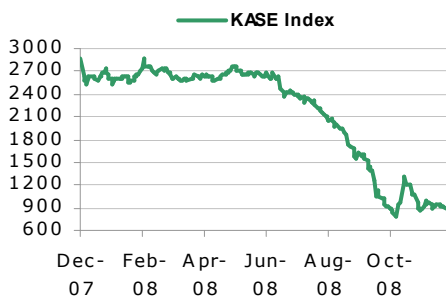
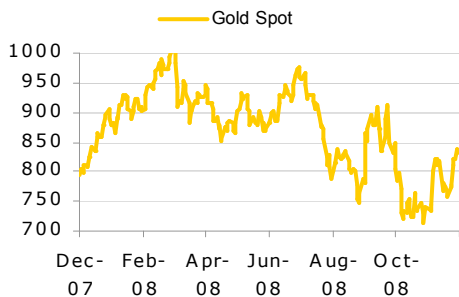
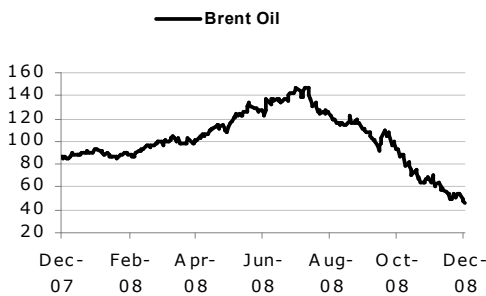
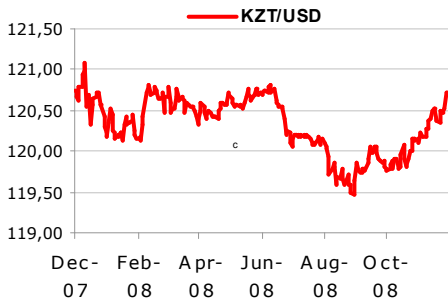


WEEKLY UPDATE

December 16, 2008



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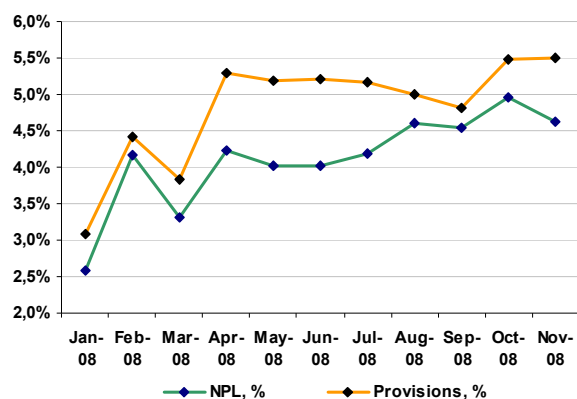
Financial Sector

Moody's responds to officials' comments

On 12th December, Moody's put many of Kazakhstan's Tier 2 banks under review for possible downgrade, including all the larger banks other than Alliance, which was already under review. The decision came soon after senior government officials made various comments about 'freezing bond prices' and 'sharing pain with investors'¹, as discussed in December 12 Halyk Finance Commentary. Quite apart from the impracticality of the suggestions made in these comments, they are likely to make it more difficult to rollover debt and more likely that ratings downgrades trigger early repayment clauses (although we cannot positively confirm the existence of such clauses). The other major rating agencies may soon follow the suit.

Other reasons behind Moody's action were: continuing sector's asset quality deterioration (Fig. 1); declining commodity prices; and Kazakhstan's shrinking FX reserves (Fig. 2).

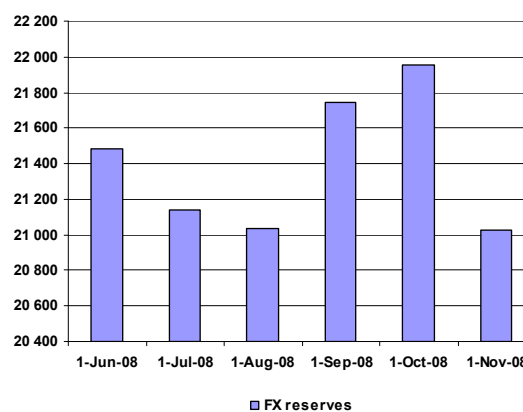
Figure 1. Asset quality data, beginning of period



NPL ratio is based on AFN definition, which includes loans of category Doubtful 5 and Loss as well as the provisions on pooled loans.

