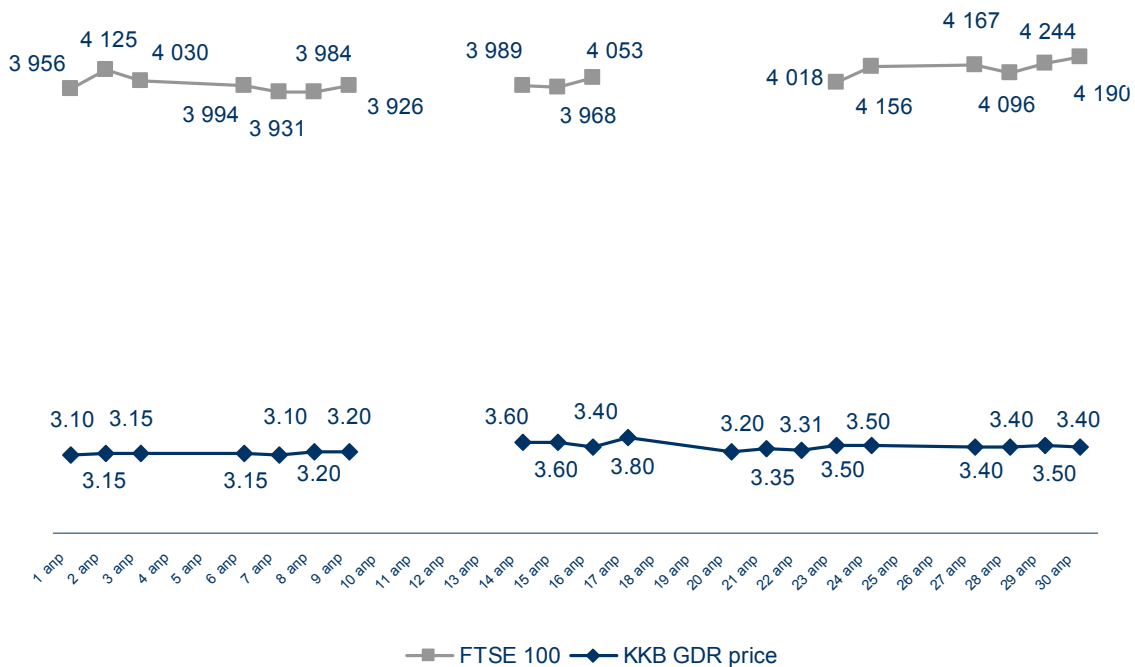
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- *April 02.* On 27 March 2009 Samruk-Kazyna completed the purchase of 20.91% of Halyk Bank's common shares for a total amount of KZT 27 billion. These funds were used to increase the Bank's charter capital.
  - *April 02.* Kazkommertsbank purchased DPR notes issued by Kazkommerts DPR Company for a total amount of USD127 million. The amount previously announced was US\$ 175 million, but as a result of the tender arranged by Merrill Lynch, a total of US\$127,038,000 was purchased.
  - *April 01.* Alliance Bank announced that its assets were overstated. The Bank will revalue its assets.
  - *April 01.* National Bank's refinancing rate remains at 9.5% starting from 1 April 2009.
  - *April 01.* It is planned to establish an Islamic "Al-Hilal" Bank in Kazakhstan. A memorandum on its establishment was signed by the Vice-Minister of Finance of Kazakhstan and the Chairman of Al-Hilal Bank. The bank will provide its services in accordance with Kazakh legislation and Islamic law.

Kazkommertsbank

S&P 500 and KKB GDR price



FTSE100 and KKB GDR price



The price of Kazkommertsbank’s GDRs did not significant fluctuate in March 2009.

On 31 March KKB announced a rights offering for its existing shareholders; the rights offering period ended on 30 April.

