

Official exchange KZT/US\$ rate at 1 August 2009 – 150.71

Summary

- The inflation rate in July 2009 was 0.3%, and 4.1% YTD
- Deterioration in asset quality continues, however, provisions fully cover overdue loans with a coverage ratio of 219%

News on Kazkommertsbank:

- **28 August.** Kazkommertsbank reports its results for the financial period ending 30 June 2009. Net profit of KZT 9.9 billion (USD 68 mn), down 71.1% from H1 2008. Total Bank assets increased 7.2% in KZT terms and decreased 13.9% in USD terms compared to Q4 08. Deposits increased 18.9% in KZT terms and decreased 4.5% in USD terms compared to Q4 08.
- **18 August.** Kazkommertsbank (“the Bank”), one of the largest banks in Kazakhstan and Central Asia has completed a residential mortgage refinancing programme with the National Wealth Fund Samruk-Kazyna, and is planning its own programme to reduce mortgage rates.
- **4 August.** The President of Kazakhstan, Mr Nursultan Nazarbayev today had a meeting with heads of 2 systemically important bnks – CEO of Kazkommertsbank Ms Nina Zhussupova and the Chairman of the Board of Halyk Bank Mr Alexander Pavlov. They discussed the results of measures taken to improve financial climate in the country.
- **27 July.** The Kazkommertsbank’s branch in Semey was acknowledged By Western Union as the best quality service provider in cash transfer operations.

Kazakh banking sector developments:

The net loss of Kazakhstan’s commercial banks amounted to US\$15,710 million in the first seven months of 2009, compared with a net profit of US\$630.7 million in the first seven months of 2008. The Kazakh banking sector’s aggregate capital was also negative, and amounted to US\$–3,636 million. The major reason for this was a decrease in the capital of BTA Bank and Alliance Bank. The sector’s aggregate Capital Adequacy Ratio (excluding BTA Bank and Alliance Bank) was 11%.

Aggregate bank liabilities increased by just 0.8% during July. Customer accounts increased by 5.1% and Repo transactions increased by 6.2%. There were decreases in derivative financial instruments (-42.4% or US\$363.6 million) and SPV deposits (-5.9% or US\$992 million) with a simultaneous increase in deposits as collateral to customer loans of US\$761.7 million.

The ratio of demand liabilities to term liabilities was 26.7%. Total bank deposits, corporate and retail, amounted to US\$37,580 million, an increase of 5.1% during July. The deposit base structure did not change significantly. Customer accounts constituted 29.4% of total deposits and increased by 4.8%, while term deposits constituted 70.6% of total deposits and increased by 3.6%.

Aggregate bank assets slightly decreased during July, by 0.6%, and stood at US\$80,301 million. FX-denominated assets stood at 52.8% of total assets, and highly liquid assets constituted 8.4% of total assets.

The net loan portfolio of the banks amounted to US\$44,730 million, a decrease of 3.4% during July, due to an increase in provisioning and a decline in gross loans. The loan loss provisioning rate was 32.34% according to the FSA, an increase of 4.7% during July. Loans that were 90 days and more overdue represented 14.76% of the total loan portfolio, an increase of 9.2% in absolute terms, according to FSA data. Provisions fully cover overdue loans and the coverage ratio was 219% as of 1 August, in accordance with FSA data.

The loans-to-deposits ratio stood at 176%, a decrease from 187% as of 1 July 2008, due to a decrease in lending.

Loans and deposits to banks increased by US\$1.1 billion. There was a US\$495 million increase in short-term loans and a US\$799.8 million increase in term deposits with the National Bank of Kazakhstan. The

balances on correspondent accounts increased, mostly due to an increase in correspondent accounts with the National Bank.

The securities portfolio decreased by 2%, Repo transactions by 24.9% and other assets by 2.5%.

Kazakh commercial banks recorded a net loss of US\$15,710 million in the period January–June 2009. This was a result of the substantial increase in provisioning, to US\$28,262 million, which constituted 78% of total expenditure.

