Official exchange KZT/US$ rate on 1 July 2010 – 147.55

Summary

- Inflation in June 2010 was 0.2%
- GDP growth in January-June 2010 was 8% compared to January-April 2009
- Kazakhstan will not issue a Eurobond in 2010 due to the signing of a US$ 1 billion loan agreement with the World Bank for development programmes
- Temirbank's debt restructuring process is fully completed

News on Kazkommertsbank:

- **30 July.** The Prime Minister of the Republic of Kazakhstan took part in the opening ceremony of Kazkommertsbank's central office in Aktobe during his visit to Aktobe oblast.
- **7 July.** Kazkommertsbank acted as a major partner of the International Action Film Festival "Astana" organized by Timur Bekmambetov. The Festival was held from 28 June to 1 July and presented films from Kazakhstan, UK, USA, Korea, India and China.
- **16 June.** Kazkommertsbank, under the framework of its partnership with American Express, began issuing and promoting "Blue" credits cards, which are new to the Kazakh market and respresent an innovation both in the form and the services provided.

Kazakh Banking Sector Developments

P&L

The net income of Kazakhstan's commercial banks increased in June to US$ 1,818 million from US$ 1,643 million in January-May 2010.

Kazakh commercial banks' aggregate earnings amounted to US$ 14,068 million. The aggregate expenses of the banking system (including corporate tax) was US$ 12,250 million, the majority of which were provision charges, which constituted a 57.0% share of total expenses.

CAPITAL

The Kazakh banking sector's aggregate capital remains negative and as of 1 July 2010 amounted to US$ –3,487 million (US$ -4,145 million as of 1 June 2010). Excluding the negative capital of the bank under restructuring, the aggregate bank capital amounted to US$ 7,557 million (US$ 7,574 million as of 1 June 2010).

ASSETS

Aggregate bank assets stood at US$ 81,073 million (a decrease of 0.7% MoM or US$ 539 million).

The share of loans to customers decreased from 49.1% to 48.5% during May. The share of securities portfolio decreased from 18.9% to 18.4%. The share of highly liquid assets (cash, precious metals and correspondent accounts) increased from 8.8% to 9.5% due to an increase in correspondent accounts by 11.2%. The share of funds placed with the National Bank within total assets slightly increased from 3.9% to 4.3% and the share of inter-bank loans and deposits increased from 3.4% to 3.8%.

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 25.3% of the total loan portfolio as at 1 July 2010 compared to 26.8% as at 1 June 2010. Loans that were 90 days overdue, excluding BTA, Temir and Alliance Bank, amounted to 16.7% of the total loans as at 1 July 2010, compared to 18.3% as 1 June 2010.

The loan loss provisioning rate decreased from 36.7% at May-end to 35.3% in June, according to the FSA.

LIABILITIES

Aggregate bank liabilities decreased slightly by 0.1% during June, to US$ 84,560 million.

The structure of liabilities has not changed significantly. The major funding sources remain customer accounts (53.8% of total liabilities compared to 52.8% in May).

Customer accounts increased by 1.7% to US$ 45,466 million, due to the increase in both corporate (by 1.6%) and retail (by 1.9%) accounts. A major inflow of total deposits was seen in ATF, BTA and Centercredit (14.2%, 9.7% and 6.6%, respectively).

The sector's net loans-to-deposits ratio decreased from 88.4% in May 2010 to 86.4% in June 2010, due to the increase in deposits and decrease in loans to customers (-0.6%).

