

Official exchange KZT/US\$ rate on 1 June 2011 – 145.43

Summary

- The National Fund increased by 5.8%
 - Salaries of public sector employees will be increased since 1 July
 - Fitch Ratings confirmed ratings of BTA and Alliance at B- with Stable outlook
 - ATF Bank increased its share capital by 35%

- **31 May.** Kazkommerstbank reported its 1st quarter 2011 results. Net interest income before provisions for impairment losses decreased by 20.8% from KZT 37.0 billion in the 1st quarter 2010 to KZT 29.3 billion in the 1st quarter 2011. Adjusted Net Interest Margin amounted to 3.5%. Net non-interest income amounted to KZT 4.1 billion in the 1st quarter 2011 compared to KZT 4.0 billion for the same period of 2010. Operating expenses grew 19.3% in the 1st quarter 2011 compared to the 1st quarter 2010 and amounted to KZT 8.4 billion. The provisions for credit impairment losses represented 21.5% of gross loans and advances in the 1st quarter 2011 compared with 20.8% in 2010. Non-performing loans (NPLs) were 27.7% of gross loan book at the end of the 1st quarter 2011 compared to 25.4% as of the end of 2010. Profit before tax in the 1st quarter 2011 increased by 2.2 times to KZT 7.5 billion compared to KZT 3.4 billion in the 1st quarter 2010. Net profit after tax for the three months ended 31 March 2011 grew by 6% to KZT 5.9 billion compared to KZT 5.6 billion for the three months ended 31 March 2010. On a consolidated basis, the Bank's Core Tier 1 ratio at 31 March 2011 was 17.4%, compared with 16.2% at 31 December 2010, and the total capital ratio was 21.7% (20.1% at 31 December 2010).

Kazakh Banking Sector Developments

P&L

The net profit of Kazakhstan's commercial banks in May 2011 was US\$4.8 million.

Kazakh commercial banks' aggregate earnings amounted to US\$ 9,172 million. The aggregate expenses of the banking system (including corporate tax) were US\$ 9,167 million, the majority of which were provision charges, which constituted a 35.8% share of total expenses.

CAPITAL

The Kazakh banking sector's aggregate capital amounted to US\$ 9,610 million as of 1 June 2011 (US\$ 9,223 million as of 1 May 2011).

ASSETS

Aggregate bank assets stood at US\$ 85,214 million (a decrease of 0.8% MoM or US\$ 322 million). The decrease was due to contraction in securities held to maturity (+26%) and correspondent accounts (19%).

The share of loans to customers increased to 50.3% from 50% as at 1 May 2011. The share of the securities portfolio decreased slightly to 16.3% from 16.7% in April 2011. The share of highly liquid assets (cash, precious metals and correspondent accounts) decreased to 6.8% from 7.7% due to decrease in correspondent accounts. The share of funds placed with the National Bank within total assets decreased to 4.3% from 4.5% and the share of inter-bank loans and deposits increased to 3.9% from 2.6% in April 2011.

According to the FSA, loans that were at least 90 days overdue decreased to 26.2% from 26.5% as at 1 May 2011. Also, the loan loss provisioning rate remained flat at 31% in May 2011.

LIABILITIES

Aggregate bank liabilities increased to US\$ 75,604 million from US\$76,313 in April 2011.

The structure of liabilities has not changed significantly. The major funding sources are customer accounts with a share of 57.9% of the total liabilities.

Customer accounts decreased by 2.2% or US\$ 1,068 million to US\$ 49,306 million, due to a decrease in both corporate and retail deposits. A major outflow of total deposits was seen in Eurasian (-12.8%), Sberbank (-10.6%) and ATF (-8.3%), while a major inflow was seen in Alliance and Kaspi (4.3% and 2.2%, respectively).

The sector's net loans-to-deposits ratio increased from 84.7% in April to 87% in May 2011.

