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SpreadMonitor Kazakhstan

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This issue of SpreadMonitor Kazakhstan reports on activity in July - September of 2005. The SpreadMonitor Kazakhstan portfolio has been selected to provide insights into the bond market by presenting indicative spread data in combination with credit research and ratings. Spread data have been obtained from sources that Standard & Poor's believes are reliable, but that it cannot verify and guarantee as accurate. However, even if distorted by limited sample size, market liquidity, features of the securities, or data problems, reported indicative spreads provide the market context for Standard & Poor's credit research and ratings.

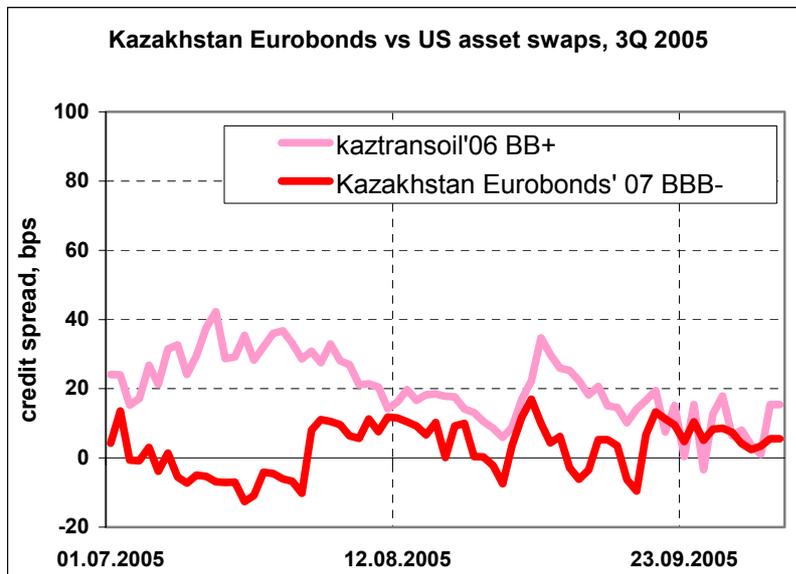
The still nascent, rapidly growing and evolving nature of the Kazakhstan domestic bond markets present particular challenges in calculating spreads. Where short duration, lack of liquidity, or specific characteristics of the securities (floating coupon rate, convertibility) do not allow for adequate spread calculations and comparisons, Standard & Poor's may not include such securities in the sample portfolio. The sample portfolio may change over time and might not give a full representation of the bond spreads of rated Kazakhstan issuers. Please note that each selected bond for each credit is the benchmark product and, to avoid confusion due to different durations, Standard & Poor's has labeled the maturity on Eurobonds. Ratings indicated in graphs and tables are as of September 30, 2005.

Kazakhstan General commentary

The Standard & Poor's affirmation of the foreign currency credit rating "BBB-" and local currency credit rating "BBB" of Kazakhstan with stable outlook was the major rating factor of the latest months of 2005. Sustainable economic growth, progress in the legal and regulatory framework enhanced creditworthiness and commercial profiles for the domestic banking sector that led to various positive rating actions taken on six Kazakh banks witnessed slight growth in market liquidity for Kazakhstan bond markets and tightened spreads for the Kazakh Eurobond market. Also, credit ratings were upgraded to KazTransOil to "BB+" from "BB" and to Kazakhtelecom to "BB" from "BB-".

Industrials

Standard & Poor's has published ratings on 6 Kazakh industrials. As of the end of the second quarter, only one rated company has traded Eurobonds.



Source: Bloomberg LP

On August 2, 2005, Standard & Poor's raised its long-term issuer credit and senior unsecured debt ratings on oil transport company **KazTransOil (KTO)** to 'BB+' from 'BB' with **stable outlook**. The upgrade reflects the growing strategic importance of KTO to the Kazakh government and the stronger implicit and explicit governmental support to KTO and its parent, the 100% government-owned KazMunaiGas (KMG) oil-and-gas group. The upgrade also recognizes the gradual improvement of KTO's market position and positive regulatory changes.

The ratings on KTO continue to remain constrained, however, by the company's lack of transparent regulation, the relatively poor state of the company's assets by international standards, and the operational demands of expanding the pipeline network to allow exports to China. These weaknesses are offset by KTO's monopoly operations, with limited competition from rail and other pipelines; the company's strategic importance to Kazakhstan's growing oil industry; and the increasing support of the Kazakh government.

