

Official exchange KZT/US\$ rate on 1 August 2010 – 147.69

## Summary

- Inflation in July 2010 was 0.2%
- The Government of Kazakhstan projects GDP growth in 2010 of 4%
- Moody's changed its outlook from Negative to Stable on Kazkommertsbank and Sberbank.

## News on Kazkommertsbank:

- **24 August.** Kazkommertsbank announced a change in issuer for the Subordinated Loan Participation Notes issued by its subsidiary Kazkommerts Finance 2 B.V. (The Netherlands). The change will result in all of the issuer's liabilities on the following Notes being transferred to Kazkommertsbank.

#	Currency	Volume of the issue	ISIN	Maturity date
1	USD	200,000,000	XS0262468654	27.07.2016
2	USD	250,000,000	XS0305204595	13.06.2017

The issuer has been substituted in accordance with the terms and conditions of the notes listed above and has no effect on the noteholders' rights.

- **3 August.** Kazkommertsbank announced that it has placed KZT 2 329 361 000 (nominal value) of KZT-denominated debt securities. The Bank conducted a placement of due 2016 notes with a yield of 8.00% to maturity. The notes were issued as part of the first issue of KKB's KZT 35 billion bond programme.

## Kazakh Banking Sector Developments

### P&L

The net income of Kazakhstan's commercial banks increased in July to US\$ 2,170 million from US\$ 1,818 million in January-June 2010.

Kazakh commercial banks' aggregate earnings amounted to US\$ 16,615 million. The aggregate expenses of the banking system (including corporate tax) was US\$ 14,445 million (US\$ 12,250 in Jan-Jun 2010), the majority of which were provision charges which constituted a 58.2% share of the total.

### CAPITAL

The Kazakh banking sector's aggregate capital remains negative and as of 1 August 2010 amounted to US\$ -3,376 million (US\$ -3,486 million as of 1 July 2010). Excluding the negative capital of BTA, the aggregate bank capital amounted to US\$ 7,663 million (US\$ 7,557 million as of 1 July 2010).

### ASSETS

Aggregate bank assets stood at US\$ 80,310 million (a decrease of 0.9% MoM or US\$ 762 million).

The share of loans to customers in total assets slightly increased from 48.5% to 49.1% during July. The share of securities portfolio decreased from 18.4% to 17.8%. The share of highly liquid assets (cash, precious metals and correspondent accounts) decreased from 9.5% to 8.0% due to a decrease in correspondent accounts of 22.3%. The share of funds placed with the National Bank within total assets slightly increased from 4.3% to 4.5% and the share of inter-bank loans and deposits increased from 3.8% to 4.5%.

The continuing monthly deterioration in asset quality is still the major concern of the banks. According to the FSA, loans that were at least 90 days overdue represented 25.8% of the total loan portfolio as at 1 August 2010 compared to 32.2% as at 1 July 2010. Loans that were 90 days overdue, excluding BTA, Temir and Alliance Bank, amounted to 17.7% of the total loans as at 1 August 2010, compared to 16.7% as 1 July 2010.

The loan loss provisioning rate decreased from 35.0% at June-end to 36.7% in July, according to the FSA.

### LIABILITIES

Aggregate bank liabilities decreased by 1% during July, to US\$ 83,686 million.

The structure of liabilities has not changed significantly. The major funding sources remain customer accounts, their share increased to 55.3% of total liabilities compared to 53.8% in June.

Customer accounts increased by 1.8% to US\$ 46,289 million, due to the increase in both corporate (by 1.4%) and retail (by 2.8%) accounts. A major inflow of total deposits was seen in Alliance, Centercredit and KKB (21.7%, 4.0% and 2.9%, respectively).

The sector's net loans-to-deposits ratio decreased from 86.4% in June 2010 to 85.2% in July 2010, due to the increase in deposits.

