

**Executive summary**

Official KZT/USD exchange rate as at 01.10.08 – 119.81

<b>Economy</b>	<b>Banking sector</b>
International reserves of the National Bank (including the National Fund) increased by 2.5%	The guaranteed amount on retail deposits will be KZT 5 billion until January 2012 (KZT/USD exchange rate – 119.87).
The Distressed Assets' Fund to be capitalized through USD 1 billion budget funds and USD 5 billion private investments	National Bank of Kazakhstan has maintained the refinancing rate at 10.5%

**Kazakhstan Economy**
**Net international reserves of the National Bank (including the National Fund) have increased by 2.5%**

In September 2008 inflation in Kazakhstan was 0.6%, year-to date inflation was 8.1%. In September 2008 bread and grain product prices increased by 0.5%, rice increased by 0.6% and cereals by 0.9%. Prices for vegetables fell by 5.5%, for fruits by 1.5% and for oil and fats by 0.1%. Prices for communal services increased by 1.5% and the price for diesel fuel increased by 2.7%.

September 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) increased by 0.9% (or US\$ 204.1 million). Foreign currency purchase operations in the domestic currency market, receipt of currency from Government accounts and increased gold assets, due to a 5.3% increase in global prices, were partly counterbalanced by increased assets of the National fund, reduction in currency balances of commercial banks' correspondent accounts with the National Bank and Government external debt service operations. As a result, net currency reserves increased by US\$ 63.7 million, while assets in gold increased by US\$ 140.4 million.

	<b>Sept 2008 %</b>	<b>Jan-Sept 2008 %</b>	<b>Sept 2008 to Sept 2007 %</b>
<b>Inflation level</b>	<b>0.6</b>	<b>8.1</b>	<b>18.2</b>
Products	0.1	8.9	23.7
Not distributed goods	0.3	6.1	10.9
Chargeable services	1.5	9.1	17.3
Volumes of physical production	100.8	103*	103

\*in % for Jan – Sept 2008. to Jan – Sept 2007.

	<b>Sept 2008, USD millions</b>	<b>% change for Sept 2008</b>
<b>Net international reserves</b>	<b>21,946.9</b>	<b>0.9%</b>
Including		
Net assets in FCC	19,920.8	0.3%
Gold	1,885.7	7.45%
<b>International reserves (including money of National fund)</b>	<b>49,514.0</b>	<b>2.51%</b>
<b>Official exchange rate KZT/USD</b>	<b>119.81</b>	<b>0.13%</b>

source: National Bank of Kazakhstan

Net international reserves, including the National Fund (which equaled US\$ 27.5 billion according to preliminary estimates) increased by 2.5% to US\$ 49.5 billion.

The volume of industrial production in January-September 2008 in comparison to January-September 2007 increased by 3%, largely due to the growth in production and distribution of electric energy, gas

and water (increasing by 9.4%) as well as production in the mining industry (increasing by 5%). The increase in absolute terms totaled KZT 8,202 billion. Production volumes increased in ten regions of the republic.

