

Official exchange KZT/US\$ rate on 1 March 2010 – 147.32

Summary

- Inflation in February 2010 was 0.9%
- The National Bank points to several factors that might trigger inflation growth in Kazakhstan: establishment of the Customs Union, the planned increase of salaries for employees of the public sector, social benefits, pensions, and the revival of business activity.
- Kazakh Deposits Insurance Fund decreased interest rates on retail deposits starting from 1 April 2010.
- The National Bank of Kazakhstan will not change its refinancing rate until the end of March

News on Kazkommertsbank:

- **12 March.** Kazkommertsbank announced that it has increased the chartered capital of OJSC “Kazkommertsbank Kyrgyzstan” in accordance with its preemptive rights. On 16 October 2009, at the General Shareholders Meeting of OJSC “Kazkommertsbank Kyrgyzstan”, a decision was taken to increase the charter capital of the bank by issuing 66,036 new shares at KGS 500 per share. The issue was registered with the Financial Regulation Service of Kyrgyz Republic on 5 February 2010. As a result, the chartered capital of Kazkommertsbank Kyrgyzstan increased by KGS 33,018,000 (USD 739,233). Kazkommertsbank purchased 62,500 shares in accordance with its preemptive rights. Kazkommertsbank continues to own 94.64% of OJSC “Kazkommertsbank Kyrgyzstan”.

Kazakh Banking Sector Developments

P&L

After recording a net gain in January, the Kazakh Banking sector again showed a net loss in February. The net loss of Kazakhstan's commercial banks amounted to US\$ -447 million compared to a net gain of US\$42 million in January 2010. This was mainly a result of the US\$584 million increase in provisions at Alliance Bank during February.

Kazakh commercial banks' aggregate earnings amounted to US\$ 3,543 million. The aggregate expenses of the banking system (including corporate tax) was US\$ 3,990 million, the majority of which were provision charges, which constituted 62.4% share of total expenses.

CAPITAL

The Kazakh banking sector's aggregate capital remains negative, as of 1 March 2010, and amounted to US\$ -7,435 million (US\$ -6,501 million as of 1 February 2010). Excluding the negative capital of the three banks under restructuring, the aggregate bank capital amounted to US\$ 7,149 million (US\$ 6,984 million as of 1 February 2010).

ASSETS

Aggregate bank assets stood at US\$79,725 million (an increase of 1.3% MoM or US\$ 996 million).

The share of loans to customers declined from 50.5% to 49.9% during February, continuing the trend which was seen during the whole of 2009 and January 2010. The share of securities portfolio increased from 15% to 16.5%. The share of highly liquid assets (cash, precious metals and correspondent accounts) increased from 8.2% to 9.3% due to a decline in correspondent accounts by 8.6%. However, the share of funds placed with National Bank, within total assets, increased from 4.6% to 5.2% and the share of inter-bank loans and deposits increased from 4.7% to 4.8%.

The continuing monthly deterioration of asset quality remains the major concern of the banks. According to the FSA, loans that were at least 90 days overdue represented 24.6% of the total loan portfolio as of 1 March 2010 compared to 21.9% as at 1 February 2010. Loans that were 90 days overdue, excluding BTA, Temir and Alliance Bank, amounted to 16.8% of the total loans as of 1 March 2010, compared to 15.6% as 1 February 2010.

The loan loss provisioning rate slightly increased from 37.1% at January-end to 37.6% in February, according to the FSA.

LIABILITIES

Aggregate bank liabilities increased slightly by 1.6% during February, to US\$ 86,622 million.

The structure of liabilities has not changed significantly. The major funding sources remain customer accounts (53.3% of total liabilities).

Due to the change of issuer on KKB's senior Eurobonds, there was a decrease in the shares of deposits of SPVs (11.1% from 14% in January) and an increase in issued securities and subordinated debt (18.0% from 14.9%).

Customer accounts increased by 2.7% to US\$ 42,467 million, due to the increase in corporate accounts by 2.9% and retail deposits by 3.6%. A major inflow of total deposits was seen in KKB, Halyk and Centercredit (4%, 1.5% and 9.8%, respectively).

The sector's net loans-to-deposits ratio decreased from 98.2% in January 2010 to 95.3% in February 2010, due to the increase in deposits.