## Major events in the banking sector

- **23 August.** Two representatives of BTA's creditors' committee were elected members of the bank's Board of Directors.
- **20 August.** BTA Bank will purchase up to 8.4 billion (18.5% of placed shares) of its shares from its major shareholder Samruk-Kazyna at KZT 0,000000000122 per share, as part of its restructuring process. The restructuring is expected to be completed by 5 September, and as a result shares will be divided between its creditors (with a 18.5% stake), Samruk-Kazyna (with a 81.48% stake) and minorities (who will hold 0.02% in total).
- **20 August.** The Kazakh subsidiary of VTB Bank began consumer lending. In a few months it plans to start granting car loans, however, it is not ready to launch mortgages yet.
- **20 August.** National Bank expects that inflation in 2010 will be 7.8-8%, closer to the upper limit of its its previously forecasted range of 6-8%. As of July, actual inflation amounted to 6.7%, and this is expected to be the bottom value for inflation, as it is expected to grow in 3rd and 4th quarters of 2010.
- **20 August.** Fitch Ratings assigned a long-term domestic currency rating of BB+ and a national long-term rating of AA-(kaz) to 2 subordinated bond issues of Sberbank's Kazakh subsidiary.
- **9 August.** Moody's changed its outlook from Negative to Stable on Sberbank and Kazkommertsbank, and assigned B2 and B3 ratings to two bond issues by Kazinvestbank.
- **3 August.** BTA Bank's assets during January-June 2010 decreased from KZT 1.97 trillion to KZT 1.87 trillion, as reported in the bank's consolidated financial statements. The liabilities of the bank increased from KZT 3.45 trillion to KZT 3.5 trillion, whilst equity decreased from KZT -1.47 trillion to KZT -1.63 trillion. The bank's net loss as at 1st half of 2010 amounted to KZT -117 billion compared to a net loss of KZT – 1.5 trillion for the same period last year.
- **2 August.** National Bank released the results of its monthly commercial bank survey. The survey's major findings included:
  - The worsening of the credit quality of loan portfolios has slowed down.
  - Demand for loans from corporate clients remains low; there is a growth in demand for retail loans.
  - Banks expect continued tough credit policies and low demand for loans.
  - The majority of banks believe that real estate prices have stabilised.
  - The banks believe that the real estate sector is "exiting from crisis".

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**Major developments in Kazakhstan's economy:****INFLATION**

In July 2010, inflation in Kazakhstan was 0.2%. The prices of food products in July 2010 did not change, while non-food products saw a rise of 0.3% and paid services increased by 0.2%. Annual inflation (July 2010 to July 2009) was 6.7%, the prices for food products increased by 5.3%, non-food products rose by 6.2%, and paid services increased by 9.0%. According to the National Bank forecasts, the inflation rate in the 3Q10 will be 0.9-1.1%, and in 4Q10 it will be 2.5-2.7%. Inflation for 2010 is expected to be 7.8-8%.

**INDUSTRIAL PRODUCTION**

The volume of industrial production in January-July 2010 compared to January-July 2009 increased by 11%. The real volume index was 105.8% in the mining industry and 119.4% in the processing industry.

**UNEMPLOYMENT**

The unemployment rate in July 2010 was 5.7%. The number of unemployed people in July 2010 was 498,100. The number of unemployed people registered with authorised employment bodies in July 2010 was 0.8% of the economically active population. The hidden unemployment rate in July 2010 was 0.4% of the economically active population.

**INTERNATIONAL RESERVES**

In July 2010 net international reserves (including the net international reserves of the National Bank and National Fund's assets in foreign currency) increased by 3.1%, to US\$54.2 billion. The assets of the National Fund increased by 1.8% in July 2010 to US\$27.0 billion. The net international reserves of the National Bank based on current prices increased by 4.4% to US\$27.2 billion. The net currency reserves in July 2010 increased by 5.1% to US\$25.1 billion, while assets held in gold decreased by 1.6% to US\$2.6 billion.

**GDP**

GDP growth in January-June 2010 was 8.0% compared to January-June 2009. The share of production of goods in the structure of GDP was 40.5%, while the share of production of services was 56.8%. The government projects that GDP growth in 2010 will be at 4%.

**MONEY SUPPLY**

July 2010 saw an increase in the money supply of 1.4% to KZT 8,402 billion. The amount of currency in circulation increased by 3.7% to KZT 1,072 billion. The reserve money in July 2010 decreased by 5.1% to KZT 2,600 billion. The narrow reserve money (money supply less term deposits of the banks with the National Bank) decreased by 7.0% in July 2010 to KZT 2,064 billion.

