

Executive summary

Official KZT/USD exchange rate as at 01.03.08 was 120.87

Economy	Banking sector
<ul style="list-style-type: none"> ▪ The programme of support to the unfinished construction projects in Almaty and Astana was launched ▪ Commercial banks received around KZT 50 billion for SME financing 	<ul style="list-style-type: none"> ▪ Credit risks in the banking system continue due to increased NPLs ▪ Repayments on the syndicated loans by the large banks continues in line with the schedule

Economy of Kazakhstan

Industrial production increased by 3.4 per cent in real terms

In February 2008 the consumer price index grew by 0.8 per cent, and showed 1.9 per cent growth since the beginning of 2008. The prices of food products continues to increase at a fast pace. To a greater extent grew the prices for fruits and vegetables.

In February 2008 NBRK international reserves decreased despite the operations on purchases of currency on the internal currency market and receipt of the currency to the Government accounts in NBRK, which were neutralized by the repayment of external debt by the Government and replenishment of the National Fund assets. Additionally, the balances of the commercial banks at the NBRK correspondent accounts also decreased.

	Feb 2008	Jan-Feb 2008	Feb 08 to Feb 07
Inflation rate	0.8	1.9	18.8
Prices for food products	1.2	2.8	26.8
Prices for non-food products	0.5	1.2	11.3
Prices for paid services	0.7	1.3	14.5
Industry physical volumes growth index	93.8	103.4*	104.3

*Jan-Feb 2008 to Jan-Feb 2007, %

	Feb 2008	Growth for Feb 2008
Net international reserves	19,040	-0.6%
including:		
Net assets in currency	16,931	-1.2%
Gold	2,109	4.9%
International reserves	41,624	2.2%
Official KZT/USD exchange rate	120.34	-0.01%

Source: National Bank of Kazakhstan

The growth in the industrial production by 104.3 per cent in Jan-Feb 2008 compared to Jan-Feb 2007 was caused by increased industrial production in the mineral resources industry (105.4 per cent) and production and distribution of electrical energy (112.9 per cent).

The Government action plan to stabilize the socio-economic development in Kazakhstan will be implemented in three areas

1. Completion of construction sites in Astana and Almaty cities

Analysis of unfinished construction sites in Astana city identified 229 projects for further financing. Out of this, a list of 112 projects was formed based on the following criteria: not less than 10 per cent degree of completion, and having not more than 90 per cent of customers who prepaid the cost of the real estate. 74 of the 112 projects have outstanding credit facilities in commercial banks.

In 2007 Kazyna JSC allocated KZT 48.8 billion (USD 400 million) from the republican budget to finance the above mentioned 112 projects with further allocations planned in 2008. In general, the cost of completing the 112 construction projects is around KZT 216.9 billion. The commercial banks were given the right to decide on financing of these projects, and they are ready to finance 52 out of the 112 construction objects for a total cost of around KZT 117.9 billion. Financing for the remaining 60 projects is being discussed and, mostly, depends on the ability and readiness of the commercial banks to finance them.

On December 6, 2007, an agreement between the Government of Kazakhstan, Kazyna JSC, Kazakhstan Mortgage Company JSC and commercial banks was signed. Based on this Kazyna JSC signed further agreements on term bank deposits with six banks, participating in the additional financing of the construction projects in Astana city: Caspian Bank JSC, Eurasian Bank JSC, Kazkommertsbank JSC, Tsesnabank JSC, Temirbank JSC and Bank TuranAlem JSC.

Between 6 December and 13 December 2007, Kazyna JSC deposited around KZT 37 billion in the deposit accounts of the commercial banks with the end use to finance 85 per cent of the quarterly needs of the previously mentioned 52 construction projects until the end of the February 2008. Before distributing the Kazyna funds, the commercial banks and the construction companies must contribute the remaining 10 per cent and 5 per cent, respectively. Kazyna JSC will then deposit quarterly funds with the commercial banks for 85 per cent of the quarterly needs for financing the construction projects.