Major events in the banking sector

- **26 March.** Kazakh Deposits Insurance Fund decreases interest rates on retail deposits starting from 1 April 2010. The interest level for new retail deposits in Tenge will be limited to 10%, and in foreign currency by 7% (down from the current 11.5% and 8%).
- **17 March.** Development Bank of Kazakhstan announces it will provide funds to commercial banks for further financing of projects of up to US\$ 50 million in the Regions. The funds will be provided in the form of 5-15 year loans at 6-8%, depending on the banks' rating and limits. The total size of the programme is planned to be US\$ 300 million.
- **17 March.** Assets of National Bank of the Republic of Kazakhstan amounted to KZT 4,332.7 billion, as of year-end 2009, compared to KZT 2,755 billion at year-end 2008, an increase of 1.6 times.
- **17 March.** The Agency of the Republic of Kazakhstan for regulation and supervision of financial market and financial organizations (AFN) on 17 March granted a license for banking operations to the first Islamic Bank in the country JSC "Islamic Bank "Al Hilal". The bank was created as a result of agreement between the Governments of the Republic of Kazakhstan and the United Arab Emirates.
- **17 March.** BTA bank commenced consideration of trade finance creditors claims as a result of the bank's financial liabilities restructuring.
- **16 March.** Russian subsidiary of Bank CenterCredit is planning to receive a license to attract retail deposits and account management in late 2010-early 2011, says CEO of the BCC Mr. Vladislav Li.
- **16 March.** SAT&Company Holding purchased 89% of "Otan" Pension Savings Fund's shares from ATF Bank.
- **15 March.** Samruk-Kazyna increased the capital of Alliance Bank by KZT 129 billion through the purchase of newly issued shares of the bank for a total amount of KZT 24 billion and the conversion of rights on its notes into preferred shares for a total amount of KZT 105 billion.
- **12 March.** The restructuring of BTA Bank's liabilities could be finished in May-June 2010, the State is planning to sell its stake in the bank in 2012-2013, said the Head of Smaruk-Kazyna, Mr. Kairat Kelimbetov.
- **11 March.** Alliance Bank announced that the Bank's restructuring proceedings have been recognised by the United States Bankruptcy Court for the Southern District of New York (the "Court") under Chapter 15 of the U.S. Bankruptcy Code.
- **10 March.** The Deputy CEO of National Bank, Mr. Daniyar Akishev, pointed out several factors that could result in inflation growth in Kazakhstan. One of them is the creation of a Customs Union between Kazakhstan, Russia and Belarus. Another factor is the planned increase of state employee's salaries, hardship allowances and pensions by 25% in 2010. In addition, the revival of business activity stimulated by the government's anti-crisis measures is expected to lead to an increase in demand and an increase in inflation. The injection of funds by the government into the economy will also lead to an increase in inflationary pressure. According to National Bank's forecast, inflation in Kazakhstan is expected to be 6-8% in 2010.
- **10 March.** The assets of Kazakh Commercial Bank CenterCredit amounted to KZT 1,161 trillion, as of 31 December 2009, compared to KZT 941 billion in 2008, an increase of 23%.
- **10 March.** The CEO of the National Bank of Kazakhstan, Mr. Grigoriy Marchenko, held a press conference in Almaty today. The key points are listed below:
 - The National Bank of Kazakhstan will not change its refinancing rate until the end of March, according to the CEO of the bank Mr. Grigoriy Marchenko.
 - The National Bank purchased US\$ 1.7 billion from the market in February in order to prevent Tenge (KZT) from strengthening too quickly.