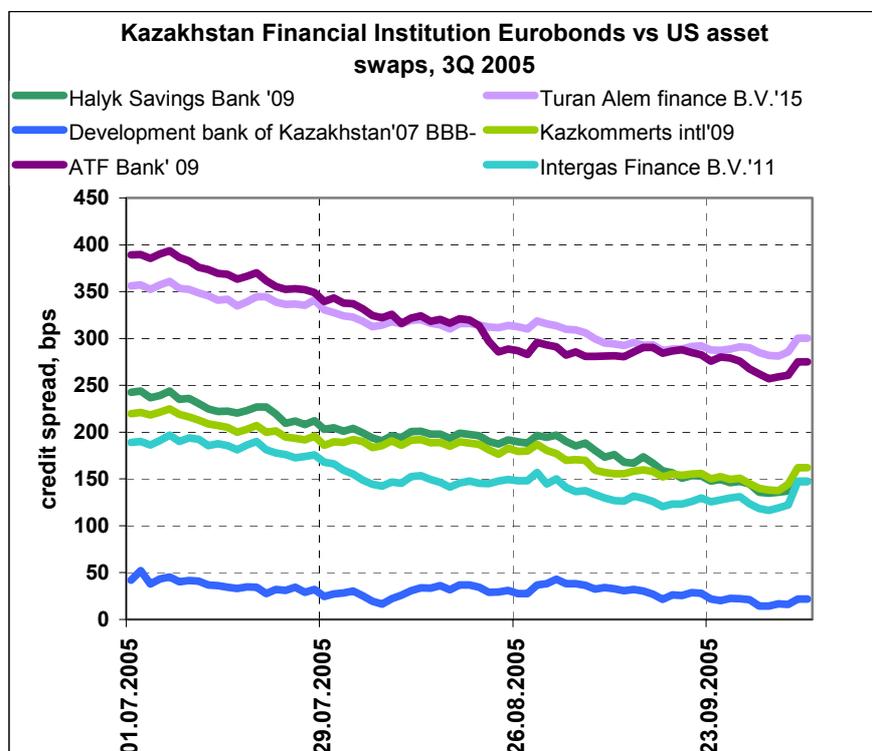
The ratings on KTO are limited by the consolidated credit quality of KMG, which is 100% owned by the Kazakh government. KMG owns and operates the monopoly pipelines and state-owned oil-and-gas exploration and production interests. The export of oil and gas dominates the national economy in Kazakhstan. The ratings also remain constrained by KTO's more-aggressive financial policy, anticipated leverage growth, and expected weakening of cash flow protection measures in 2005-2010. The investment required for the planned new export routes far exceed KTO's internal funding capacity and will be largely debt-financed. With project debt consolidated, Standard & Poor's expects KTO's cash flow protection metrics to drop substantially in 2005-2010. The group's funds-from-operations-to-net-debt ratio is expected to drop to 20% from the currently very strong 495%. The new export pipeline to China, which is presently under construction, has strategic importance to both the Kazakhstan and Chinese governments, which justifies direct support to this project from both sides, although this is offset in the shorter term by the operational challenges inherent in such a project.

On August 19, 2005, Standard & Poor's raised its long-term corporate credit rating on **Kazakhtelecom** (OJSC) (KTC), the incumbent fixed-line telecommunications operator in the Republic of Kazakhstan, to **'BB'** from **'BB-'**, reflecting the company's improving performance with stable outlook. The upgrade reflects KTC's improving business position, with continuing dominant market shares in key segments; its considerably improved network quality and capabilities; and positive economic dynamics in Kazakhstan. The rating action also reflects KTC's strengthened financial profile. The rating remains constrained by the evolving market structure and changing regulatory environment in the Kazakh telecoms sector, the ongoing liberalization of long-distance services, and increasing competition. KTC's continuing network investments and its sizeable dividend payouts--combined with plans to establish its own mobile franchise--limit the prospective strength and flexibility of its financial profile.

Financial Institutions

Standard & Poor's rates 10 financial institutions in Kazakhstan. Six have traded Eurobonds, and six banks have traded domestic bonds.

On July 22, Standard & Poor's raised its counterparty credit ratings on several banks. That reflects the very supportive economic growth in the Republic of Kazakhstan, progress in the legal and regulatory framework, and better internal risk-management systems have led to enhanced creditworthiness and commercial profiles for the domestic banking sector over the past few years.



Source: Bloomberg, Standard & Poor's

Nevertheless, Kazakh banks' creditworthiness remains constrained by limited ownership transparency, strong pressure on capitalization, limited business diversification, and high loan and funding concentrations. The sector's fast loan growth and rising external liabilities are boosting leverage and could trigger significant asset quality problems in the event of a major economic downturn. Intensifying expansion at some large Kazakh banks into other higher risk Commonwealth of Independent States (CIS) markets, mainly Russia, is also a source of concern.