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**News on Kazakhstan's economy:**

- **16 August.** Export customs duties (ECD) for oil and oil products were introduced in Kazakhstan. The Government of Kazakhstan fixed the following rates for customs duties: for export of crude oil – US\$20 per ton, light oil products – US\$99.71 per ton, for black oil products – US\$66.47 per ton. According to the estimates of the Ministry of Finance, Kazakhstan will receive KZT60 billion of proceeds from the introduction of the ECD in 2010, and KZT177 billion in 2011.
- **11 August.** The working group of the government commission on the modernization of the economy approved 11 applications for subsidizing interest rates on existing loans. The approved projects amount for KZT12,547.9 million. The projects include East-Kazakhstan hothouse complex, TechLocService in Aktobe oblast, Taldykorgan Cable Plant, Asia-Electric in Almaty oblast, Metal Product in Atyrau oblast, Premium A in Karaganda oblast, Doc Furniture and Kazinterfood in Kostanay oblast, TIM in South Kazakhstan, Aktau foundry, and Zarya farmership in Pavlodar oblast. Based on the commission's decision, the subsidy agreements will be signed between the project representatives, the commercial banks and the Damu Entrepreneurship Development Fund.
- **11 August.** The 2010 republican budget of Kazakhstan was executed between January and June with a deficit of KZT277,783.2 million. As previously announced, the budget deficit in 2010 is expected at KZT830.6 billion or 4.1% of expected GDP. GDP 2010 is expected to be KZT17,411.9 million.
- **2 August.** In July 2010 the subsistence minimum in Kazakhstan decreased by 1.6% compared to June 2010 to KZT13,743. In July 2010 the share of food products in the subsistence minimum was KZT8,246, while the share of non-food products and paid services was KZT5,497.
- **27 July.** The Government of Kazakhstan will revise its macroeconomic forecasts for 2010 in September 2010 along with the revised budget.

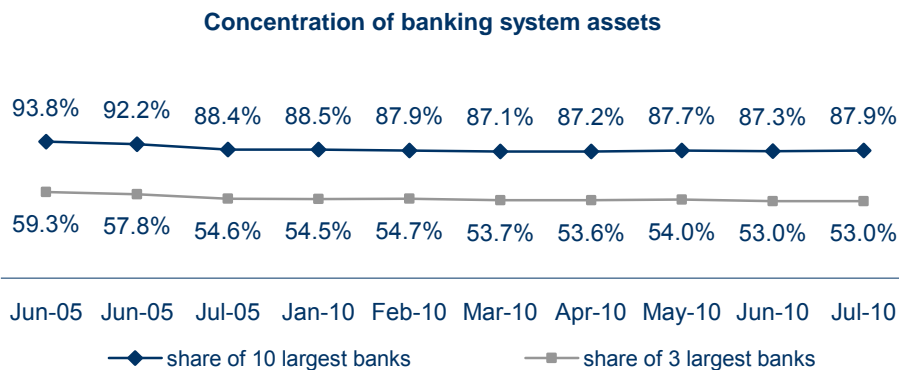
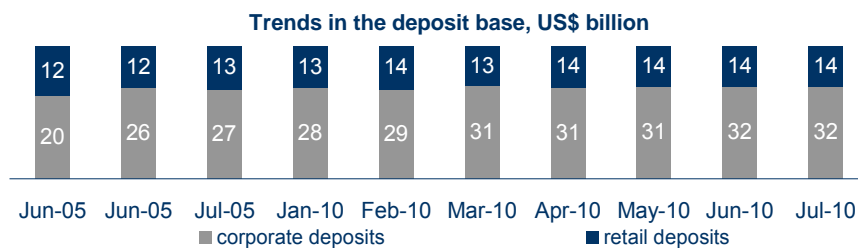
## Kazakhstan's key macroeconomic indicators

