

Official KZT/USD exchange rate as at 01.01.09 – 120.77
Executive summary

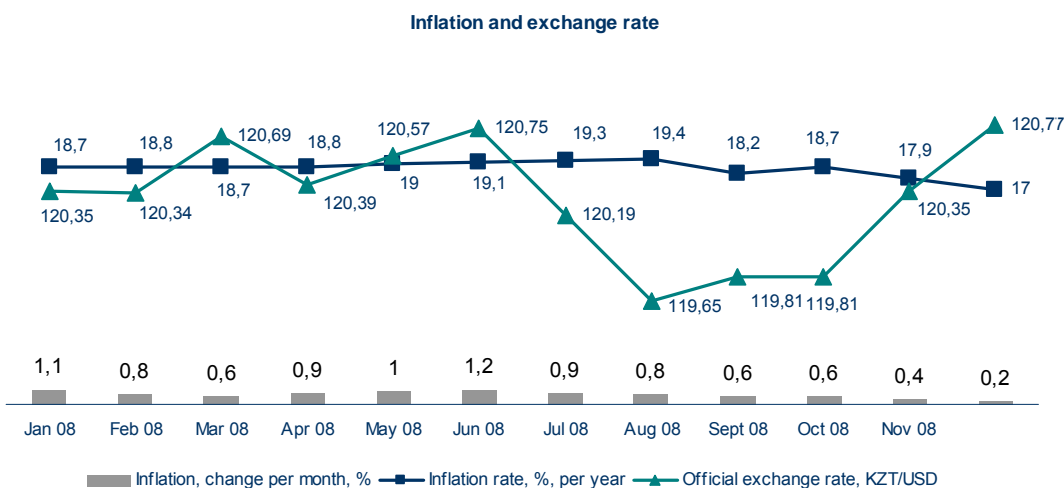
Economy	Banking sector
International reserves of National Bank increased by 10% in 2008	Government takes control over two large banks (BTA and Alliance)
Inflation in December 2008 was 0.2%, inflation was 9.5% in 2008	National Bank devalued Kazakhstan tenge

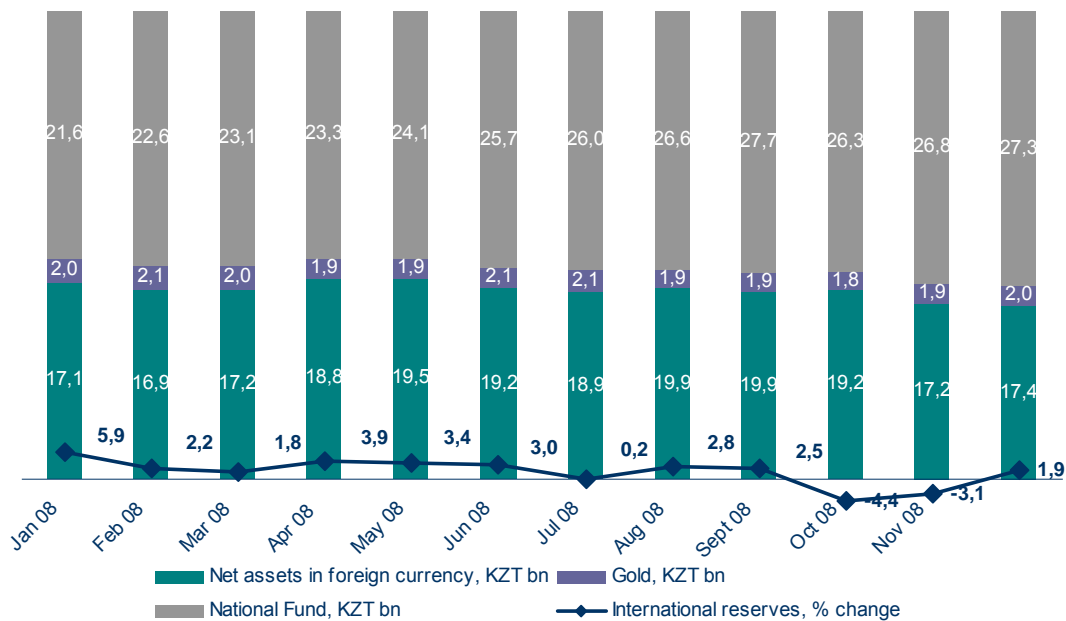
Kazakhstan Economy
Net international reserves of the National Bank (including the National Fund) have increased by 21% in 2008

In December 2008, inflation in Kazakhstan was 0.2% with year-to-date inflation at 9.5%.