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- *April 14.* Kazkommertsbank approved applications for an amount exceeding KZT 3 billion (out of the total KZT 16 billion of funds received from “Damu” fund (state fund for SME support) to finance and refinance SME loans. Overall 102 projects had been approved as at 9 April 2009 (up from 39 projects by 26 March 2009) for a total of KZT 3,029 million (as at 26 March KZT1,919 million). The majority of the loans refinanced were in Almaty (23 application approved, funds were disbursed for 12 of them). The refinanced loans were mostly to companies involved in trade, other services, industry, agriculture, transport and communications.
  - *April 7.* Kazkommertsbank is a leader in mortgage refinancing under the Samruk-Kazyna programme. According to information from the Samruk-Kazyna National Welfare Fund, as at 7 April 2009 Kazkommertsbank had approved 1,160 applications amounting to KZT 4.5 billion, and refinanced 295 mortgage loans to its clients amounting to KZT 1.04 billion. Currently, 3,500 application are under consideration by the bank. The majority of the mortgage loans refinanced were in Astana.
  - *April 2.* Kazkommertsbank’s corporate magazine “KazkommertsNews” won the nomination for “The Best Corporate Media in CIS” at the Russian Contest of Corporate Media “The Best Corporate Media 2009”. Ms. Viktoria Gerasimchuk, Editor in Chief of the KazkommertsNews, commented: “During the last half of the year we’ve put significant efforts into increasing the quality and design of the publication and its contents. All of this was duly noted by our clients and partners – as well as by the jury of the contest.”
  - *April 1.* Kazkommertsbank repurchased securitisation notes issued by the Kazkommerts DPR Company (a Special Purpose Vehicle created in the Cayman Islands) following the completion of the tender which was held from 23 March 2009 to 31 March 2009 for a total of KZT 19.2 billion (equivalent to US\$ 127 million of nominal at the exchange rate of KZT 150.98 / 1US\$ at the date of acquisition). The purchase price of the notes was US\$ 920 compared with a nominal value of US\$1,000 for each bond, giving a discount of 8% of the principal amount.





## Annex 1

US\$ million

	Assets		Equity		Loans to customers		Deposits		Deposits (without SPV)		Retail deposits		Net income	Reserves
	31 Mar	Mar/ Feb	31 Mar	Mar/ Feb	31 Mar	Mar/ Feb	31 Mar	Mar/ Feb	31 Mar	Mar/ Feb	31 Mar	Mar/ Feb	31 Mar	% of loans
BTA	25,082	25.00%	2,426	-0.4%	13,603	-2.36%	10,345	-2.36%	5,068	-3.93%	1,429	-3.97%	-1,728	19.0%
KKB	18,303	-1.57%	1,377	14.1%	12,778	1.39%	13,375	1.39%	8,182	1.01%	1,928	-1.93%	1	19.9%
Halyk	12,735	-2.31%	1,141	5.6%	7,463	-1.13%	9,967	-1.13%	7,472	-0.32%	2,401	-2.62%	-92	14.4%
Alliance	8,049	5.58%	911	-13.9%	3,953	-4.70%	3,660	-4.70%	1,430	2.14%	492	-6.99%	-128	14.3%
ATF	7,282	1.43%	473	-7.4%	5,282	2.86%	2,747	2.86%	2,296	-0.32%	914	-0.21%	-18	12.0%
BCC	6,186	-7.61%	590	-3.5%	4,148	2.58%	4,036	2.58%	2,891	-0.39%	1,489	0.98%	12	10.2%
Temirbank	2,090	-2.59%	233	-13.6%	1,661	-14.20%	1,172	-14.20%	406	-15.93%	164	-0.034%	-95	7.4%
KASPI	2,243	7.92%	211	-1.5%	1,258	-0.45%	978	-0.45%	976	0.00%	430	-0.31%	16	8.7%
Nurbank	2,025	-3.85%	296	0.6%	1,566	-3.79%	1,277	-3.79%	1,127	-0.32%	151	0.09%	20	5.7%
Eurasian	1,974	3.41%	185	-2.4%	893	-6.00%	1,114	-6.00%	1,114	0.00%	389	7.56%	0.4	5.3%
<b>Subtotal</b>	<b>85,972</b>	<b>5.57%</b>	<b>7,843</b>	<b>-0.37%</b>	<b>52,605</b>	<b>-0.78%</b>	<b>48,669</b>	<b>-1.02%</b>	<b>30,962</b>	<b>-1.54%</b>	<b>9,789</b>	<b>-1.60%</b>	<b>-2,013</b>	<b>15.8%</b>
Other banks	7,165	-5.28%	1,318	0.77%	3,415	-0.80%	4,802	-3.64%	4,697	-0.32%	877	2.03%	54	5.1%
<b>Total</b>	<b>93,137</b>	<b>4.65%</b>	<b>9,161</b>	<b>-0.21%</b>	<b>56,021</b>	<b>-0.78%</b>	<b>53,471</b>	<b>-1.26%</b>	<b>35,659</b>	<b>-1.53%</b>	<b>10,666</b>	<b>-1.31%</b>	<b>-1,959</b>	<b>15.2%</b>

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