

Official KZT/USD exchange rate as of 01.04.08 was 120.69

Economy	Banking sector
<ul style="list-style-type: none"> • Economic fundamentals in the country remain strong • Second tier banks implement the Government programme plan • GDP growth was 5.3 per cent in the 1Q08 	<ul style="list-style-type: none"> • Majority of potentially doubtful borrowers identified, substantial provisions created • Foreign debts of the large banks repaid in line with the schedule

Economy of Kazakhstan

Volumes of industrial production increased by 3.7 per cent

The consumer price index grew by 0.6 per cent during March 2008; the CPI for the 1Q08 was 2.5 per cent (compared to 2.6 per cent in the 1Q07). Among food products, there was significant growth in the price for fruit and vegetables, which are up by 3.3 per cent.

An increase in the international reserves of NBRK was noted in March 2008. The effects of foreign currency purchases on the internal currency market and receipt of currency by Government accounts were partly counterbalanced by repayments of the Government foreign debt as well as reduced foreign currency balances at corresponding accounts of the commercial banks at NBRK.

As a result, net currency balances increased by USD 300.4 million. Gold assets decreased to USD 78.5 million due to the decrease in the global gold prices.

The growth of industrial production in Jan-Mar 2008 compared to Jan-Mar 2007 by 103.7 per cent was caused by increased industrial production in the mineral resources industry (106.8 per cent) and production and distribution of electrical energy (108.7 per cent).

	March 2008	1Q08	Mar 08 to Mar 07
Inflation rate	0.6	2.5	18.7
Food products	0.9	3.7	27.1
Non food products	0.3	1.6	11.2
Paid services	0.4	1.8	13.7
Industry physical volumes growth index	110	103.7*	104.2

* Jan-Mar 08 to Jan-Mar 07, %

	March 2008	Growth for Mar 2008
Net international reserves	19 262,3	1,2%
including		
Net assets in currency	17 231,7	1,8%
Gold	2 030,6	-3,7%
International reserves	42 386,9	1,8%
Official KZT/USD exchange rate	120,69	0,3%

Source: National Bank of Kazakhstan

The Government action plan on stabilization of the socio-economic development in Kazakhstan is implemented through three initiatives:

1. Completion of construction sites in Astana and Almaty cities

Kazkommertsbank reported on the exposure of 103 per cent of the planned volumes of financing of the construction sites in Astana in the first quarter of 2008 within the framework of implementation of the National Programme on Stabilization of the Socio-Economic Development in Kazakhstan. According to the Partnership Agreement, Kazkommertsbank funded 16 projects, taking on risks associated with these projects. In the first quarter of 2008, the Bank financed the two biggest construction companies in Astana – “BI Group” and “Kuat” for the projects approved by the State Commission on the Modernization of Kazakhstan Economy. Construction company “Bazis A”, which previously for financial support to finish construction, decided it did not need financing from the government to finish its projects in Astana. Respectively, funds received by the Bank to finance its projects were returned to Kazyna. Kazyna funds are released to bank-participants of the program on a quarterly basis in the form of term deposits and are repayable and chargeable. These funds cannot be used for

purposes not approved by state program. At the same time, banks incur all credit risks on financed projects. According to conditions of state program, banks make their own decisions on financing their clients' projects approved by the Government. Interest rate and loan conditions for construction companies are defined based on market rates and depend on aggregate risk, including various factors such as the borrower's credit history, level of completeness of the project, volume of sales, constructor's price policies, cost of construction, tenor of loan, etc. At present, Kazkommertsbank is taking part in the second stage of state program for support of individuals who bought presold apartments, by financing its clients – the construction companies of Almaty.

2. SME financing

This part of government support is implemented by Kazyna Sustainable Development Fund JSC via the Small and Medium Enterprise Development Fund JSC (further on 'SMEDF'), which has an extensive experience in the 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 on the modernization of the Kazakhstan economy. On 14 December 2007 SMEDF deposited KZT 48.8 billion with accounts of commercial banks. The special conditions include the following: deposit tenor of 7 years, grace period on the loan for SMEs of 2 years, and a requirement for commercial banks to distribute the funds within 3 months from the date of signing of the Loan agreement.

As a result of the funds placements through commercial banks during December 14, 2007 to March 20, 2008, 86.2 per cent of the Government funds in amount of KZT 42,086.6 million of the allocated KZT 48,800.0 million were lent out to SMEs, leaving a balance of KZT 6,713.3 million. The average interest rate was 17.8 per cent, the average loan amount was KZT 16,517,5 million, and the effective rate was 19.1 per cent.

2,548 projects were financed. The regional breakdown shows that the majority of the funded projects were in Almaty (405 projects), the Karaganda region (399 projects), and the East Kazakhstan region (345 projects). The regions with the lowest amount of projects financed were the Almaty region (41 project), Akmola region (57 projects), and Atyrau region (67 projects).