In addition, from March 2008 the government support will be extended to construction sites in Almaty. The mayor for Almaty has previously stated that KZT 314 billion is required to complete the construction sites with a 10 to 90 per cent degree of completion. Negotiations are ongoing with 29 construction companies to calculate necessary resources for completion of these construction sites.

2. SME financing

This government support is being implemented by the Kazyna Sustainable Development Fund JSC via Small and Medium Enterprise Development Fund JSC (further on 'SMEDF'), which has extensive experience in this field. SMEDF has signed loan agreements with seven commercial banks participating in the SME support programme in Astana city: Caspian Bank JSC, Eurasian Bank JSC, Kazkommertsbank JSC, Tsesnabank JSC, Bank TuranAlem JSC, Alliance Bank JSC and Centercredit Bank JSC. The list of participant banks and the amounts to be allocated to each bank were identified by the State commission for the modernization of Kazakhstan's economy. On 14 December 2007 SMEDF deposited KZT 48.8 billion in the accounts of commercial banks. The special conditions include the following: deposit tenor, 7 years; grace period on the loan for SMEs, 2 years; and commercial banks should distribute the funds within 3 months from the date of signing of the Loan agreement.

SMEDF funds were distributed to the banks at an interest rate of 11.10-11.35 per cent. The interest rate is based on the NBRF refinancing rate tied to the individual banks' ratings. As the risks on SME financing are taken by the commercial banks themselves, the ultimate interest rate for the clients is identified by the banks considering the risks on each borrower.

Distribution and utilization of the government funds for SME support by commercial banks

Bank	Number of projects	Allocation, KZT mln	Disposed, KZT mln	Disposed, % of allocated	Interest rate %
Eurasian Bank	1	3,050	72.00	2.36	16.00
Caspian Bank	0	6,100	0.00	0.00	-
Tsesna Bank	3	3,050	27.25	0.89	18.53
Bank TuranAlem	446	12,200	4,680	38.36	18.78
Kazkommertsbank	105	12,200	1,307	10.7	15.95
Alliance Bank	0	6,100	0.00	0.00	-
Centercredit Bank	6	6,100	71.32	1.17	17.90
Total	561	48,800	6,157	12.62	18.14

3. Refinancing of investment projects

At the moment, a list of investment projects to be refinanced through the Development Bank of Kazakhstan JSC is under consideration by the State commission for modernization of Kazakhstan economy. The total number of projects to be refinanced is 12 for a total amount of USD 250 million. The State commission will take into account the Regulations for evaluation and monitoring of the credit risks, setting and reconsideration of the interest rates for investment projects and export operations of the Development Bank of Kazakhstan JSC.

Key developments in the Kazakhstan economy

- **More than KZT 6 billion was allocated to purchase grain from the 2008 harvest** to the Kazakhstan state reserve (current KZT/USD exchange rate 120.77).
- **The subsistence minimum in Kazakhstan has increased by 7.3 per cent since the beginning of the year.** In February 2008 the subsistence minimum was KZT 11,557, of which the proportion of the food products was KZT 6,934, the proportion of non-food products and paid services was KZT 4,623 (current KZT/USD exchange rate 120.85).
- **The Government of Kazakhstan has introduced a moratorium for inspections of the small and medium enterprises** until the end of 2008.
- **Pensions were increased for 35.8 per cent of pensioners**, and for 64.2 per cent of pensioners the pensions were re-indexed at the beginning of 2008. As a result, according to the Ministry of Labour and Social Protection, the minimum pension in Kazakhstan currently is KZT 12,110 (an 18 per cent increase compared to 2007), the average pension size is equal to KZT 17,870 (growth by 29 per cent), and the maximum pension size is KZT 26,110.
- **Construction of a sunflower-seed oil plant is planned in West Kazakhstan** oblast in 2008. The capacity of the plant will be 8,000 tonnes, half of which will be supplied to other regions of Kazakhstan.
- **Export limit measures for grain were introduced in Kazakhstan** from March 1, 2008 by setting customs fees.
- **The Kazakhstan government plans to identify the amounts of state guarantees on pension assets**, and to stimulate the clients of the pension funds to manage their pension assets.
- **Kazakhtelecom JSC may purchase assets outside of Kazakhstan in 2008.** The company developed and sent to Samruk state a programme of entry to the external markets by acquisition or equity investment to some foreign companies.
- **Construction of a number of large infrastructure objects will start in the West Kazakhstan in 2008.** Concession agreements were signed to construct the Yeralievo-Kuryk railway and electrification of Makat-Kandyagash area. The tenders to identify concessionaries to construct Khorgos-Zhetigen and Mangishlak-Bautino railways are being finalized. These projects will be launched in 2008.

