

Executive summary

Official KZT/USD exchange rate as at 01.10.08 – 119.81

Economy

Banking sector

International reserves of the National Bank (including the National Fund) decreased by 4.4%

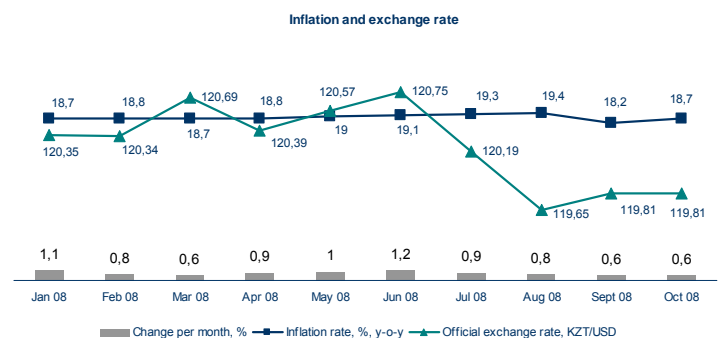
Government to buy up to 25% of the shares of the four major banks

Government allocated US\$4 billion to support the financial sector

Kazakhstan Economy

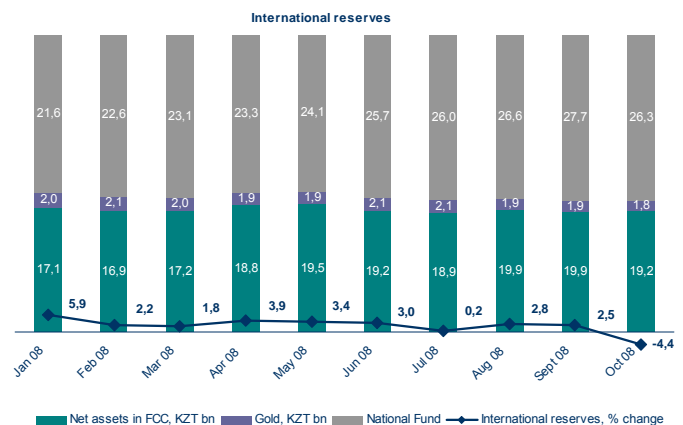
Net international reserves of the National Bank (including the National Fund) have decreased by 4.4%

In October 2008 inflation in Kazakhstan was 0.6%, year-to-date inflation was 8.8%. In October 2008 bread and grain product prices increased by 0.5%, fish and fish products by 0.7%, cereals by 0.6%, eggs by 5% and meat, vegetable and sugar by 0.4%. Prices for communal services increased by 1.2% and the price for diesel fuel increased by 2.7%.



October 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) decreased by 4.2% (or US\$ 926.8 million). Foreign currency sales operations in the domestic currency market, reduction in currency balances of commercial bank correspondent accounts held at the National Bank and Government external debt service operations were partly counterbalanced by receipt of currency in Government accounts. As a result, net currency reserves decreased by US\$ 685.4 million, while assets in gold decreased by US\$ 241.4 million as a result of the 11.9% fall in global gold prices.

Source: Agency on Statistics



Source: National Bank of Kazakhstan

Net international reserves, including the National Fund (which stood at US\$ 26.3 billion according to preliminary estimates) decreased by 4.45% to US\$ 47.4 billion.

The volume of industrial production in January-October 2008 in comparison to January-October 2007 increased by 2.9%, largely due to increased production in the mining industry (increasing by 5.2%) and production and distribution of electric energy, gas and water (increasing by 8.5%). The increase in absolute terms totaled KZT 9,004 billion. Production volumes increased in ten regions of the republic.