In December 2008, the price of dairy products increased by 2.2%, the milk price by 3.3%, vegetables by 2.2%, fruit by 0.9%, tobacco products by 2.6% and alcohol by 1.8%. The price of seed oil decreased by 7%, flour by 1.3%, bread by 0.4%, and rice by 0.3%. Diesel fuel became cheaper by 6.7%, petrol by 5.9%, and liquefied gas by 4.6%. The decrease in communal service prices was 0.3%.

The volume of industrial production in January-December 2008 in comparison to January-December 2007 increased by 2.1%, largely due to the growth in the mining industry (5.3%), in production and distribution of electric energy, gas and water (6.4%). Production volumes increased in eight regions of the republic to a total of KZT 10,188 billion. The growth rates of volumes of industrial production slowed due to the processing industry, where the index was 97.4%.



International reserves


Source: Agency on Statistics, National Bank

Net international reserves of the National Bank based on current prices (excluding the National Fund) increased by 1.6 per cent (or USD 299.8 million), growth for 2008 was 10% or USD 1.8 billion. Foreign currency purchase operations in the domestic currency market and Government external debt service operations, as well as reduction in currency balances within commercial bank accounts with the National Bank were partly counterbalanced by the conversion of National Fund's assets into foreign currency assets of the National Bank and the receipt of currency at the Government accounts at the National Bank. As a result, net currency reserves in December 2008 increased by USD 180.4 million (in 2008 by USD 1.6 billion), while assets in gold increased by USD 119.4 million due to 6.3 per cent growth in global prices (during 2008 assets in gold increased by USD 0.2 billion as a result of operations and 4.4 per cent growth in global prices).

Net international reserves, including the National Fund (which stood at USD 27.3 billion according to preliminary estimates) increased by 1.9% to USD 46.7 billion (increase in 2008 was 21%). The increase in net international reserves of the National Bank in December 2008 caused a widening of the monetary base of 13.3% or KZT 172.8 billion (in 2008 monetary base widened by 0.5% or KZT 7.2 billion)

Key Developments in Kazakhstan's Economy

- *February 4.* The National Bank of Kazakhstan devaluated the tenge. Starting from February 4, the National Bank does not support the tenge to the same extent as before. The new exchange rate is fixed at KZT 150 per 1 USD with fluctuations of up to 3%.
- *February 4.* Starting from February 5, the National Bank decreased the refinancing rate from 10% to 9.5%.
- *January 22.* According to preliminary data, volumes of oil and gas condensate exploration in Kazakhstan in 2008 were 70,619,000 thousand tons, 5% higher compared to 2007.
- *January 22.* At the same time, oil export in Kazakhstan was 62,403 million tons, 2.8% higher compared to 2007.
- *January 22.* According to the company, the preliminary data showed that in 2008 oil and gas condensate extraction volumes for the KazMunayGas group of companies exceeded 18 million

tons, which was 8.2% higher compared to 2007. At the same time, consolidated volume of oil processing was 10.3 million tons in 2008, which was 1.8 times higher compared to 2007. Consolidated volume of oil transportation through the main pipes in 2008 was 60.6 million tons, which was 19.2% higher compared to 2007.