The sector's cost-to-income ratio amounted to 51.1% as of 1 August 2009. The ratio of interest income to interest expense decreased from 185% as of YE2008 to 162% as at 1 August 2009. The Net Interest Margin remained at 4.3%, as at 1 August 2009.

Major events in the banking sector:

- **12 August.** The State Agency for Financial Regulation (AFN) announced that it would exclude perpetual (hybrid) financial instruments from the calculation of banks' capital starting from 1 July 2011.
- **7 August.** The AFN announced that it would introduce a new requirement to provisioning starting from January 2010, according to which banks must create 100% provisions against loans to off-shore companies.
- **17 August.** Kazkommertsbank announced plans to introduce its own mortgage refinancing programme, after its successful completion of the state mortgage refinancing programme together with the Samruk-Kazyna Fund.
- **13 August.** Fitch Ratings confirmed the Issuer's Long-Term Debt Rating (IDR) of the Bank CenterCredit at "B" and retained an "Evolving" outlook on the rating.
- **31 July.** Express Bank, a small Kazakh commercial bank, voluntarily transformed itself into Credit Union "Express".
- **24 July.** Currently there are negotiations between BCC Kookmin and the IFC regarding the planned purchase of a 40.1% stake in Bank CenterCredit (BCC) by South Korea's Kookmin Bank. In the case of a successful outcome, the IFC will own 10% of the bank and Kookmin's stake will increase to 40.1%.
- **24 July.** BTA Bank extended its moratorium to the debt servicing of interest payments in addition to principal payments.

Major developments in Kazakhstan's economy:

In July 2009, **inflation** in Kazakhstan was 0.3% (YTD inflation was 4.1%). July 2009 saw a decrease in the prices of food products of 0.2%, for non-food products a rise of 0.4%, and for paid services an increase of 0.8%. The annual inflation rate slowed to 6.9%, which is the lowest figure since February 2005. As a result, the National Bank of Kazakhstan reduced its forecasts for 2009 inflation to 8.0%–8.5% (December 2009 to December 2008), and average annual inflation to 7.7%–7.9%. Previously, the National Bank's forecast for 2009 inflation had been 9%. The monthly subsistence minimum per person was also reduced based on the lower prices for food products. As a result, the monthly subsistence minimum per person in July 2009 decreased by 3.3% compared to June 2009 (July 2008 to July 2009 it increased by 2.1%). In this subsistence calculation, minimum expenditure for the purchase of meat and fish accounts for 18.8% of the total, spending on milk, fat and eggs for 14.9%, fruits and vegetables for 14.7%, bread products for 9.2%, and sugar, tea and spicery for 2.4%. The unemployment rate in July 2009 was 6.5% compared to 6.6% in June 2009. The number of people unemployed in July 2009 was 565,400 (in June 2009 it was 559,200 people). The number of people unemployed and registered with authorised employment bodies in July 2009 was 98,900 (92,800 people as at 1 June 2009), which was 0.4% higher than at the same time the previous year.

The volume of industrial production in July 2009 decreased by 2.1%. July 2009 saw decreased production in ten regions of Kazakhstan. The volume of production was KZT4,432.4 billion. In the period January-July 2009 compared to January-July 2008 production decreased in the processing industry (down 9.7%) and in the production and distribution of electric energy, gas and water (down 6.0%). The largest decreases were in the machinery, chemical and construction materials industries.

Gross domestic product in January-June 2009 was KZT6,446.3 billion. The GDP real growth index in January-June 2009 was 97.7% compared to January-June 2008. By segment, the production of goods accounted for 39% of GDP, industry for 28.7% and construction for 7%.