3. Refinancing of investment projects

JSC Development Bank of Kazakhstan (DBK) approved the financing of new investment projects amounting to USD 830 million. The following projects were approved: construction of the polycrystalline silicon production plant in Astana, project of JSC ORDABASY-PST on construction of premium-class tires production plan under Nokian and Astana Nokian brands, project of Semei leather and fur plant on profound processing of the raw material and production of competitive leather and fur goods and shoes, and additional funding of the investment project involving the construction of the Moynak hydroelectric power station with capacity of 300MBtr amounting USD 79 million.

Major developments in Kazakhstan economy

- Kazakh oil production company 'Zhaikmunay' closed the IPO at the London Stock Exchange for 10 million GDRs by USD 10 per one GDR. The size of initial public offering was 9.1 per cent of the company's equity.
- Fitch Ratings increased the long-term ratings for foreign and national currency of the Mangistau region of Kazakhstan (in the west) from BB to BB+. Such a change in rating reflects the fact that the region does not have debt repayments and, at the same time, has a strong and improving budget. Positive expectations of Fitch toward

further improvement of the operational balance due to the change in inter-budgetary relations between the region and the central government of the country also contributed to the rating action.

- The pension assets accumulated in the pension funds of Kazakhstan increased by 5.07 per cent from the beginning of the year to KZT 1,269 billion (current KZT/USD exchange rate 120.44/\$1).
- JSC Food Contract National Company (operator for wheat procurement to the state reserves) engaged for budget loan in amount of KZT 6 billion (current KZT/USD exchange rate 120.78/\$1).
- The tax duty for oil export will be introduced in Kazakhstan from May 1, 2008, at a rate of USD 109.91 per ton.
- President of Kazakhstan Mr. Nursultan Nazarbayev believes that the country can come out of the crisis without referring to the funds accumulated in the National Fund.
- Prohibition of wheat export was extended in Kazakhstan until September 1, 2008 when the new crop is harvested. The prohibition does not restrict the export of flour.
- The Government will allocate KZT 41 billion (KZT/USD exchange rate 120.74) to the local administration to purchase out six thousand apartments in unfinished buildings in Astana city.
- The gross external debt of Kazakhstan as at the end of 2007 increased by 30 per cent to USD 96.4 billion compared to USD 74 billion at the end of 2006. Along with decreased government external debt to USD 1.6 billion (USD 2.6 billion at the end of 2006), the external liabilities of the banking sector increased by USD 12.6 billion to USD 45.9 billion, or 47.7 per cent of GDP (USD 33.3 billion and 45 per cent of GDP at the end of 2006).
- According to the National Bank data, the deficit the current deficit of the Kazakhstan payment balance will be USD 6-7 billion or 6.9 per cent of GDP in 2008.
- The Government of Kazakhstan purchased 49.9 per cent of common shares of the largest Kazakh media holding JSC Khabar Agency, and obtained full control over this entity.
- In January-March 2008 the volume of construction works in Kazakhstan was KZT 174.5 billion (KZT/USD exchange rate 120.26) which is 8.5 per cent higher compared to January-March 2007.

Kazakh banking sector

In this reporting period the Kazakh banking sector showed growth

The aggregated capital of banks grew by 0.7 per cent during March to USD 12,113 million. Bank profits increased by 4 per cent to USD 228.9 millions. Aggregated capital adequacy ratio as of April 1 2008 was 12.4 per cent with a required minimum of 10 per cent, share of immobilized assets as a share of capital decreased by 3 b.p. to 13 per cent.

The aggregated banking liabilities increased by 1.5 per cent to USD 85,774 million. The increase in liabilities is a result of a 4 per cent increase in the customer base and also from funds attracted through Repo operations by 29.1 per cent. There was also decrease in banks' debt securities volume by 1.6 per cent in the reporting period.

Breakdown of funding base by sources of funding is the following: 39.9 per cent - customer accounts, 27.9 per cent - debt securities, 20.8 per cent - interbank loans and deposits (mainly syndicated loans), 4.5 per cent - subordinated debt, 1.4 per cent - Repo operations, 4.5 per cent - other liabilities.

A positive note in the funding base dynamic was the increase, in March, of customer accounts by 4 per cent (USD 1,313 million), current account increased by 9.1 per cent, term deposits by 2.3 per cent. Retail deposits share in liabilities was 14.5 per cent.

In March, the banking sector showed modest growth with aggregated banking assets increasing by 1.4 per cent to USD 97,887.7 million. This growth was the result of an 11.7 per cent increase in interbank loans and deposits, security portfolio by 7.2 per cent, and to a lesser extent the increase in correspondent accounts of banks and cash, which grew by 6.8 per cent and 11 per cent respectively. The period also saw increased volumes of placing funds in reverse Repo operations. The loan portfolios of banks decreased by 0.2 per cent.