- *January 22.* Investment program of national oil company KazMunayGas for 2009 includes 65 projects totaling to KZT 696 billion (current KZT/USD exchange rate – 121.31).
- *January 22.* Almaty city municipality projects further staff cuts in construction and financial sectors in 2009.
- *January 22.* According to the Prime Minister of Kazakhstan, due to the decrease in global prices for energy, the Government will concentrate on the diversification of the economy.
- *January 21.* The International Financial Corporation allocated USD50 million from its own funds to finance the construction of a cement plant in the Mynaral village (Zhambyl region, South Kazakhstan). According to the joint press release of project participants – IFC, Kazkommerts Invest and French Vicat – IFC arranged a USD110 million syndicated loan with 7 to 10 years maturity. IFC expressed interest in the project by acquiring a 10% stake in the Zhambyl Cement Production Company from Kazakh Kazkommerts Invest. Thus, the project participants are as follows: 60% - Vicat, 30% - Kazkommerts Invest, and 10% - IFC.
- *January 19.* In 2008 sales of Kazakh motor company “Astana Motors” (member of the Astana Group) were 8,585 automobiles compared to 11,000 automobiles in 2007.
- *January 19.* The president of Kazakhstan signed a Decree on the creation of a working group for monitoring and control of targeted and effective use of National Fund’s resources allocated to stabilize the economy and financial system.
- *January 19.* The Minister of Economy and Budget Planning projects a 10% devaluation of the tenge in the long-term.
- *January 19.* According to the International Monetary Fund, GDP growth in Kazakhstan in 2009 will be only 1%.
- *January 14.* Government of Kazakhstan does not plan a reduction in expenses for development and support of agriculture in case of contraction of the republican budget for 2009-2011.
- *January 13.* According to the Minister of Labor and Social Protection, 25 enterprises with 7,229 employees were closed due to the economic crisis in Kazakhstan, 234 enterprises were partly closed.
- *January 13.* The chairman of the National Bank does not expect increased inflation in the near term.
- *January 13.* The government and the National Bank will concentrate on tenge sustainability and control of gold and currency reserves.
- *January 13.* The average monthly wage in Kazakhstan in November 2008 increased by 10.59% compared to the previous month to KZT 59,575 (current KZT/USD exchange rate – 121.04).
- *January 12.* Minister of agriculture said that problems in agroprocessing should be solved by increased crediting of the sector as the main reason for the deterioration in processing was the lack of credit funds. In 2008 production of seed oil in Kazakhstan decreased by 25%, of juices by 30%, of meat and canned meat by 9.4%, of dry milk by 10%, and cheese and cream by 10%. USD1 billion will be allocated from the National Fund for support and development of agriculture in Kazakhstan. The funds will be distributed via KazAgro holding and Damu fund.
- *January 12.* The government of Kazakhstan defined control of unemployment growth as its major target for 2009.
- *January 12.* Consolidated income of Kazakhtelecom in 2008 exceeded KZT 164 billion (current KZT/USD exchange rate – 121) or 3% increase compared to 2007.
- *January 12.* National oil company, KazMunayGas, and Central Asia Petroleum Ltd signed an agreement on the acquisition of 50% plus two voting shares of Mangistaumunaygas by KazMunayGas.
- *January 12.* According to the Minister of Energy and Mineral Resources, the situation on the oil products market in Kazakhstan is stable.
- *January 12.* Kazakhtelecom approved a ten-year business strategy, and reduced capital

investment plans for 2009 by KZT 12 billion (current KZT/USD exchange rate – 121).