In July 2009 the **net international reserves** of the National Bank based on current prices increased by 7.2% (YTD by 0.2%), to US\$19.9 billion. The sale of foreign currency on the internal currency market and Government external debt service operations were counterbalanced by the receipt of funds by the Government account in the National Bank and increased balances on the foreign currency correspondent accounts of commercial banks. As a result, net currency reserves in July 2009 increased by 8.6% (YTD decrease by 0.7%), while assets held in gold decreased by 2.6% (or US\$57.2 million) due to a decrease in global prices of 0.5% (YTD growth is +7.4%). As a result, net international reserves (including the National Fund's assets in foreign currency which are equal to US\$22.6 billion) increased by 0.7%, to US\$42.5 billion (the YTD decrease is 10.2%). Assets of the National Fund in local currency were KZT600 billion (debt securities of Samruk-Kazyna National Welfare Fund and KazAgro).

Increased net domestic reserves at the National Bank as well as increased net domestic assets of the National Bank in July 2009 resulted in an increase in **reserve money** of 16% (YTD increase of 77.5%) to KZT2,707.8 billion. The narrow money supply (money supply less term deposits of the banks in the National Bank) increased by 13.3% in July 2009 (YTD increase of 44.3%) to KZT2,152.7 billion. At the same time, in July 2009 the money supply increased by 4.5% (YTD increase by 13.2%) to KZT 7,091.7 billion due to the increased domestic assets of the banking system.

Balance of payments in 2Q09. In 1H09, the deficit on the current account was around US\$2.8 billion. Exports in 1H09 decreased by 50.7%, compared to 1H08, falling to US\$17.5 billion. Imports in 1H09 decreased by 23.6%, compared to 1H08, and totalled US\$ 13.3 billion. As a result, positive trade balance in 1H09 was US\$4.1 billion (in 1H08 it was US\$18 billion). The net inflow of foreign direct investments to Kazakhstan exceeded US\$5.3 billion, while direct investments internally were US\$0.8 billion. As a result of the positive balance on direct and portfolio investments, the finance account was positive to the tune of US\$1.3 billion. The total balance is negative at US\$1.5 billion, compared to positive balance of US\$2.2 billion in 1H08.

News on Kazakhstan's economy:

- **15 August.** The National Bank of Kazakhstan reduced the refinancing rate to 7.5% per annum due to a decrease in the annual inflation rate to 6.9% in July 2009 as well as a general decrease in rates at the domestic interbank market.
- **5 August.** The national oil and gas company KazMunayGas closed a transaction for the purchase of a 58% stake in Pavlodar petroleum chemical plant.
- **21 August.** The total volume of bank loans to the economy in July 2009 reduced by 0.4% (YTD growth 8.3%) to KZT8,079.5 billion. According to the National Bank, the volume of loans in the national currency in July 2009 increased by 0.4% to KZT3,867.2 billion, while foreign currency loans decreased by 1.1% to KZT4,212.4 billion. The majority of bank loans are in the sectors of trade (22.8%), construction (19.6%), and industry (10.3%).