- The strengthening of Tenge is partly due to high oil prices
 - Inflation in February 2010 amounted to 0.9%
 - The International Reserves of the country increased by 3.3% in February 2010 to USD 52.7 billion. Inter-bank deposits increased by 34.8%, to KZT 4,135.1 billion. The inter-bank deposits in KZT increased by 5.7% to KZT 2,035.7 billion. The average interest rate on inter-bank KZT deposits increased from 0.59% in January to 0.73% in February. The share of inter-bank deposits in FX increased from 37.2% to 50.8% of total deposits.
 - KZT retail deposits increased by 3.4%, FX deposits decreased by 2.6% during February
- **9 March.** Moody's Investors Service lowered ratings of banking deposits in national and foreign currencies of Alfa-Bank (Kazakhstan), from "Ba3" to "B2". The rating of financial stability for the bank was confirmed at "E+" with a stable outlook.
 - **9 March.** Alliance Bank announced that 95.6% of the Claimants (or 98.7% of those who submitted Claim Forms) (in both cases excluding the holders of the US\$150,000,000 9.375% perpetual non-cumulative capital securities) submitted Option Election Forms or Electronic Instructions.
 - **9 March.** Astana-Finance announced that Samruk-Kazyna will assist the company in restructuring its financial liabilities. The parties signed a Memorandum of Understanding, which outlined the general principles regulating their relationships during the restructuring process and afterwards. Samruk-Kazyna is ready to support Astana-Finance in order to keep it stable after the restructuring and intends to remain its major shareholder.
 - **3 March.** The National Bank of Kazakhstan expects a decline in foreign direct investments in 2010 due to a decline in the financing of the Kashagan project which peaked in 2009. The Bank is not ruling out the possibility that some banks will resume foreign borrowing in 2010. The National Bank will continue to help focus commercial banks on domestic funding. As a result, the Bank will increase the capital of Kazakhstan Deposits Insurance Fund by KZT 11 billion in 2010. In order to stabilize the funding base of the banks, the National Bank will consider transferring the free cash of non-banking financial organizations, placed with the National Bank, as deposits to local banks. The interest rate on deposits of the banks placed with National Bank will be set as low margin short-term interest rates on the money market. Interest rates will be set at a minimal level in order to discourage the banks from accumulating free cash on accounts with National Bank.
 - **4 March.** BTA Bank announced that the Bank's restructuring proceedings have been recognised by the United States Bankruptcy Court for the Southern District of New York (the "Court") under Chapter 15 of the U.S. Bankruptcy Code.
 - **2 March.** BTA Bank announced the decision of the specialized financial law-court of Almaty. On October 16, 2009, the BTA Bank restructuring case was acknowledged to be legitimate in Ukraine. The corresponding solution was carried out by the Solomenskiy district law-court of Kiev on February 17, 2010 and came into law on February 23, 2010.
 - **2 March.** Fitch Ratings confirmed long-term IDR CCC of BTA Bank (Georgia) and Rating Watch "Negative" .
 - **26 February.** Fitch Ratings confirmed the rating of Bank CenterCredit including IDR B with a stable outlook.
 - **25 February.** Bank CenterCredit (the Bank) announced that Kookmin Bank (Kookmin) and International Financial Corporation (IFC) completed the purchase of the Bank's shares. Kookmin increased its share in BCC to 42% and IFC purchased 10% of the Bank's total shares. As a result, the capital of the Bank was increased by KZT 17.2 billion (US\$116 million).

Major developments in Kazakhstan's economy:

INFLATION

In February 2010, inflation in Kazakhstan was 0.9%. The prices of food products in February 2010 increased by 1.3%, non-food products saw a rise of 0.4%, while paid services increased by 0.7%. Annual inflation (February 2010 to February 2009) was 7.4%, and the prices for food products increased by 4.7%, for non-food products by 7.9%, and for paid services by 10.6%.

INDUSTRIAL PRODUCTION

The volume of industrial production in February 2010 compared to February 2009 increased by 10.4%. The real volume index was 106.4% in the mining industry, 113.5% in the processing industry and 106.0% in the production and distribution of electricity, gas and water.

UNEMPLOYMENT

The unemployment rate in February 2010 was 6.5%. The number of unemployed people in February 2010 was 552,700. The number of unemployed people registered with authorised employment bodies in February 2010 was 0.9% of the economically active population. The hidden unemployment rate in February 2010 was 0.6% of the economically active population.

INTERNATIONAL RESERVES

In February 2010 the net international reserves (including the net international reserves of the National Bank and National Fund's assets in foreign currency) increased by 3.3%, to US\$52.2 billion. The assets of the National Fund increased by 3.2% in February 2010 to US\$25.2 billion. The net international reserves of the National Bank based on current prices increased by 4.5% to US\$27.0 billion. The net currency reserves in February 2010 increased by 4.5% to US\$25.0 billion, while assets held in gold increased by 2.75% to US\$2.5 billion.

GDP

Real GDP growth in January-February 2010 was 106.4%. The share of production of goods in GDP was 43.8%, while the share of production of services in GDP was 54.8%.