Asset quality increased in the period under report. Thus the share of loans with installments overdue by more than 1 day decreased by 11 per cent to USD 1,268 million, and is equal to 1.8 per cent of aggregated loan

portfolio of banks. For comparison: in January 2008 overdue loans was 1.5 per cent and in February it was 2.0 per cent. The provisioning rate is 7 per cent, this indicator increased to 8.7 per cent in March. The provisioning rate fully covers overdue loans.

Profit earned by 2nd tier banks in 1Q08 totalled USD241 millions. Operational efficiency ratio (C/I) was 23.4 per cent. Current and short term liquidity ratios stood at 10.2 per cent and 67.6 per cent respectively. Actual indicators are much higher than the minimum required liquidity ratios.

According to FSA, 1Q08 results are supporting stability of financial market

The banking sector showed a very limited growth – only 0.4 per cent. As regards banks' loan portfolio, it even decreased by 0.1 per cent. 2nd tier banks, however, continue to issue new loans – KZT620 billion in three months. Approximately three fourth of new loans are given out for more than 1 year. This demonstrates that borrowers are reliable with clear development prospects. The Agency is analyzing developments in foreign redemptions at each bank, including gap-analysis, (discrepancies between assets and liabilities maturities), and is not concerned about any bank. The first quarter saw a peak in foreign debt repayments, according to the National Bank, and 2nd tier banks partially repaid them and partially refinanced. Different versions of volume of foreign debt repayments exist, as sometimes only the principal amount is calculated and in other cases calculation includes accrued interest.

Capital adequacy ratios increased compared to the beginning of the year. Negative aspects of this situation are related not only to international funding, but to a greater extent concerns about loan portfolio quality deterioration. There has been an increase in NPLs but this is still the situation is developing in accordance with forecasts. Share of loans with overdue payments more than 1 day on principal amount increased from 1.5 per cent to 2.1 per cent. However the situation can change, banks are able to write off loans to off-balance, and when all means exhausted, realize the collaterals. As regards loans classified as “2nd, 4th and 5th category doubtful” and “loss”, their share increased to 8.1 per cent as of 1st March from 5.2 per cent as of beginning of the year, with the highest growth seen during January. Forecasting further development of the situation, head of AFN does not think that provisions will continue to grow whilst profits of banks decrease at the same rate. The majority of potentially troubled borrowers have been identified, and provisions already made. Most of these problems are related to loans to construction sector and to some extent to retail lending.

Further updates are mainly related to the macroeconomic situation, which remains positive. GDP growth in 1st three months was 5.3 per cent, in line with government forecasts. Fundamental economic factors remain strong, and there are no any signs of a recession in Kazakhstan. To support her point, head of AFN (Ms. Elena Bahmutova) quoted comments raised during the “Big 8” meeting. According to these appraisals “emerging markets were only touched by shadow of crisis”. Nevertheless a lot is depending on the government, how actively it will support small businesses and large projects in the frames of “30 corporate leaders” program. Head of AFN also quoted appraisal of Fitch, according to which the crisis last fall did not grow to become systemic mainly because of government and Regulator actions. Namely, the granting of funding to finance SME and construction projects, related to individuals who had prepaid their share in housing construction.

Main events in Kazakh banking sector

- Financial Supervision Agency (FSA) introduces new requirements to support sustainability of commercial banks.
- Purchase by South Korean Kookmin Bank of 30 per cent share of Kazakh Centercredit bank will be finalized by October 2008. The contract states that Kookmin Bank in future will be able to increase its share to 50.1 per cent or more. Fitch had changed the rating outlook of the bank to “evolving”. According to audited consolidated financial statements, the assets of Centercredit bank increased by 54 per cent in 2007.
- Eurasian bank provided Centercredit bank with loan facility in amount of USD 70 million to 5 years.
- Central Bank of Russian Federation provided license for banking operations to the subsidiary of Kazakh Centercredit bank – OOO BCC bank – Moscow.