Key Developments in Kazakhstan's Economy

- *November 18.* According to preliminary data, GDP for January-October 2008 was KZT 11,613.9 billion. Real GDP growth was 3.9% compared to the same period in 2007 with the share of production in GDP equal to 47.9% and services representing 50.2%.
- *November 14.* According to the Statistics Agency the number of unemployed in the 3rd quarter of 2008 fell by 7.4% or 43,300 people to 540,600 people. The unemployment rate was 6.4% compared to 7.0% in the 3rd quarter of 2007.
- *November 17.* Kazakhstan's external trade balance was positive during January-September 2008 at US\$ 28.7 billion compared to US\$ 10.1 billion in January-September 2007.
- *October 28.* US\$5 billion debt securities of SamrukKazyna national welfare fund will be purchased from the National Fund.
- *November 19.* The IMF positively assessed the Government decision to capitalize major banks.
- *November 20.* Ministry of Economy and Budget Planning recalculated its forecast for the state budget for 2009-2011 based on an average oil price of US\$50 per barrel.
- *November 3.* Kazakhstan's currency, the Tenge, strengthened compared to the USD by 0.38% over ten months. As of October 31, 2008, it strengthened by 0.45%.
- *November 6.* The Government of Kazakhstan considers replacing VAT by a sales tax.
- *November 3.* The Government of Kazakhstan guarantees stability in the domestic grain and food products market. Grain reserves in the state stabilization fund are 1 million tons. Stabilization funds for other essential goods were also established, for meat, dried milk, oil fat, sugar and rice.
- *November 1.* According to the Ministry of Energy and Mineral Resources, the Government of Kazakhstan may cancel the ban on export of black oil in case of saturation of the domestic market.
- *November 3.* In October 2008, the subsistence minimum in Kazakhstan was KZT 13,371 (current KZT/USD exchange rate 119.84) increasing by 1.4% month-on-month and by 24% year-to-date.
- *November 3.* Due to the limited access to loans from commercial banks, the Government of Kazakhstan will continue financing investment projects in the real sector of the economy from state funds. 19 investment projects were submitted to the SamrukKazyna Fund amounting to US\$2.6 billion: 8 projects in energy, 5 projects in transport infrastructure, 3 projects in oil and gas, and another 3 projects in other industries.
- *November 14.* According to the National Bank of Kazakhstan the third quarter of 2008 saw unsatisfied demand for retail loans.
- *November 13.* According to the Ministry of Finance, the Distressed Assets Fund JSC was established in Kazakhstan with 100% ownership by the Government of Kazakhstan. KZT 52 billion will be allocated from the state budget for 2008 to capitalize the newly created fund (current KZT/USD exchange rate 120.05) with a further increase of up to US\$1 billion in 2009.
- *November 3.* The Distressed Assets Fund will buy problem loans from the banks at a discount to market value. The banks may use the released funds to provide loans to the real sector of the economy. On November 1, 2008, the Government decided to establish the Distressed Asset Fund

with current equity of KZT 52 billion (current KZT/USD exchange rate – 119.84).

- *October 28.* Kazakhmys corporation does not plan reduced production in 2008.
- *November 21.* According to the Chairman of BoD, Kazakhmys does not plan staff cuts if the price for copper will be US\$2,800-3,200 per ton.
- *November 21.* Chairman of BoD of Kazakhmys believes that current prices for the shares of mining companies do not reflect the real situation in the companies.
- *November 1.* The Ministry of Industry and Trade signed memoranda with a number of mining companies to maintain social obligations to employees during the economic crisis.
- *November 6.* Kazatomprom, the national atomic energy company, is prepared for any international development, since according to the President of the company, it has an anti crisis programme.
- *November 5.* Fitch Ratings affirmed long-term ratings of the national railway company Kazakhstan Railways with a long-term issuer default rating in foreign currency of BBB.
- *November 19.* The President of Kazakhstan Nursultan Nazarbayev signed the Law on Ratification of the Loan Agreement between Kazakhstan and International Bank for Reconstruction and Development (World Bank). The loan is aimed at the rehabilitation of the urban environment of Ust-Kamenogorsk.

Kazakh Banking Sector

Commercial banks assets decreased by 3.3% during October

The aggregate capital of the banking sector decreased by 1% during October to US\$ 12.5 billion. The current profit of the banks amounted to US\$ 544.9 million as of November 1, 2008. The aggregate capital adequacy ratio, calculated from balance sheets amounted to 12.4%. The share of fixed assets was 15.8% of capital, while the share of inter-bank financing in total liabilities amounted to 16.6%.

The banks' aggregate liabilities in the reporting month decreased by 3.7% to US\$ 88.2 billion. The reduction was mainly the result of the decreases in customer accounts by 4%, in term deposits by 1.0% and in current accounts by 13.1%. Individual deposits amounted to 31.1% of customer accounts or US\$ 12.3 billion. Also, liabilities decreased due to the decrease in bank correspondent accounts (46%) and inter-bank short term loans (79%).

The breakdown of the funding base by sources is the following: customer accounts – 44.9%, debt securities – 25.5%, 16.6% - inter-bank loans and deposits, 5.2% - subordinated debt, 1.7% - repurchase transactions, 4.9% - other liabilities.

Aggregate banking assets as of the reporting date increased by 3.3% to US\$ 100.8 billions. Bank loan portfolios decreased insignificantly by 1.4%, loans-to-assets amounted to 65%. Cash and precious metals, banks correspondent accounts and cash with the National Bank decreased by 8% and amounted to 8.7 % of aggregate banking assets. Securities portfolios decreased by 14% and amounted to US\$ 7.2 billion. Repurchase transactions decreased by 28% and their share in assets decreased to only 1%. Inter-bank assets also decreased by 14.4% and amounted to US\$ 7.8 billions.