Major events in the banking sector

- **26 July.** Moody's Investors Service lowered ATF Bank's ratings for deposits in national and foreign currency, senior unsecured debt in national and foreign currency from Ba1 to Ba2. At the same time, the financial stability rating of ATF Bank was confirmed at E+ and the outlook changed from Negative to Stable.
- **21 July.** According to the Ministry of Finance, Kazakhstan will not issue a Eurobond in 2010 due to the signing of a US$ 1 billion loan agreement with the World Bank for development programmes. It had previously planned to borrow US$ 500–700 million on the international markets.
- **19 July.** A new Islamic Bank will be established in Kazakhstan, after documents were signed by the Fattah Finance Company, the Development Bank of Kazakhstan and Malaysian financial group Amanaraya. This project will be realised in 2011 and new bank will be dealing with small and medium enterprises.
- **19 July.** The financial court of Almaty approved the results of Temirbank's debt restructuring and accordingly the process is fully completed. The liabilities of the bank decreased from US$ 1.4 billion to US$ 700 million. As a result of the restructuring, c.80% of the bank's shares are owned by Samruk-Kazyna and 20% by foreign creditors of the bank who became shareholders as a result of the process. Less than 0.1% of the bank's shares are owned by minority shareholders, including BTA Bank.
- **14 July.** The Kazakh subsidiary of Sberbank is planning to increase the number of issued payment cards by up to 15 times over the next 4-5 years. The number of payment cards currently issued in Kazakhstan is 7.5 million, and 70 thousands of this is issued by Sberbank. The bank is planning to establish its own processing center in the middle of the next year.
- **14 July.** Grigoriy Marchenko, the head of the National Bank of Kazakhstan, held a monthly press-conference where he made the following statements:
    - At peak, the external debt of Kazakh banks was US$ 46 billion, and it has now declined to US$ 23.5 billion. Thus, after the completion of restructuring and debt write-offs the external assets of Kazakh banks (US$ 22 billion) will be greater than external liabilities.
    - The quality of the banks' loan portfolios is stable and this will be the case until autumn. This is due to a stable level of lending; if lending increases, the quality will improve.
    - The improvement in the quality of the loan portfolios will take 2-3 years depending on the growth in lending and real estate prices.
    - The National Bank does not recommend that banks decrease deposit rates further. It believes that deposit rates should not be lower than the inflation rate.
    - Inflation in June 2010 amounted to 0.2%. In annual terms inflation equalled 6.8%.
    - Kazakhstan's GDP decreased by US$ 1 billion during Q1 of 2010 and amounted to US$ 110.7 billion. The banks' debt decreased by US$ 3.9 billion while the liabilities of other sectors in economy increased by US$ 2.5 billion. Sovereign debt increased by US$ 46 million.
    - The monetary base increased b 8.7% in June and amounted to KZT 2,738.4 billion. Net international reserves of the National Bank declined by 5.8% to US$ 26.1 billion.
- **13 July.** Bank Centercredit's assets amounted to KZT 1,290 trillion as at 1 July 2010, an increase of 12% since the year-end 2009. The bank's liabilities increased to KZT 107,352 billion from KZT 88,201 billion. Net income of the bank amounted to KZT1,777 billion.
- **9 July.** VTB is closing its subsidiary in Kyrgyzstan, after considering the risks for the bank's assets and the perspective development of the Kyrgyzstan economy.
- **9 July.** The head of FSA Yelena Bakhmutova discussed incoming regulations at the 3rd Astana Economic Forum:

- From 1 July 2011 perpetual financial instruments will be excluded from Tier 1 capital, in order to improve the quality of the Tier-1 capital. This regulation was recommended by the Basel committee in December 2009 and is still being discussed.
- FSA accepted the recommendations of the Basel committee to decrease the leverage of financial institutions. As a result, by 2013 FSA will introduce a new leverage coefficient, in accordance to which the capital adequacy should be not be lower than 9% of risk-weighted assets and off-balance liabilities.
- FSA demotivates banks from lending in foreign currency to borrowers who do not have foreign currency income or who are not able to hedge their currency risks.
- FSA plans to continue actions to limit external funding: "We will use 30% of external funding as a base and financial institutions should not exceed this limit.

