



INVESTOR CONFERENCE CALL

DATE: Thursday 15th September 2011

HOST: Mr Zhaslan Madiyev

Mr Zhaslan Madiyev Thank you very much. Good evening and good day everyone.

Thank you for joining the Investor Conference Call of the DBK dedicated to the bank's performance results for the first half-year of 2011. On this side of the line we have Mr. Dauletkhan Kilybayev who is Managing Director in charge of the lending business of the bank and Mr. Mirzhan Karakulov, Managing Director covering financials and the bank's back office.

And me, Mr Zhaslan Madiyev, Managing director in charge of investor relations, treasury, strategy, and borrowing issues on the bank.

In the next fifteen minutes I will go through the investor's presentation you can see on your screens and I will try to cover key areas of the DBK's performance in the first half of 2011. After that we will be happy to answer more specific questions from your side.

In the beginning, we will very briefly describe the business and specifics of DBK for those not currently familiar with the credit.

Since its establishment in 2001, DBK has grown up to become the main investment vehicle of the government to support the state strategy for economy diversification. Our core business is long-term and low-interest lending to infrastructural and industrial projects except for those related to oil and gas upstream. Priority industries are metallurgy, chemicals and petrochemicals, infrastructure, machinery and manufacturing.

On the next slide we have summed up the key strengths of DBK differentiating it from the rest of the banking sector of Kazakhstan. These are:

Strong shareholders. Samruk-Kazyna Group consolidating almost all key government-related companies with over seventy five billion in assets.

Strategic role in the government industrialisation programme and strong government support.

High capitalisation.

The credit...the highest credit ratings among all corporates in Kazakhstan.
Strong liquidity position. With its conservative investment portfolio strategy, the bank maintains sufficient big pool of liquid assets and invests in high-quality instruments only.
No significant debt redemption requirements in the near future and good access to long-term and cheap funding sources.
Status of a benchmark issuer from Kazakhstan and strategic counterparty for foreign financial institutions in the country.
Commitment to high standard of corporate governance.

Here we just wanted to highlight strong corporate governance at practice at DBK. So with the recent changes on the board of directors, we have 4 out of 8 members on the board as independent directors. 3 of them are high-profile foreign representatives with experience in banking and industry.

This slide gives you an update about the recent developments in the bank during 2011.

First of all, I would like to note \$277 million re-tap in January on Eurobond issued last December. Renegotiation of the significant credit line agreement with China EximBank on \$1.5 Billion as well as low cost budget loan for 15 billion Kazakhstan Tenge (the equivalent of 100 million US Dollars) which allowed us to improve our terms of funding in the first half of 2011.

We have timely repaid debt obligations to the amount of around \$500 million in the first half of 2011 and have no maturities waiting in the 2nd half of 2011.

Corporate governments score was affirmed at the level of GAMMA 5+, one of the highest among non-public companies in Kazakhstan, and was withdrawn by the decision of S&P to cease providing stand-alone corporate governments scores.

According to the Presidential Decree as of August 2011, shares of all the national development institutions including DBK, Investment Fund of Kazakhstan, Kazyna Capital Management and KazExportGarant are to be transferred under trust management of the Ministry of Industry and New Technologies.

Another positive development of 2011 was inclusion in-to state programmes opening a to additional state support measures to the bank and our clients, such as interest rate subsidies, projects restructuring assistance, tax remissions, etc.

For your convenience, slide 8 provides an overview of the balance sheet with the figures at the beginning of 2011 and as of 1st July 2011.

The next slide shows that the Bank, as of 1st July 2011, has \$6.1 billion of consolidated assets. And in the reporting period assets decreased by 5 percent from higher provisioning levels and due to scheduled repayment of liabilities. Equity was down by 14% due to net losses made on additional provisional charges and revaluations on some available for sale assets. Nevertheless, the bank maintains a healthy equity/asset ratio of 25% versus industry average of 11%.

The condensed income statement on slide 10 is provided for your benefit after the call and so this is a self-explanatory slide.

The next slide shows the breakdown of the net income. On the right-hand side of the slide you see that the higher provisioning charges contributed most to the negative bottom line in the first half of 2011. Net interest income was down by 23 percent mainly as a result of higher interest expenses from larger liabilities balance.