Banking asset quality remains satisfactory. Share of 90 days overdue as of reporting date amounted to 4.97% of aggregate bank loan portfolios. The provisioning rate amounts to 9.82% of the aggregate loan portfolio and the volume of provisions fully covers the overdue amounts. Coverage of loan losses by provisions amounts to 197%.

Profit earned by 2nd Tier banks since the beginning of 2008 amounts to US\$ 544.9 million. Aggregate income amounted to US\$ 19.6 billions, 51.7% of which is represented by interest income. Aggregate expenses of banks amounted to US\$ 19.1 billion, 28.8% represented by interest expense. The loan-to-deposit ratio was 183.9% and the cost-to-income ratio was 41.9%.

Major events in the Kazakh Banking System:

- The Financial Management and Supervision Agency (FMSA) plans to increase the minimum capital adequacy requirements for commercial banks within three months. FMSA plans to establish an additional capital adequacy ratio for Tier 1 capital, calculated as the ratio of Tier 1 capital adequacy to risk weighted assets. According to preliminary data the minimum requirement will be 11%. The FMSA has stated that currently all banks are in line with the requirements on capital adequacy.
- *October 28.* In late October this year the Government proposed to the four major banks (Alliance Bank, BTA Bank, Halyk Bank and Kazkommertsbank) to inject funds into their capital in order to support its adequacy. The stake of the state fund SamrukKazyna should not exceed 25% of the capital of these banks. The banks accepted the proposal of the Government.
- *November 11.* Total amount of state financing through purchase by SamrukKazyna of common and preferred shares, as well as provision of subordinated loans is as follows:
 - 1) Kazkommertsbank – not less than US\$ 300 million;
 - 2) Halyk Bank – not less than US\$ 500 million;
 - 3) Alliance Bank – not less than US\$ 370 million;
 - 4) BTA Bank – it was agreed that the volume of financing, including a subordinated loan, will be approximately US\$ 2.3 billion, the exact amount to be defined after shareholder approval. The placement price of bank common shares will be proposed to shareholders by Boards of Directors and will be based on closing prices on 24 October 2008 at the London Stock Exchange (Alliance, Halyk and KKB) and the Kazakhstan Stock Exchange (BTA).
- *November 2.* According to the Head of AFN Ms Elena Bakhmutova the amount for each bank was defined by taking into account two major factors: amount of provisions and capital already created by the bank. This was the main reason for differences in the amounts provided to each banks.
- *November 25.* The Government of the Republic of Kazakhstan approved the final project of the combined Stabilization Plan of the Government, National Bank and AFN (Stabilization Plan), updated with comments and proposals of World Bank experts, the financial community of the country, large businesses and the People's Democratic Party Nur Otan. According to the Stabilization Plan, the SamrukKazyna fund will be mainly responsible for its implementation. The Fund will be participating in almost all the components of the Plan.
 - First component – financial sector stability. The Fund will provide US\$4 billion for this objective through direct capital injections. SamrukKazyna will purchase a 25% stake of the banks' common shares for the total amount of US\$1 billion. Another US\$3 billion will be provided to the banks through other instruments for financing the economy and business.
 - Second component – real estate market issues. SamrukKazyna will provide US\$5 billion of which USD3 billion will be appropriated from the National Fund and USD2 billion from pension funds. SamrukKazyna will open several credit lines in commercial banks for 15 years at reduced rates. The banks themselves will be providing mortgage loans to different groups of borrowers at 10.5% - 12.5% for 15 years with rights for prepayments. SamrukKazyna itself will purchase 1350 apartments in Astana and 500 apartments in Almaty, on the conditions announced by the President at the National Investors Meeting on 20 November 2008, i.e. in Astana, not more than

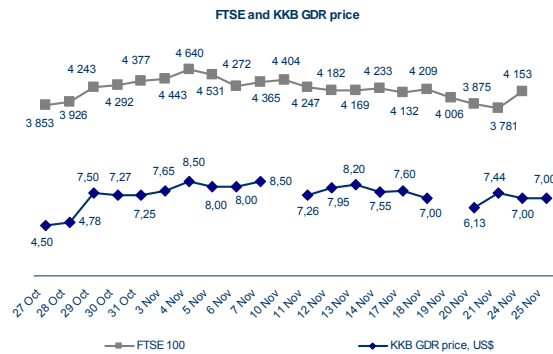
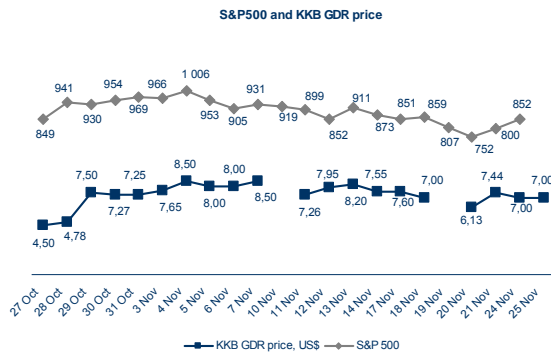
US\$800 or KZT 96 000 per sq.m., and in Almaty not more than US\$1000 or KZT120 000 per sq.m.,.