- **7 July.** Gross gold and currency reserves of the National Bank in January-June 2010 increased by 15.21%, and amounted to US$ 26.6 billion.
- **1 July.** Moody's Investors Service lowered Tsesnabank's financial stability rating (BFSR) from E+ to E and its long-term foreign currency deposits rating from B3too Caa1. The outlook on deposits was changed to Stable and the outlook on BFSR was confirmed as Stable.
- **2 July.** Fitch Ratings announced that it is going to reconsider Temirbank's ratings (Issue default rating in foreign currency at RD) within 2 months following the completion of the restructuring process at the bank.
- **30 June.** Moody's Investors Service assigned a B1 rating to Eurasian Bank's senior unsecured notes in local currency.
- **29 June.** The CEO of VTB's Kazakh subsidiary Sergey Gussarov does not exclude the possibility of expanding its business in Kazakhstan through acquisitions. Mr. Gussarov said that the bank is planning to develop organically but will consider proposals for acquisitions if available.
- **24 June.** The Eurasian Development Bank approved the Program for support and development of SMEs through providing dedicated credit lines to financial institutions. Credit lines will be granted for 3-5 years.
- **22 June.** Fitch changed its outlook on long-term issuer default rating in foreign currency to CCC and its outlook on the national scale rating B- (rus) of Moskommertsbank from Negative to Stable.
- **22 June.** BTA Bank and Central Asian Fuel and Energy Company (CAFEC) are discussing a possibility to merge pension funds Ularumit, BTA Kazakhstan, Amanat and Pension Asset Management company Zhetysu. BTA Bank fully owns BTA Kazakhstan, 75% of UlarUmit, and 75% of Zhetysu. CAFEC owns 100% of Amanat, 25% of Zhetysu and 25% of UlarUmit.
- **22 June.** Halyk Bank repaid a KZT 60 billion deposit to Samruk-Kazyna, placed as a part of the government's anti-crisis programme.
- **20 June.** Representatives of Sberbank may join the board of directors of BTA Bank in early September before making a decision on whether to allocate capital into the bank.
- **17 June.** HSBC purchased the retail assets of RBS (Kazakhstan) through its subsidiary for US$ 52 million. HSBC purchased the claim right on retail loans and credit cards of RBS (Kazakhstan), 4 outlets, 80 ATM and 2 supporting offices. Additionally, HSBC will offer employment to 490 employees of RBS.

Major developments in Kazakhstan's economy:

INFLATION

In June 2010, inflation in Kazakhstan was 0.2%. The prices of food products in June 2010 increased by 0.1%, non-food products saw a rise of 0.5%, while paid services increased by 0.1%. Annual inflation (June 2010 to June 2009) was 6.8%, and the prices for food products increased by 5.1%, for non-food products by 6.3%, and for paid services by 9.7%.

INDUSTRIAL PRODUCTION

The volume of industrial production in January-June 2010 compared to January-June 2009 increased by 11%. The real volume index was 106.3% in the mining industry, 118.3% in the processing industry.

UNEMPLOYMENT

The unemployment rate in June 2010 was 5.7%. The number of unemployed people in June 2010 was 495,000. The number of unemployed people registered with authorised employment bodies in June 2010 was 0.8% of the economically active population. The hidden unemployment rate in June 2010 was 0.4% of the economically active population.

INTERNATIONAL RESERVES

In June 2010 the net international reserves (including the net international reserves of the National Bank and National Fund's assets in foreign currency) decreased by 2.8%, to US$52.6 billion. The assets of the National Fund increased slightly by 0.4% in June 2010 to US$26.5 billion. The net international reserves of the National Bank based on current prices decreased by 5.8% to US$26.1 billion. The net currency reserves in June 2010 decreased by 6.2% to US$23.95 billion, while assets held in gold decreased by 2.2% to US$2.7 billion.

GDP

GDP growth in January-May 2010 was 8.3% compared to January-May 2009. The share of production of goods in the structure of GDP was 42.2%, while the share of production of services was 54.5%. According to preliminary estimates, the GDP growth in January-June 2010 compared to January-June 2009 was 8%. The government projects that GDP growth in 2010 will be at 4%.

MONEY SUPPLY

June 2010 saw an increase in the money supply of 2.9% to KZT 8,288 billion. The amount of currency in circulation increased by 4.4% to KZT 1,034 billion. The reserve money in June 2010 increased by 8.7% to KZT 2,739 billion. The narrow reserve money (money supply less term deposits of the banks with the National Bank) increased by 7.8% in June 2010 to KZT 2,218 billion.

News on Kazakhstan's economy:

