

Official exchange KZT/US\$ rate on 1 November 2011 – 147.77

Summary

Economy

- S&P and Fitch upgraded long-term foreign currency ratings of Kazakhstan
- Inflation to stay within forecasted bounds of 6-8%

Banking sector

- Fitch Ratings affirmed Alliance Bank's long-term issuer default ratings (IDR) at B-, outlook stable
- Sberbank withheld from the purchase of BTA Bank

News on Kazkommertsbank

- **5 December.** Kazkommertsbank announced on payment of dividends on preference shares. According to the Shares Issue Prospectus, the dividends on preference shares of the Bank are fixed at 0.04 USD per one preference share. The payment of dividend on preference shares will start on 12 December 2011. The completion date for the list of shareholders eligible for payment of dividends on preference shareholders was 12 November 2011. Dividends will be paid for the calendar year via a transfer to the bank accounts of the preference shareholders.
- **29 November.** Kazkommertsbank reported its financial results for nine months ended 30 September 2011. Net profit was up 14% from KZT 15.7 bln for 9M2010 to KZT 17.9 bln (US\$ 122.6 mln). Adjusted Net Interest Margin was 3.3%. Cost-to-income ratio stood at 26.4% compared to 22.4% in 2010. Retail deposits were up 19% year-to-date. Gross loans were up by 1.1% quarter-on-quarter (down by 1.8% year-to-date). Core Tier 1 ratio was 17.5% (16.2% in 2010), and total capital ratio was 22% (20.1% in 2010). Provisioning rate was 22.7% of gross loans, while NPLs were 27.3% of gross loans.
- **2 November.** Grantum Pension Fund, pension subsidiary of Kazkommertsbank, increased pension assets by 48.2% in January-September 2011 to KZT222.3 billion. The share of Grantum's pension assets in total pension assets in the country was 8.82%. The number of pension contributors increased by 37.9% to 337,318 people. Accrued investment income for 9M11 was KZT9.9 billion, which represented 23.7% of total accrued investment income in the pension system of Kazakhstan since the beginning of 2011 (KZT41.8 billion). As at 1 October 2011 53.6% of pension asset of Grantum were invested in securities of the Ministry of Finance, 21.3% in corporate securities and 10.2% in deposits at commercial banks. 86.12% of financial instruments in the investment portfolio of the fund are denominated in Kazakhstan tenge, 6.74% in US dollars, 5.79% in Russian rubles, and 1.35% in Chinese Yuan.

Kazakh Banking Sector Developments

P&L

The net loss after tax of Kazakhstan's commercial banks in October 2011 was US\$84 million compared to US\$24 million in September 2011, due to faster growth in expenses than in earnings, primarily because of provisioning.

Kazakh commercial banks' aggregate earnings amounted to US\$ 25,805 million up from US\$23,613 in September 2011. The aggregate expenses of the banking system (including corporate tax) were US\$ 25,782 million (US\$ 23,589 million in September 2011), the majority of which were provision charges, which constituted a 58.2% share of total expenses.

CAPITAL

The Kazakh banking sector's aggregate capital amounted to US\$ 9,414 million as of 1 November 2011 (US\$ 9,257 million as of 1 October 2011).

ASSETS

Aggregate bank assets stood at US\$ 88,082 million, almost flat MoM (an increase of 0.002% MoM or US\$ 2 million).

The share of loans to customers decreased slightly to 50.6%. The share of the securities portfolio increased to 14.9% from 14.2% in September 2011. The share of highly liquid assets (cash, precious metals and correspondent accounts) increased to 12.7% from 11.1% due to increase in correspondent accounts. The share of funds placed with the National Bank within total assets further decreased to 1.4% in October from 2% in September and 2.1% in August as well as the share of inter-bank loans and deposits, which decreased to 3.8% from 4.0%.

According to the FSA, loans that were at least 90 days overdue increase to 31.4% in October from 29.5% as at 1 October 2011. The loan loss provisioning rate increased as well, to 33.2% from 32.9% in September 2011.

LIABILITIES

Aggregate bank liabilities increased to US\$ 78,669 million from US\$ 78,553 million in September 2011.

The structure of liabilities has not changed significantly. The major funding sources are customer accounts with a share of 68.6% of the total liabilities, an increase from 68.1% in September.