- *January 10.* Gross inflow of direct foreign investments to Kazakhstan in January-September 2008 was USD 12.8 billion, up 17.4% compared to the same period in 2007.
- *January 10.* Gross external debt of Kazakhstan in January-September 2008 increased by 4.5% compared to 1H08 to USD 105.5 billion; the year-to-date increase was 9%. Government and government guaranteed debt increased by 0.3% to USD2.1 billion. Private sector debt increased by 4.4% to USD 103.3 billion. Inter-company debt (liabilities to foreign associated companies) was USD 34.7 billion or 32.9% of total external debt. The increase in gross external debt was mainly due to the increased debt of commercial non-banking entities, which was up by 14.4% compared to 1H08 to USD62.2 billion or 58.9% of total external debt. Banking sector debt decreased by 7.7% compared to 1H08 to USD 41.6 billion or 39.5% of gross external debt.
- *January 9.* According to preliminary data, the volume of raw oil processing in Kazakhstan in 2008 (including mini oil processing plants) was 13,394 million tons, 11.3% higher compared to 2007. At the same time, volumes of coal extraction increased by 11.2% compared to 2007 to 105 million tons. According to the report on Government activities in 2008, the total volume of uranium extraction by the Kazatomprom holding in 2008 was 8,500 tons, a 128% increase compared to 2007.
- *January 6.* ArselorMittal Temirtau (Karaganda region, Central Kazakhstan) plans to invest USD300 million in 2009 as part of its five-year investment program to modernize pits.

Kazakh Banking Sector

Earnings of commercial banks in 2008 stood at USD126.9 million

Aggregated capital of the banks amounted to USD12,061 million. Commercial banks capital increased by 1% MoM in December (2.2% in 2008 YoY). This increase resulted from chartered capital increase (2%) and additional capital (3%). Current profit of banks in 2008 amounted to USD126.9 million, decreasing by 93% as compared to 2007. Provisioning is the fastest growing part of the banks' expenses, constituting 43.9% of aggregate expenses or USD9.2 billion. Aggregate capital adequacy ratio amounted to 12.2%. Share of fixed assets is 16.5% of capital.

Aggregated liabilities of the banks in December decreased by 1% to USD86,453 million MoM. In 2008 the liabilities decreased by 1.8% YoY. Total deposits decreased in December by 1% MoM (increased in 2008 by 7% YoY), term deposits decreased by 3%, demand deposits by 1.8%. Individual deposits in December increased by 2.3% MoM to USD12,420 million and constituted 32.5% of total deposits. Debt securities decreased by 1% to USD21,943 million and constituted 25.3% of liabilities.

Breakdown of the funding base by sources did not change significantly in December: customer deposits – 44.2%, debt securities – 25.3%, inter-bank loans and deposits – 16.7%, 5.4% - subordinated debt, 2.6% - Repo transactions, 4.5% - other liabilities.

Aggregated assets of the banks in 2008 increased by 1.8% to USD98,529 millions. Loan portfolio of the banks decreased by 1.65% in 2008 and constituted 67% of total assets as of YE08. Cash and precious metals, banks correspondent accounts and account at National Bank increased by 10.6% and constituted 6.9% of banking assets. Securities portfolio decreased in December by 13% to USD6,756 million (including USD2,228 million Repo operations). Repo operations in assets decreased by 4.1% and constituted 1.1% of assets. Inter-bank deposits decreased by 16% and constituted 6% of banking assets.

Banking assets quality remains manageable. Share of overdue loans in loan portfolio has not changed significantly. 90 days overdue loans in 2008 stood at 5.16% of loan portfolio compared to 4.7% in 2007. Provisioning level remains adequate at 11.05% (5.86%) of loan portfolio and fully covers overdue loans.

Profit earned by banks in 2008 stood at USD126.9 млн. Aggregated income amounted to USD21,518 millions, 51.3% of which was interest income. Aggregated banks expenses amounted to USD21,005 million, 43.9% of which was provisioning. Loan-to-deposits ratio amounted to 171.5%. Cost-to-income ratio – 44.3% (38.8% in 2007).