Kazakh banking sector

Assets decreased due to reduced resource base

The aggregated equity capital of the banks increased by 1 per cent in February 2008 to USD 12,028 million. Increased current profits by the banks of 74.9 per cent to USD 220.1 million preserved the volumes of equity capital at the same level as in January 2008. The aggregated capital adequacy ratio as at 01.03.2008 increased by 200bp to 12.5 per cent, share of immobilized funds by 300bp to 13.3 per cent, in general, being low.

In general, the banks are limited in increasing the funding base. The aggregated liabilities of the banks reduced by 0.8 per cent to USD 84,523 million. Reduction of the debt securities volumes and repo operations, totaling USD 1,270 million, was not compensated by interbank operations and increased client base, amounting to USD 377 million and USD 259.9 million, respectively.

Breakdown of the funding base by source types is the following: 38.9%, customer accounts; 28.8%, debt securities; 21%, interbank loans and deposits (mostly syndicated loans); and 4.5% - subordinated debt. That means that concentration on external funding persists.

A positive moment in the funding base dynamics is that customer deposit grew in February by 17% (or by \$1,174.6 mln) to \$12,198 mln. As a result, share of customer deposits in liabilities increased from 12.2% to 14.4%.

Funding base reduction did not allow banks to increase their assets. Thus aggregated banking system assets decreased by 0.6% to \$96,551 mln. Mostly, this fall is a result of decrease in loan portfolio and balances with other banks. Also repurchase agreements are becoming less active.

Quality of banking assets deteriorated somewhat in February. Thus, overdue payments on customer loans increased by 31.4% to \$1,426 mln., and that is 2.0% of loan portfolio of banks. In December 2007 overdue payments were 1.2% compared to 1.5% in January. Increase in number of overdue loans resulted in an increase in reserve subscriptions. As of March 1 2008 reserves amount on overdue loans was \$4,672 mln., and provisioning rates have increased from 6.0% to 6.5% since the beginning of the year.

Kazakh banks expect further increase of credit risk in 1st half of 2008

The National Bank of Kazakhstan conducted a research on 2nd tier banks “Credit market status and forecast”. According to these results banks expect a slight increase in credit risk levels in the 1st half of 2008, which will be expressed by an increase in the number of roll-overs and an increase in the number of pledged property collections on problem loans. This increase will be a result of further real estate prices and collateral value decrease, according to commercial banks.

The second important issue, in the opinion of commercial banks, is liquidity risk, which is supported by coming maturities of external borrowings by banks, especially the 5 largest ones.

In order to support their liquidity and maintain adequate funding commercial banks are going to concentrate in reinvesting received income, increasing capital at the expense of existing shareholders and deposits as funding source.

According to NBK’s research the 2nd half of 2007 saw a significant toughening of banks’ credit policy. More than half of the banks questioned indicated a toughening of policies in regards to non-financial organisations and individuals (68% of respondents regarding mortgages, 63% consumer lending). The most pronounced trend in this regard was seen across the 5 largest banks by assets and leaders in these lending segments.