Customer accounts increased by 0.9% or US\$ 506 million to US\$ 53,994 million, due to increase in both retail and corporate deposits. A major outflow of corporate deposits among top 10 banks was seen in KKB (-1.8%), while a major inflow was seen in Alliance (+3.7%), Halyk (+2.6%) and BTA (+1.3%).

The sector's net loans-to-deposits ratio decreased to 82.5% in October 2011 from 83.5% in September 2011.

Major events in the banking sector

- **01 December.** Fitch Ratings affirmed Alliance Bank's long-term issuer default ratings (IDR) at B-, outlook stable. These ratings reflect the possibility of the bank's to receive government support.
- **30 November.** Sberbank, Russia and its subsidiary in Kazakhstan will finance infrastructural and investment projects of National Company "Kazakhstan Temir Zholy" for the total amount of KZT 442 billion (USD 3 billion).
- **30 November.** Sberbank withheld from purchase of BTA Bank.
- **30 November.** Samruk-Kazyna Fund will provide financial support to its banking subsidiary BTA Bank in case it will have viable business plan, said deputy CEO of the Fund Mr. Karibzhanov during the press-conference.
- **23 November.** Fitch Ratings changed its outlook on Development Bank of Kazakhstan IDR from Stable to Positive, and affirmed its current rating in foreign currency at BBB- and in local currency at BBB. The rating actions follow the upgrade of long-term IDR of Kazakhstan in foreign currency from BBB- to BBB and long-term IDR in local currency from BBB to BBB+.
- **22 November.** Halyk Bank intends to offer to buy back in the open market a part of issued preferred shares and preferred shares convertible into common shares of the Bank at a price in the range from KZT 140 to KZT 145 per one Share for the total amount up to KZT 20 billion.
- **14 November.** Fitch Ratings lowered IDR of BTA Bank from B- to CCC. This reflects Fitch's view on the increasing probability of default by BTA Bank in short-medium term perspective and sharp deterioration of the bank's financial position.
- **10 November.** Standard & Poor's changed its outlook on BTA's ratings from Stable to Negative and affirmed its rating at B- and withdrew its ratings. This was a result of weak earnings, asset quality and capitalization reported by the bank.
- **8 November.** Standard & Poor's increased long and short term ratings of Development Bank of Kazakhstan from BBB/A-3 to BBB+/A-2 – following the increase of Kazakhstan's sovereign ratings.

Major developments in Kazakhstan's economy:

INFLATION

In October 2011, inflation in Kazakhstan was 0.2%. The prices of food products decreased by 0.1%, while prices of non-food products and paid services increased by 0.4% and 0.3%, respectively. Annual inflation (October 2011 to October 2010) was 8.0%, and the prices for food products increased by 10.7%, for non-food products by 5.4%, and for paid services by 7.2%.

INDUSTRIAL PRODUCTION

The volume of industrial production in October 2011 compared to October 2010 was 4.0%. The real volume index was 101.9% in the mining industry and 106.9% in the processing industry.

UNEMPLOYMENT

The unemployment rate in October 2011 was 5.3%. The number of unemployed people in October 2011 was 480,200. The number of unemployed people registered with authorised employment bodies in October 2011 was 1.0% of the economically active population. The hidden unemployment rate in October 2011 was 0.3% of the economically active population.

INTERNATIONAL RESERVES

In October 2011 the net international reserves (including the net international reserves of the National Bank and National Fund's assets in foreign currency) increased by 3.5%, to US\$74.4 billion. The assets of the National Fund increased by 5.9% in October 2011 to US\$42.4 billion. The net international reserves of the National Bank based on current prices increased by 0.5% to US\$32.1 billion. The net currency reserves in October 2011 decreased by 0.8% to US\$28.6 billion, while assets held in gold increased by 10.2% to US\$4.1 billion.

MONEY SUPPLY

The money supply in October 2011 was flat at KZT 9,819 billion. The amount of currency in circulation was flat at KZT 1,260 billion. The reserve money in October 2011 increased by 6.3% to KZT 3,064 billion. The narrow reserve money (money supply less term deposits of the banks with the National Bank) increased by 9.7% to KZT 2,875 billion.

GDP

GDP increased by 7 % in the 9M11.