Major events in the banking sector

- **28 June.** Moody's assigned preliminary B1 (senior notes) and B2 (subordinated notes) ratings with Negative outlook to the upcoming note issues in local currency of Kaspi Bank under KZT100 billion notes programme. Kaspi bank plans to place two issues of bonds in the near future.
- **22 June.** Fitch Ratings affirmed long-term issuer default ratings (IDR) in foreign currency of BTA and Alliance banks at B- with Stable outlook. According to the agency, the ratings reflect the agency's assessment of potential support from Kazakh government. At the same time, Fitch notes that none of the banks represent strategic investment for the Kazakh officials.
- **22 June.** Moody's Investors Service affirmed current ratings of Eurasian bank. The individual bank financial strength rating was confirmed at E+, long-term deposit rating in foreign currency at B1, senior unsecured debt rating in local currency at B1 and subordinated debt rating in local currency at B2. All ratings have Negative outlook.
- **21 June.** BTA Bank confirms that it has enough liquidity to serve all its liabilities under new debt instruments issued during restructuring in a timely and full manner. As at 20 June 2011 cash amounted to KZT50.4 billion (US\$347 million) or 2.6% of current assets. Funds available under repurchase operations with the National Bank amounted to KZT251 billion (US\$1,719 million).
- **16 June.** According to the National Bank, as at 1 May 2011 Kazakh banks have issued 8.8 million bank cards. The cards of the international systems are the most popular, and their share was 98%. In April 2011 the transactions with banking cards amounted to KZT342.8 billion, and their number increased to 12.7 million.
- **15 June.** Moody's have placed the ratings of ATF bank for review for possible downgrade. The ratings include long-term deposit ratings in local and foreign currencies of Ba2, senior unsecured debt rating in foreign currency of Ba2 and subordinated junior debt rating in foreign currency of B1. The ratings were placed for review along with the same procedures on the owner of ATF Bank – UniCredit.
- **7 June.** Kaspi Bank will not pay dividends on common shares for 2010. According to the resolution of AGM dated 27 May, the net profit of the Bank will be used to increase the reserve capital by KZT1,472,183 thousand, to pay dividends on preference shares in amount of KZT10.5 million.
- **6 June.** Halyk Bank said that the highest growth rates in the loan book in the 1Q11 were noted in the loans to medium-sized enterprises. The small business continues to shrink as the mortgages. The non-performing loans increased to 19.3% of gross loans. Loans-to-deposits ratio was 0.69 and net interest margin stood at 4.4%.
- **3 June.** ATF Bank increased its share capital by 35% to almost KZT153.2 billion as the major shareholder of the Bank UniCredit Bank Austria realized its pre-emptive rights and purchased shares of the new issue. The Austrian bank purchased 4,999,988 common shares of ATF Bank for total amount of KZT39,999,904 thousand. As a result, the share of UniCredit Bank Austria in ATF Bank increased from 99.63% to 99.7392% of voting shares.
- **25 May.** Moody's upgraded long-term ratings of BTA Bank to B3 from Caa3. The bank financial sustainability rating was affirmed at E with Stable outlook. Ratings of senior unsecured and subordinated debt in foreign currency issued during the restructuring were assigned ratings Caa2 and Caa3, respectively. The ratings have Developing outlook.
- **25 May.** The shareholders of Alliance bank decided not to pay dividends on common and preference shares for 2010 due to the existing capital deficit of the bank under IFRS.

Major developments in Kazakhstan's economy:**INFLATION**

In May 2011, inflation in Kazakhstan was 0.5%. The prices of food products increased by 0.6%, of non-food products by 0.6%, and paid services by 0.3%. Annual inflation (May 2011 to May 2010) was 8.3%, and the prices for food products increased by 12.4%, for non-food products by 5.2%, and for paid services by 6.2%.

INDUSTRIAL PRODUCTION

The volume of industrial production in May 2011 compared to May 2010 increased by 5.8%. The real volume index was 104.0% in the mining industry and 108.7% in the processing industry.

UNEMPLOYMENT

The unemployment rate in May 2011 was 5.4%. The number of unemployed people in May 2011 was 469,200. The number of unemployed people registered with authorised employment bodies in May 2011 was 0.8% of the economically active population. The hidden unemployment rate in May 2011 was 0.4% of the economically active population.

INTERNATIONAL RESERVES

In May 2011 the net international reserves (including the net international reserves of the National Bank and National Fund's assets in foreign currency) increased by 0.2%, to US\$72.6 billion. The assets of the National Fund increased by 5.8% in May 2011 to US\$38.1 billion. The net international reserves of the National Bank based on current prices decreased by 2.7% to US\$35.5 billion. The net currency reserves in May 2011 decreased by 2.9% to US\$32.7 billion, while assets held in gold increased by 0.4% to US\$3.3 billion.