- The entrance of the strategic investor to Nurbank is possible in medium-term perspective.
- "Roseximbank" and "Kazkommertsbank" concluded a partnership deal financing export from Russia to Kazakhstan.
- Eximbank of China will grant a USD300 million credit line to Development Bank of Kazakhstan (DBK). The respective agreement was secured by a Kazakh government delegation headed by the Kazakh ambassador to China.
- Kazakhstan is planning to amend the "Law on Banks and banking activities" by including a paragraph which allows the state to be a shareholder of a bank, including being the sole shareholder.
- Bank Caspian received a USD 100 million loan from the International Financial Corporation. In the frames of this loan, IFC is granting USD 80 million with tenor 7 years for SME development and USD20 million for 1 year for trade finance development.
- Alliance Bank fulfilled 2 planned foreign debt payments for the sum of USD131 million. Particularly, according to announcement, on 28 March the bank fully repaid a syndicated loan to Schuldschein for USD46 million. Meanwhile on 20 March bank repaid the 1st tranche of USD85 million of its syndicated loan to Wakala, which has a total value of USD 150 million, and terms and conditions in the frame of Islamic financing by "Murabah" scheme.
- Commercial banks of Kazakhstan decreased their borrowing from the National Bank by 1.8 times in the 1Q08. As of the end of March liabilities to National Bank was KZT 66 billions, compared to KZT 123 billion(KZT120,55/\$1) at the end of 2007.
- Deposit growth in commercial banks is showing that trust is restored. According to AFN data, in March 2008, this trend continued, growing by 3.6 per cent. Growth, mainly, came from corporate clients up by 5.2 per cent, whilst retail deposits grew by 1 per cent.
- Halyk Bank placed a 5-year Eurobond for USD 500 million. The Bank became the 1st Kazakh issuer and 1st private institution in CIS to place Eurobonds since July 2007.
- Halyk Bank plans to sign the syndicated loan till October 2008.
- Halyk Astana Dornod LTD, the subsidiary of Halyk Bank, obtained license to carry out banking activities in Mongolia.
- Daewoo Securities and Halyk Finance (investment subsidiary of Halyk Group) agreed on cooperation in the field of investment banking in Kazakhstan and Central Asia.
- ATF Bank decided to place additional emission of shares among existing shareholders in amount of KZT 18 billion (KZT/USD exchange rate 120.45).
- Czech group PPF plans to buy small bank in Kazakhstan till the end of April 2008.
- According to FSA, the share of foreign capital in Kazakh banking sector will increase, the competition will tighten.
- According to FSA, the loan portfolio of mortgage companies in February 2008 increased by 3.8 per cent.
- Alliance bank plans to decide on the strategic investor till the end of 2009. In light of the situation at the global financial markets, Alliance does not project growth of major indicators in 2008.
- BTA plans to attract USD 400 million from the capital markets in 2008 via securitization of assets and issue of Islamic debt securities. BTA projects 20-25 per cent deposit growth in 2008.

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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Annex 1

USD million

	Assets		Equity		Loans to customers		Deposits		Retail deposits		Loan installments overdue more than 1 day		Reserves	
	31.03.08	Mar/ Feb	31.03.08	Mar/ Feb	31.03.08	Mar/ Feb	31.03.08	Mar/ Feb	31.03.08	Mar/ Feb	31.03.08	Mar/ Feb	31.03.08	Mar/ Feb
<i>KKB</i>	21 557	-0,2	2 326	2,0	18 092	-0,8	6 815	0,4	2 467	-1,7	393	-15,8	-1 905	5,5
<i>BTA</i>	22 639	0,1	3 393	0,2	17 500	0,1	4 867	5,0	2 219	-0,1	141	-49,6	-1 108	13,7
<i>Halyk</i>	13 493	1,9	1 239	0,2	9 215	2,0	8 209	3,0	3 042	2,2	133	1,4	-610	4,3
<i>Alliance</i>	9 549	2,4	1 355	2,4	6 596	-0,4	1 726	7,6	756	3,4	324	23,3	-398	4,6
<i>ATF</i>	8 596	0,9	612	-0,4	6 347	2,4	3 248	2,9	1 185	1,0	38	-9,3	-337	41,8
<i>BCC</i>	7 018	1,0	599	1,2	5 191	-0,7	2 695	3,7	1 168	1,6	32	-13,3	-289	4,9
<i>Temir</i>	2 775	1,6	460	0,7	2 186	-0,1	481	-3,3	188	3,2	37	6,5	-82	2,4
<i>Caspian</i>	2 093	-3,7	244	-1,4	1 620	1,5	707	4,2	289	8,9	37	-20,2	-103	-1,5
<i>Nurbank</i>	1 930	7,1	316	-1,0	1 229	1,0	759	23,8	176	141,6	67	15,6	-80	12,0
<i>Eurasian</i>	1 524	6,6	169	1,0	3	-6,8	696	-2,1	156	1,3	7	-23,8	-40	2,7
Subtotal	91 175	0,9	10 713	0,8	67 979	0,3	30 203	3,2	11 645	1,8	1 209	-11,6	-4 952	8,7
<i>Other banks</i>	6 688	8,5	1 386	-1,1	3 233	3,8	3 999	9,9	781	2,5	59	1,0	-112	7,3
Total	97 863	1,4	12 099	0,6	71 212	0,4	34 202	4,0	12 426	1,9	1 268	-11,0	-5 064	8,69