MONEY SUPPLY

February 2010 saw an increase in the money supply of 2.0% to KZT 7,650 billion. The amount of currency in circulation increased by 0.8% to KZT 882.5 billion. The reserve money in February 2010 increased by 2.7% to KZT 2,653 billion. The narrow reserve money (money supply less term deposits of the banks with the National Bank) decreased by 0.2% in February 2010 to KZT 2,041 billion.

News on Kazakhstan's economy:

- **25 March.** Kazakhstan will independently start to implement a project to establish an integrated petrochemical complex in Atyrau oblast (West Kazakhstan). The project is to be undertaken by Kazakhstan Petrochemical Industries with total costs of US\$5.2 billion. The industrial capacity of the complex will be 400,000 tons of polyethylene with lower and higher density, 400,000 tons of lined polyethylene and 400,000 tons of polypropylene per annum.
- **18 March.** The President of Kazakhstan has opened a new plant to produce ceramic granite plates in Shymket (South Kazakhstan). The cost of the project is KZT 5.5 billion, and the capacity is 2.5 million tons of plates per annum.
- **18 March.** Astana Motors Kazakh Motor Company plans to open auto centers in Astana which will sell brands including Subaru and Hyundai. They will work on "the three S principles": sales, service and spare parts.
- **17 March.** Kazakhmys plans to increase production of gold by 26% in 2010. The company plans to support production levels of 300,000 tons of copper, 130,000 tons of zink concentrate, and 13 million ounces of silver.
- **16 March.** The Government of Kazakhstan announced suggested limits to the borrowings of national holdings as well as national management holdings and their subsidiaries.
- **15 March.** A programme of industrial and innovative development in Kazakhstan will create more than 200,000 jobs. As announced earlier, implementation of the programme is expected to achieve the following results by 2014: GDP growth to increase by 50% from 2008 GDP levels; increased labour productivity of 50% in the processing industry, and by 100% in other selected sectors of economy; increased share of non-commodity exports to 40%; and a 10% reduction in power usage from 2008 levels.
- **12 March.** The budget of the largest oil field, Kashagan, in Kazakhstan was reduced from US\$10.4 billion to US\$8.6 billion in 2010. Prior to January 2009, the Kashagan oil field was operated by the international consortium Agip KCO, which was replaced by North Caspian Operating Company (NCOC), consisting of Shell, KazMunayGas, Eni, ExxonMobil, Total (each of them having 16.81% stake), ConocoPhillips (8,4%) and Inpex (7,56%). The drilling activities of the consortium include four oil fields: Kashagan, Kalamkas, Aktoty, and Kayran. Kashagan is the fifth largest oil field in the world with projected oil reserves of 7-9 billion barrels.
- **10 March.** Mazhilis, the lower chamber of the Parliament, has approved the amendments to the Republican budget for 2010-12. On 1 March 2010, the Government of Kazakhstan approved the amendments to the Republican budget for 2010, and the major lines of the budget are planned as follows: budget revenues of KZT 3,378 billion, expenditure of KZT 4,182 billion, deficit of KZT 803.6 billion. The GDP forecast was changed from 2.4% to 2%.
- **10 March.** Mazhilis, the lower chamber of Parliament, has approved a draft law on a guaranteed transfer from the National Fund for 2010-12. The draft law envisages a guaranteed transfer from the National Fund for US\$8 billion starting from 2010.
- **10 March.** The National Bank points to several factors that could trigger inflation growth in Kazakhstan. Factors include the creation of the Customs Union, which could impact the prices for imported goods. Inflation could also be affected by the planned increase of salaries for employees in the public sector, social benefits and pensions. The revival of business activity in Kazakhstan in 2010 resulted from the government's anti-crisis measures.
- **9 March.** In February 2010 the prices for new housing in Kazakhstan increased by 0.4% compared to January 2010. At the same time the prices for secondary housing in February 2010 also increased by 0.4%.

- **9 March.** According to the Head of the State Agency on construction and housing services, 745 apartments will be built in Kazakhstan in 2011 through the housing savings mechanism, including 364 apartments in Astana, 285 apartments in Almaty, and 96 apartments in Aktobe oblast.
- **3 March.** The National Bank of Kazakhstan expects that foreign direct investments in Kazakhstan will decrease in 2010 primarily due to reduced funding for the North-Caspian project. At the same time, the National Bank does not exclude the possibility of renewed foreign borrowings by some of the Kazakh Banks.
- **3 March.** Based on an optimistic scenario of economic development , outlined in the main directive for monetary policy in 2010, the National Bank projects a surplus of balance of payments at around 1% of GDP. According to the document, there are three base scenarios for macroeconomic development based on global oil prices. The first scenario is based on oil price of US\$30 per barrel, the second on price of US\$50 per barrel, and the third scenario is based on an oil price of US\$70 per barrel.