The main factors that influenced credit policies of the banks are: a decrease in availability and an increase in the cost of funding on external capital markets; increase in industry risks and decrease in paying capacity of individuals as a result of burden of loan increase; and an increase in collateral value reduction risks under unfavourable conditions on real estate market.

NBK noted that the negative trends seen in the 2nd half of 2007 will continue into the 1st half of 2008. Particularly regarding lending to non-financial organisations only 2 banks are going to insignificantly alleviate credit policy; mortgage loans, 1 bank; and consumer loans, 3 banks. There is also a strong intention to further toughen credit policies (especially amongst the 5 largest banks) for individual lending and that is reflected in expectations for a further slowdown of demand from this type of borrowers.

Negative trends for business activities in the real sector will continue to develop in the 1st half of 2008 - 1/3 of respondents plan to further toughen their credit policies whilst more than half will maintain their current policies. Among lending conditions the most exposed to toughening in the 1st half of 2008 are margin on risky and standard loans, and also collateral requirements. The 5 largest banks are concentrating on non-price lending conditions and the rest on prices.

Commercial banks’ expectations for demand in the coming 6 months are less optimistic in comparison to 2nd half of 2008: only 41% of respondents are forecasting growth in mortgage lending and 52% in consumer loans. Credit policies on mortgages will be toughened by 50% of banks and on consumer loans by 42%. The 5 largest banks are also more concentrated on credit policies of mortgages and consumer loans. The most affected conditions will be risky lending and collateral requirements, whilst the 5 largest banks also factor in the level of prepayment in mortgages and commissions not related to interest rate.

Main events in Kazakh banking system

- Kazkommertsbank repaid the remaining \$450 mln of a \$850 mln. syndicated loan agreement signed in August 2006. In August 2007 KKB repaid part of this loan - \$400 mln. Assets of KKB’s subsidiary in Kyrgyzstan increased by 30.7%, net income by 2.5 times, capital by 81.9% in 2007.
- Centercredit bank’s assets increased by 54.3% to KZT880.9 bn. In 2007, liabilities by 52.6% to KZT810.8 bn, and capital by 76.1% to KZT70.0 bn. Net income in 2007 was KZT13.8bn, higher than in 2006 by 45.1% (current exchange rate KZT120,50/\$1). Centercredit also plans to sell 30% of its shares to the Korean Kookmin Bank. According to the agreement, Kookmin Bank also has the option

to increase its share in Centercredit's capital to 50.1% or higher. Initial investments will be about KZT76 bn (\$634 mln) via a combined share purchase from existing shareholders and a new share placement in order to support the bank's further growth.