### **Key Developments in Kazakhstan's Economy**

- The President of Kazakhstan has said that there is no need to nationalize the commercial banks or large companies. However, the role of the Government should be strengthened in the current crisis situation
- The Prime-Minister of Kazakhstan has said that the Government will introduce a number of legislative documents aimed at increasing the regulatory role of the state in the economy to the Parliament in the near future
- According to the National Bank, the gross external debt of Kazakhstan as at 1 July 2008 increased by 4% from YE 2007 to US\$100.6 billion. The Government's share of external debt, which includes external liabilities of the Government and National Bank, did not exceed 2% of the gross external debt of the country: as at 30 June 2008 the Government's external debt decreased to US \$1.6 billion from US\$24 billion, as at YE 2007. External liabilities of the banking sector, as at 30 Sept 2008, was US \$45 billion, and external debt of large corporates totaled US\$54 billion
- According to the Ministry of Economy and Budget Planning, GDP growth for the first nine months of 2008 was 4% compared to the same period in 2007, according to preliminary estimates
- During January-September 2008 communication businesses in Kazakhstan provided services amounting to KZT 302.9 billion (current KZT/USD exchange rate – 119.85), an increase of 14.2% when compared to the same period in 2007
- The capital of newly created SamrukKazyna state fund will be US\$40 billion
- The Government of Kazakhstan plans to attract US\$5 billion from private investors to create a Distressed Assets' Fund
- According to the Deputy Chairperson of FSA, Kazakh commercial banks will share the risks and revenues related to the activities of the Distressed Assets' Fund. The Law on Banks and Banking Activities will be amended in line with the Government's decision to establish the Distressed Assets' Fund. The banks will participate in the Fund by purchasing stakes so as to share any possible losses arising from the operations of the Fund
- President Nazarbayev has said that Kazakhstan will rely on continued participation of American investors in concession projects in Kazakhstan
- The Government of Kazakhstan continues to discuss which sectors of the economy will receive the investments from US\$5 billion funds allocated from the National Fund.
- The State Small Entrepreneurship Development Fund "Damu" has developed and submitted for implementation non-financial instruments to support small and medium size businesses
- The National Bank of Kazakhstan has kept the refinancing rate at 10.5%, highlighting the National Banks' confidence in decreasing inflation. This move is a positive step towards stabilizing the financial markets
- The Financial Supervision Agency (FSA) plans to maintain the right to stop trading on the Kazakh Stock Exchange (KASE) until the end of 2008.
- According to the FSA, a three-year moratorium for commercial banks will be introduced, stipulating no changes to the loan interest rates both for corporate and retail clients.
- KazakhGold has received an offer for purchase of 50.1% stake.
- Kazakhstan has confirmed that it will not impose a ban on the export of grain from the 2008 harvest.
- The International Monetary Fund ("IMF") projects that inflation in Kazakhstan for 2008 will be 11.5%.
- The IMF has reduced its projections for GDP growth in Kazakhstan in 2008 from 5% to 4.5%
- The IMF has also welcomed the draft of a new Tax Code of Kazakhstan. New tax regulations for non-rough sectors of economy will positively affect the competitiveness in the sector and help achieve a Government objective to diversify the economy
- According to the IMF, the establishment of the asset stabilization fund in Kazakhstan to manage

the distressed assets of the banking sector could be a valuable tool in resolving existing problems in the sector

- The IMF has recommended that the Kazakhstan Government refrains from imposing any bans on the export of foods and fuel
- Due to the global crisis “Arcelor Mittal Temirtau” (located in Karaganda oblast) reduced production volumes by 25-30%
- The shareholders of UlarUmit pension fund decided to increase the share capital from KZT 440 million to KZT 4,840 billion (KZT/USD exchange rate – 119.97).
- According to the FSA, the Government of Kazakhstan will guarantee the contributions of citizens who participate in the obligatory accumulative pension system, including adjustments for inflation losses
- The capital adequacy ratio of the Kazakh pension funds might increase from 0.04 to 0.06%.

## **Kazakh Banking Sector**

### **Banking sector profit made up USD 593 million as of October 1, 2008**

The aggregated capital of banks decreased by 2% during September to USD 12.7 billion.

Bank profits amounted to USD 593 million as of 1 October 2008. Immobilised assets share in capital was 15.5%.

The aggregated liabilities of banks did not change significantly during the reporting period totaling USD 91.7 billion. Liabilities to customers decreased marginally to USD 61.1 billion. Inter-bank deposits decreased by 9% totaling USD 1,899 million whilst repurchase operations decreased by 2% to USD 1422 million.

The breakdown of the funding base by source is as follows: liabilities to clients 67%; securities – 4%; inter-bank loans and deposits – 16.4%; subordinated debt – 5%; and repurchase operations - 2%.

Aggregated banking system assets as at 1 October 2008 amounted to USD 104.3 billion. During the reporting month banking assets did not change significantly. Loans to customers remained at the same level, representing 63.7% of total assets, inter-bank loans and deposits amounted to USD 7,361 million. Cash and precious metals, banks correspondent accounts and amounts with National Bank constituted 9.1% of the aggregated total banking assets. Securities portfolio amounted to USD 8,464.8 million.

The asset quality of banks remains satisfactory. The share of loans with overdue payments of more than 90 days constituted 4.28% of the banks’ aggregated loan portfolio. The effective provisioning rate is 8.84%. Overdue loans are fully covered by provisions.

Profit earned by 2<sup>nd</sup> Tier banks since the beginning of 2008 amounted to USD 593 million. Aggregate income totaled USD 16,753 million, of which 54.7% is interest income. Aggregate expenses of the banks (adjusted for taxation) amounted to USD 16,160 million, of which interest income was 30.8%.

