

Official exchange KZT/US\$ rate as at 1 July 2009 – 150.41

Summary

- National Bank of Kazakhstan reduced the refinancing rate, to 8%, the third cut since April 2009
- The inflation rate in June 2009 was 0.4%, and 3.9% YTD
- Deterioration in asset quality and increased provision charges put additional pressure on the banks' aggregate capital positions

Kazakh banking sector developments:

The Kazakh banking sector's aggregate capital decreased by a further US\$ 994.6 million or 65.9% during June, and amounted to US\$ -2,504 million. The major reason for this was an increase in the net losses of the banks, which amounted to US\$ -14,566 million in the first half of 2009.

Aggregate bank liabilities increased by 1%, to US\$ 83,280 million, during June. There were no significant changes in the structure of liabilities. Interbank loans and deposits decreased by 1.1%, mainly due to a decrease in long-term deposits from banks of 12.2%. Deposits from SPV subsidiaries decreased by 1.2% as a result of the amortisation of loans raised through SPVs. There were relatively insignificant decreases in issued debt securities (-0.2%) and subordinated loans. Loro accounts increased by 18.5%, customer accounts by 2.3%, repo agreements by 4.9%, and other liabilities by 9.8%.

The structure of customer deposits did not change significantly during June. Term deposits decreased by 0.6% and demand deposits increased by 8.4%. The share of term deposits (as opposed to demand deposits) within total deposits decreased slightly, from 69% as of 1 June 2009 to 67% as of 1 July 2009. The share of retail deposits within total liabilities remained at 12%. The loans-to-deposits ratio stood at 187%, a decrease from 198% as of 1 July 2008, due to the decrease in lending.

Aggregate bank assets did not change significantly during June and stood at US\$80,776 million. The gross assets of the banks increased by 1% to US\$ 102,217 million, while the gross loan portfolio did not change significantly and stood at US\$ 66,781 million. Net loans decreased by 1.9% due to the increase in provisioning.

The share of correspondent accounts within net bank assets decreased by 10.7%, mostly due to a decrease in correspondent accounts with the National Bank of 24.1%. Cash decreased by 2.7%,

Repo transactions and investments in subsidiaries decreased by 35.6% and 1.1%, respectively. Interbank funds increased by 23.1%, to US\$ 7,817 million, as of 1 July 2009. In terms of structure, overnight loans increased by 17.3% and short-term loans by 19.9%.

The banking sector's securities portfolio increased for the first time in the last three months, by 3.0%. The share of highly liquid assets within the banks' total assets decreased by 1% during June, and was 7.7% as of 1 July 2009 due to the decrease in highly liquid assets.

In terms of non-performing loans, 90-day overdue amounts on banks' loan portfolios amounted to 13.42% of total loans, and reserves for possible losses were equal to 30.61% of the sector's total loan portfolio. Both the amount overdue and provisions increased in absolute terms, by 16.8% and 4.8% respectively. The coverage ratio of overdue loans by provisions was 128% and the coverage ratio of overdue loans by collateral as of 1 July 2009 was 179%.

It is notable that the rate of growth of overdue loans decreased during June compared to previous months, however this item is still growing in absolute terms.

Kazakh commercial banks recorded a net loss of US\$ 14,566 million in the period January–June 2009. This was a result of the substantial increase in provisioning, to US\$ 15,398 million.

Aggregate banking sector operating income amounted to US\$ 1,677.6 million. The sector's cost-to-income ratio remained at 50% as of 1 July 2009. The ratio of interest income to interest expense decreased from 185% as of YE2008 to 166% as at 1 July 2009. The Net Interest Margin decreased from 5% as at 1 June 2009 to 4.3% as at 1 July 2009.