Major events in Kazakh banking system:

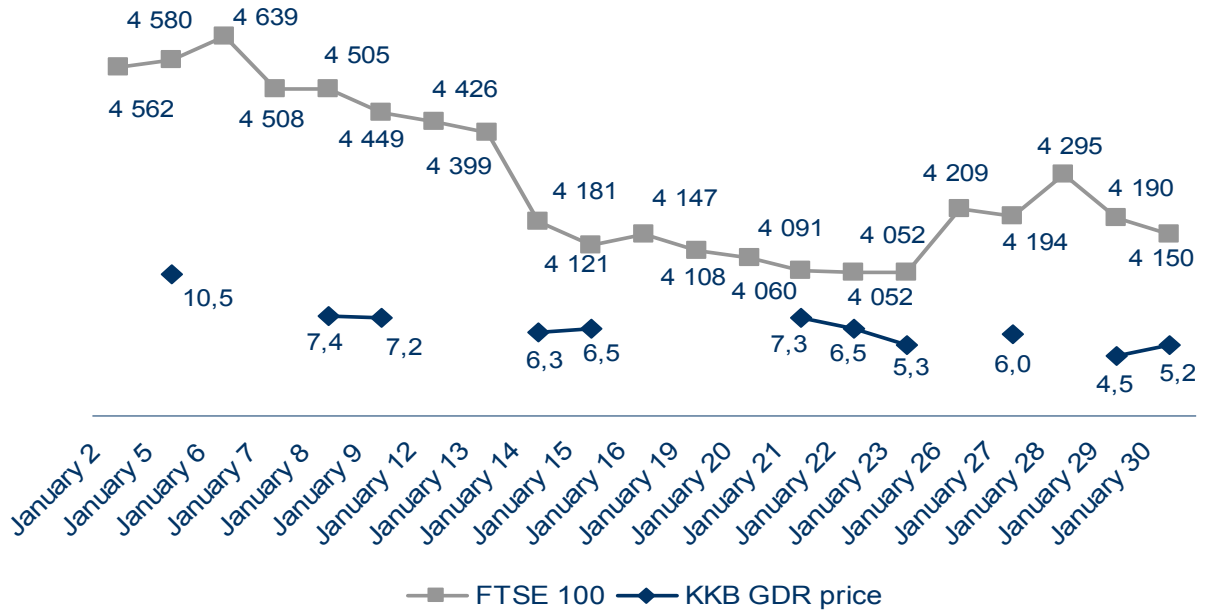
- *February 4.* The National Bank lowers Minimal Reserve Requirements (MRR) for commercial banks, from 2% to 1.5% on domestic liabilities, and from 3% to 2.5% on other liabilities.
- *February 2.* Kazakh financial regulator (AFN) proposed and government agreed to purchase a 78.14% stake in the largest commercial bank in the country – BTA Bank.
- *February 2.* The controlling shareholder of Alliance Bank, Seimar Alliance Financial Corporation, proposed to sell its 76% stake to the National Fund Samruk-Kazyna for KZT100.
- *February 3.* Halyk Bank received USD1 billion from Samruk-Kazyna in the framework of the anti-crisis program. The funds will be used for the bank's capitalization and lending to the real sector of the economy.
- *February 9.* Kazakh Bank CenterCredit (BCC) raised a USD40 million loan from Citibank partially guaranteed by US state agent OPIC (Overseas Private Investment Corporation). The funds will be received in 2 tranches: USD30 million guaranteed by OPIC for 10 years and USD10 million directly from Citibank for 3 years. Both tranches have a grace period of one month for repayment of the principal amount.
- *January 6.* Kazakh Bank CenterCredit (BCC) raised a 5-year USD10 million loan from the European Bank for Reconstruction and Development (EBRD) for the financing of energy saving projects. BCC will use these funds for loans to clients in the energy and energy-related industries.
- *January 11.* Kazakh BTA Bank accumulated a 49.99% (9,998 million shares) stake of voting shares in the Ukrainian BTA Bank, according to this Ukrainian financial institution.
- *January 23.* Kazakh BTA Bank repaid its 2-year USD250 million Eurobonds. This placement took place in January 2007 within the framework of the Global Medium Term Note Program. The placement was organized by JPMorgan and Credit Suisse.
- *January 22.* Kazpost repaid its USD45 million loan to RBS (previously ABN AMRO Bank N.V.), according to the company. These funds were used to create an IT and logistical center in Almaty, which will allow the company to increase volumes of posting services by its increasing product range and quality.
- *January 19.* The President of Kazakhstan signed a Decree on the creation of a working group for monitoring and control of targeted and effective use of National Fund resources allocated to stabilize the economy and financial system.
- *January 12.* Eurasian Development Bank's securities were admitted to circulation in the Russian Federation.
- *January 20.* According to the National Bank of Kazakhstan, Kazakh banks have to repay USD11 billion of foreign liabilities in 2009.
- *January 13.* Development Bank of Kazakhstan (DBK, part of Samruk-Kazyna fund) is planning to refinance commercial banks project amounting to a total of USD400 million.
- *January 13.* Samruk-Kazyna is planning to place with commercial banks the funds earmarked for Small and Medium Enterprises (SME) loans in late January or early February.
- *January 13.* Current account balance in Jan-Sep 2008 was positive: USD9 billion (9.3% of GDP) compared to a USD5.4 billion deficit for the same period of 2007, according to the National Bank.
- *January 20.* The National Bank will elaborate and implement a bank liabilities guarantee system. This will allow a reallocation of funds through the inter-bank market and an increase in access to short-term money market instruments, according to joint release by the government, the National Bank and AFN on main components of economic policy in 2009.
- *January 20.* Alliance Bank's shareholders called an extraordinary shareholders meeting to increase the number of authorized common shares by 3,462,500 – to 15 million shares, according to the