Source: AFN monthly data

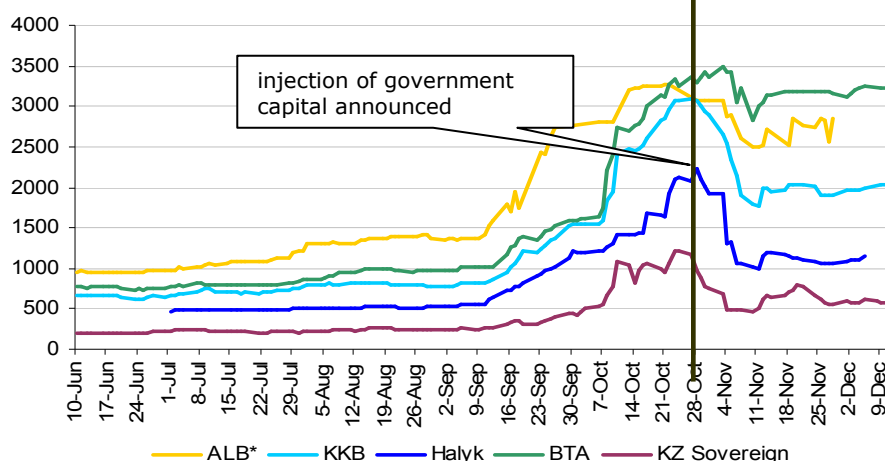
Figure 2. NBK's FX reserves, \$ mn



Source: NBK

¹ From Moody's: "These rating actions reflect Moody's assessment of increased uncertainty regarding government support to the Kazakh banks followed by the recent statements of high-ranked Kazakh officials on the government's intention to restructure the banks' foreign borrowings and the potential implications this may have to the economy."

Figure 3. Cost of ensuring debt of Kazakh banks, bps.



Source: Bloomberg

*Bloomberg ASW mid spread on ALB Eurobond maturing at 04/20/2011

On 11th December, Halyk Bank announced that it has sufficient funds to repay its obligations, that it will not participate in any debt restructuring program by the government, and that it has not authorized nor plans to authorize any third party to negotiate debt restructuring on its behalf. On 15th December, KKB followed suit by publicly stating that the bank will continue to repay its outstanding debts as scheduled, is not considering any debt restructuring and has not initiated any discussions in this respect.

Both banks claimed to have little foreign debt repayments scheduled for 2009 (shown in the table below). The other two banks mentioned by the government in the context of debt restructuring are Alliance Bank and BTA.

Table 1. Foreign debt redemption schedule for 2008 and 2009, \$m*

	Q1 08	Q2 08	Q3 08	Q4 08	Total 2008	Total 2009
BTA	531	30	260	378	1199	1702
KKB	610	530	690	378	2208	1063
Halyk	110	-	-	-	110	600
Alliance	170	510	150	192	1022	569
4 largest	1421	1070	1100	948	4539	3934
Banking system**	3739	2236	4847	2977		8107

Source: Company data, Halyk Finance estimates

*Including eurobonds, syndicated and bilateral loans, securitization

**National Bank data for Q1, Q2 2008 as of 30.09.2007 and for Q3, Q4 2008, and Total 2009 as of 30.06.2008

Changing horses in midstream

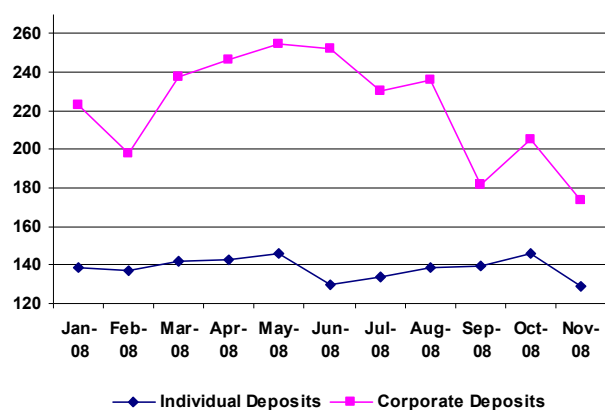
On 12th of December, an international rating agency Standard & Poor's (S&P) confirmed the credit rating of ATF bank at BB+/B with negative outlook. On the same day, the bank decided to cease being rated by S&P and requested the agency to render its current ratings void. At that date, according to Bloomberg, the bank had \$1.4bn senior debenture bonds and \$100m subordinated debt rated by S&P.