Higher fee and commission expenses resulted from one-time prepayment fee on partial prepayment of China EximBank loan as a part of liability management exercise.

Annualized net interest margin of 2.1% was lower than in same period of 2010 due to decreasing yields on the assets' side. This is explained by a number of factors, such as declining market interest rates, higher non accruals which are loans more than 30 days overdue and lower principal loan balances. At the end of the first half of 2011, gross loan book stood at \$2.6 billion. In line with our investment priorities, DBK has strong positions in fixed capital lending to chemical and petrochemical industries, metallurgy, and infrastructure.

Loan book growth was down by 5 percent in the first half of 2011 due to lower disbursement volumes and prepayments by several large clients. New financing volumes were lower than expected since some clients applied for postponement of loan disbursement periods. Nevertheless, in the second half of 2011 we are planning to resume loan portfolio growth and bring gross loan book to \$3 billion. For this, the bank is planning to disburse \$500 million of new loans to customers overall in 2011.

Unfortunately, we saw continued asset quality deterioration as measured by increasing shares of NPL's in the loan portfolio.

As a result, in the first half of 2011 the management focused on working closely with the clients and project restructuring, improving loan monitoring, strengthening collateral base and asset recovery.

NPL increased mainly due to rise in new NPLs in textiles and production of construction materials sector. The main reasons have been substantial delays in project commissioning, construction delays, higher raw material prices, still sluggish activity in the construction sector. Since completion of project restructuring and legal proceedings on defaulted loans can last up to 1-2 years we are expecting positive results of this work to be felt in late 2011 and 2012. Overall, we believe that asset quality deterioration has bottomed in the first half of 2011, so we expect no further increases in absolute volumes of NPLs and in their weight in the loan portfolio.

In the graph on your left hand side, we would like to emphasise that the bank significantly increased provisioning levels of NPLs across all industries in the first half of 2011. The ratio of specific loan loss reserves for NPLs to gross NPLs increased from 46 to 59 percent. Decline in the loan loss reserves to the NPLs ratio mostly resulted from lower provisioning levels on impaired but less than 90 days overdue loans. This was motivated by better prospects for cash generation of such loans due to improving macroeconomic environment, as well as strengthening collateral base

of the bank. DBK is taking all necessary measures to maximise collection opportunities to decrease default risks and improve loan portfolio quality.

DBK remains one of the best capitalised banks in Kazakhstan and our capital adequacy parameters are well above the minimum level.

This slide gives you an overview of the volumes and structure of our current funding base. The principal balance of the borrowing portfolio decreased due to scheduled repayments of \$300 million Club Deal, \$100 million loan bilateral loan and \$64 million of partial principle payments to the other bilateral loans. Most of our funding comes from external borrowings and DBK follows deliberate strategy of increasing the share of long term funding.

In 2011 DBK raised additional \$400 million of new borrowing, signed new credit line agreements with peer development finance institutions, managed to lessen interest burden of the existing debt portfolio. Reutilization of \$1.5 billion portion of the credit line from China EximBank allowed us, apart from better savings, to increase the duration of the loan and exclude interest risk by fixing the previously floating rate.

DBK has a relatively well shaped debt maturity profile and doesn't face significant maturities until 2015. The bank has a good liquidity cushion to repay all debt obligations out of existing funds as they fall due. Moreover, DBK has access to cost-efficient and long-term funding as seen by decreasing spreads on DBK.

Here is a case study of the latest \$777 million Eurobonds issuance of DBK, which has effectively reopened markets for Kazakhstan banks and this was followed by 2 Eurobond issues (Halyk and Kazkommertsbank) in 2011.

So, overall, we have the highest credit rating among our peers and other quasi-sovereign companies and commercial banks. From the latest credit actions on DBK, S&P upgraded our long term foreign currency rating one notch from BBB- up to BBB in December 2010.

As I have mentioned already, DBK has ample liquidity for servicing all its debt obligations and expanding its lending business. As of the end of 2010, DBK held around 36 of its assets in available for sale for securities. The largest share in the available for sale assets are accounted by for high-grade quasi sovereign bonds, government securities, and bonds of top Kazakh banks.