- **21 July**. Damu Entrepreneurship Development Fund plans to raise US$500 million from the Asian Development Bank in September 2010. The financing will be guaranteed by the Ministry of Finance of Kazakhstan with a tenor of 15 years at LIBOR+0.2%. The funds will provide loans to new projects at small and medium enterprises.
- **12 July**. Capital investments in Kazakhstan in January-June 2010 were KZT1,798.2 billion, which was 4.8% lower compared to the same period in 2009.
- **8 July**. The grain crop in Kazakhstan in 2010 is expected at 14.5-15.5 million tons said the Vice-Minister of Agriculture Mr. Yevniev. He added that not less than 6.5 million tons of grain will be exported in the next marketing year (July 2010-June 2011).
- **1 July**. The European Bank for Reconstruction and Development (EBRD) expressed its readiness to finance the construction of a garbage complex processing plant in Aktau (Mangistau Oblast, West Kazakhstan). The project costs are estimated at US$11.2 million. The plant is expected to be constructed within two years. After the primary sorting of the garbage, part of it will be processed through anaerobic treatment to produce biogas from the garbage, which will be further used to produce electricity for the plant. The glass, paper and plastic will be sorted and sent for secondary processing.
- **30 June**. The President of Kazakhstan Nursultan Nazarbayev has signed the Customs Code of Kazakhstan. The Code sets provisions of customs legislation based on the legislation of the Customs Union.
- **28 June**. The President of Kazakhstan Nursultan Nazarbayev was satisfied by the dynamics in implementation of the industrial innovation development programme in Kazakhstan, which introduced 77 large projects totaling US$2.5 billion in the first half of 2010. The final outcomes of the programme are: share of processing industry in GDP structure of not less than 12.5% till 2015, and 13% till 2020; increased share of non-commodity export in total export from 10% to 40% till 2015, and 45% till 2020; increased productivity of labour in the processing industry by 1.5 times till 2015, and by 2 times till 2020; increased productivity of labour in agriculture by 2 times till 2015, and by 4 times till 2020. Moreover, the export potential of agriculture is expected to increase from 4% to 8%; domestic demand for construction will be by 80% provided by Kazakh construction materials; domestic oil processing plants will satisfy the country demand for fuel in full. The production and export of metal will increase by 2 times and chemical production by 3 times. The GDP of Kazakhstan will increase till 2020 by not less than one third compared to 2009. Inflation in the ten-year period will be between 5-8%. The assets of the National Fund will be not less than 30% of GDP in 2020 (US$90 billion). The unemployment rate will not exceed 5%.

Annex 1

Kazakhstan's key macroeconomic indicators

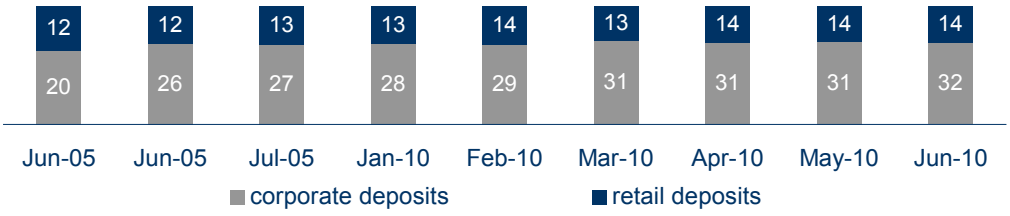
	2005	2006	2007	2008	2009	Jun 10
Domestic economy and financial system						
Real GDP growth, %	109.7	110.7	108.9	103.2	101.2	108.0
GDP, US$ million	**58 392**	**76 355**	**106 816**	**131 713**	**107 197**	**n/a**
Production, % YoY	104.6	107	104.5	102.1	101.7	111.0
Unemployment rate, %	8.1	7.8	7.3	6.6	6.5	5.7
CPI, %	107.7	108.4	118.8	109.5	106.2	106.8
Monetary supply M3, US$ million	15 887	27 492	38 486	51 894	49 754	56 170
Monetary base (reserve money), US$ million	5 100	11 223	12 171	12 629	16 510	18 559
Real exchange rate	130.00	133.77	120.30	120.77	148.46	147.55
Official refinancing rate, %*	8.0	9.0	11.0	9.5	7.0	7.0
State finance						
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	n/a
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	n/a
Balance of payments						
Current account balance, US$ million	-1 056	-1 999	-8 226	6 978	-2 833	n/a
Current account balance, % of GDP	-1.8	-2.6	-7.7	5.3	- 2.6	n/a
Capital and finance account balance, US$ million	912	16 201	8 366	1 219	5 554	n/a
Capital and finance account balance, % of GDP	1.6	21.2	7.8	0.9	5.2	n/a
Imports, US$ million	17 979	24 120	33 260	38 452	28 672	n/a
Exports, US$ million	28 301	38 762	48 351	71 971	43 886	n/a
Foreign assets and liabilities						
Gross foreign debt, US$ million	43 429	74 014	96 914	107 713	111 730	n/a
Gross foreign debt, % of GDP	76.0	91.4	92.4	81.3	104.1	n/a
National Bank's Gross International Reserves, US$ thousands	7 069	19 127	17 629	19 872	23 218	26 090
National Fund	8 074	14 092	21 006	27 486	24 368	26 541
National Fund and international reserves	15 143	33 219	38 635	47 358	47 586	52 631