Major events in the banking sector:

- **15 July.** Alliance Bank and Samruk-Kazyna signed an agreement on the sale of a controlling stake in the Bank to SK. According to the document signed, Samruk-Kazyna will inject KZT 129 billion capital into the Bank.
- **13 July.** The State Agency for Financial Regulation (AFN) granted permission to open Kassa Nova Bank to ATF Leasing.
- **10 July.** The National Bank of Kazakhstan cut its refinancing rate by 0.5% from 8.5% to 8% as from 10 July 2009. Since April 2009 the refinancing rate has now been reduced three times.
- **9 July.** It was announced that the debt of Alliance Bank will fall to US\$ 1 billion after restructuring.
- **8 July.** Eurasian Development Bank (EADB) placed a second tranche of its bonds for an amount of KZT 5 billion. The total volume of EADB's first bond issue was thereby increased to KZT 20 billion.
- **8 July.** According to the National Bank, the aggregate volume of the Kazakh banking sector's debt amounted to US\$ 32.1 billion, of which almost 40% belongs to BTA and Alliance Bank.
- **1 July.** VTB Bank (Kazakhstan) started servicing clients. The Bank will offer its services to corporate and retail clients, but focus on the corporate and SME sectors.
- **30 June.** The AFN postponed from 1 July to 1 October 2009 the implementation of the changes in minimum capital requirements for commercial banks.

Major developments in Kazakhstan's economy:

In June 2009, **inflation** in Kazakhstan was 0.4% (YTD inflation was 3.9%). June 2009 saw an increase in the prices of food products of 0.2%, for non-food products a rise of 0.6%, and for paid services an increase of 0.4%. According to the Chairman of the National Bank of Kazakhstan, forecasts for 2009 inflation might be reduced. The monthly subsistence minimum per person in June 2009 increased by 6.6% compared to May 2009 (June 2008 to June 2009 the difference was -4%). The number of unemployed in June 2009 was 559,200 people, and the unemployment rate was 6.6% of the economically active population. The number of unemployed registered in authorised employment bodies in June 2009 was 92,800 people or 1.1% of the economically active population.

The volume of industrial production in June 2009 increased by 7.2% compared to May 2009. June 2009 saw increased production in the mining industry (up 6.3%) and processing industry, up 9.9%. There was an increase in the extraction of crude oil, in metals, machinery, metals production and food production.

According to forecasts from the Ministry of Economy and Budget Planning, GDP growth of 1% is expected in 2009. 1Q09 GDP decreased by 2.2% compared to 1Q08, falling to US\$ 20,118 million. Reduced industrial production volumes (down 4.6%), and decreased production in the metal industry and the production of finished metal articles (by 15.3%) were the major contributors to the decline in GDP. In addition, the food and machinery industries continued to see production volumes shrink.

In June 2009 the **net international reserves** of the National Bank based on current prices decreased by 6.4% (YTD by 6.6%), to US\$ 18.6 billion. The sale of foreign currency on the internal currency market and the receipt of funds by the Government account in the National Bank were counterbalanced by Government external debt service operations and reduced balances on the foreign currency correspondent accounts of commercial banks. As a result, net currency reserves in June 2009 decreased by 6.9% (YTD by 8.5%), while assets held in gold decreased by 2.4% (or US\$ 53.1 million) due to a decrease in global prices of 3.2% (YTD growth is +10.3%). As a result, net international reserves (including the National Fund's assets in foreign currency equal to US\$ 23.6 billion) were reduced by 1.8%, to US\$ 42.2 billion (the YTD decrease is 10.8%). Assets of the National Fund in local currency were KZT 600 billion (debt securities of Samruk-Kazyna National Welfare Fund and KazAgro).

According to the National Bank, in June 2009 the **money supply** increased by 3% (YTD increase of 8.5%) to KZT 6.8 trillion. The amount of currency in circulation increased by 5% (YTD decrease of 4.6%) to KZT 818.8 billion. At the same time, in June 2009 the reserve money increased by 3.2% (YTD increase by 53%) to KZT 2.3 trillion. The reduction in the net international reserves of the National Bank was counterbalanced by the increased net domestic assets of the National Bank.

