

Executive summary

Official KZT/USD exchange rate as at 01.06.08 was 120.57

Economy	Banking sector
<ul style="list-style-type: none"> • Net international reserves of NBRK increased by 3.6 per cent • The demand for additional liquidity for commercial banks is reducing • The quality of loan books of Kazakh banks should not be considered as doubtful 	<ul style="list-style-type: none"> • The term deposit base increased during the January – May 2008 period • Repayments on syndications and Eurobonds are being made as scheduled

Economy of Kazakhstan

Net international reserves of National Bank of Kazakhstan increased by 3.6 per cent

The consumer price index increased by 1 per cent during May 2008, resulting in an increase in the inflation rate during Jan-May 2008 of 4.5 per cent. For food products, the main increase was in the price of rice (9.7 per cent), flour (3.1 per cent), and bread products and cereals (2.7 per cent).

The net international reserves of the NBRK increased in May 2008 by 3.6 per cent in current prices (excluding funds of the National fund). Foreign currency purchase operations on the domestic currency market and the receipt of currency by Government accounts were partly counterbalanced by repayments of the Government foreign debt and reduction of the balances of commercial banks at NBRK correspondent accounts. As a result, net foreign currency reserves increased by USD 691.3 million while assets in gold increased by USD 60.9 million due to the growth of the global prices by 1.4 per cent.

	May 2008	Jan-May 2008	May 08/May 07
Inflation rate	1	4.5	19
Food products	1.4	6.2	27.2
Non-food products	0.6	3.0	11.3
Paid services	0.9	3.3	14.4
Industry physical volumes growth index	99	103.8*	105.2

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

	May 2008	Growth for May 2008
Net international reserves	21,473.1	3.6%
Including		
Net assets in currency	19,532.1	3.7%
Gold	1,941	3.2%
International reserves (including National Fund)	45,540.9	3.4%
Official KZT/USD exchange rate	120.57	0.15%

Source: National Bank of Kazakhstan

Volumes of industrial production in January-May 2008 compared to January-May 2007 increased to 103.8 per cent due to the growth of production in mining (106.7 per cent) and production and distribution of electricity, gas and water (107.9 per cent).

Major developments in Kazakh economy

- According to the Ministry of Energy and Mineral Resources, the veto on export of oil products introduced in Kazakhstan will last until September 1, 2008.

- According to the Ministry of Economy and Budget Planning, Kazakhstan has reduced the planned volumes of oil extraction in 2008 to 67.6 million tons.

- The Government of Kazakhstan is considering an increase in the income part of the republic budget by almost KZT 30 billion, while the expenditure part of the republican budget to be increased by KZT 153 billion (current KZT/USD exchange rate 120.61). At the same time, there are plans to fix the budget deficit to 2.1 per cent of GDP.

- According to the Government of Kazakhstan, economic growth in 2008 will be not less than 5 per cent.

- The Government of Kazakhstan plans to provide government support for the completion of 150 construction projects with customer prepayments in Astana and Almaty.

- The Prime Minister of Kazakhstan has authorized the Ministry of Industry and Trade to develop a unified standard for inspections of small and medium enterprises by authorized state bodies by September 2008.

- The veto on grain exports from Kazakhstan will not be extended after September 1, 2008.

- According to the forecasts of the Ministry of agriculture, the volumes of grain crop in Kazakhstan in 2008 will be 16-17 million tons.

- The prices on the primary residential real estate market decreased by 0.5 per cent in May 2008, while on the secondary residential real estate market the decrease was 3.9 per cent.

- According to the Agency of Statistics, the volumes of construction works in Kazakhstan in Jan-May 2008 made up KZT 447.9 billion (current KZT/USD exchange rate 120.67), which was 9 per cent higher compared to Jan-May 2007.

- According to the Agency of Statistics, the industrial production volumes in Kazakhstan made up KZT 4,243.1 billion during Jan-May 2008 (current KZT/USD exchange rate 120.70), which is 3.8 per cent higher compared to the same period in 2007.

- According to the Agency of Statistics, average nominal monthly wage per employee in April 2008 increased by 17.2 per cent compared to March 2008 to KZT 57,897 (current KZT/USD exchange rate 120.72). The reduction in real terms was 1.6 per cent.

- According to the Agency of Statistics, capital investments in Kazakhstan increased by 16.1 per cent during Jan-May 2008, with mining being the priority sector for investments (44.7 per cent of total investments to the capital).

- National oil and gas company 'KazMunayGas' started syndication of a 3-year loan amounting to USD 2.5 billion at LIBOR + 1.55%. The loan will be used to refinance the syndicated loan signed in the beginning of 2008 amounting to USD 3.1 billion aimed for the purchase of Romanian 'Rompetrol'.

- Fitch Ratings assigned long-term 'BBB' rating to the mid-term notes programme of the national oil and gas company 'KazMunayGas'.

- National oil and gas company 'KazMunayGas' plans to complete the acquisition of JSC 'MangistauMunayGas' shares by fall 2008.