	2005	2006	2007	2008	2009	Jul 10
<b>Domestic economy and financial system</b>						
Real GDP growth, %	109.7	110.7	108.9	103.2	101.2	108.0
<b>GDP, US\$ million</b>	<b>58 392</b>	<b>76 355</b>	<b>106 816</b>	<b>131 713</b>	<b>107 197</b>	<b>59 131</b>
Production, % YoY	104.6	107	104.5	102.1	101.7	111.0
Unemployment rate, %	8.1	7.8	7.3	6.6	6.5	5.7
CPI, %	107.7	108.4	118.8	109.5	106.2	106.7
Monetary supply M3, US\$ million	15 887	27 492	38 486	51 894	49 754	56 893
Monetary base (reserve money), US\$ million	5 100	11 223	12 171	12 629	16 510	17 605
Real exchange rate	130.00	133.77	120.30	120.77	148.46	147.69
Official refinancing rate, %*	8.0	9.0	11.0	9.5	7.0	7.0
<b>State finance</b>						
State budget balance, % of GDP	0.6	0.5	-1.7	-2.1	-3.1	n/a
Total sovereign debt, % of GDP	3.7	4.1	2.0	1.6	2.5	3.9*
Sovereign foreign debt / State budget income, %	13.5	17.9	8.7	6.5	11.4	n/a
Sovereign foreign debt, US\$ million	2 175	3 125	2 099	2 167	2 218	4 112*
<b>Balance of payments</b>						
Current account balance, US\$ million	-1 056	-1 999	-8 226	6 978	-3 408	5 659
Current account balance, % of GDP	-1.8	-2.6	-7.7	5.3	-2.6	9.6
Capital and finance account balance, US\$ million	912	16 201	8 366	1 219	5 554	1 312
Capital and finance account balance, % of GDP	1.6	21.2	7.8	0.9	5.2	2.2
Imports, US\$ million	17 979	24 120	33 260	38 452	28 672	13 403
Exports, US\$ million	28 301	38 762	48 351	71 971	43 886	29 921
<b>Foreign assets and liabilities</b>						
Gross foreign debt, US\$ million	43 429	74 014	96 914	107 713	111 730	110 730*
Gross foreign debt, % of GDP	76.0	91.4	92.4	81.3	102.4	97.8*
National Bank's Net International Reserves, US\$ thousands	7 069	19 127	17 629	19 872	23 218	27 229
National Fund	8 074	14 092	21 006	27 486	24 368	27 009
National Fund and international reserves	15 143	33 219	38 635	47 358	47 586	54 238

\* as at 31 March 2010

### Banking sector indicators\*

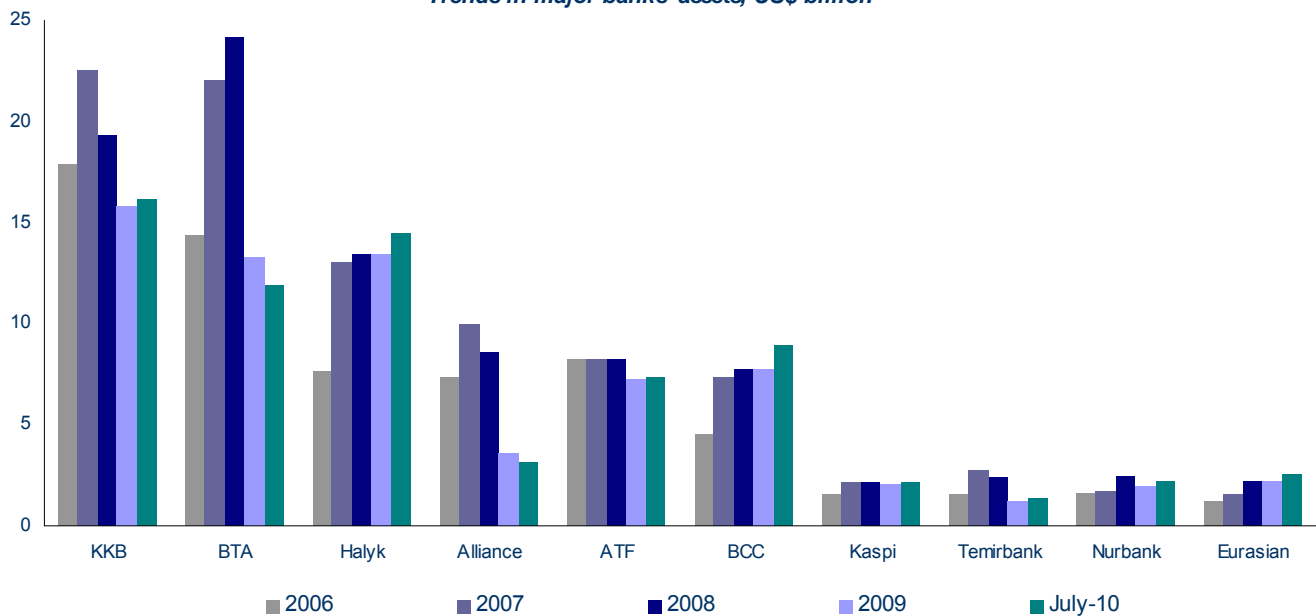
	2005	2006	2007	2008	2009	July 2010
Commercial banks (number)	34	33	35	37	38	39
Bank branches (number)	1 730	1 813	2 381	2 546	2 299	2 207
<b>Major indicators of the banking sector, US\$ million</b>						
<b>Assets</b>	<b>33 701</b>	<b>69 859</b>	<b>97 129</b>	<b>98 432</b>	<b>77 837</b>	<b>80 310</b>
Capital	3 297	6 854	11 846	12 026	-6 601	-3 376
<b>Loans</b>	<b>22 869</b>	<b>47 181</b>	<b>73 718</b>	<b>76 534</b>	<b>64 926</b>	<b>61 639</b>
Provisions for loans	1 276	2 342	4 337	8 491	24 458	21 543
- % of total loans	5.6	5.0	5.9	11.1	37.7	35.0
<b>Deposits</b>	<b>12 471</b>	<b>24 979</b>	<b>32 451</b>	<b>38 084</b>	<b>40 441</b>	<b>46 289</b>
<b>Net profit</b>	<b>538</b>	<b>801</b>	<b>1 806</b>	<b>89</b>	<b>-19 225</b>	<b>2 170</b>
<b>Profitability ratios, %</b>						
NIM	3.7	3.3	5.2	5.8	3.1	2.5
RoAA	1.6	1.1	1.9	0.1	Loss	Loss
RoAE	16.3	11.7	15.3	0.7	Loss	Loss
<b>Banking sector and the economy, %</b>						
Assets / GDP	60.6	87.5	90.9	74.6	71.4	65.4
Loans / GDP	41.1	59.1	69.0	58.0	59.5	50.2
Deposits / GDP	22.4	31.3	30.4	28.9	37.1	37.7