bank. In addition, the bank paid dividends on its preference stock in the amount of KZT1 thousand per share (current exchange rate KZT120.29/USD1). As of December 31, 2009 the bank had 400 thousand preference shares in circulation.

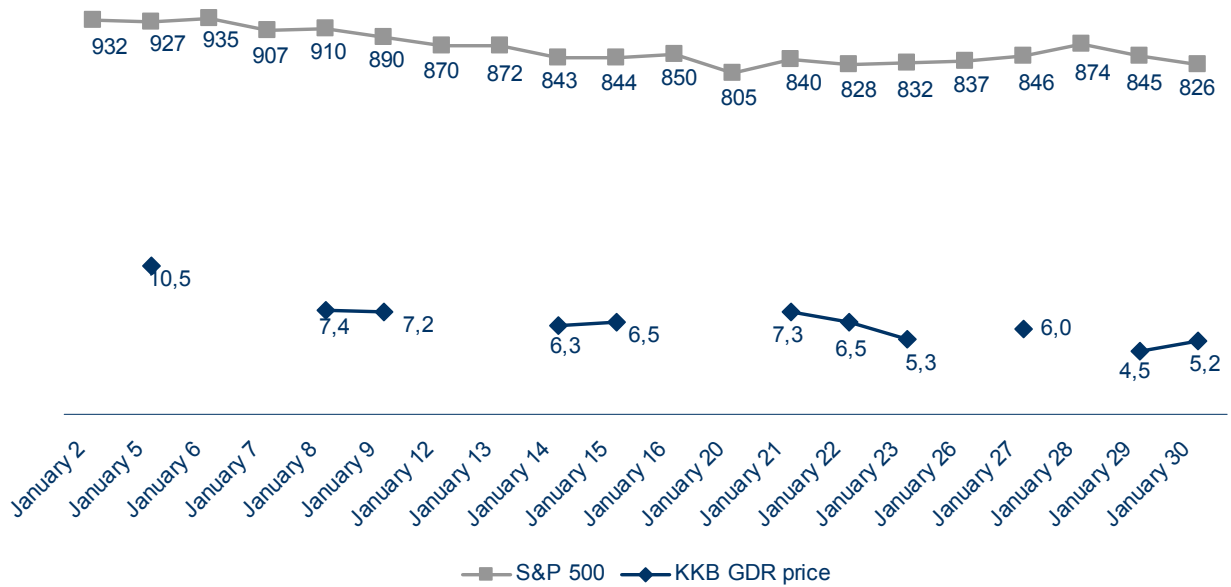
- *January 21.* Assets of Kazakh commercial Eurasian Bank amounted to KZT 271.4 billion (current exchange rate KZT121.30/USD1) according to unaudited financial statements of the bank.