MONEY SUPPLY

The money supply in May 2011 decreased to KZT 8,968 billion. The amount of currency in circulation increased by 1.6% to KZT 1,142 billion. The reserve money in May 2011 decreased by 2.2% to KZT 2,842 billion. The narrow reserve money (money supply less term deposits of the banks with the National Bank) decreased by 1.8% in May 2011 to KZT 2,308 billion.

GDP

Short-term economic indicator in January-May 2011 compared to January-May 2010 was 106.7%. Calculation of the short-term economic indicator is made for efficiency purposes, and it is based on changes in production indices of base sectors, such as agriculture, industry, construction, trade, transport and communications, which represent 67-68% of GDP.

News on Kazakhstan's economy:

- **30 June.** Gross foreign debt of Kazakhstan as at 31 March 2011 increased to US\$124,185 billion, which was 4.1% growth YTD. As at the 31 March 2011 the sovereign debt and debt guaranteed by the state represented 6.1% of the gross foreign debt (+1.8% YTD). The foreign debt of Kazakh banks as at the YE2010 was US\$20,024 billion. In 2011 the banks should repay US\$4,237 billion, including US\$1,829 billion in the 1Q11.
- **30 June.** The salaries of the public sector employees will be increased by 30% since 1 July 2011.
- **13 June.** The National Banks of Kazakhstan and China agreed of mutual swap operations. The banks with sigh agreements totaling US\$1 billion or KZT150 billion, and will open mutual accounts. The amount will be used within three years.
- **8 June.** The prices for new residential housing was flat in May 2011 at KZT148,464 per 1 sq.m. The prices for 1 sq. m. of secondary housing was KZT109,468 (+2%).
- **8 June.** IDB will invest around US\$1.2 billion to Kazakhstan during three years.
- **2 June.** Pension savings in the pension funds increased by 5.6% in January-April 2011 to KZT2,386.3 billion. According to FMSA, the number of individual pension accounts in the pension funds under obligatory pension payments was 8,023,415 thousand as at 1 May 2011 totaling to KZT2,380.6 billion. At the same time the number of accounts under voluntary pension payments decreased by 599 to 38,935 totaling KZT1.2 billion.
- **1 June.** Net profit of Kazakhtelecom in the 1Q11 increased by 6% to KZT16.3 billion. Earnings increased by 12.5% to KZT40.1 billion, gross profit increased by 14% to more than KZT17 billion. The assets of the company increased by 3% to KZT381.9 billion, and liabilities decreased by 4% to KZT126.9 billion.

Kazakhstan's key macroeconomic indicators

	2006	2007	2008	2009	2010	May 11
Domestic economy and financial system						
Real GDP growth, %	110.7	108.9	103.2	101.2	107.0	106.7
GDP, US\$ million	76 355	106 816	131 713	107 197	145 854	n/a
Production, % YoY	107	104.5	102.1	101.7	110.0	105.8
Unemployment rate, %	7.8	7.3	6.6	6.5	5.5	5.4
CPI, %	108.4	118.8	109.5	106.2	107.8	108.3
Monetary supply M3, US\$ million	27 492	38 486	51 894	49 754	57 942	61 667
Monetary base (reserve money), US\$ million	11 223	12 171	12 629	16 510	17 443	15 707
Real exchange rate	133.77	120.30	120.77	148.46	147.50	145.43
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	n/a
Sovereign foreign debt, % of GDP	4.1	2.0	1.6	2.5	2.8	n/a
Sovereign foreign debt / State budget income, %	17.9	8.7	6.5	11.4	13.9	n/a
Sovereign foreign debt, US\$ million	3 125	2 099	2 167	2 218	4 061	4 047
Balance of payments						
Current account balance, US\$ million	-1 999	-8 226	6 978	-3 408	4 319	4 843*
Current account balance, % of GDP	-2.6	-7.7	5.3	-2.6	3.0	3.4*
Capital and finance account balance, US\$ million	16 201	8 366	1 219	5 554	416	1 477*
Capital and finance account balance, % of GDP	21.2	7.8	0.9	5.2	0.3	-0.1*
Imports, US\$ million	24 120	33 260	38 452	28 672	31 956	7 350*
Exports, US\$ million	38 762	48 351	71 971	43 886	60 838	18 499*
Foreign assets and liabilities						
Gross foreign debt, US\$ million	74 014	96 914	107 713	113 229	119 242	n/a
Gross foreign debt, % of GDP	91.4	92.4	81.3	98.6	45.2	n/a
National Bank's Net International Reserves, US\$ thousands	19 127	17 629	19 872	23 218	27 723	35 455
National Fund	14 092	21 006	27 486	24 368	30 578	38 126
National Fund and international reserves	33 219	38 635	47 358	47 586	58 301	72 582