- Eurasian Bank for Development (EABD) increased its assets in 2007 by 70%. According to the audited financial IFRS statements of the bank, its assets were \$1312.8 mln at the end of 2007. Net income of the bank increased in 2007 by 4 times to \$39.2 mln., capital by 37% to \$853.9 mln.
- Bank Caspian's assets increased in 2007 by 32% to KZT257.5, liabilities of the bank by 29% to KZT228.3 bn., and capital by 57.3% to KZT29.1 bn. Net income for 2007 was KZT5.9 bn. In comparison with net loss in 2006 - KZT139 mln (current exchange rate 120,39/\$1).
- AFN registered its 2nd debt securities program of Alliance Bank to the amount KZT50 bn. Interest rate on bonds – 9.5% per annum, tenor - 10 years. The 1st debt securities KZT40 bn. program was registered by AFN in April 2005.
- Vneshtorgbank opened a representative office in Almaty as part of the bank's development strategy, to expand its branch network in CIS countries. The representative office is currently focused on increasing volumes and efficiency of credit and payments service in line with trade and economical partnerships between Russian federation and Kazakhstan, and on searching for potential partners interested in trade with Russian companies. In the short-term VTB's plans include creating a banking subsidiary in Kazakhstan, offering wide range of operations for corporate and retail clients.
- EBRD is planning to allocate up to \$1.5 bn for funding of Kazakh banks. In recent years the EBRD has organized a number of syndicated loans for Kazakh banks on purpose loans.
- Alliance Bank received KZT6.1 bn purpose loan from fund for development of SME. Alliance Bank - participant of a state program will direct these funds to financing of SMEs in the manufacturing field and also service and trade companies. The Bank will provide loans to finance these companies for amounts not greater than KZT140 mln. over a 5 year period.
- Credit organization "Orda Credit" plans to register its own bank. An application for permission to open "Orda Credit Bank" is under consideration by AFN. "Orda Credit" – is a small credit organization, with assets of \$33 mln. as of 30 September 2007, a 2.5% share among credit organizations.
- Tesnabank assets increased in 2007 by 74% to KZT149.4 bn., liabilities by 73.2% to KZT129.9 bn., capital by 77.2% to KZT19.5 bn. Net profit in 2007 was KZT1.03 bn, 67.4% higher than 2006 (current exchange rate 120.39/\$1).
- Development Bank of Kazakhstan agreed loans in excess of \$1 bn from banks such as Credit Suisse, ING, HSBC, SMBC, Bayern LB and State Development bank of China.
- BTA Bank repaid the 1st tranche of its \$1.1 bn syndicated loan arranged in September 2007 for \$530.9 mln and accrued interest of \$15 mln.

Please, note that information provided in the current document is based on the data from different sources including 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 for regulation and supervision of the financial market and financial organisations 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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Appendix 1

USD million

	Assets		Capital		Loans		Deposits		Retail deposits		Overdue loans*		Reserves	
	29.02.08	Feb/Jan	29.02.08	Feb/Jan	29.02.08	Feb/Jan	29.02.08	Feb/Jan	29.02.08	Feb/Jan	29.02.08	Feb/Jan	29.02.08	Feb/Jan
KKB	21 603	-2,9	2 281	0,4	18 240	0,2	6 789	3,7	2 510	0,7	468	35,2	-1 806	5,7
BTA	22 611	1,0	3 386	0,1	17 479	0,3	4 636	-3,9	2 223	3,8	279	147,4	-974	2,2
Halyk	13 241	0,8	1 237	1,6	9 035	0,9	7 968	-1,2	2 976	1,6	131	-9,0	-585	0,6
Alliance	9 325	-3,6	1 324	-0,5	6 623	-3,3	1 603	-4,0	730	-6,2	263	35,0	-380	1,6
ATF	8 518	4,8	615	8,8	6 199	-1,0	3 157	12,8	1 174	3,0	41	-26,6	-237	-14,2
BCC	6 950	-1,3	592	1,1	5 226	-2,0	2 599	6,2	1 149	-0,2	37	3,2	-275	5,5
Temir	2 732	-0,4	457	1,1	2 187	-2,9	497	-4,5	182	-18,6	35	-33,5	-80	-0,2
Caspian	2 173	1,6	247	-0,5	1 597	-0,5	678	7,7	265	1,0	46	14,7	-106	4,2
Nurbank	1 801	10,8	319	4,7	1 217	-0,5	614	35,1	73	-47,3	58	5,9	-73	-14,8
Eurasian	1 429	-5,1	168	0,1	3	0,3	712	-7,6	154	-1,3	9	15,8	-38	0,5
Total largest banks	90 383	-0,3	10 626	1,0	67 806	-0,5	29 253	1,9	11 436	0,2	1 367	30,8	-4 555	2,1
Other banks	6 165	-5,1	1 402	0,8	3 115	4,4	3 638	-7,0	761	9,2	58	46,2	-104	10,4
Total	96 5481	-0,6	12 028	1,0	70 921	-0,2	32 890	0,8	12 198	0,7	1 426	31,4	-4 659	2,28

* More than one day overdue loans