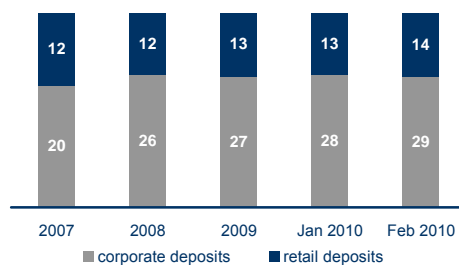
Kazakhstan's key macroeconomic indicators

	2005	2006	2007	2008	2009	Feb 2010
Domestic economy and financial system						
Real GDP growth, %	109.7	110.7	108.9	103.2	101.2	n/a
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	110.4
Unemployment rate, %	8.1	7.8	7.3	6.6	6.5	6.5
CPI, %	107.7	108.4	118.8	109.5	106.2	107.4
Monetary supply M3, US\$ million	15 887	27 492	38 486	51 894	49 754	51 928
Monetary base (reserve money), US\$ million	5 100	11 223	12 171	12 629	16 510	18 008
Real exchange rate	130.00	133.77	120.30	120.77	148.46	147.32
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	107 813	n/a	n/a
Gross foreign debt, % of GDP	74.4	96.9	90.7	81.9	n/a	n/a
National Bank's Gross International Reserves, US\$ thousands	7 069	19 127	17 629	19 872	23 218	27 000
National Fund	8 074	14 092	21 006	27 486	24 368	25 157
National Fund and international reserves	15 143	33 219	38 635	47 358	47 586	52 157

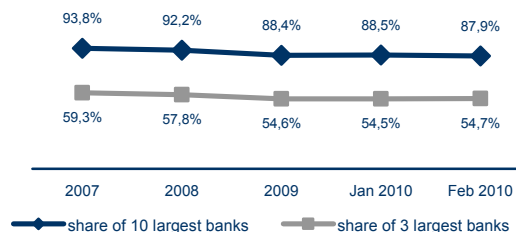
Banking sector indicators*

	2005	2006	2007	2008	2009	February 2010
Commercial banks (number)	34	33	35	37	38	38
Bank branches (number)	1 730	1 813	2 381	2 546	2 299	2 216
Major indicators of the banking sector, US\$ million						
Assets	33 701	69 859	97 129	98 432	77 837	79 725
Capital	3 297	6 854	11 846	12 026	-6 601	-7 345
Net profit	538	801	1 806	89	-19 225	-447
Loans	22 869	47 181	73 718	76 534	64 926	64 865
Provisions for loans	1 276	2 342	4 337	8 491	24 458	24 647
- % of total loans	5.6	5.0	5.9	11.1	37.7	37.6
Deposits	12 471	24 979	32 451	38 084	40 441	42 467
Including retail deposits	4 455	8 143	12 035	12 421	13 050	13 542
Profitability ratios, %						
NIM	3.7	3.3	5.2	5.8	3.1	3.6
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	67.0
Loans / GDP	41.1	59.1	69.0	58.0	59.5	54.5
Deposits / GDP	22.4	31.3	30.4	28.9	37.1	39.4