The upgrade on **Kazkommertzbank (JSC)** to **'BB'** from **'BB-'** reflects the bank's sustained leading commercial position in Kazakhstan, increased diversification into small and midsize enterprise and retail sectors, and strengthened risk management. The ratings are constrained, however, by the rapid loan growth

and significant concentrations in lending and funding. Furthermore, fast loan growth has pressurized capitalization, which should be addressed soon.

The upgrade on **Halyk Savings Bank of Kazakhstan** to **'BB-'** from **'B+'** reflects the bank's consistent progress in strengthening its financial and business profiles over the past few years. The bank's strong market position and ample liquidity stemming from large customer deposits also support the ratings. These positive factors are constrained by the still-high-risk economic environment in Kazakhstan, and the bank's fast loan growth and marginal capitalization.

The upgrade on **ATF Bank** to **'B+'** from **'B'** reflects the bank's fairly good track record of strong financial performance and business growth, improving customer franchise, and continued shareholder support through participation in capital increases. These positive factors are still constrained by the bank's concentrations in funding, limited capitalization, and rapid loan growth.

The upgrade on **Nurbank (JSC)** to **'B'** from **'B-'** reflects the bank's improving franchise and diversification and business growth. During the past few years, the bank has made progress in solidifying its business base in Kazakhstan and in upgrading its infrastructure and systems. We also view the new capital increase of Kazakhstan tenge (KZT) 2.0 billion (\$15.3 million) raised in November 2004 in a positive light, although this is only enough to maintain capitalization at its current marginal level. The ratings on Nurbank remain constrained by the bank's small size, which exposes it to high concentration risks, and expectation that capital will reduce rapidly without further capital increase.

The outlook revision on **Lariba Bank (JSC)** to **'B-/Positive'** from **'B-/Stable'** reflects the satisfactory development of the bank's niche franchise, consistently high profitability, and strong capitalization. The ratings on the bank are constrained by its small absolute size (with total equity of \$12 million at March 31, 2005), tiny market position in the increasingly competitive banking sector, and high loan and deposit concentrations.

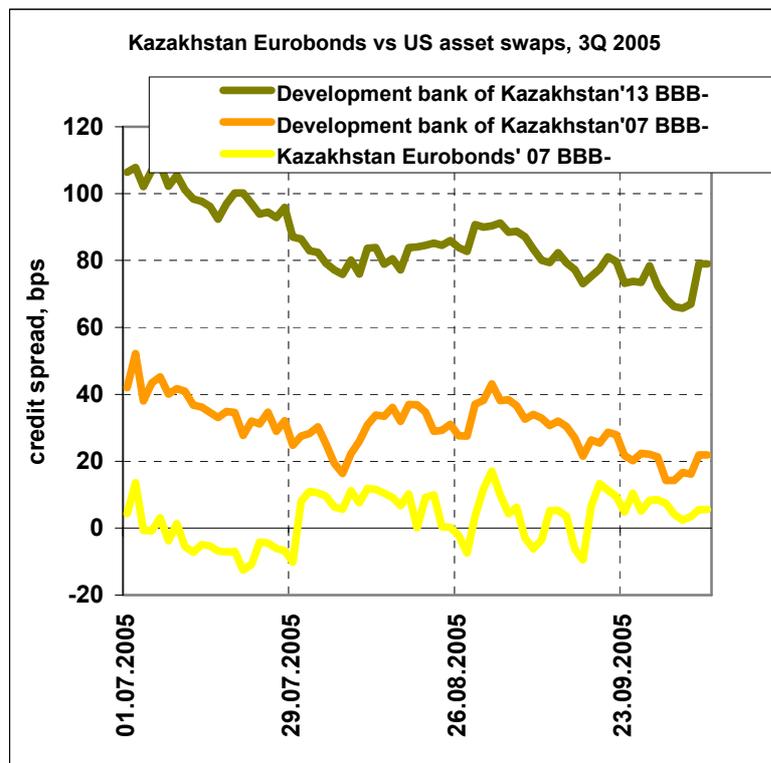
The ratings affirmation on **BTA Ipoteka 'B+'** reflects our expectation that the bank will address its very tight core capitalization in the near term to provide greater support for its projected high growth. Failure to address the above-mentioned issue could result in the outlook being revised to stable. Future rating evolution is also subject to BTA managing its still-high single-party concentrations, addressing its increasing lumpiness in funding, and maintaining risk exposures in overseas markets within specified limits. BTA's relatively strong financials and good infrastructure position it well to take advantage of the current positive economic trends and to mature with the market and diversify its revenue and product streams.

