

Summary

- Inflation in May 2010 was 0.7%
- GDP growth in January-May 2010 was 8.3% compared to January-April 2009; GDP growth forecast for 2010 changed to 4%
- FMSA approved BTA's restructuring plan
- Fitch Ratings changed its outlook on Kazkommertsbank to Stable

News on Kazkommertsbank:

- **29 June.** Kazkommerts Finance 2 B.V. announced commencement of a Consent Solicitation in relation to its U.S.\$200,000,000 8.625% Subordinated Loan Participation Notes due 2016 and U.S.\$250,000,000 8.5% Subordinated Loan Participation Notes due 2017. Further details are available at the following link: http://en.kkb.kz/page/Releases_290610_1
- **11 June.** Fitch Ratings has revised Kazkommertsbank's (KKB) Outlook to Stable from Negative, whilst affirming the bank's Long-term foreign currency Issuer Default Rating (IDR) at 'B-'. A full rating breakdown is provided at the end of this comment. The Outlook revision reflects KKB's somewhat eased liquidity pressures following fresh deposit inflows after large foreign debt repayments in 2009, and more evidence of regulatory forbearance in respect of the bank's loan impairment recognition. It also reflects the more positive outlook for the Kazakh economy, which makes a further substantial deterioration in the bank's asset quality less likely.
- **6 June.** Kazkommertsbank began issuing and distributing American Express Blue credit cards. The Blue cards provide a higher degree of financial independence and unique advantages, such as a cashback return of up to 5% of a transaction to the card, the Go! bonus loyalty programme, a preferential grace period on interest of up to one month, an insurance programme and online banking, amongst others. Kazakhstan will be the first CIS and Central Asian country to issue Blue credit cards. Highly developed information technologies including advanced software and IT infrastructure, a wide acquiring network and a partnership with American Express were the driving factors behind Kazkommertsbank to becoming an issuer of the new card.

Kazakh Banking Sector Developments

P&L

The net income of Kazakhstan's commercial banks decreased in May to US\$ 1,643 million from US\$ 1,785 million in January-April 2010.

Kazakh commercial banks' aggregate earnings amounted to US\$ 11,520 million. The aggregate expenses of the banking system (including corporate tax) was US\$ 9,878 million, the majority of which were provision charges, which constituted a 55.1% share of total expenses.

CAPITAL

The Kazakh banking sector's aggregate capital remained negative and as of 1 June 2010, amounting to US\$ -4,140 million (US\$ -3,462 million as of 1 May 2010). Excluding the negative capital of the two banks under restructuring, the aggregate bank capital amounted to US\$ 7,674 million (US\$ 7,605 million as of 1 May 2010).

ASSETS

Aggregate bank assets stood at US\$ 80,534 million (a decrease of 0.8% MoM or US\$ 522 million).

The share of loans to customers slightly increased from 48.8% to 49.1% during May. The share of securities portfolio increased from 18.7% to 18.9%. The share of highly liquid assets (cash, precious metals and correspondent accounts) increased from 8.2% to 8.8% due to an increase in correspondent accounts by 6.7%. The share of funds placed with the National Bank within total assets decreased from 5.0% to 3.9% and the share of inter-bank loans and deposits decreased from 3.8% to 3.4%.

The continuing monthly deterioration in asset quality is still the major concern of the banks. According to the FSA, loans that were at least 90 days overdue represented 26.9% of the total loan portfolio as at 1 June 2010 compared to 26.1% as at 1 May 2010. Loans that were 90 days overdue, excluding BTA, Temir and Alliance Bank, amounted to 12.5% of the total loans as at 1 June 2010, compared to 17.2% as 1 May 2010.

The loan loss provisioning rate slightly decreased from 36.8% at April-end to 36.7% in May, according to the FSA.

LIABILITIES

Aggregate bank liabilities increased slightly by 0.1% during May, to US\$ 84,679 million.

The structure of liabilities has not changed significantly. The major funding sources remain customer accounts (52.9% of total liabilities compared to 52.8% in April).

Customer accounts increased by 0.6% to US\$ 44,547 million, mainly due to the increase in corporate (by 1.5%), while retail deposits saw a decrease (by 1.3%). A major inflow of total deposits was seen in Eurasian, Nurbank and Alliance (18.4%, 7.5% and 7.2%, respectively).