Overall, we have a positive outlook for the second half of 2011 and 2012. So, these are statistics data. These prospects are supported by the high economic growth rates and growing investor confidence with spreads across first half 2012, stable national currency, growing international reserves, and recovery in the sectors where DBK is most active, like infrastructure and industry.

Well, this concludes my presentation and thank you very much for your attention and now we will open up the floor to questions.

Operator Ladies and Gentlemen! If you would like to ask a question on this call, please press 7 on your telephone key pad now. And we have a question come in from Nachu Nachiappan from JP Morgan. Please go ahead:

Nachu Nachiappan Good afternoon, thank you very much for the presentation. I have just three questions, if I may. Firstly, on the share transfer to MINT, how does that affect your business, either strategically or in terms of the type of business that you could pursue? Are there any changes that we should expect?

Mr Zhaslan Madiyev Thank you very much for your question – the ministry... well now the ministry is directly responsible for implementation of the state industrialization program of Kazakhstan. So let me clarify that Samruk-Kazyna will still remain 100% shareholder of the bank and all matters requiring shareholders' approval, such as election of the Board of Directors, and the Chairman of the management board, and approval of the external auditor and annual financial statement, and all the reporting sent, corporate government issues are still covered by Samruk-Kazyna.

As for the change, we would also like to emphasize, there will be no changes to the business model of DBK and commercial principles applied at selection of projects for financing. And the key rationale behind the transfer was to allow better coordination of activities of DBK with the ministry and peer development institutions in place financing investor projects and utilising state support measures under the industrialisation programme.

So, as we know, DBK is the main investment vehicle of the government in realising its forced industrialisation programme of the government, but at the same time we should stress that the forced industrialisation programme that the government is currently... the main programme run by the government for the next four or five years and this means that... which is another strength of the bank in terms of strong support by the government.

Nachu Nachiappan Ok, that's very clear, thank you. Second question is regarding slide 13. The agricultural sector seems to have caused a lot of problems for Kazakh banks in general over the past year. I wondered what you thought had changed from your initial assessment of this sector when you first disbursed loans to what has happened now, do you see any improvements in the sector, and if you are still making disbursements in agriculture and also in textiles, has your credit process changed at all?

Dauletkhan Kilybayev Thank you very much for your question. This is Dauletkhan Kilybayev. I am going to address your questions one by one. If I miss something, please get back to me. Our changed assessment of the business of the sector... Well, the sector, the risk profile of the sector hasn't changed, from our view. Even more, the sector seems to have slightly improved. First of all, because the yield of the grain this year is expected to be higher than in previous years. Second, the expected export of grain from the country is expected to be at above 10 million tonnes. The grain export is one of the key exports and I guess it will remain the same. And finally, the Customs Union with Russia will help us to increase our export potential. I guess we will continue to finance the agricultural sector overall. At the same time, we have strengthened our internal procedures for project assessment approval and structuring. Have I answered your questions?

Nachu Nachiappan OK, I wonder if you could just elaborate on the last point in terms of how your approval process has changed

Dauletkhan Kilybayev First, from the approval standpoint, the projects we are considering now is being approved by several bodies. First and foremost, by the internal credit committee, by the management board's members, by the board of directors, and finally by the board of Samruk-Kazyna. Second and third, we have strengthened our structuring by increasing the requirements to the collateral. So all our new loans are 100 percent collateralized not by the future cash flows, but by the grain itself.

Nachu Nachiappan OK

Dauletkhan Kilybayev Have I answered your question?

Nachu Nachiappan Yes that's very helpful. Thank you, and just the last question from me is, on slide 14 you talk about your provisions to gross loans ratio. I just wanted to know if you had a target for that ratio at all?

Mr Zhaslan Madiyev Can you repeat the ratio please?

Nachu Nachiappan Yes, sorry, at slide 14 it's the provision to gross loans ratio, which I believed, you said it was..... We just wanted to know if you had a target for that ratio at all? I believe you said it was 28 %.

Mr Zhaslan Madiyev Well, thank you very much for the question. There is no certain target in terms of this ratio, but we believe that it will not grow by the year end... of this year, in terms of at least in absolute terms it will not grow either.

Nachu Nachiappan Ok. Very helpful. Thank you very much.