On July 26, 2005 Standard & Poor's affirmed its **'BBB-'** long-term foreign and local currency issuer credit ratings on the **Development Bank of Kazakhstan (DBK)** with stable outlook. The ratings on DBK reflect the Bank's strong financial profile, its clearly defined and strategic public policy role assigned by the government of the Republic of Kazakhstan. DBK's 100% state ownership also ensures strong implicit sovereign support. DBK is the primary vehicle in providing long-term credit to the nonextractive sectors of the Kazakh economy, and the expansion of these sectors is one of the main strategic development targets of the government. The sovereign maintains an arm's-length relationship with DBK and does not guarantee the bank's obligations, although it keeps the Bank well capitalized relative to the size of its business. For the foreseeable future, no changes are expected in the policy and regulatory framework that would weaken the Bank's key policy role in the government's development plans. Nevertheless, a deviation from DBK's policy role, or signs of weakening government support, would result in downward pressure on the ratings.

On August 15, Standard & Poor's assigned its **'B-/C'** counterparty credit and certificate of deposit ratings to Kazakhstan-based **Tsesna Bank** with **stable outlook**. The ratings on Tsesna Bank reflect the bank's small franchise, tight capitalization, aggressive growth, and high individual loan concentrations. Factors supporting the ratings include its fast-developing franchise, good profitability, and continued business and funding diversification. Furthermore, good economic prospects, growing financial intermediation, and solid progress in the legal and regulatory framework in Kazakhstan (foreign currency, BBB-/Stable/A-3; local currency, BBB/Stable/A-3) benefit the bank's credit profile. Tsesna is a small commercial bank mainly active in north Kazakhstan with total assets of Kazakhstan tenge (KZT) 23 billion (\$173 million at KZT133 to \$1) at March 31, 2005, which translates into a 1% market share. It is part of the local financial and industrial group Tsesna Corporation, which, together with the group companies, holds a majority stake in the bank. The bank has made significant progress in developing its commercial franchise. It strengthened its market position in the region by opening four new branches over the past 12 months. Strategic priorities in the short term are its expansion of its product range with leasing, brokerage and insurance products, and a more active issuance of domestic bonds and syndicated loans. The future prospects of the rating will depend on a reduction in loan concentrations, successful management of growth, continued capital injections by shareholders, further funding diversification, and strengthening liquidity. An increase in problem assets, weakening capitalization, or shrinking profitability could put negative pressure on the ratings.

Public Finance

Standard & Poor's rates the central government of the Kazakhstan that has traded Eurobonds.



Source: Bloomberg, Standard & Poor's

On July 26, Standard and Poor's affirmed its long-term foreign currency and local currency 'BBB-' ratings on **Republic of Kazakhstan** with stable outlook.

The ratings on Kazakhstan are supported by the sovereign's good economic and fiscal prospects, notwithstanding its vulnerability to oil prices. Creditworthiness is further underpinned by high capital investments and prudent policies. Kazakhstan also enjoys a good external position, with high liquidity and increasing net public sector external assets, despite the increased external leverage of domestic commercial banks. In 2005 and 2006, GDP growth will be sustained at 8.8% and 7.1%, respectively. Moreover, macroeconomic stabilization should continue, with price growth estimated at about 7.0% in 2005 and 6.5% in 2006.

A strong external position also supports the ratings, despite the increased external leverage of commercial banks. The ratings are constrained, however, by a highly centralized political system and weak economic structure. The centralized and opaque nature of governance, along with weak institutional and legal systems, renders policy-making less predictable than in similarly rated countries.

That said, the Kazakh authorities have shown a consistent commitment to market reforms and prudent fiscal and monetary policies over the past few years. The ratings also continue to be inhibited by an economic structure that is characterized by dependence on a few commodities, by low (albeit fast-increasing) per capita incomes (estimated at about \$3,440 in 2005), and by large regional development disparities.

SpreadMonitor - Kazakhstan portfolio

To get a general sector overview, we monitor the selected sample portfolio of credit products below. Please note that the spread for Eurobonds is used over the respective swaps curve.