Budget performance in 1Q09. In the quarter to 1 April 2009, state budget inflows (excluding loans) were KZT 797.1 billion, which was 102.8% of plan. Within budgetary income, the plan for tax income was exceeded, at 206.8% of target. On the other hand, budgetary expenses (excluding loan repayments) were KZT 709.8 billion, which was just 87% of plan (KZT 815.5 billion). As a result, in contrast with the forecast deficit of KZT 46 billion, there was a surplus of KZT 87.3 billion.

Balance of payments in 1Q09. Global prices for energy carriers and the devaluation of the Kazakh currency were major contributors to the changes in the current account in the first quarter. In 1Q09, the deficit on the current account was more than US\$ 1 billion or 4.7% of GDP (in 1Q08 there was a positive balance of US\$ 2.8 billion). The external trade balance in 1Q09 decreased by US\$ 8.9 billion, or 38.4%, compared to 1Q08, falling to US\$ 14.3 billion. Exports were US\$ 8.2 billion, while imports totalled US\$ 6.1 billion. The net inflow on the finance account (excluding operations on reserve assets) in 1Q09 was US\$ 3.3 billion compared to a net outflow of US\$ 1.2 billion in 1Q08. This net inflow was mainly due to a decrease in the foreign assets of the National Fund, which were transferred to domestic assets via the purchase of debt securities of Samruk-Kazyna National Welfare Fund and KazAgro for an amount totalling US\$ 4.6 billion, plus an increase in the obligations of the private sector due to direct

investments. In 1Q09, the positive balance on direct investments was around US\$ 2.1 billion. There was a net outflow on operations of the banks with non-residents of US\$ 4.7 billion due to a decrease in foreign liabilities.

	<i>US\$ million</i>	
Balance of payments	1 Apr 2009	1 Apr 2008
Current account balance	-1032.93	2790.09
Trade balance	2014.54	8648.16
Exports	8154.19	15931.71
Imports	-6139.65	-7283.55
Capital and finance account balance	3312.12	-1228.93
Finance account	3309.00	-1230.88
Errors and omissions	-2830.55	-532.44
Total balance	-551.36	1028.71

The gross external debt of Kazakhstan decreased by US\$ 2.7 billion to US\$ 105.1 billion as at the end of 1Q09. The share of short-term debt (up to 1 year) within total residents' debt decreased to 8.5% in 1Q09. The share of sovereign external debt, including liabilities of the Government and of the National Bank, was 2% of total external debt.

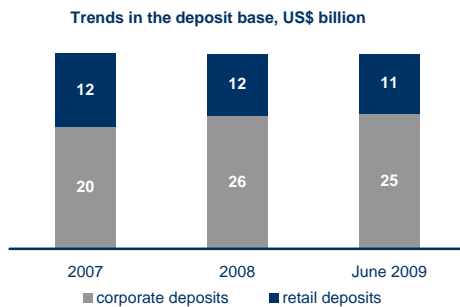
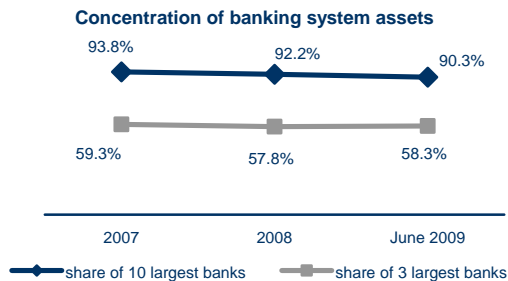
Kazakhstan's key macroeconomic indicators