Annex 2

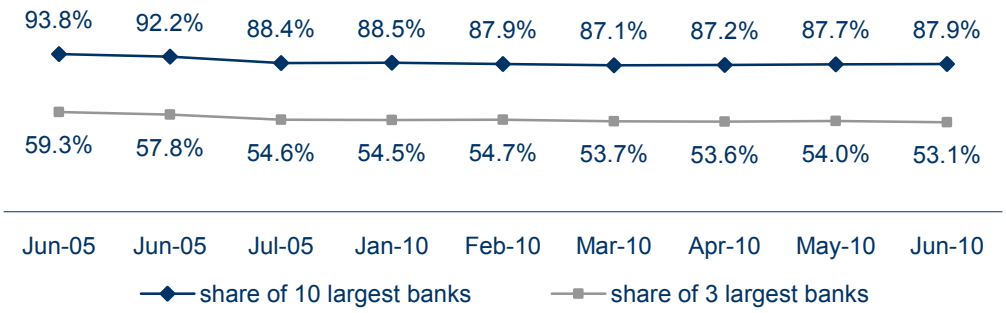
Banking sector indicators*

	2005	2006	2007	2008	2009	June 2010
Commercial banks (number)	34	33	35	37	38	39
Bank branches (number)	1 730	1 813	2 381	2 546	2 299	2 205
Major indicators of the banking sector, US$ million						
Assets	**33 701**	**69 859**	**97 129**	**98 432**	**77 837**	**81 073**
Capital	3 297	6 854	11 846	12 026	-6 601	-3 487
Loans	**22 869**	**47 181**	**73 718**	**76 534**	**64 926**	**61 839**
Provisions for loans	1 276	2 342	4 337	8 491	24 458	21 853
- % of total loans	*5.6*	*5.0*	*5.9*	*11.1*	*37.7*	*35.3*
Deposits	**12 471**	**24 979**	**32 451**	**38 084**	**40 441**	**45 466**
Net profit	**538**	**801**	**1 806**	**89**	**-19 225**	**1 818**
Profitability ratios, %						
NIM	3.7	3.3	5.2	5.8	3.1	2.5
RoAA	1.6	1.1	1.9	0.1	Loss	2.2
RoAE	16.3	11.7	15.3	0.7	Loss	-
Banking sector and the economy, %						
Assets / GDP	60.6	87.5	90.9	74.6	71.4	68.2
Loans / GDP	41.1	59.1	69.0	58.0	59.5	52.0
Deposits / GDP	22.4	31.3	30.4	28.9	37.1	38.3