News on Kazakhstan's economy:

- **1 December.** Annual inflation rate in Kazakhstan will remain within planned bounds and will not exceed 8%, said the Minister of economic development and trade, Mr. Kelimbetov.
- **24 November.** The President of Kazakhstan has signed a law on republican budget for 2012-2014. In 2012 the budget deficit is expected at KZT758.5 billion or 2.6% of GDP, in 2013 at KZT474 billion or 1.5% of GDP, and in 2014 at KZT460 billion or 1.3% of GDP.
- **21 November.** Fitch Ratings upgraded long-term foreign currency rating of Kazakhstan to BBB from BBB-. Long-term local currency rating was upgraded from BBB to BBB+. Outlook on the ratings is positive. There were improvements in the state budget of Kazakhstan, while net foreign currency assets provide increased security cushion against possible income shocks. The agency forecasts that the state budget will be executed with surplus of 6-7% of GDP in 2011-2013.
- **8 November.** Number of registered real estate transactions in Kazakhstan increased by 13.7% in January-October 2011 compared to the same period in 2010 to 129,867. In October 2011 the number of registered real estate transactions increased by 4.6% MoM to 15,838.
- **8 November.** S&P has upgraded long-term foreign currency ratings of Samruk-Kazyna National Wealth fund to BBB+. The outlook on ratings remains stable.
- **7 November.** S&P upgraded long-term foreign currency sovereign rating of Kazakhstan to BBB+ from BBB with stable outlook. Short-term credit rating was upgraded to A-2 from A-3. External financial position and budget of Kazakhstan improved significantly as a result of budget surplus, sustainable economic growth, cautious budget policy and high inflows of foreign investments. Also, the agency incorporates a possible increase in oil extraction almost twice during the next decade as well as continued net inflow of direct investments of 4% of GDP on average. The GDP growth is forecasted at 6% on average during 2011-2014.

Kazakhstan's key macroeconomic indicators

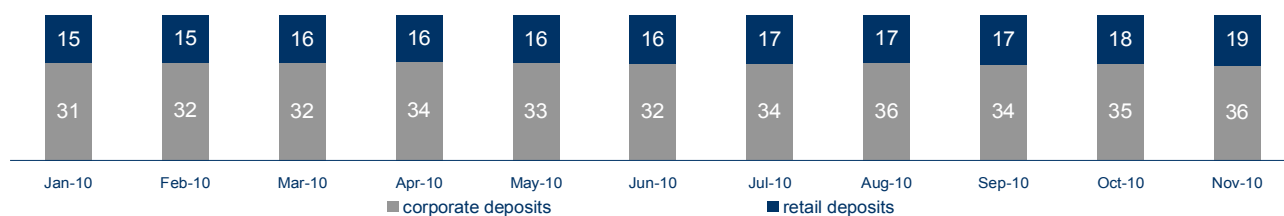
	2006	2007	2008	2009	2010	Oct 11
Domestic economy and financial system						
Real GDP growth, %	110.7	108.9	103.2	101.2	107.0	107.0
GDP, US\$ million	76 355	106 816	131 713	107 197	145 854	121 556
Production, % YoY	107	104.5	102.1	101.7	110.0	104.0
Unemployment rate, %	7.8	7.3	6.6	6.5	5.5	5.3
CPI, %	108.4	118.8	109.5	106.2	107.8	108.0
Monetary supply M3, US\$ million	27 492	38 486	51 894	49 754	57 942	66 444
Monetary base (reserve money), US\$ million	11 223	12 171	12 629	16 510	17 443	20 735
Real exchange rate	133.77	120.30	120.77	148.46	147.50	147.77
Official refinancing rate, %*	9.0	11.0	9.5	7.0	7.0	7.5
State finance						
State budget balance, % of GDP	0.5	-1.7	-2.1	-3.1	-2.5	-1.3
Sovereign foreign debt, % of GDP	4.1	2.0	1.6	2.5	2.8	3.3
Sovereign foreign debt / State budget income, %	17.9	8.7	6.5	11.4	13.9	17.9
Sovereign foreign debt, US\$ million	3 125	2 099	2 167	2 218	4 061	4 029
Balance of payments						
Current account balance, US\$ million	-1 999	-8 226	6 978	-3 408	4 319	9 286
Current account balance, % of GDP	-2.6	-7.7	5.3	- 2.6	3.0	7.6
Capital and finance account balance, US\$ million	16 201	8 366	1 219	5 554	416	5 670
Capital and finance account balance, % of GDP	21.2	7.8	0.9	5.2	0.3	4.7
Imports, US\$ million	24 120	33 260	38 452	28 672	31 956	29 442
Exports, US\$ million	38 762	48 351	71 971	43 886	60 838	61 841
Foreign assets and liabilities						
Gross foreign debt, US\$ million	74 014	96 914	107 713	113 229	119 242	124 107*
Gross foreign debt, % of GDP	91.4	92.4	81.3	98.6	45.2	42.4*
National Bank's Net International Reserves, US\$ thousands	19 127	17 629	19 872	23 218	27 723	32 065
National Fund	14 092	21 006	27 486	24 368	30 578	42 378
National Fund and international reserves	33 219	38 635	47 358	47 586	58 301	74 443