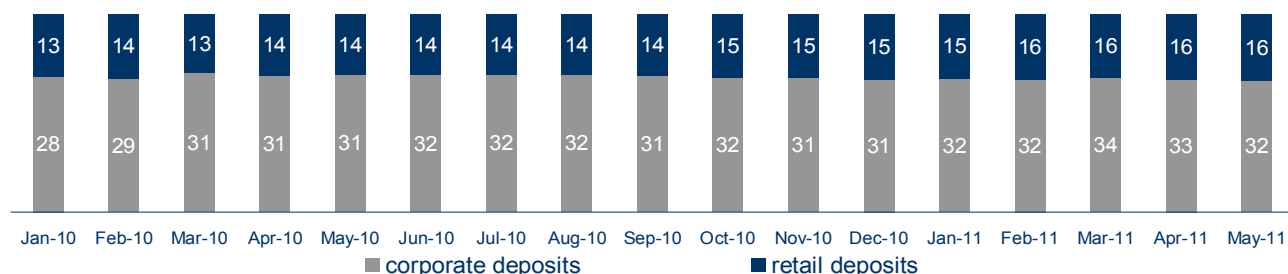
*1Q11.

Annex 2

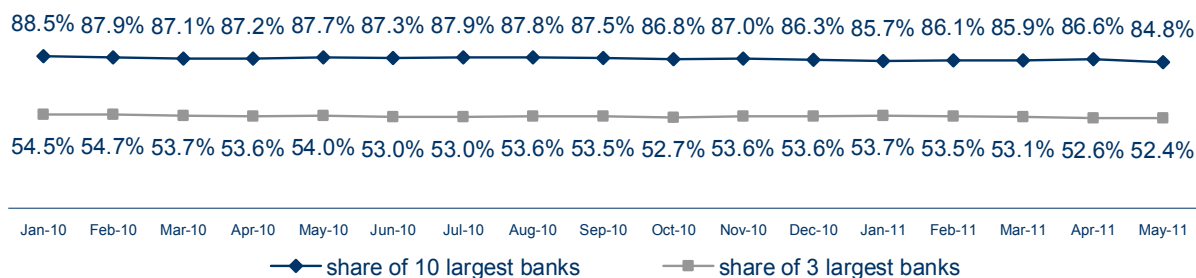
Banking sector indicators

	2006	2007	2008	2009	2010	May 2011
Commercial banks (number)	33	35	37	38	39	39
Bank branches (number)	1 813	2 381	2 546	2 299	2 246	2 268
Major indicators of the banking sector, US\$ million						
Assets	69 859	97 129	98 432	77 837	81 614	85 214
Capital	6 854	11 846	12 026	-6 601	8 967	9 610
Loans	47 181	73 718	76 534	64 926	60 627	63 488
Provisions for loans	2 342	4 337	8 491	24 458	18 995	19 708
- % of total loans	5.0	5.9	11.1	37.7	30.9	31.0
Deposits	24 979	32 451	38 084	40 441	46 850	49 306
Net profit	801	1 806	89	-19 225	9 904	4.8
Profitability ratios, %						
NIM	3.3	5.2	5.8	3.1	3.0	2.2
RoAA	1.1	1.9	0.1	11.9	0.12	9.6
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	64.0
Loans / GDP	59.1	69.0	58.0	56.7	46.5	52.3
Deposits / GDP	31.3	30.4	28.9	37.1	35.2	30.6