The sector's net loans-to-deposits ratio increased from 88.6% in April 2010 to 90.2% in May 2010, due to the increase in deposits.

Major events in the banking sector

- **16 June.** Standard & Poor's increased its credit rating on liabilities of the national currency of the Development Bank of Kazakhstan from BBB- to BBB, affirmed a long-term foreign currency liabilities rating at BBB- and a short-term rating at A-3.
- **16 June.** Mr. Marlen Zhakezhanov, Managing Director of BTA Bank, announced plans to increase its lending to SME by 15% till the year-end 2010 года. He also mentioned that the bank is planning to decrease problem loans in the SME sector from 24% to 12%.
- **16 June.** The Agency for Financial Supervision (AFN) approved Mr. Guram Andronikashvili as a CEO of Metrokombank. Mr. Andronikashvili previously worked in JP Morgan's London office.
- **11 June.** Fitch Ratings changed its outlook on Kazkommertsbank's rating from Negative to Stable. The change of outlook reflects the decrease in pressure to KKB's liquidity due to an increase in deposits after the significant foreign debt repayments in 2009.
- **11 June.** Nurbank's major shareholder, Ms. Sofya Sarsenova offered to buy more shares at KZT 14,882.51.
- **11 June.** Danabank announces the purchase of a 23.55% stake in its common shares by Ms. Saniya Zhakupova.
- **10 June.** Standard & Poor's increased Alliance Bank's ratings due to the completion of its restructuring. The bank's long-term credit rating was increased to from D (default) to B- and its short-term counterparty rating from D to C.
- **9 June.** The Agency for financial supervision (AFN) approved the restructuring plan of BTA Bank, which was approved by the majority of creditors of the bank at their meeting in Almaty on May 28. After the restructuring, internal and external creditors of the bank will become its shareholders, owning in total 18.5% of its shares. As a result, the liabilities of BTA will decrease to US\$ 4.4 billion and prolonged for a period of 8 to 20 years. The restructuring should be completed before 5 September 2010.
- **7 June.** Mr. Kairat Kelimbetov, the CEO of Samruk-Kazyna National Wealth Fund (the Fund), said that the Fund is conducting unofficial negotiations with Sberbank about the purchase of BTA Bank. He mentioned that BTA can be sold to a financial institution with capital larger than US\$ 7 billion and among Kazakh and Russian banks only Sberbank suits this condition. The official negotiations will commence after 5 September, when the restructuring will be completed.
- **4 June.** Mr. German Gref, the president of Sberbank, said that the bank will decide on the purchase of BTA bank by the year-end 2010.
- **2 June.** Halyk Bank said that it is not interested in purchasing BTA or any other bank, as its branch network is the largest in the country. The bank is planning to decrease its provisioning expense by 2 times, said the Deputy CEO, Mr. Dauren Karabayev at a press-conference held by the bank. Ms. Umut Shayakhmetova, CEO of the bank, said that the net income of Halyk Bank may be higher than the previously announced KZT 27 billion. However, she mentioned that the Bank may not increase its lending by the forecasted 10%.
- **2 June.** The Agency for financial supervision (AFN) approved Mr. Dmitriy Prikhozhan as the CEO of Eximbank. Mr. Prikhozhan was previously Deputy CEO of the bank.
- **2 June.** CEO of the National Bank of Kazakhstan Mr. Grigoriy Marchenko said the Bank will announce an exchange rate policy to come into effect after the 20 March 2011 by the year-end 2010.
- **2 June.** BTA Bank bought 75% stakes in pension fund UlarUmit and Pension Asset Management Zhetysu.

- **1 June.** Mr. Maxat Kabashev, CEO of Alliance Bank, said that the bank may write-off US\$ 1 billion in corporate loans over the following 2 years. This amount includes loans to around 10 large clients of the bank.
- **28 June.** BTA bank announced that its creditors had approved its restructuring plan.
- **26 May.** Russian Troika Dialog Bank, the subsidiary of Kazakh Eurasian Bank, was renamed OJSC Eurasian Bank.
- **25 May.** Fitch Ratings rated the subordinated notes of ATF Bank as an international BBB-rating and a national AA+(kaz).