	2005	2006	2007	2008	1Q09	2Q09
Domestic economy and financial system						
Real GDP growth, %	109.7	110.7	108.9	103.0	97.8	96.3
GDP, US\$ million	58,392	76,355	106,816	131,713	20,118	-
Production, % YoY	104.6	107	104.5	102.1	95.4	107.2
Registered unemployment, %	1.2	0.9	0.7	0.6	0.8	1.1
CPI, %	107.7	108.4	118.8	109.5	102.8	103.9
Monetary supply M3, US\$ million	15,887	27,492	38,486	51,894	43,303	45,118
Monetary base (reserve money), US\$ million	5,100	11,223	12,171	12,629	14,487	15,516
Real exchange rate	130.0	133.8	120.3	120.8	151.4	150.4
Official refinancing rate, %*	8.0	9.0	11.0	9.5	9.0	8.0
State finance						
State budget balance, % of GDP	0.6	0.5	-1.7	-2.1	2.8	n/a
Total sovereign debt, % of GDP	3.7	4.1	2.0	1.6	2.6	n/a
Sovereign debt / State budget income, %	13.5	17.9	8.7	6.5	10	n/a
Sovereign debt, US\$ million	2,175	3,125	2,099	2,167	2,079	n/a
Balance of payments						
Current account balance, US\$ million	-1,056	-1,999	-8,226	6,978	-1,033	n/a
Current account balance, % of GDP	-1.8	-2.6	-7.7	5.3	-4.7	n/a
Capital and finance account balance, US\$ million	912	16,201	8,366	1,219	3,312	n/a
Capital and finance account balance, % of GDP	1.6	21.2	7.8	0.9	15	n/a
Imports, US\$ million	17,979	24,120	33,260	38,452	-6,139	n/a
Exports, US\$ million	28,301	38,762	48,351	71,971	8,154	n/a
Foreign assets and liabilities						
Gross foreign debt, US\$ million	43,429	74,014	96,914	107,813	105,101	n/a
Gross foreign debt, % of GDP	74.4	96.9	90.7	81.9	-	n/a
National Bank's Gross International Reserves, US\$ thousands	7,069	19,127	17,629	19,872	19,479	18,597
National Fund	8,074	14,092	21,006	27,486	22,462	23,128
National Fund and international reserves	15,143	33,219	38,635	47,358	41,941	43,024

* From 10 July 2009 the refinancing rate was reduced to 8.0%

Banking sector indicators*

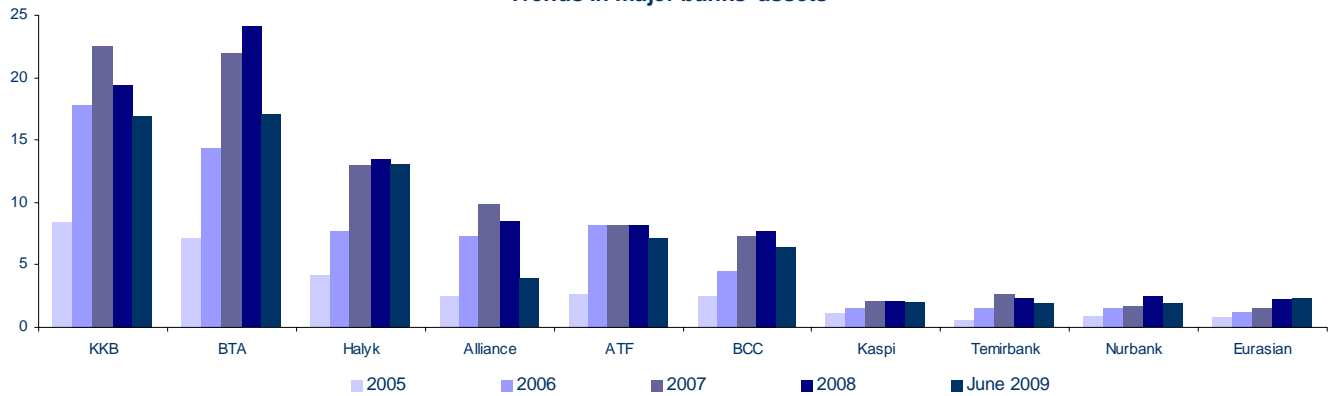
	2005	2006	2007	2008	June 2009
Commercial banks (number)	34	33	35	37	38
Bank branches (number)	1 730	1 813	2 381	2 546	2 418
Major indicators of the banking sector, US\$ million					
Assets	33 701	69 859	97 129	98 432	80 776
Capital	3 297	6 854	11 846	12 026	-2 504
Net profit	538	801	1 806	89	-14 566
Loan portfolio	22 869	47 181	73 718	76 534	67 953
Provisions for loans	1 276	2 342	4 337	8 491	20 797
- % of total loans	5.6	5.0	5.9	11.1	30.6
Customer deposits	12 471	24 979	32 451	38 084	35 701
Including retail deposits	4 455	8 143	12 035	12 421	10 877
Profitability ratios, %					
NIM	3.7	3.3	5.2	5.8	4.3
RoAA	1.6	1.1	1.9	0.1	-33.9
RoAE	16.3	11.7	15.3	0.7	-526.9
Banking sector and the economy, %					
Assets / GDP	60.6	87.5	90.9	74.6	72.6
Loans / GDP	41.1	59.1	69.0	58.0	61.1
Deposits / GDP	22.4	31.3	30.4	28.9	32.1