- Third component – support for small and medium enterprises. In addition to already allocated funds, SamrukKazyna in 2009 will provide a further US\$ 1 billion.
 - Fourth component – development of agriculture. The main operator of this programme is the National Holding Company KazaAgro.
 - Fifth component – industrial and infrastructural project implementation. The Fund will provide US\$1 billion for this component and additionally US\$3 billion will be raised on external markets and from pension funds.
- *November 25.* National Bank of Kazakhstan may place on deposit with commercial banks around US\$500 million of state company funds.
 - *November 25.* According to the National Bank – total external debt to be paid in 2009 by Kazakh Banks is US\$10.6 billion.
 - *October 28.* Kazkommertsbank Kyrgyzstan, a subsidiary of Kazakh Kazkommertsbank, increases its share capital by 20.5%. As a result of this new issue the capital of Kazkommertsbank Kyrgyzstan increased by KGS 55,432.00 million or US\$1,450,715.91.
 - *November 5.* Banks were asked to examine the possibility of reconsidering mortgage terms for responsible borrowers whose loans are collateralized by their only home. For this category of the population according to the Prime Minister the banks could provide special loan conditions.
 - *November 11.* The international Rating Agency Standard&Poor's (S&P) approved long- and short-term ratings of five Kazakh commercial banks. In particular, ratings were approved for BTA Bank (BB/B), Kazkommertsbank (BB/B), Halyk Bank (BB+/B), Alliance Bank (B+/B) and ATF Bank (BB+/B).
 - *November 14.* Kazakh commercial bank Bank Caspian changed its name to Kaspi Bank.
 - *November 13.* Assets of Kaspi Bank as of October end 2008 amounted to KZT270.4 billion (KZT120.05/US\$1) compared to KZT269.2 billion as of YE07, as stated in the consolidated financial statements of the Bank, published on the website of Kazakhstan Stock Exchange.
 - *November 13.* Assets of Kazakh commercial bank Eurasian Bank as of the end of September 2008 amounted to KZT244.2 billion compared to KZT183.8 billion (KZT120,05/US\$1) as of YE07, as stated in the consolidated financial statements of the Bank, published on the website of the Kazakhstan Stock Exchange.
 - *November 13.* Assets of Alfa Bank's subsidiary as of 1 October 2008 amounted to KZT33,720 billion (USD120,05/\$1) compared to KZT25,365 billion as of YE07, as stated in the consolidated financial statements of the Bank, published on the website of the Kazakhstan Stock Exchange.
 - *November 7.* Kazakh commercial BTA Bank will use funds provided by SamrukKazyna to lend to the country's businesses. With the help of funds provided by the state the Bank will be able to gradually replace external sources of funding, at the same time not decreasing but even increasing lending volumes to the Kazakh economy and population, even in conditions of closed international capital markets.
 - *November 12.* The rating downgrade by Fitch Ratings of the long term issuer default rating in foreign
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currency of Halyk Bank, BTA Bank and Kazkommertsbank reflects the reduced ability of the Kazakh authorities to provide support to the banks, as reflected in the downgrade of the sovereign rating, according to Fitch's press release.

- *November 17.* Assets of Kazakh commercial bank ATF Bank as of October 1, 2008 amounted to KZT1,013 billion (US\$120,13/\$1) compared to KZT984.6 billion as of the beginning of 2008, as stated in the consolidated financial statements of the Bank, published on the website of Kazakhstan Stock Exchange.
- *November 17.* Assets of Kazakh commercial bank NurBank as of 1 October 2008 amounted to KZT314,254 billion (US\$120,13/\$1) compared to KZT204,040 billion as of the beginning of 2008, as stated in the consolidated financial statements of the Bank, published on the website of the Kazakhstan Stock Exchange.
- *November 19.* Increases in the required capital adequacies for Pension Funds postponed till 2010.
- *November 18.* Shareholders of Amanat Kazakhstan pension fund decided to increase its capital by four times, announced the CEO of the pension fund.