Trends in the deposit base, US$ billion



Concentration of banking system assets

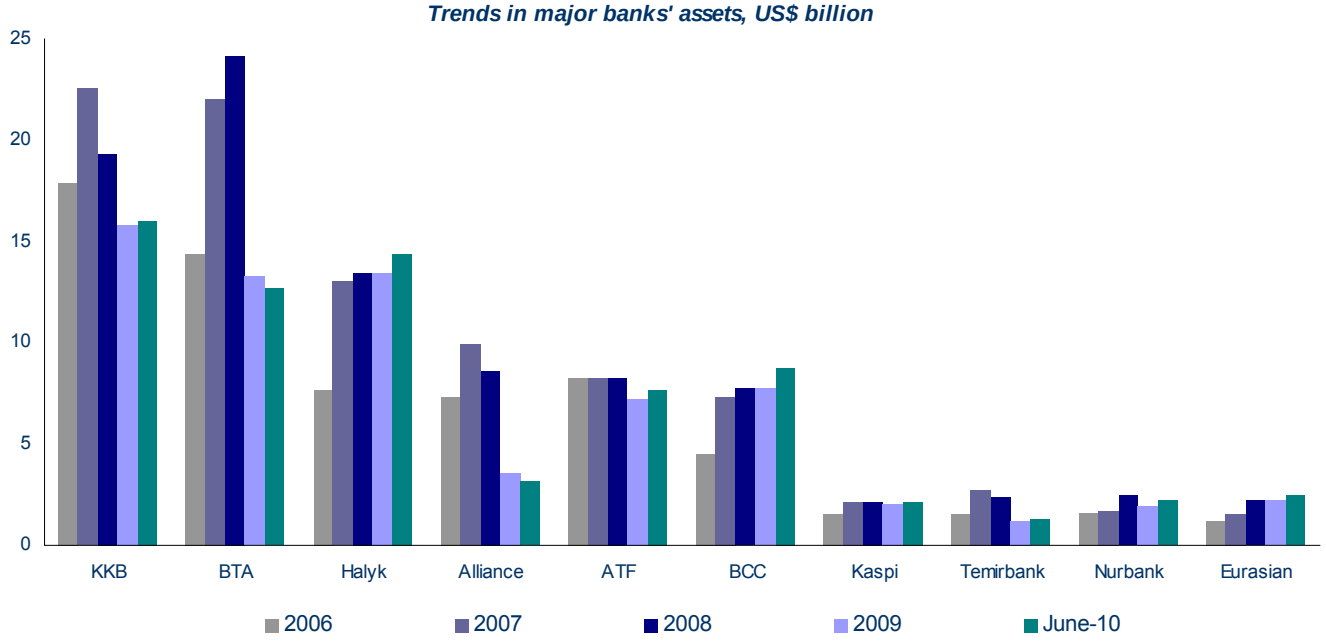


Annex 3

Major indicators of the largest Kazakh banks as at 1 July 2010

Bank	Assets		Equity		Loans to customers		Total deposits		Retail deposits		Net profit	Reserves	90 days overdue loans
	US$ mln	Jul/ Jun/	US$ mln	Jul/ Jun/	US$ mln	Jul/ Jun/	US$ mln	Jul/ Jun/	US$ mln	Jul/ Jun/	US$ mln	% of total loans	% of total loans
KKB	**16 019**	**-1.1%**	**1 813**	**-3.4%**	**15 881**	**0.1%**	**9 056**	**1.4%**	**2 565**	**3.6%**	**2**	**29.4%**	**18.3%**
Halyk	14 331	-2.5%	1 717	3.3%	8 162	-0.3%	9 730	-3.1%	2 886	2.6%	116	21.5%	19.1%
BTA	12 671	3.4%	-11 044	0.0%	13 291	-8.5%	4 470	9.7%	1 294	7.5%	-794	75.2%	37.3%
BCC	8 745	2.6%	728	0.9%	4 754	3.4%	5 421	9.9%	2 103	1.9%	12	10.8%	3.2%
ATF	7 670	4.5%	608	-11.8%	5 563	-0.4%	3 633	14.2%	1 484	4.8%	-79	14.5%	33.7%
Alliance	3 126	2.3%	178	-6.1%	3 387	-12.6%	1 141	3.5%	410	4.6%	2 026	69.4%	70.6%
Eurasian	2 474	-1.2%	159	0.5%	1 313	-2.5%	1 766	-0.6%	674	-1.0%	-9	12.0%	9.2%
Nurbank	2 208	0.7%	308	-1.7%	1 585	0.1%	1 424	-8.6%	245	-0.4%	1	9.3%	9.3%
Kaspi	2 159	1.7%	197	-2.1%	1 747	1.6%	1 428	9.76%	850	2.4%	-17	13.6%	9.7%
Temirbank	1 261	0.4%	123	-120.5%	1 708	-0.3%	402	-63.9%	185	5.4%	525	51.5%	58.5%
Top 10	**70 664**	**0.8%**	**-5 214**	**-10.6%**	**57 390**	**-2.7%**	**38 470**	**1.2%**	**12 697**	**3.2%**	**1 782**	**37.5%**	**26.6%**
Other banks	10 409	5.9%	1 727	0.4%	4 449	3.6%	7 162	9.0%	1 136	-5.2%	40	7.7%	7.5%
Total	**81 073**	**1.4%**	**-3 487**	**-15.3%**	**61 839**	**-2.3%**	**45 631**	**2.3%**	**13 834**	**2.5%**	**1 823**	**35.3%**	**25.3%**

Trends in major banks' assets, US$ billion



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