Major indicators of the largest Kazakh banks as at 1 June 2009

Bank	Assets		Equity		Loans to customers		Deposits		Deposits (without SPV)		Retail deposits		Net profit	Reserves
	US\$ mln	Jun/ May	US\$ mln	Jun/ May	US\$ mln	Jun/ May	US\$ mln	Jun/ May	US\$ mln	Jun/ May	US\$ mln	Jun/ May	US\$ mln	% of loans
BTA	17 060	-3.48%	-5 919	13.4%	17 420	-0.85%	9 772	-0.16%	4 447	-0.72%	1 143	-0.69%	-10 095	61.5%
KKB	16 930	-2.74%	1 692	-2.5%	16 907	1.07%	12 462	-3.47%	7 462	-5.64%	2 042	0.97%	1	21.9%
Halyk	13 141	2.97%	1 476	0.3%	8 62	-0.12%	8 792	5.12%	7 792	5.81%	2 457	0.05%	-88	16.5%
ATF	7 143	4.16%	601	-1.1%	5 969	-1.20%	3 032	7.13%	2 579	8.49%	1 042	4.07%	-13	12.4%
BCC	6 424	1.91%	610	2.7%	4 600	-1.28%	4 218	1.85%	3 182	6.32%	1 562	2.62%	29	11.7%
Alliance	3 963	-8.49%	-3 245	11.4%	4 556	-0.74%	3 589	-1.00%	1 217	-5.05%	401	-8.94%	-4 291	63.1%
Kaspi	2 060	-3.37%	220	-0.6%	1 490	5.02%	1 150	7.12%	1 150	7.12%	496	5.50%	19	9.6%
Eurasian	2 346	19.62%	189	3.5%	1 146	4.78%	1 281	3.42%	1 281	3.42%	512	10.40%	1	4.6%
Temirbank	1 947	-2.37%	145	-15.0%	1 846	-0.76%	1 128	0.59%	365	3.15%	156	2.68%	-185	11.85%
Nurbank	1 953	1.18%	290	-1.4%	1 688	0.88%	1 311	1.51%	1 161	1.71%	183	7.48%	4	7.1%
Subtotal	72 967	-0.53%	-3 941	38.12%	64 284	-0.045%	46 736	0.76%	30 637	1.41%	9 993	1.47%	-14 618	31.9%
Other banks	7 810	6.37%	1 431	6.92%	3 670	-1.32%	5 169	7.33%	5 064	7.491%	883	1.04%	52	7.1%
Total	80 776	0.10%	-2 504	65.92%	67 953	-0.11%	51 905	1.37%	35 701	2.23%	10 877	1.44%	-14 566	30.6%

Trends in major banks' assets



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