Kazkommertsbank



The price of the KKB GDR at the London Stock Exchange rose after the Government announcement on the capitalization of the four major Kazakh banks, including KKB. The monthly change in the GDR price for the period covered (from October 25 to November 25, 2008) was positive at 55.6%. The increase in the GDR price was noted after the annual minimum was reached in mid-October 2008.

- November 15.* The President of Kazakhstan Nursultan Nazarbayev visited Almaty International Airport to see the newly constructed landing strip allowing landing for all types of aircraft. KKB provided the majority of the US\$50 million financing for the project.
- November 20.* Two KKB internet projects won the National Internet Premium AWARD.kz 2008. The corporate web-site of the bank (www.kkb.kz) won in the category “Corporate web-sites”, and the KKB administered Kino.kz web-site was the first in the category “Culture and Arts”. The latter was the first in the history of the premium web-site to win for four consecutive years.
- November 24.* KKB’s video advertisement for its small business project entitled “Business Energy” won two prestigious international advertisement awards. The video advertisement won the Lion Cub Award and the right to represent Kazakhstan at the 56th Cannes Lions advertisement festival in summer 2009. On November 21, the video also won in the category “Banking advertisement” at the III International Russian advertisement contest AdVision Awards organized by the New York based marketing company Global Advertising Strategies and First Channel Global Network.
- November 25.* KKB’s remote banking service system (including Internet banking for individuals – Homebank.kz, and Internet banking for corporates – Onlinebank.kz) was the first in the category “Internet Banking in Kazakhstan” at the international competition The Choice of the Year, which is based on the public opinion and voting by experts.
- November 22.* The Shanyrak-2 newly constructed residential complex was completed in Astana by BI group company. It was the third construction project completed under the government support programme for construction companies via commercial banks.

Annex 1

USD million

Bank	Assets		Equity		Loans to customers		Deposits		Deposits without SPV		Retail deposits		Net income		Reserves
	30 Oct	Oct/Sept	30 Oct	Oct/Sept	30 Oct	Oct/Sept	30 Oct	Oct/Sept	30 Oct	Oct/Sept	30 Oct	Oct/Sept	30 Oct	Oct/Sept	% of loans
BTA	24 516	-4,7%	3 545	-0,9%	18 971	-3,6%	12 119	-5,5%	6 164	-9,5%	2 265	-5,2%	171	-16,5%	7,8%
KKB	20 049	-4,8%	1 920	-5,2%	17 935	-0,5%	13 557	-5,4%	8 095	-6,3%	2 280	-5,6%	88	-3,2%	17,7%
Halyk	15 558	2,2%	1 477	-1,0%	9 800	-1,5%	11 789	2,6%	9 288	3,3%	2 815	-2,7%	130	-7,0%	9,2%
Alliance	8 436	-4,2%	1 356	-0,7%	5 866	-0,1%	3 853	-8,3%	1 581	-9,5%	654	-3,6%	50	-16,7%	8,8%
ATF	8 195	-2,7%	882	2,7%	6 662	0,3%	2 977	-12,0%	2 524	-13,8%	1 075	-	14	-254,3%	5,5%
BCC	7 802	-6,5%	646	0,3%	5 214	0,9%	5 008	-5,4%	3 798	-7,0%	1 522	-4,3%	63	6,3%	6,8%
Nurbank	2 533	-3,4%	314	-1,2%	1 806	2,1%	1 709	-3,4%	1 559	-3,7%	132	4,1%	-47	0,0%	8,0%
Temirbank	2 514	-1,5%	448	-3,8%	2 145	-0,7%	1 561	-3,3%	626	-7,8%	214	-1,8%	-3	-122,8%	5,9%
Caspian	2 023	-5,9%	243	-2,9%	1 494	-2,6%	915	5,4%	862	5,8%	317	-1,4%	2	-70,5%	8,1%
Eurasian	1 897	-6,9%	206	0,1%	940	-8,9%	928	8,4%	928	8,4%	184	11,1%	8	3,6%	4,9%
Subtotal	93 524	-3,5%	11 038	-1,5%	70 834	-1,4%	54 415	-3,9%	35 425	-4,7%	11 458	-4,7%	475	-9,8%	10,2%
Other banks	7 247	-2,0%	1 510	2,1%	4 302	5,6%	4 321	-1,4%	4 180	-1,5%	867	-2,7%	70	4,9%	3,4%
Total	100 771	-3,4%	12 548	-1,1%	75 136	-1,0%	58 737	-3,7%	39 605	-4,4%	12 325	-4,5%	545	-8,1%	9,8%

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