Kazkommertsbank

FTSE and KKB GDR price



S&P500 and KKB GDR price



Price for KKB GDR in January 2009 continued to decrease along with reduced trading volumes. KKB GDR price increased to USD10 per GDR after the Bank released its financial results for 3Q08, which were higher than the market expectations. Sharp decrease in KKB GDR price was fixed in end January due to the investor uncertainty resulted from different statements of higher government officials on volumes of capitalization of the Bank as well as on possible nationalization of some banks.

- *January 15.* Kazkommertsbank announced that the Bank, its major shareholders and SamrukKazyna Fund signed the agreements on the implementation of the Memorandum of Understanding dated December 9, 2008 on the main conditions of the Bank's participation in the stabilisation programme to maintain volumes of lending to the real sector of the economy.
- *February 2.* Kazkommertsbank announced that it received KZT 120 billion from the SamrukKazyna National Welfare Fund on January 30, 2009. The amount includes a KZT36 billion six month deposit which is expected to be used for the acquisition of a 25% stake in the Bank by SamrukKazyna during this period. The remaining amount of KZT84 billion is deposited for 36 months and will be used in line with the anti-crisis programme of the Government to finance and re-finance the corporate clients of the Bank in the real sector of the economy: manufacturing, agriculture, infrastructure, oil and gas, and transport.

Annex 1
USD million

Bank	Assets		Equity		Loans to customers		Deposits		Deposits without SPV		Retail deposits		Net income	Reserves
	31 Dec	Dec/Nov	31 Dec	Dec/Nov	31 Dec	Dec/Nov	31 Dec	Dec/Nov	31 Dec	Dec/Nov	31 Dec	Dec/Nov	31 Dec	% of loans
BTA	24 138	- 1.6%	3 452	-1.5%	19 240	-1.02%	12 554	0.08%	4 413	-2.73%	2 297	2.88%	105	9.24%
KKB	19 340	- 1.6%	1 626	-1.2%	17 890	0.05%	13 153	-0.71%	5 563	0.18%	2 201	-1.54%	2	18.72%
Halyk	13 414	-7.7%	1 408	-1.7%	10 203	3.66%	9 548	-8.82%	4 344	-18.79%	2 704	3.12%	80	10.94%
Alliance	8 585	1.7%	1 318	-1.5%	5 632	-0.98%	3 979	4.61%	912.7	5.33%	753	12.06%	22	9.15%
ATF	8 209	3.9%	626	-1.8%	6 694	0.46%	3 128	2.36%	1 781	13.23%	894	-13.22%	-234	10.17%
BCC	7 833	-0.1%	793	19.5%	5 486	2.53%	4 675	-6.69%	1 825	-19.33%	1 642	6.67%	83	7.09%
Nurbank	2 470	1.2%	369	-14.5%	2 021	-5.72%	1 590	1.38%	1 287	207.78%	152	-29.52%	10	5.11%
Temirbank	2 386	-0.1%	433	37.5%	2 126	15.39%	1 420	-9.41%	291	-76.12%	213	8.32%	-14	6.88%
Eurasian	2 247	6.6%	207	1.1%	1 060	-1.73%	1 088	-10.57%	824	-18.24%	264	26.43%	9	4.25%
Kaspi	2 098	5.9%	251	-4.6%	1 568	4.22%	1 038	20.83%	659	21.95%	379	19.91%	11	8.57%
Subtotal	80 721	-1.18%	10 485	0.46%	71 919	0.68%	52 173	-2.19%	21 899	-36.70%	11 450	2.04%	74	11.00%
Other banks	7 807	3.93%	1 590	3.17%	4 577	3.74%	4 733	6.74%	3 669	-17.26%	923	5.81%	53	4.206%
Total	98 529	-1%	12 075	0.81%	76 496	0.86%	56 906	-1.51%	25 568	-55.75%	12 423	2.31%	127	11.05%

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