A cynical view might be that ATF is trying to avoid the bad press of future downgrades, but if so, would it not ask to cease being rated by the other agencies? Indeed, ATF's ratings were placed under review by Moody's on the very same day.

ATF may feel that its rating are benefiting insufficiently from its parent, Unicredit, and the cost of such ratings may be increasingly hard to justify if ATF is not planning on issuing, but expects to draw on its parent's cheaper funding costs. It may not be especially concerned about the impact of the decision on its outstanding debt: were the price to fall, Unicredit or ATF could buy it more cheaply in the market, rather than waiting until maturity.

We note that ATF has suffered material corporate deposits outflows (Fig. 3) which was likely due to a loss of several large corporate depositors. One may attribute the deposit withdrawals to the change in the top management layer of the bank relating to its new ownership.

Figure 3. ATF's Deposits, KZT bn



Source: AFN monthly data.

Askar Turganbayev
Alibek Zhaxylykov

Metals and Mining

Output cuts support metal prices

Last week the metal markets were revived by the news of further output cuts. However, the short rally came to a stop on Friday on the news of rising inventories and the failure of the Detroit rescue plan to find support in the U.S. Senate.

On Monday, most metals rose on the news of dollar depreciation. Earlier, the President-elect Barack Obama pledged to start the biggest ever public works program.

In Shanghai, copper and zinc stockpiles fell by the end of the week. As a result, copper gained the most in one month, coming back from its lowest point in a decade.

Xstrata, the world's forth largest nickel producer, cut production by further 20% by suspending production at two of its smelters. In addition, several nickel mines were put on maintenance. The increase of nickel shipments by 9.5Kt in week did not prevent nickel from rising by 18%.

Aluminum and zinc advanced on Monday followed by a rise of Aluminum Shanghai stocks. The aluminum market remains under great pressure. Since May output was cut by 10% while the demand shrank by 20%. However, last week aluminum rose by 1.1% possibly owing to an output cut of 262 ktpa.

Zinc price was supported by 60 ktpa output cut by Boliden and less significant 7.2 ktpa cut by Xstrata. However, by the end of the week zinc dropped by 1.5% due to 3.3 kt increase in LME inventories.

Steel rose 5% despite the failure of the Detroit rescue plan to get the approval of the US Senate, at least for now. ArcelorMittal gained 14%. We believe that this indicates that the market remains optimistic about the bailout effort. In our opinion, given the economic and social costs of closing down the two automakers, the government cannot afford to let them fail.

Last week provided another testimony to how dependent the metal producers have become on the US government support to the US automakers. Earlier in the week, the shares of mining giants also rose on the news of the increased spending by governments. However, by the end of the week, base metals began to fall on the news of a failed bailout of automakers. The rally helped ENRC and Kazakhmys to gain 21% and 14% respectively. Two weeks in row Uranium One is gaining after the announcement of increased sales and improvement in realized price of yellowcake in Q3 2008. This week it rose by 34%.

Metal	Last Spot Price	One week average price	One week chg*	YTD chg	52-high	52-low
Base (\$/t)						
Aluminum	1,461	1,481	1.06%	-38.83%	3,271	1,445
Copper	3,143	3,233	3.94%	-53.21%	8,900	3,024
Lead	1,010	992	5.67%	-61.24%	3,423	956
Nickel	10,531	10,039	17.87%	-60.86%	33,185	8,934
Zinc	1,047	1,083	-1.46%	-57.03%	2,811	1,047
Ferrous (\$/t)						
Steel	320	320	4.92%	-66.67%	960	253
Precious (\$/t oz)						
Gold	822.4	800.8	8.71%	-4.10%	1003.0	712.3
Silver	10.3	10.1	8.08%	-32.44%	20.8	9.0