### **Major events in Kazakh banking system:**

- In order to increase stability in the financial system, the Government has increased guarantees on deposits to KZT 1 million. For the next three years, until 1 January 2012, the guaranteed amount will be increased to KZT 5 millions (KZT119.87/USD1).
- The Chairman of the board of Kazakh commercial BTA Bank, Mr Mukhtar Ablyazov, has proposed a 2% decrease in the minimum reserve requirements (MRR) which would free up to USD 2 billion for the economy.
- “International Bank Alma-Ata” JSC (IBA) has announced a change in its shareholders structure. According to the bank’s announcement, Mr. Jiri Smejck, a resident of Czech Republic and

shareholder of PPF Group N.V., has purchased a controlling stake (90.01%) in IBA. Home Credit B.V., a Netherlands based subsidiary of PPF Group N.V., has purchased the remaining 9.99% stake

- Kazakh commercial Caspian Bank has decided to change its name to KASPI BANK by the end of 2008
- Seimar Alliance Financial Corporation purchased GDRs, totaling USD 5 million, in its subsidiary Alliance Bank
- Eurasian Development Bank (EADB) postponed its first Eurobond issue due to uncertainty in the financial markets
- The investment portfolio of EADB is estimated to reach USD 1 billion by the end of 2008
- The US Ministry of agriculture increased its direct credit line to Kazakh BTA Bank from USD 55 million to USD 120 million according to press release issued by the bank
- Mr. Mukhtar Ablyazov, Chairman of the Kazakh commercial BTA Bank, has confirmed that it will not conduct its IPO in 2009 as was originally planned
- HSBC will serve as advisor to The Board of Directors and Management Board of BTA Bank on the strategic expansion of BTA's business, as part of its plans to become the largest private financial institution in CIS
- Kazakh commercial Eurasian Bank is lifting interest payments on mortgage loans for customers in socially vulnerable sections of population and those hardest hit by the real estate crisis for a one year period



Annex 1

USD mln

Bank	Assets		Equity		Loans to customers		Deposits		Deposits (without SPV)		Retail deposits		Net income		Provisions
	30.09.08	Sept/ Aug	30.09.08	Sept/ Aug	30.09.08	Sept/ Aug	30.09.08	Sept/ Aug	30.09.08	Sept/ Aug	30.09.08	Sept/ Aug	30.09.08	Sept/ Aug	% of loans
BTA	25 734	-1,3%	3 579	0,3%	19 678	0,8%	12 830	-3,0%	6 811	-3,5%	2 390	0,1%	205	7,4%	6,63%
KKB	21 050	-7,4%	2 025	-13,2%	18 034	-0,7%	14 327	-9,6%	8 641	-8,7%	2 414	-1,7%	91	-43,1%	15,39%
Halyk	15 216	3,3%	1 492	2,1%	9 950	0,8%	11 494	8,5%	8 994	7,2%	2 893	-2,1%	140	24,9%	8,60%
Alliance	8 801	0,8%	1 366	-2,5%	5 869	-1,5%	4 199	-1,2%	1 748	-1,1%	679	1,2%	60	-35,9%	8,69%
ATF	8 426	-1,1%	859	-2,9%	6 640	-1,5%	3 382	7,8%	2 930	9,0%	1 219	4,4%	-9	-159,2%	5,49%
BCC	8 346	3,4%	644	1,0%	5 167	-0,8%	5 295	-0,7%	4 084	-1,0%	1 590	-5,6%	59	15,0%	6,70%
Nurbank	2 623	13,1%	318	-0,7%	1 768	14,2%	1 769	19,1 %	1 619	1,7%	126	0,2%	-47	-2,1%	8,17%
Temirbank	2 553	-0,9%	465	-2,7%	2 160	0,8%	1 614	0,8%	679	21,3%	218	1,9%	14	-46,5%	5,18%
Caspian	2 150	-4,4%	250	-3,1%	1 534	-0,9%	868	0,5%	815	0,5%	321	1,8%	6	-50,7%	8,24%
Eurasian	2 038	18,9%	206	-0,1%	1 032	8,6%	856	21,7 %	856	21,7%	166	5,0%	8	3,7%	4,46%
<b>Subtotal</b>	<b>96 938</b>		<b>11 205</b>		<b>71 831</b>		<b>56 635</b>		<b>37 176</b>		<b>12 017</b>		<b>527</b>		
Other banks	7 397		1 479		4 072		4 384		4 243		891		66		
<b>Total</b>	<b>104 334</b>		<b>12 683</b>		<b>75 904</b>		<b>61 019</b>		<b>41 419</b>		<b>12 908</b>		<b>593</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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