Major developments in Kazakhstan's economy:

INFLATION

In May 2010, inflation in Kazakhstan was 0.7%. The prices of food products in May 2010 increased by 0.7%, non-food products saw a rise of 0.5%, while paid services increased by 0.4%. Annual inflation (May 2010 to May 2009) was 7.0%, and the prices for food products increased by 5.2%, for non-food products by 6.4%, and for paid services by 10.1%.

INDUSTRIAL PRODUCTION

The volume of industrial production in January-May 2010 compared to January-May 2009 increased by 11.9%. The real volume index was 107.7% in the mining industry, 120.2% in the processing industry.

UNEMPLOYMENT

The unemployment rate in May 2010 was 6.1%. The number of unemployed people in May 2010 was 533,600. The number of unemployed people registered with authorised employment bodies in May 2010 was 1.0% of the economically active population. The hidden unemployment rate in May 2010 was 0.4% of the economically active population.

INTERNATIONAL RESERVES

In May 2010 the net international reserves (including the net international reserves of the National Bank and National Fund's assets in foreign currency) decreased slightly by 0.9%, to US\$54.2 billion. The assets of the National Fund increased by 2.31% in May 2010 to US\$26.4 billion. The net international reserves of the National Bank based on current prices decreased by 3.8% to US\$27.7 billion. The net currency reserves in May 2010 decreased by 4.2% to US\$25.5 billion, while assets held in gold decreased by 1.1% to US\$2.7 billion.

GDP

GDP growth in January-May 2010 was 8.3% compared to January-May 2009.

MONEY SUPPLY

May 2010 saw an increase in the money supply of 0.5% to KZT 8,050 billion. The amount of currency in circulation increased by 3.4% to KZT 990.6 billion. The reserve money in May 2010 decreased by 5.0% to KZT 2,518 billion. The narrow reserve money (money supply less term deposits of the banks with the National Bank) increased by 0.5% in May 2010 to KZT 2,057 billion.

News on Kazakhstan's economy:

- **23 June.** According to the Vice-Minister of Communication and Information Mr. Saken Sarsenov, satellite digital telecasting will be available across all regions of Kazakhstan by the end of 2010. According to the Vice-Minister, priority will be given to the rural areas, while by 2015, telecasting in Kazakhstan will be digital.
- **22 June.** Kazakhstan may introduce a tax duty on oil exports at US\$20 per ton, according to the Minister of Finance Mr. Zhamishev. He mentioned that the tax would be fixed rate in the short-term, based on expected dynamics for oil prices. Thus, the average tax burden on the oil sector is likely to increase from 40% to 44%.
- **22 June.** GDP in Kazakhstan will increase by 4% y-o-y, said the Minister of Finance Mr. Zhamishev.
- **21 June.** The Government of Kazakhstan plans to introduce the corrected republican budget for 2010 to the Parliament in the Fall of 2010[?]. The amendments and corrections will be mainly related to regional, construction and agricultural programmes.
- **14 June.** The Chairperson of the Agency of Statistics Mr. Smailov believes that inflation in Kazakhstan in 2010 will be within the defined range of 6-8%. The inflation rate for goods and services during the first five months of 2010 was lower compared to the same period in 2009, except for January 2010, when prices for certain services increased.
- **4 June.** The European Bank for Reconstruction and Development (EBRD) and Kazyna Capital Management (a subsidiary of Samruk-Kazyna National Wealth Fund) agreed on the establishment of the Kazakh Restructuring Fund. The Fund's capitalization will at first be US\$100 million, of which US\$49.5 million will be provided by EBRD and Kazyna Capital Management. 1% of the capital will be invested by ADM Capital, which will also manage the Fund. According to Samruk-Kazyna, the Fund's AUM might reach US\$225 billion as a result of possible participation from international investors. The Fund will provide investments to Kazakh companies suffering financial difficulties, while also providing development potential and new perspectives. The Fund will invest in any sector except for the production and realization of alcohol, tobacco, weapons, amongst others. The investment strategy of the Fund implies both long-term financing as well as capital investments. Investments in any one portfolio company will be average at US\$15 million, and will not constitute more than 15% of its total capitalization. The Fund will act for six years from 2010 to 2016 with a possible extension of terms to a further two years.
- **3 June.** According to the Vice-Minister of Industry and New Technologies, investments in the mining complex of Kazakhstan will total US\$16 billion over the next five years. 85% of this amount will be attributable to private investors, including Kazakhmys and ENRC. The mining complex's production volumes are expected to reach US\$32 billion by 2014.
- **3 June.** NGCC KazStroyService, CITIC Construction and the joint venture CASPI BITUM signed agreement on the construction of a road bitumen production plant based in the Aktau Plastic Masses Plant (Mangistau Oblast). The total costs of the plant will be US\$145 million and production capacities will be 420,000 tons per annum. 1 million tons of oil will be processed at the Karazhanbas oil field.
- **3 June.** The European Bank for Reconstruction and Development (EBRD) will provide US\$850 million to Kazakhstan in 2010.
- **3 June.** According to Mr. Kelimbetov, the CEO of Samruk-Kazyna National Wealth Fund, the national companies of Kazakhstan will become public at some point in the future. He noted that as a result of these plans to enter the capital markets, the national companies are currently working on increasing efficiency, transparency and improved corporate governance.