Corporates

| Eurobond issuer name | Selected security | Standard & Poor's Corporate Credit Ratings | Current spread (bps) | Quarterly change |
|-----------------------|------------------------------|--|----------------------|------------------|
| Intergas Finance B.V. | US\$ 250 million 6,875% 2011 | BB/Stable/-- | 147.51 | -41.37 |
| KazTransOil | US\$ 150 million 8.5% 2006 | BB+/Stable | 15.4 | -8.67 |

Financial Institutions

| Eurobond issuer name | Selected security | Standard & Poor's Corporate Credit Ratings | Current spread (bps) | Quarterly change** |
|----------------------------------|------------------------------|--|----------------------|--------------------|
| Development Bank of Kazakhstan | US\$ 100 million 7.125% 2007 | BBB-/Stable/-- | 21,89 | -20.14 |
| Development Bank of Kazakhstan | US\$ 100 million 7.375% 2013 | BBB-/Stable/-- | 78.95 | -27.45 |
| Halyk Savings Bank of Kazakhstan | US\$ 200 million 8.125% 2009 | BB-/Stable | 147,49 | -95.25 |
| Kazkommertsbank | US\$ 350 million 7% 2009 | BB/Stable/B | 162,01 | -57.61 |
| Kazkommertsbank | US\$ 500 million 8,5% 2014 | BB/Stable/B | 243,05 | -61.5 |
| ATF Bank | US\$ 200 million 8.875% 2009 | B+/Stable/B | 274,93 | -114.22 |
| Turan Alem Finance B.V. | US\$ 350 million 8.5% 2015 | BB-/Positive/B | 300,07 | -55.17 |

Public Finance

| Eurobond issuer name | Selected security | Standard & Poor's Corporate Credit Ratings | Current spread (bps) | Quarterly change** |
|--------------------------|-------------------------------|--|----------------------|--------------------|
| Kazakhstan (republic of) | US\$ 350 million 11.125% 2007 | BBB-/Stable/-- | 5,53 | -1.25 |

Source: Bloomberg LP, MICEX, Cbonds, Standard & Poor's

* Highlighted in **bold** are ratings or outlooks that are new or have changed compared to last quarter.

Full list of Standard & Poor's ratings in Kazakhstan (as of August 1, 2005)

| Issuer name | Date of most recent rating change | Foreign Currency Corporate Credit Rating | Local Currency Corporate Credit Rating | National Scale Rating |
|---------------------------------|-----------------------------------|--|--|-----------------------|
| Sovereign | | | | |
| Kazakhstan (Republic of) | 26-Jul-2005 | BBB-/Stable/A-3 | BBB/Stable/A-3 | kzAAA |

* Highlighted in **bold** are ratings or outlooks that are new or have changed compared to last quarter.

| Corporate finance | | | | |
|---|--------------------|----------------------|----------------------|-------|
| Intergas Central Asia | 19-Dec-2002 | BB/Stable/-- | BB/Stable/-- | |
| Kazakhstan Electricity Grid Operating Co. | 03-Nov-2003 | BB+/Stable/-- | BB+/Stable/-- | |
| Kazakhstan Temir Zholy | 18-May-2005 | BB+/Stable/-- | BB+/Stable/-- | |
| Kazakhtelecom (OJSC) | 19-Aug-2005 | BB/Stable/-- | BB/Stable/-- | |
| Kazpost (JSC) | 29-Jun-2005 | BB+/Stable/-- | -- | kzAA- |
| KazTransGas | 19-Dec-2002 | BB/Stable/-- | BB/Stable/-- | |
| KazTransOil | 02-Aug-2005 | BB+/Stable/-- | BB+/Stable/-- | |

* Highlighted in **bold** are ratings or outlooks that are new or have changed compared to last quarter.

| Financial Institutions | | | | |
|---|--------------------|------------------------|------------------------|--|
| ATF Bank | 22-Jul-2005 | B+/Stable/B | B+/Stable/B | |
| Bank TuranAlem | 22-Jul-2005 | BB-/Positive/B | BB-/Positive/B | |
| BTA Ipoteka | 15-Oct-2004 | B+/Stable/B | B+/Stable/B | |
| Development Bank of Kazakhstan | 26-Jul-2005 | BBB-/Stable/A-3 | BBB-/Stable/A-3 | |
| Halyk Savings Bank of Kazakhstan | 22-Jul-2005 | BB-/Stable/B | BB-/Stable/B | |
| Joint Lariba Bank (OJSC) | 22-Jul-2005 | B-/Positive/C | B-/Positive/C | |
| Kazkommertsbank (JSC) | 22-Jul-2005 | BB/Stable/B | BB/Stable/B | |
| Nurbank (OJSC) | 22-Jul-2005 | B/Stable/C | B/Stable/C | |
| Intergas Finance B.V. | | | | |
| Tsesna Bank | 15-Aug-2005 | B-/Stable/C | B-/Stable/C | |

* Highlighted in **bold** are ratings or outlooks that are new or have changed compared to last quarter.

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