*1H11

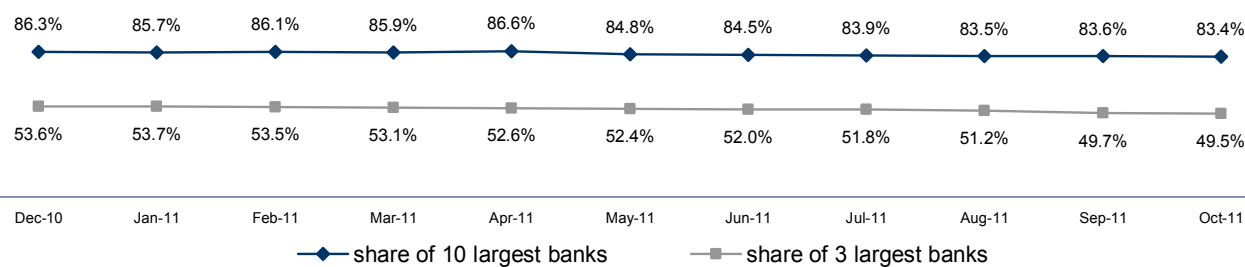
Banking sector indicators

	2006	2007	2008	2009	2010	Oct 2011
Commercial banks (number)	33	35	37	38	39	38
Bank branches (number)	1 813	2 381	2 546	2 299	2 246	2 271
Major indicators of the banking sector, US\$ million						
Assets	69 859	97 129	98 432	77 837	81 614	88 082
Capital	6 854	11 846	12 026	-6 601	8 967	9 414
Loans	47 181	73 718	76 534	64 926	60 627	68 325
Provisions for loans	2 342	4 337	8 491	24 458	18 995	22 685
- % of total loans	5.0	5.9	11.1	37.7	30.9	33.2
Deposits	24 979	32 451	38 084	40 441	46 850	53 994
Net profit	801	1 806	89	-19 225	9 904	-84
Profitability ratios, %						
NIM	3.3	5.2	5.8	3.1	3.0	4.0
RoAA	1.1	1.9	0.1	11.9	0.12	-
RoAE	11.7	15.3	0.7	-	1.02	-
Banking sector and the economy, %						
Assets / GDP	87.5	90.9	74.6	68.0	61.9	49.5
Loans / GDP	59.1	69.0	58.0	56.7	46.5	38.4
Deposits / GDP	31.3	30.4	28.9	37.1	35.2	30.0