- **3 June.** KazMunayGas, the national oil and gas company, announced that it would like to purchase up to 10% in Karachaganak Petroleum Operating (KPO). Currently, the government bodies of Kazakhstan and Karachaganak Petroleum Operating are in the process of an international arbitrary trial for economic damage of KZT 187 billion.
- **2 June.** The National Bank believes that high currency market volatility at is justified within a defined range. The Chairman of the National Bank Mr. Marchenko believes that neither market participants nor the population are ready for a KZT1 change in exchange rate.

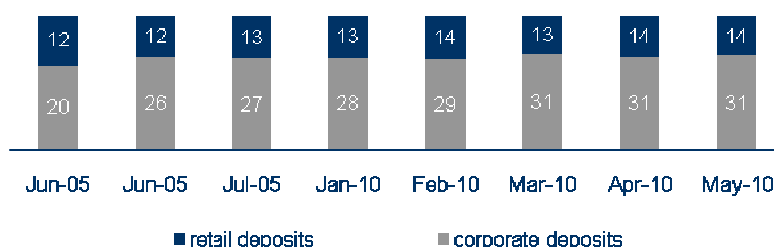
Kazakhstan's key macroeconomic indicators

	2005	2006	2007	2008	2009	May 10
Domestic economy and financial system						
Real GDP growth, %	109.7	110.7	108.9	103.2	101.2	108.3
GDP, US\$ million	58 392	76 355	106 816	131 713	107 197	n/a
Production, % YoY	104.6	107	104.5	102.1	101.7	111.9
Unemployment rate, %	8.1	7.8	7.3	6.6	6.5	6.1
CPI, %	107.7	108.4	118.8	109.5	106.2	107.0
Monetary supply M3, US\$ million	15 887	27 492	38 486	51 894	49 754	54 881
Monetary base (reserve money), US\$ million	5 100	11 223	12 171	12 629	16 510	17 168
Real exchange rate	130.00	133.77	120.30	120.77	148.46	146.69
Official refinancing rate, %*	8.0	9.0	11.0	9.5	7.0	7.0
State finance						
State budget balance, % of GDP	0.6	0.5	-1.7	-2.1	-3.1	n/a
Total sovereign debt, % of GDP	3.7	4.1	2.0	1.6	2.5	n/a
Sovereign foreign debt / State budget income, %	13.5	17.9	8.7	6.5	11.4	n/a
Sovereign foreign debt, US\$ million	2 175	3 125	2 099	2 167	2 218	n/a
Balance of payments						
Current account balance, US\$ million	-1 056	-1 999	-8 226	6 978	-2 833	n/a
Current account balance, % of GDP	-1.8	-2.6	-7.7	5.3	-2.6	n/a
Capital and finance account balance, US\$ million	912	16 201	8 366	1 219	5 554	n/a
Capital and finance account balance, % of GDP	1.6	21.2	7.8	0.9	5.2	n/a
Imports, US\$ million	17 979	24 120	33 260	38 452	28 672	n/a
Exports, US\$ million	28 301	38 762	48 351	71 971	43 886	n/a
Foreign assets and liabilities						
Gross foreign debt, US\$ million	43 429	74 014	96 914	107 713	111 730	n/a
Gross foreign debt, % of GDP	76.0	91.4	92.4	81.3	104.1	n/a
National Bank's Gross International Reserves, US\$ thousands	7 069	19 127	17 629	19 872	23 218	27 710
National Fund	8 074	14 092	21 006	27 486	24 368	26 436
National Fund and international reserves	15 143	33 219	38 635	47 358	47 586	54 146