### Major indicators of the largest Kazakh banks as at 1 August 2010

Bank	Assets		Equity		Loans to customers		Total deposits		Retail deposits		Net profit US\$ mln	Reserves % of total loans	90 days overdue loans % of total loans
	US\$ mln	Aug/ Jul	US\$ mln	Aug/ Jul	US\$ mln	Aug/ Jul	US\$ mln	Aug/ Jul	US\$ mln	Aug/ Jul			
KKB	16 142	0.9%	1 814	0.2%	15 805	-0.4%	9 056	2.9%	2 683	4.7%	1	30.2%	19.3%
Halyk	14 484	1.2%	1 736	1.2%	8 166	0.2%	9 796	0.8%	2 950	2.3%	119	21.7%	19.1%
BTA	11 894	-6.0%	-11 024	-0.1%	12 834	-3.3%	4 592	2.8%	1 360	5.2%	-513	74.7%	36.1%
BCC	8 894	1.8%	721	-0.8%	4 789	0.8%	5 462	0.9%	2 159	2.8%	7	10.9%	5.6%
ATF	7 291	-4.9%	579	-4.7%	5 484	-1.3%	3 563	-1.8%	1 434	-3.2%	-108	15.2%	36.6%
Alliance	3 130	0.2%	267	50.4%	3 593	6.2%	1 388	21.7%	428	4.6%	2 113	62.0%	71.3%
Eurasian	2 542	2.8%	156	-1.2%	1 312	0.0%	1 778	0.8%	706	4.8%	-10	12.1%	9.1%
Nurbank	2 181	-1.1%	307	-0.1%	1 538	-2.9%	1 406	-1.2%	247	0.6%	2	9.7%	9.0%
Kaspi	2 106	-2.3%	196	-0.6%	1 774	1.7%	1 449	1.6%	875	3.0%	-18	14.0%	9.6%
Temirbank	1 329	5.5%	126	2.8%	1 696	-0.6%	425	5.6%	195	5.4%	526	51.6%	59.2%
<b>Top 10</b>	<b>69 992</b>	<b>-0.9%</b>	<b>-5 121</b>	<b>-1.7%</b>	<b>56 991</b>	<b>-0.6%</b>	<b>39 172</b>	<b>1.9%</b>	<b>13 039</b>	<b>2.8%</b>	<b>2 120</b>	<b>37.1%</b>	<b>27.2%</b>
Other banks	10 215	-1.8%	1 750	1.4%	4 568	2.8%	7 058	-1.4%	1 170	3.1%	35	8.6%	7.7%
<b>Total</b>	<b>80 207</b>	<b>-1.0%</b>	<b>-3 371</b>	<b>-3.2%</b>	<b>61 559</b>	<b>-0.4%</b>	<b>46 230</b>	<b>1.4%</b>	<b>14 209</b>	<b>2.8%</b>	<b>2 155</b>	<b>35.0%</b>	<b>25.7%</b>

Trends in major banks' assets, US\$ billion





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