Kazakhstan's key macroeconomic indicators

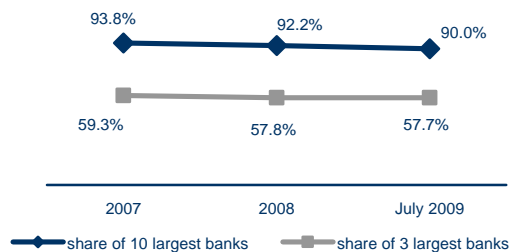
	2005	2006	2007	2008	1Q09	2Q09	July 2009
Domestic economy and financial system							
Real GDP growth, %	109.7	110.7	108.9	103.0	97.8	97.7	n/a
GDP, US\$ million	58,392	76,355	106,816	131,713	20,118	42,858	n/a
Production, % YoY	104.6	107	104.5	102.1	95.4	107.2	97.9
Registered unemployment, %	1.2	0.9	0.7	0.6	0.8	1.1	1.2
CPI, %	107.7	108.4	118.8	109.5	102.8	103.9	104.1
Monetary supply M3, US\$ million	15,887	27,492	38,486	51,894	43,303	45,118	47,005
Monetary base (reserve money), US\$ million	5,100	11,223	12,171	12,629	14,487	15,516	17,967
Real exchange rate	130.0	133.8	120.3	120.8	151.4	150.4	150.7
Official refinancing rate, %*	8.0	9.0	11.0	9.5	9.0	8.0	7.5
State finance							
State budget balance, % of GDP	0.6	0.5	-1.7	-2.1	2.8	1.5	n/a
Total sovereign debt, % of GDP	3.7	4.1	2.0	1.6	2.6	n/a	n/a
Sovereign debt / State budget income, %	13.5	17.9	8.7	6.5	10	n/a	n/a
Sovereign debt, US\$ million	2,175	3,125	2,099	2,167	2,079	n/a	n/a
Balance of payments							
Current account balance, US\$ million	-1,056	-1,999	-8,226	6,978	-1,033	-2,800	n/a
Current account balance, % of GDP	-1.8	-2.6	-7.7	5.3	-4.7	-6.5	n/a
Capital and finance account balance, US\$ million	912	16,201	8,366	1,219	3,312	1,300	n/a
Capital and finance account balance, % of GDP	1.6	21.2	7.8	0.9	15	3.0	n/a
Imports, US\$ million	17,979	24,120	33,260	38,452	-6,139	13,300	n/a
Exports, US\$ million	28,301	38,762	48,351	71,971	8,154	17,500	n/a
Foreign assets and liabilities							
Gross foreign debt, US\$ million	43,429	74,014	96,914	107,813	105,101	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	19,479	18,597	19,975
National Fund	8,074	14,092	21,006	27,486	22,462	23,128	22,554
National Fund and international reserves	15,143	33,219	38,635	47,358	41,941	43,024	42,529

* From 10 August 2009 the refinancing rate was reduced to 8.0%

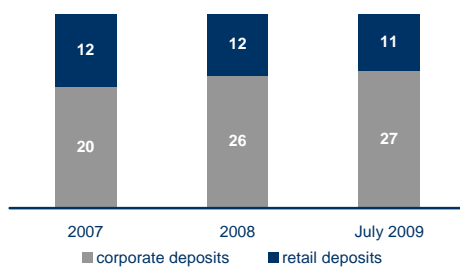
Banking sector indicators*

	2005	2006	2007	2008	July 2009
Commercial banks (number)	34	33	35	37	37
Bank branches (number)	1 730	1 813	2 381	2 546	2 386
Major indicators of the banking sector, US\$ million					
Assets	33 701	69 859	97 129	98 432	80 301
Capital	3 297	6 854	11 846	12 026	-3 636
Net profit	538	801	1 806	89	-15 710
Loan portfolio	22 869	47 181	73 718	76 534	67 319
Provisions for loans	1 276	2 342	4 337	8 491	21 770
- % of total loans	5.6	5.0	5.9	11.1	32.3
Customer deposits	12 471	24 979	32 451	38 084	37 580
Including retail deposits	4 455	8 143	12 035	12 421	11 009
Profitability ratios, %					
NIM	3.7	3.3	5.2	5.8	4.3
RoAA	1.6	1.1	1.9	0.1	Loss
RoAE	16.3	11.7	15.3	0.7	Loss
Banking sector and the economy, %					
Assets / GDP	60.6	87.5	90.9	74.6	61.0
Loans / GDP	41.1	59.1	69.0	58.0	51.0
Deposits / GDP	22.4	31.3	30.4	28.9	28.5