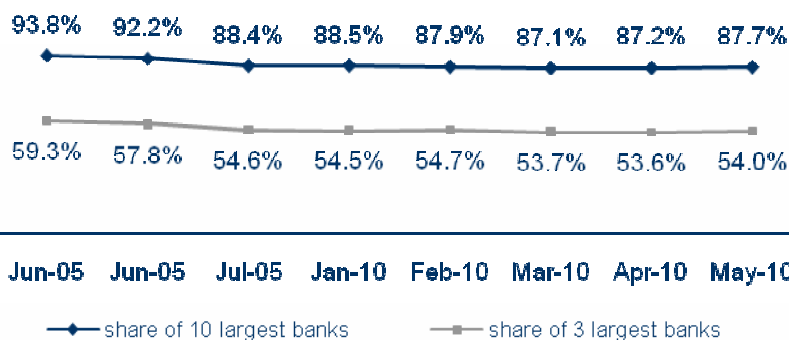
Banking sector indicators*

	2005	2006	2007	2008	2009	May 2010
Commercial banks (number)	34	33	35	37	38	39
Bank branches (number)	1 730	1 813	2 381	2 546	2 299	2 220
Major indicators of the banking sector, US\$ million						
Assets	33 701	69 859	97 129	98 432	77 837	80 430
Capital	3 297	6 854	11 846	12 026	-6 601	-4 140
Loans	22 869	47 181	73 718	76 534	64 926	63 649
Provisions for loans	1 276	2 342	4 337	8 491	24 458	23 349
- % of total loans	5.6	5.0	5.9	11.1	37.7	36.7
Deposits	12 471	24 979	32 451	38 084	40 441	44 847
Net profit	538	801	1 806	89	-19 225	1 649
Profitability ratios, %						
NIM	3.7	3.3	5.2	5.8	3.1	2.5
RoAA	1.6	1.1	1.9	0.1	Loss	Loss
RoAE	16.3	11.7	15.3	0.7	Loss	Loss
Banking sector and the economy, %						
Assets / GDP	60.6	87.5	90.9	74.6	71.4	n/a
Loans / GDP	41.1	59.1	69.0	58.0	59.5	n/a
Deposits / GDP	22.4	31.3	30.4	28.9	37.1	n/a