This table refers to the period of December 5-December 12, 2008

** change on December 12 with respect to December 5*

Source: Bloomberg, Halyk Finance estimates

Company	Exchange	Last price USD**/share	One week average price (USD/share)	One week chg***	YTD chg	52-high	52-low
ArcelorMittal	NYSE	24.20	24.41	13.99%	-68.32%	104.25	15.52
ENRC	LSE	4.48	0.07	20.72%	-65.98%	0.46	0.04
Kazakhgold	LSE	3.00	3.24	-3.23%	-88.24%	28.95	2.20
Kazakhmys	LSE	3.59	0.06	14.32%	-86.51%	0.58	0.04
ShalkiyaZinc*	LSE	4.25	4.20	0.00%	-90.66%	60.00	0.75
Uranium One	TSE	1.09	0.81	33.67%	-87.89%	7.70	0.40
UKTMC	KASE	264.69	2.20	-0.13%	18.32%	2.20	1.31

This table refers to the period of December 5- December 12, 2008

** 1 share = 10 GDR*

*** USD/GBP = 1.5013, CAD/USD = 1.2391, KZT/USD = 120.52 as on December 15*

**** change on December 12 with respect to December 5*

Source: Bloomberg, Halyk Finance estimates

*Gaukhar Sarsembayeva
Dina Kuan*

KASE: week-on-week

Steady decline of KASE index slowed down somewhat during last week. Common stocks of Bank CenterCredit were the only ones to fall materially during the week. Alliance Bank and Halyk Bank lost relatively insubstantial small 2.3% and 3.1%, respectively. Kazkommertsbank showed signs of stabilizing by gaining 3.6%, although trading volumes were not large.

ENRC and KazMunaiGas increased by 8.9% and 6%, respectively.

Company	Last Price (KZT)	Weekly Weighted Average Price (KZT)	One Week Change*	Volume (mn KZT)	Mkt Cap (\$ mn)	52-week low	52-week high
Alliance Bank	4300.0	4369.2	-2.3%	23.61	345	4 195	33 000
Alliance Bank**	4400.0	4721.6		12.86		4 400	20 000
Alliance Bank p1	4800.0	4800.4	-3.9%	11.81	16	4 800	12 200
AO Kazcat	6.0	6.0		46.00		4	7
Astana Finance	22728.0	22671.9	-0.1%	24.69	894	15 000	25 000
Astana Finance**	22728.0	22728.0	0.0%	1.91		22 728	22 728
Bank CenterCredit com	475.0	489.6	-12.3%	11.01	516	475	2 000
BTA Bank	30000.0	30003.1	1.0%	11.91	2 093	22 000	125 000
ENRC	520.0	525.9	8.9%	6.08	5 580	395	3 750
Halyk Bank	98.0	100.5	-3.1%	90.92	800	85	610
Kazakhmys	450.0	445.3	0.5%	4.60	1 706	380	4 600
KazakhTelecom	13681.8	14637.1	-1.2%	4.46	1 245	13 000	41 000
KazakhTelecom p	6050.0	5951.9	0.8%	4.80	20	4 600	23 500
Kazcat	6.2	6.0	-0.4%	88.13	78	4	7
Kazkommertsbank	439.0	426.8	3.6%	14.70	2 103	190	1 255
Kazkommertsbank p	86.4	91.0	-6.8%	4.20	90	86	440
KazMunaiGaz	9550.0	9420.0	6.0%	194.43	5 588	6 201	24 595
Kommesk Omir IC	3100.0	3100.0		0.03	3	3 100	3 100
Mangistau Power Distribution	2501.0	2644.3	0.3%	9.68	41	2 400	2 970
Nurbank	20000.0	20000.0	-7.0%	0.20	528	20 000	22 727
Ordabassy p	2100.0	2100.0		3.50	13	2 100	2 100
Premier Strah.	5000.0	5000.0		250.00		5 000	8 384
Rakhat	1000.0	1000.0		0.05	30	1 000	4 200
Temirbank p	909.1	909.1	0.0%	0.55	38	725	2 902
Tsessna Bank	851.0	851.0	0.0%	1.70	96	834	2 343
Ust'-Kamenogorsk TMC	31900.0	31900.0		3.51	516	19 000	31 900
Velikaya Stena	350000.0	350000.0	0.0%	9.45	36	322 000	360 311

* One Week Change refers to change in Weekly Weighted Average Price

** Shares traded at RFCA trading floor

Gabit Zhanyrbayev

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