Trends in the deposit base, US\$ billion



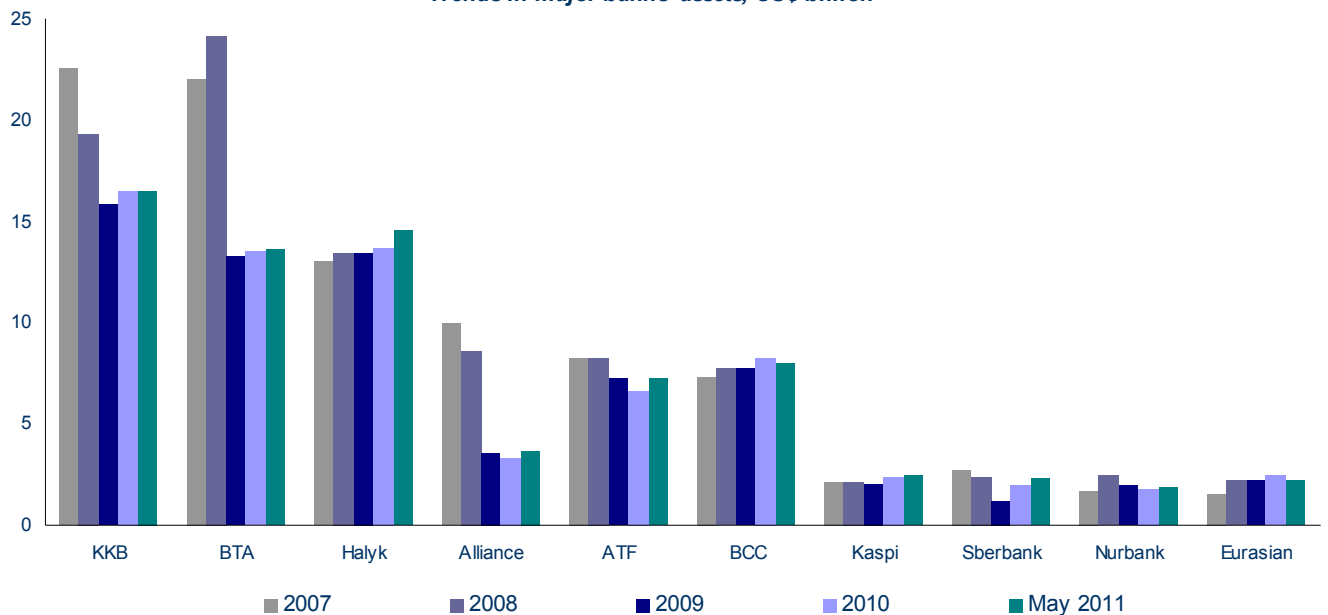
Concentration of banking system assets



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

Bank	Assets		Equity		Loans to customers		Total deposits		Retail deposits		Net profit	Reserves	90 days overdue loans
	US\$ mln	May/ Apr	US\$ mln	May/ Apr	US\$ mln	May/ Apr	US\$ mln	May/ Apr	US\$ mln	May/ Apr			
KKB	16,499	-1.2%	1,960	0.3%	15,562	-0.5%	9,780	-1.4%	3,320	-0.1%	3	32.9%	22.8%
Halyk	14,500	-0.7%	1,653	2.5%	8,601	0.1%	10,014	-1.7%	3,545	-0.7%	96	24.2%	17.0%
BTA	13,645	-0.3%	1,162	-2.8%	11,259	-0.2%	5,204	0.2%	1,936	0.7%	-86	55.7%	46.1%
BCC	7,952	-5.2%	539	0.2%	5,256	1.0%	5,011	-7.1%	2,305	1.1%	5	15.2%	9.6%
ATF	7,190	-0.2%	632	78.4%	5,736	-0.8%	3,475	-8.3%	889	-0.8%	-84	17.3%	33.1%
Alliance	3,653	2.5%	223	-2.1%	3,949	1.5%	1,522	4.3%	590	3.5%	-13	54.7%	61.3%
Eurasian	2,246	-8.5%	193	1.2%	1,629	-4.9%	1,362	-12.8%	462	-18.8%	14	10.1%	8.8%
Kaspi	2,450	1.8%	255	0.4%	2,098	2.7%	1,833	2.2%	1,223	3.6%	7	16.0%	11.5%
Sberbank	2,272	-5.9%	298	1.4%	1,485	5.3%	1,680	-10.6%	270	2.1%	15	6.6%	3.4%
Citibank	1,890	0.2%	162	6.1%	302	19.0%	1,651	0.1%	23	-9.0%	11	2.4%	-
Top 10	72,297	-1.4%	7,077	4.48%	55,877	0.1%	41,532	-3.0%	14,563	-0.3%	-33	32.3%	27.7%
Other banks	12,917	5.1%	2,533	3.13%	7,611	3.4%	7,263	3.0%	1,768	0.4%	38	22.0%	15.2%
Total	85,214	-0.5%	9,610	4.12%	63,488	0.5%	48,796	-2.2%	16,331	-0.2%	5	31.0%	26.2%

Trends in major banks' assets, US\$ billion



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