Operator Thank you, our next question comes from the line of Tala Boulos from Deutsche Bank, please go ahead caller.

Tala Boulos Thank you very much for the presentation. I just have a couple of questions. Firstly, if you could just give a little bit more detail and granularity on why NPL's increased quarter on quarter and also in terms of your provisioning. I realise that these are down due to sort of less than 90 days problem loans but it seems to be increasing in terms of NPL generation for over 360 days, so if you could just tell us how you set up the collection process that is involves going further. And my last question is just on any expectations you have on a government injection of additional capital. Thank you.

Mr Zhaslan Madiyev Thank you very much, let us just have a second please.

Let me first address your second question on capital injections from the shareholder. Overall, currently the bank feels itself comfortable with the current level of its shareholders equity, with its capital, and, as history shows, if there are needs and any capital injections for the bank, they can be implemented immediately, so we don't expect any problems with that in the future.

Dauletkhan Kilybayev And we are getting back to your first question. This is Dauletkhan Kilybayev. I guess we have already mentioned in the presentation, the NPLs overall increased mainly by the few industries. First of all, textile industries, second, construction materials, and the agri sector. The NPLs become overdue mainly because of a few reasons. A. Because of delays in project commissioning. Second, because of the high price... spike price on cotton for the textile industry, which basically presented by a few borrowers in our portfolio. Sluggish activity in the construction sector. And finally, I guess you understand that the restructuring takes time before the loan starts performing. As for NPL's overdue less than 90 days, we have projects... basically four projects in there. All of them represent big plants. However, there were issues with the delays in commissioning of the plants. Overall, we expect this plants to start operating later this year or early next year and we are sure that this year... will become standard loans very soon. Have I answered your question?

Tala Boulos Yes. Sorry, those were for NPL's of less than 90 days?

Dauletkhan Kilybayev Yes, those that were less than 90 days.

Tala Boulos Do you have any sort of projections or ideas on how collections will evolve going forward?

Mr Zhaslan Madiyev Sorry would you say that again?

Tala Boulos You just mentioned in your recent bond road show that you would be taking part in a lot more collections of overdue loans, and how has that process evolved recently?

Mr Zhaslan Madiyev Sorry, I didn't hear your question, can you maybe elaborate on that?

Tala Boulos I just meant that in terms of NPLs' collections for the future, how do you see those progressing? Because you haven't managed to do any of those recently over the last few quarters.

Dauletkhan Kilybayev OK, thank you. Well, with this structure and new NPLs. First of all, the first message, we don't expect NPL to increase in the second half of 2012 (2011) and the next year... basically because, we have sort of taken a bath, showed the bottom of our loan portfolio. Second, the economy overall is improving. We see that plants which have been delayed in commissioning will start operating this year and next year. And finally the government have initiated 5 projects (programs) which basically assist those developing or having-problems projects. I can't disclose the names of the programs with the government incentives, I just wanted to mention before that we basically signed agreements with the government bodies on being ...like one of the key drivers of those programmes.

Mirzhan Karakulov. And maybe just one thing to add. This is Mirzhan Karakulov speaking. About our measures we are taking about our NPL loans. First of all, our restructuring procedures take usually one to two years, so we are expecting the restructuring to be completed by the end of this year-beginning of the next one, and we don't want to just move the schedules just to bring them

out of NPL. We are waiting for the projects to become sustainable and to start really working and meeting their schedules and the main things we are doing is trying the get additional collaterals on the loan, trying to find either investors or to make current shareholders to invest additional to the equity of the borrower, and taking some actions to increase our control in the company, either changing the... asking the company to change the management if they did bad in last years and in trying to meet our people with the borrower more often to control their cash flow and in general their production activity, all their activity concerning our project that is financed by the bank.

Tala Boulos Great. Thank you very much.

Operator Thank you. We currently have no further questions coming through. Just another reminder. Please press 7 if you would like to ask a question on this call. We have no further question coming through. I will hand back to your speakers to wrap up todays call.

Speaker Thank you very much for joining to call. So let me remind you that the recording of this call will be available on the play back system and on the DBK website at the end of the presentation you can find all the contacts of our investor relations team which is always happy to assist you.

Thank you very much.