Trends in the deposit base, US\$ billion



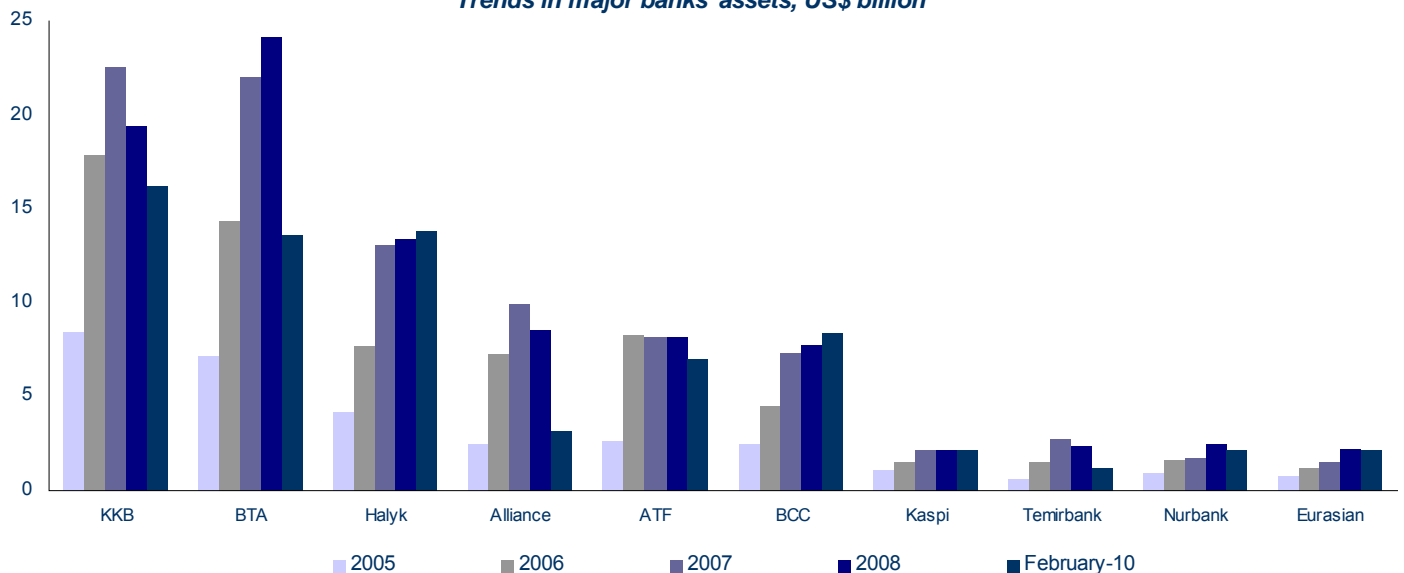
Concentration of banking system assets



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

Bank	Assets		Equity		Loans to customers		Total deposits		Retail deposits		Net profit US\$ mln	Reserves % of total loans	90 days overdue loans % of total loans
	US\$ mln	Dec/ Nov	US\$ mln	Dec/ Nov	US\$ mln	Dec/ Nov	US\$ mln	Dec/ Nov	US\$ mln	Dec/ Nov			
BTA	13 535	-0.3%	-10 099	0.8%	16 162	-2.4%	4 005	-0.2%	1 104	2.3%	-93	77.5%	33.0%
KKB	16 234	0.70%	1 861	0.8%	15 671	-0.7%	8 963	4.0%	2 348	2.1%	2	28.3%	21.6%
Halyk	13 826	2.9%	1 652	0.2%	8 292	-0.5%	8 920	1.5%	2 779	2.0%	15	19.7%	18.3%
ATF	7 009	-3.7%	625	-2.4%	5 648	-1.5%	2 902	-6.9%	1 546	-0.8%	-23	13.0%	27.1%
BCC	8 364	4.3%	724	13.9%	4 607	1.9%	5 010	9.8%	2 144	6.8%	4	10.7%	2.8%
Alliance	3 180	-12.9%	-3 364	13.4%	3 988	17.7%	1 065	0.0%	357	1.9%	-339	73.4%	58.0%
Kaspi	2 142	4.5%	209	-1.2%	1 701	-0.2%	1 302	7.0%	730	15.1%	-3	11.4%	9.0%
Eurasian	2 173	-5.7%	166	0.8%	1 340	-2.9%	1 534	-4.9%	636	-3.9%	-6	11.5%	9.1%
Temirbank	1 219	2.4%	-582	0.1%	1 752	-0.9%	1 080	-0.1%	160	2.7%	-16	48.9%	60.9%
Nurbank	2 115	0.4%	310	0.5%	1 627	0.0%	1 302	0.4%	219	-2.5%	0	8.3%	5.3%
Top 10	69 797	0.1%	-8 499	4.75%	60 788	0.0%	36 084	2.0%	12 022	2.8%	-458	39.6%	25.7%
Other banks	9 929	4.9%	1 603	2.23%	4 142	1.5%	6 564	5.5%	1 517	4.7%	9	7.6%	6.8%
Total	79 725	0.7%	-6 896	5.36%	64 930	0.1%	42 648	2.5%	13 540	3.0%	-449	37.6%	24.5%

Trends in major banks' assets, US\$ billion



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