- Kazakhmys signed a purchase agreement for 7.66 per cent of stock in ENRC Holding from the Government of Kazakhstan. As a result of the transaction, share of Kazakhmys in ENRC will increase from 14.59 per cent to 22.24 per cent. Kazakhmys has issued additional shares in amount of 80,286,050 of common shares. The share of the Government of Kazakhstan in the enlarged equity of the company will be 15 per cent. The Government of Kazakhstan and Kazakhmys Plc entered into discussions regarding government representation on the Board of Directors.

- American AES announced the completion of the transaction to sell its share in the AES Ekibastuz electricity station (former Ekibastuz GRES 1) and the Maykuben coal open mine (in Pavlodar oblast, North Kazakhstan) to 'Kazakhmys' for USD 1.1 billion.

- The cement plant will be constructed in at the Zhambyl region at a cost of KZT 28 billion. The construction of the Zhambyl Cement plant was instructed by the French group 'Vicat' (which will own a 60 per cent stake) and Kazakh 'KazkommertsInvest' (which will own a 40 per cent stake).

- Kazakh Fund Kazyna Capital Management (part of the State Fund for Sustainable Development 'Kazyna') plans to establish around ten direct investment funds during the next year and a half in cooperation with foreign partners.

- Kazakh State Fund for Sustainable Development 'Kazyna' and Qatar Islamic Bank will establish a Islamic financing bank with initial capitalization of USD 100 million.

- The National Bank of Kazakhstan intends to sell its 12 per cent stake in the Kazakh Stock Exchange (KASE) to JSC Regional Financial Center Almaty (RFCA), retaining its "golden share".

- American JPMorgan Chase & Co might provide support in attracting USD 15 billion via loans and notes during the next 5-7 years.

- According to the representative office of the European Bank for Reconstruction and Development, EBRD plans to invest around USD 1 billion in Kazakhstan in 2009.

- The Custom Union of Belarus, Russia and Kazakhstan, to be established in the framework of Eurasian Economic Union, will start operations in 2010.

- In line with its programme aimed at increasing the number of mid-route aircrafts, the Kazakh air carrier Air Astana has signed a contract with Airbus for the purchase of six aircrafts A320.

- Moody's Investors Service have assigned the Kazakh insurer 'Centras Insurance' with a financial sustainability rating of B3.

- Kazakh insurer ATF Polis has rebranded to JSC Allianz Kazakhstan following its acquisition by German insurance holding Allianz from ATF Bank.

Kazakh banking sector

In the reporting period growth of commercial banks' assets was 2%.

Aggregated capital of the banks increased in May by 1.9% to USD12.5 bn. Bank profit increased during the reporting month by 33.8% to USD483 million. Aggregated capital adequacy ratio remained unchanged at 12.6%, with a minimal capital requirement at 10% and a share of immobilized assets at 15.3% of capital.

Aggregated liabilities of the banks increased by 2% to USD86.6 bn. Increase in liabilities is mainly a result of an increase in customer accounts of 4.2% (their share in banks' liabilities is 41.4%), in Repo operations (12.5%) and correspondent accounts.

The breakdown of funding base by type of funding did not change significantly: 41.4% - customer accounts, 28.2% - debt securities, 19.8% - inter-bank loans and deposits, 4.4% - subordinated debt, 1.1% - Repo operations, 3.7% - other.

There has been a positive development in the funding base dynamics with an increase in term deposits in the reporting month of 3.1% (or USD800.5 million). In the structure of customer accounts, individual deposits decreased by 1.4%, representing 35% of customer accounts. Inter-bank funding during the reporting period increased slightly by 0.6%. However, it is necessary to note that banks making timely repayment of their external debt. The majority of loans due in 2008 were refinanced, proving the access for Kazakh banks to external markets.

During the reporting period, the banking system demonstrated growth, as aggregated banking assets increased by 2% to USD99.1 bn. Loan portfolios of banks decreased slightly by 0.7%, while inter-bank assets increased by 27.1% and the securities portfolio increased by 5%.

Asset quality remains satisfactory. Share of loans with overdue installments increased and is 2% of aggregated loan portfolio of the banks. The current provisioning level of 7.8% represents an increase during reporting month of 5.1%, providing full coverage for overdue loans.

Income earned by 2nd tier banks since the beginning of 2008, was USD504.5 million with a cost to income ratio of 22.2%. Current and short-term liquidity ratios are 10.0% and 66.1% respectively. The ratios are at an acceptable level and are in line with current and short-term liquidity requirements.

Main events in Kazakh banking system

- According to information of the National Bank of Kazakhstan, the need for liquidity support for commercial banks has decreased. At the same time, the National Bank is increasing the number of securities eligible for Repo operations (Eurobonds, issued by Kazakh banks' SPVs, national companies bonds, banks bonds issued before May 1, 2008, and Kazakh Mortgage Company securities were added to list).

- The National Bank will potentially decrease the minimum reserve requirement (MRR) for banks' external liabilities to 6%.

- The National Bank of Kazakhstan, according to Citigroup analysts, will not stop supporting the banking sector, despite continuing growth in producers' prices.

- According to AFN, bank liquidity is at an acceptable level with liabilities due within 3 months fully covered.