Trends in the deposit base, US\$ billion



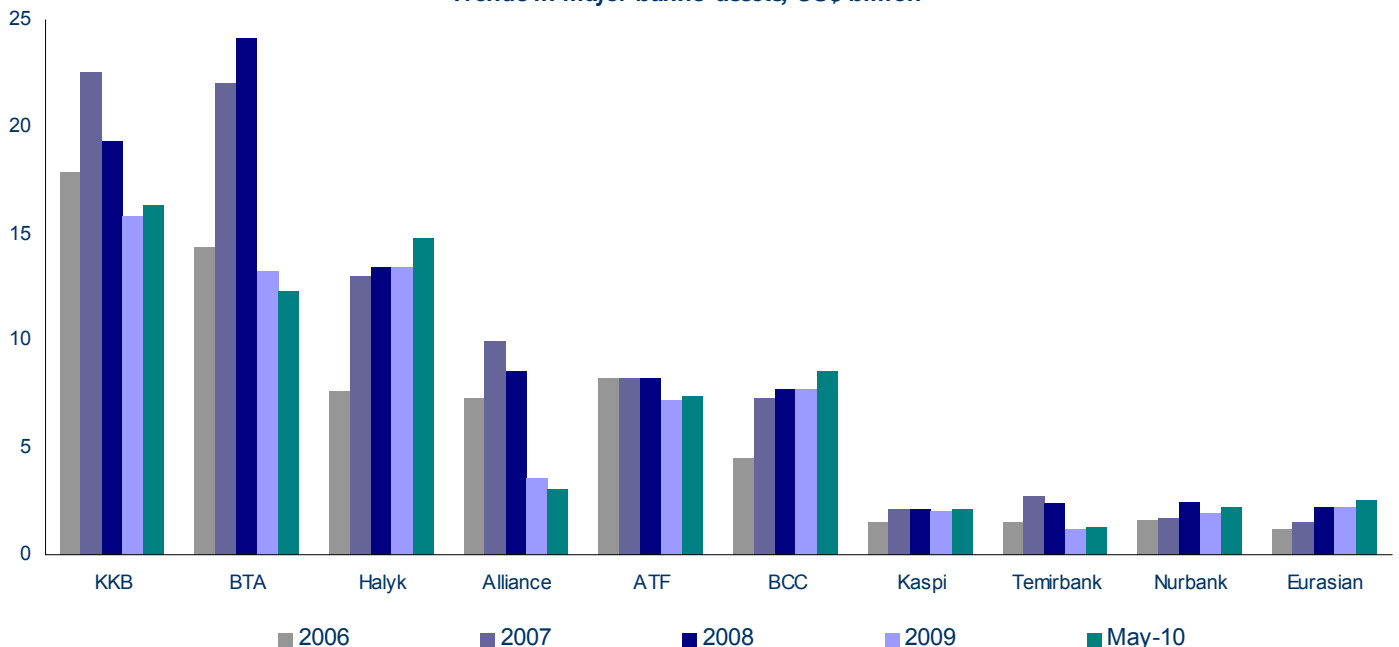
Concentration of banking system assets



Major indicators of the largest Kazakh banks as at 1 June 2010

Bank	Assets		Equity		Loans to customers		Total deposits		Retail deposits		Net profit	Reserves	90 days overdue loans
	US\$ mln	Jun/ May/	US\$ mln	Jun/ May/	US\$ mln	Jun/ May/	US\$ mln	Jun/ May/	US\$ mln	Jun/ May/			
KKB	16 290	0.1%	1 887	0.9%	15 952	0.1%	8 984	-0.5%	2 492	0.3%	1	28.7%	23.4%
Halyk	14 784	4.2%	1 672	-0.8%	8 233	0.5%	10 099	5.5%	2 829	0.2%	61	21.1%	18.8%
BTA	12 321	-6.3%	-11 110	6.36%	14 604	-2.6%	4 100	1.2%	1 211	2.8%	-445	77.2%	38.2%
BCC	8 574	-0.1%	725	0.2%	4 626	-0.9%	4 960	-0.2%	2 075	-0.4%	3	10.3%	3.7%
ATF	7 384	3.4%	694	0.2%	5 619	-0.5%	3 200	4.5%	1 425	-3.2%	2	13.1%	30.9%
Alliance	3 072	1.7%	191	-5.0%	3 897	-0.4%	1 110	7.2%	394	3.3%	2 049	72.8%	64.6%
Eurasian	2 517	10.2%	159	-5.1%	1 354	-0.8%	1 787	18.4%	685	-2.5%	-12	11.6%	9.4%
Nurbank	2 206	-2.8%	315	-1.0%	1 592	-1.9%	1 567	7.5%	248	6.4%	0	9.4%	9.5%
Kaspi	2 134	-2.2%	202	-4.0%	1 729	1.5%	1 310	0.6%	835	2.3%	-11	13.1%	9.7%
Temirbank	1 263	0.9%	-604	0.8%	1 722	-0.6%	1 121	0.3%	177	3.1%	-29	49.9%	59.2%
Top 10	70 547	0.3%	-5 869	13.3%	59 330	-0.7%	38 237	3.1%	12 371	0.2%	1 620	38.8%	28.2%
Other banks	9 863	-10.5%	1 730	0.4%	4 319	1.5%	6 610	-11.6%	1 206	-14.7%	29	7.6%	7.9%
Total	80 430	-1.2%	-4 140	19.8%	63 649	-0.6%	44 847	0.6%	13 577	-1.3%	1 649	36.7%	26.8%

Trends in major banks' assets, US\$ billion



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