Concentration of banking system assets



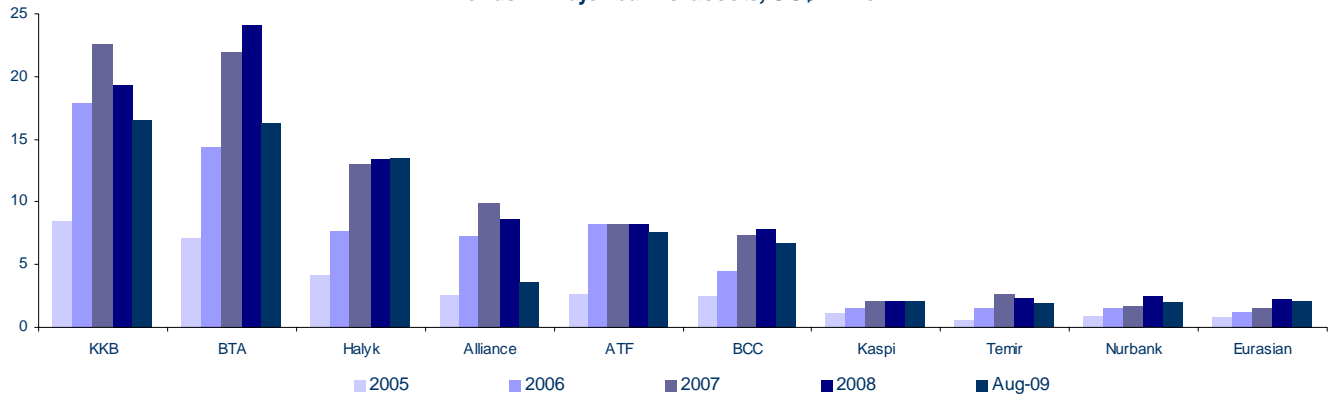
Trends in the deposit base, US\$ billion



Major indicators of the largest Kazakh banks as at 1 June 2009

Bank	Assets		Equity		Loans to customers		Deposits		Deposits (without SPV)		Retail deposits		Net profit	Reserves
	US\$ mln	Jul/ Jun	US\$ mln	Jul/ Jun	US\$ mln	Jul/ Jun	US\$ mln	Jul/ Jun	US\$ mln	Jul/ Jun	US\$ mln	Jul/ Jun	US\$ mln	% of loans
BTA	16 255	-4.53%	-6 780	14.8%	17 221	-0.94%	9 485	-2.75%	4 163	-6.20%	1 106	-3.03%	-10 948	64.8%
KKB	16 544	-2.08%	1 720	1.85%	16 900	0.16%	12 185	-2.03%	7 388	-0.79%	2 016	-1.08%	0	22.9%
Halyk	13 503	2.96%	1 477	0.3%	8 353	-3.38%	9 029	2.90%	8 029	3.25%	2 474	0.89%	-87	17.8%
ATF	7 633	7.07%	625	4.2%	5 914	-0.72%	3 414	12.84%	2 961	15.05%	1 098	5.58%	7	12.3%
BCC	6 727	4.92%	596	-2.1%	4 570	-0.44%	4 499	6.88%	3 483	6.32%	1 613	3.52%	15	12.2%
Alliance	3 545	-10.37%	-3 517	8.6%	4 511	-0.79%	3 505	-2.16%	1 136	-6.52%	386	-3.63%	-4 561	69.5%
Kaspi	2 118	3.01%	216	-1.4%	1 562	5.00%	1 239	8.00%	1 239	8.00%	515	4.13%	14	9.5%
Eurasian	2 077	-11.28%	188	-0.4%	1 088	-4.83%	1 387	8.49%	1 387	8.49%	544	6.47%	-1	5.0%
Temirbank	1 881	-3.17%	100	-31.0%	1 832	-0.58%	1 108	-1.62%	1 108	203.94%	156	0.47%	-229	13.5%
Nurbank	1 977	1.44%	298	2.9%	1 699	0.85%	1 344	2.65%	1 194	2.98%	185	1.26%	12	6.9%
Subtotal	72 261	-0.77%	-5 077	29.08%	63 650	-0.79%	47 195	1.18%	32 088	1.95%	10 094	1.21%	-15 779	33.8%
Other banks	8 040	3.16%	1 441	0.45%	3 670	0.21%	5 464	5.91%	5 359	6.03%	915	3.79%	68	7.2%
Total	80 301	-0.39%	-3 636	45.51%	67 319	-0.74%	52 659	1.65%	37 447	5.10%	11 009	1.42%	-15 710	32.3%

Trends in major banks' assets, US\$ million



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