- According to AFN, information bank asset quality is at an acceptable level.
 - Money supply in April 2008 increased by 0.8%, since the beginning of the year by 4.8% to KZT4,852.7 bn (current exchange rate KZT120.70/USD1). The increase in money supply is a result of the Kazakh banking system's net external assets growth.
 - Total residents' deposits increased in April compared to March by 0.4% (since December 2007 by 6.3%) to KZT4,133.5 bn (current exchange rate KZT120.70/USD1).
 - Commercial banks earned net profit of KZT58.1 bn (current exchange rate KZT120.71/USD1) in January-May 2008, 37.3% less than in the same period 2007, according to AFN.
 - Kazakhstan Mortgage Company (KMC) is ready to purchase loans of commercial banks provided by them to individuals within the framework of the state residential program of 2005-2007
 - Russian Vnesheconombank will provide a USD300 million credit line for 15 years to the State Development Bank of Kazakhstan (DBK)
 - DBK raised USD950 million during the first 5 months of 2008 and signed an agreement for credit lines in the amount of USD700 million. The Bank is going to raise a loan for USD400 million in 3Q08
 - Alnair Capital Holding is awaiting AFN's permission to acquire more than 25% common shares of JSC Kazkommertsbank
 - In the framework of the general concept of consolidation and capitalization of subsidiaries, JSC Kazkommertsbank announced on May 22, 2008 a purchase of 47.89% of Moskomertsbank (Moscow, Russia) achieving 100% ownership of Moskomertsbank.
 - The Bank purchased a respective share of additional share issuance of another subsidiary – Pension Fund Grantum, as per its preemptive right. The share of the bank in the additional issuance was 80.01% (KZT480 million)
 - On 16 May Kazkommertsbank repaid USD250 million Eurobonds, issued in May 2007 via its subsidiary Kazkommerts International B.V. (Rotterdam, The Netherlands) to a small number of core investors.
 - Consolidated assets of BTA Bank increased by 3% during 1Q08 to KZT3,164 bn (USD26.2 bn) as of beginning of April 2008.
 - Kazakh insurer London-Almaty and French COFACE signed a general agreement on collaboration in the field of credit risks insurance.
 - BTA Bank expects to obtain a license for its subsidiary from China's Regulator by end-September 2008.
 - Kyrgyz BTA Bank (previously - Ineximbank), 71% stake of which was purchased by Kazakh BTA Bank, increased its charter capital to 1 bn Kyrgyz Soms.
 - BTA Bank is going to determine its position regarding the sale of its subsidiary Temir Bank by September 2008.
 - Halyk Bank's assets increased by 4% since the beginning of the year to KZT1,666.3 bn (current exchange rate KZT120.65/USD1).
 - Alliance Bank fulfilled two planned repayments on syndicated loans for USD323.5 million.
 - Bank Centercredit (BCC) signed an agreement with DEG (Deutsche Investitions Und Entwicklungsgesellschaft MBH, Germany) for a loan of USD40 млн for 5 years.
 - AFN granted to Astana-Finance a permission to obtain a status of large stakeholder in 2 insurance companies, established by this company.
 - Astana-Finance registered its banking subsidiary
 - Bank of Tokio-Mitsubishi UFJ is considering an option of opening a representative office in Kazakhstan
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- Austrian Holding Raiffeisen International is going to determine its position regarding entering into Kazakh market by the end of 2008 and is not planning expansion into new markets of CIS.

Annex 1

USD million

	Assets		Equity		Loans to customers		Deposits		Reserves	
	30.05.08	May/Apr	30.05.08	May/Apr	30.05.08	May/Apr	30.05.08	May/Apr	30.05.08	May/Apr
KKB	21 422	1,3	2 217	-5,2	18 057	-0,3	7 580	7,6	-2 136	5,3
BTA	23 343	3,1	3 436	0,5	17 402	0,3	5 373	12,8	-1 241	6,6
Halyk	14 034	1,8	1 412	10,8	9 447	0,0	8 051	-1,9	-686	7,1
Alliance	9 158	-2,4	1 389	1,3	6 297	-2,6	1 638	-2,7	-447	2,5
ATF	8 568	2,1	784	26,7	6 494	-0,9	3 189	-4,6	-339	-0,1
BCC	7 266	1,7	625	0,8	5 146	-0,7	2 888	1,9	-317	4,4
Temir	2 686	-0,9	469	1,0	2 170	-0,1	515	6,9	-87	6,1
Caspian	2 223	4,1	265	-1,1	1 603	-0,4	717	2,7	-106	3,1
Nurbank	1 724	4,1	310	-0,5	1 239	0,5	698	11,6	-88	6,6
Eurasian	1 475	2,2	171	0,1	3	0,0	712	1,0	-44	7,4
Subtotal	91 899	1,6	11 081	2,0	67 858	-0,4	31 358	3,2	-5 492	5,2
Other banks	7 164	7,7	1 426	1,2	3 396	1,8	4 492	11,2	-109	1,2
Total	99 063	2,0	12 507	1,9	71 255	-0,3	35 850	4,2	-5 601	5,1

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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