Trends in the deposit base, US\$ billion



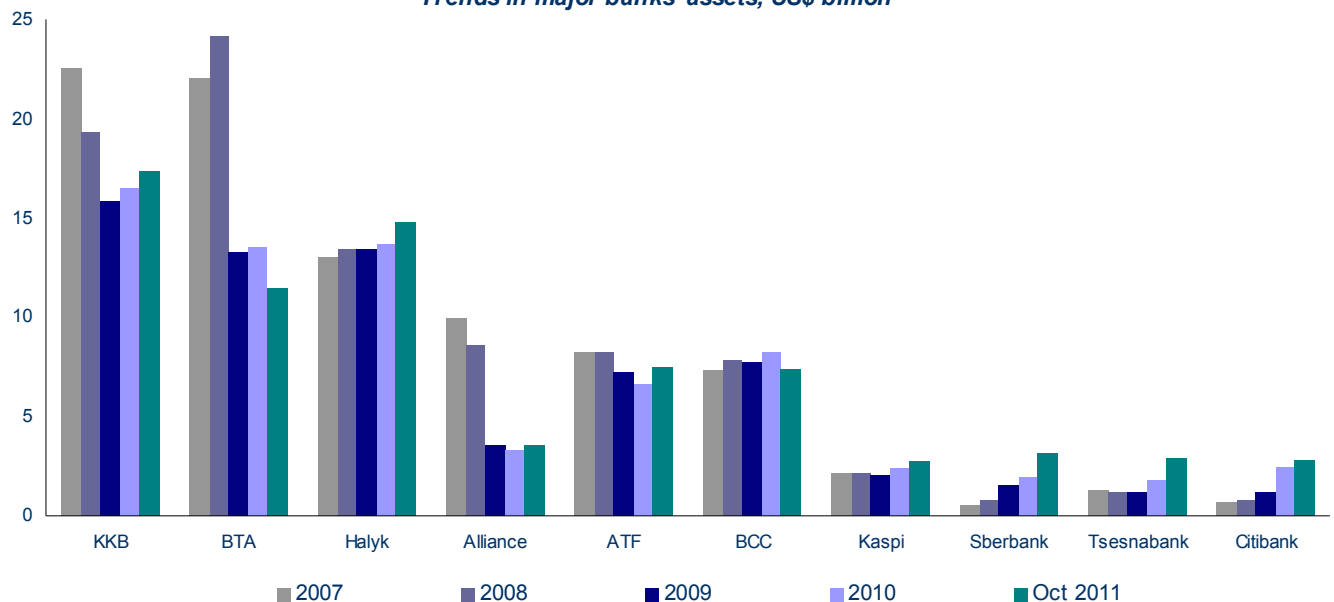
Concentration of banking system assets



Major indicators of the largest Kazakh banks as at 1 November 2011

Bank	Assets		Equity		Loans to customers		Total deposits		Retail deposits		Net profit	Reserves	90 days overdue loans	
	US\$ mln	Oct/Sept	US\$ mln	Oct/Sept	US\$ mln	Oct/Sept	US\$ mln	Oct/Sept	US\$ mln	Oct/Sept			US\$ mln	% of gross loans
KKB	17,333	-1.1%	3,149	0.7%	15,115	-1.7%	9,600	-1.8%	3,568	1.9%	7	34.9%	24.6%	
Halyk	14,806	0.0%	1,958	1.0%	8,671	0.5%	10,169	2.6%	3,639	-0.3%	201	24.9%	18.2%	
BTA	11,458	-0.8%	-1,099	17.6%	14,110	1.2%	5,326	1.3%	2,083	1.4%	-167	63.7%	68.0%	
ATF	7,447	-0.5%	439	-0.9%	5,790	0.0%	4,120	0.4%	982	0.6%	-197	19.2%	36.1%	
BCC	7,359	0.1%	551	0.1%	5,400	-0.1%	4,767	0.5%	2,440	-0.7%	9	15.9%	9.6%	
Alliance	3,541	-0.7%	-28	64.8%	3,767	0.0%	1,989	3.7%	690	3.1%	97	47.3%	53.4%	
Sberbank	3,187	1.4%	320	-1.1%	2,123	6.3%	2,571	4.8%	419	2.3%	38	6.3%	2.3%	
Tsesnabank	2,854	3.3%	225	1.1%	2,114	3.3%	2,229	-0.8%	611	5.1%	25	3.6%	3.9%	
Citibank	2,769	-3.6%	160	1.9%	491	9.0%	2,434	-4.2%	22	-2.6%	27	0.8%	-	
Kaspi	2,713	2.6%	305	0.9%	2,294	1.6%	2,059	3.6%	1,442	3.8%	43	17.1%	15.6%	
Top 10	72,138	1.7%	5,979	-2.15%	59,876	0.3%	45,264	0.7%	15,896	1.2%	82	34.7%	33.4%	
Other banks	15,944	-7.7%	3,434	0.10%	8,449	-2.3%	8,297	1.5%	1,931	-0.9%	113	22.5%	17.1%	
Total	88,082	-0.1%	9,414	-1.34%	68,325	0.0%	53,561	0.9%	17,828	1.0%	195	33.2%	31.4%	

Trends in major banks' assets, US\$ billion



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