

The Development Plan of the Development Bank of Kazakhstan JSC for the years 2008-2010

Mission and Objectives

The **mission** of the Development Bank of Kazakhstan JSC (hereinafter referred to as the “Bank”) is to promote stable long-term economic growth of the Republic of Kazakhstan by way of satisfaction, on a commercial basis, of the investment needs of the accelerated development of the competitive secondary industries of the national economy in the credit resources, which are not supported by the second-tier banks.

The major **goals** of the Bank’s activity include: improvement and enhancement of efficiency of the public investment activity; development of industrial infrastructure and processing industry and assistance in attracting foreign and domestic investments to Kazakhstan’s economy.

The **objectives** of the Bank include offering financial support to the initiatives of the private sector and the State by extending long- and medium-term low-interest loans for investment projects and export transactions, as well as issuing guarantees on loans extended by other financial institutions. The Bank acts as an agent for serving national and local investment projects that are financed on the repayment basis as well as the projects funded at the account of borrowings guaranteed by the Government.

Action Plan of the Development Bank of Kazakhstan for 2008-2010

Prospects of the banking sector development for the years 2008-2010

At present the process of correction of the key indicators of the banking sector development is taking place due to the world financial crisis caused by the sub-prime mortgage crisis in U.S.

a) Decelerating growth rates of the aggregate equity and assets, as well as the funding base of the second-tier banks;

b) Diversification of the credit market through shifting from mortgages and housing lending to other niches of the national economy;

c) Starting from 2005 the refinancing rate of the National Bank of the Republic of Kazakhstan for the purpose of dampening inflationary pressure in Kazakhstan has been increased a couple of times and currently equals 11%.

Priority Directions for 2008-2010

Presently the following tendencies are observed in the economy of Kazakhstan:

- Increase of investment, business and operational activity of business entities;
- Growing demand for investment resources;

- Inquiries from the business sector to expand the range of services offered by banks;
- Increase of investments of Kazakhstani businesses made into foreign countries in the framework of expanding their activity to the markets of the neighboring countries.

The influence of these tendencies on the Bank's activity is evidenced by the growth of lending volumes for capital formation, as well the increase of the terms and scales of investment projects under realization.

For fulfillment of its mission, the Bank is planning to:

1) Carry out examination, financing, coordination, and monitoring of large infrastructural and cluster-forming projects;

2) Implement projects on the territories of the neighboring states in order to employ advantages of economic integration with these countries, including financing of investment projects in the member states of the Shanghai Cooperation Organization (SCO);

3) Provide investment banking services employing such instruments as issuing project bonds through securitization of project cash flows, arranging syndicated loans for clients, consulting and rendering assistance to the enterprises planning security issues (underwriting);

4) Perform the functions of an agent for serving investment projects which are financed at the account of borrowings from the state budget and international financial institutions;

5) Conduct market research for discovering new investment ideas and technical know-how to be implemented and financed by the Bank;

6) Promote development of the financial sector and capital markets in Kazakhstan by means of issuing debt and making transactions with derivative instruments on the Kazakhstan Stock Exchange and the Regional Financial Centre Almaty (RFCA);

7) Consult prospective clients of the Bank on issues related to financing and implementation of projects;

8) Maintain an adequate level of liquidity and profitability of the Bank's investment portfolio;

9) Advance cooperation with foreign and international development institutions;

10) Develop cooperation with rating agencies, investors, regulators and carry out due monitoring of projects, which are being implemented, in order to maintain positive credit history of the Bank;

11) Finance export transactions;

12) Advance the development of information technologies;

13) Advance institutional development;

14) Ensure profitability of the Bank's activities.

The sectors of the economy that are going to receive financing on the priority basis are as follows:

- Generation and distribution of energy (atomic power stations, heat and hydroelectric power station, bio energy), especially projects oriented to exports of electrical energy and other fuels to the neighboring states;
- Infrastructure (the South-West transit corridor, construction of transport infrastructure, including construction of railway hubs, sea ports, airports, logistical centers);
- Metallurgy. That is related to renovation of existing plants, which have been employing technologies from the 70's;
- Chemical and petrochemical industry, manufacturing of oil-and-gas equipment;
- Food industry related to processing of agricultural products.

The lending activity of the Bank is going to be enhanced through:

- Segmenting investment market, identifying target groups and drawing a map of prospective borrowers;
- Developing individual approaches to and organization of work with large business entities, which are candidates for implementing large and high-tech, knowledge-intensive and export-oriented projects;
- Wider application of elements of corporate finance, including financing of investment projects covered by guarantees and secured by the assets of the national (state-owned) companies, employing full potential of structured finance, offering underwriting and consulting services to borrowers; improving loan pricing and credit risk assessment methodologies, as well as the methodology for setting and reviewing loan interest rates (including multi-currency financing), application of tariffs, commissions, etc.;

- Offering technical assistance to clients by providing support at preparing business plans, conducting thematic analytical research, supporting development of human resource and organizational potential of borrowers;
- Organizing PR campaigns while visiting regions of Kazakhstan and foreign countries in order to attract institutional investors; issuing presentational materials, and employing the potential of direct mailing.

Objectives with Respect to Key Performance Indicators for 2008-2010

To ensure a well-balanced structure of the Bank's portfolios and profitability of the Bank's activities for the coming period a forecast of the key financial flows in the Bank and the overall financial performance of the Bank till the year 2010 was developed.

In order to enhance monitoring of the Bank's efficiency the following statistics were identified as the key performance indicators for the medium-term horizon.

Forecast of the Key Performance Indicators for 2008-2010

Indicators	Unit of measurement	2008				2009	2010
		1 Q	2 Q	3 Q	4 Q		
Loan portfolio	Billion tenge	152	184	215	250	425	640
Ratio of NIBT (Net income before tax) to weighted average amount of Equity	%	-	-	-	6	8	10
Estimated Tenge-USD exchange rate - 121,5 tenge/dollar							

The set of interdependent medium- and long-term indicators of the Bank's performance chosen as the most relevant one out of a range of alternatives ensures achievement of the Bank's strategic objectives.

This scenario envisages a dynamic growth of the annual volumes and terms of lending while maintaining interest rates on loans at an accessible level in the state of a possible increase of the borrowing costs, need for asset classification and creating provisions for impairment losses on loans, fulfilling requirements of preserving proportions between the Bank's portfolios.

Additionally, the scenario provides for a progressive growth of the Bank's loan portfolio and maintaining the level of equity adequate for a development institution.

Support from the Sole Shareholder

In accordance with the Strategic Development Directions of the Bank for the years 2007-2011 and with the Plan of the First-Step Measures for Sustaining Social and

Economic Stability of the Republic of Kazakhstan, the following volumes of state support are envisaged for the period of 2007-2011.

Volume of State Support for 2007-2011, million USD

Character of the state support	2007	2008	2009	2010	2011
Additions to the Bank's charter capital	114,6	352,8	352,8	434,2	325,6
Budget credits for reduction of the cost of funding	0,0	265,9	303,9	325,6	293,1

* volumes of state support will be adjusted annually with the approval of the state budget for a corresponding year