

Official exchange KZT/US\$ rate as at 1 June 2009 – 150.39

Summary

- National Bank of Kazakhstan reduced the refinancing rate by 0.5%, to 8.5%
- Inflation rate in May 2009 was 0.7%, YTD inflation was 3.5%
- Additional provisions created by BTA and Alliance resulted in negative equity

News on Kazkommertsbank:

- **12 June.** Kazkommertsbank has announced the final repayment and resulting termination of its diversified payment rights (DPR) securitisation programme. Acting in its capacity as originator, Kazkommertsbank requested the programme's controlling parties (Ambac Assurance Corporation, MBIA Insurance Corporation, Financial Guaranty Insurance Company, the Asian Development Bank and WestLB) to terminate the programme. As a result of this termination, the programme's issuer, Kazkommerts DPR Company (a special purpose company, or SPC, which is not a subsidiary of the Bank), optionally redeemed all of its outstanding notes issued under the programme. The principal amount of \$850.4 million was redeemed by the SPC on 11 June 2009; \$99.6 million had already been repaid on 16 March 2009. The DPR programme was initiated in 2005. The notes were not guaranteed by Kazkommertsbank. However, certain tranches were insured by monoline insurers Ambac Assurance Corporation, MBIA Insurance Corporation, Financial Guaranty Insurance Company, and the Asian Development Bank.
- **26 May.** At the Bank's AGM, Kazkommertsbank shareholders voted not to pay dividends on common shares based on 2008 results. However, the Bank will pay dividends on its preference shares. Net profit for 2008 was KZT 20.16 billion. Shareholders also voted to increase the Bank's reserve capital by KZT 5.4 billion, to KZT 50 billion, from retained earnings.

Kazakh banking sector developments:

The aggregate figure for the Kazakh banking sector's capital moved into negative territory during May, and amounted to US\$ – 1,509.3 million. The major reason for this was an increase in provisioning (+84%), mainly at BTA Bank and Alliance Bank. According to AFN, the country's financial regulator, the capital of these two banks was US\$ -5,220 million (BTA) and US\$ -2,912 million (Alliance) at 1 June.

Aggregate bank liabilities decreased insignificantly, by 0.1% to US\$ 82,216 million, during May. There were no significant changes in the structure of liabilities. Interbank deposits decreased by 6.6% and there were increases under the items of Loro accounts (+20.3%), issued debt securities and subordinated debt (+0.1%), customer accounts (+0.4%), repo agreements (+6.3%), and other liabilities (+11.2%).

The share of customer deposits within total liabilities was 42.5%, a slight increase from 42.3% in April. The share of retail deposits (US\$ 10,724 million) within total liabilities was 12%. During May corporate and retail deposits saw some movement between banks, as there were retail deposit outflows from BTA (US\$ 127 million) and Alliance Bank (US\$ 19 million) but retail deposit inflows at Halyk (US\$ 71 million), KKB (US\$ 41 million), ATF (US\$ 39 million) and Eurasian Bank (US\$ 28 million). The share of term deposits (as opposed to demand deposits) within total deposits decreased from 71% as of 1 May 2009 to 69% as of 1 June 2009.

Aggregate bank assets decreased by 12% to US\$80,707 million during May. The major reason for this was the increase in provisioning levels. The gross assets of the banks did not change from the situation at the end of April, standing at US\$ 102,178 million, while the gross loan portfolio increased by 0.6%. The share of loans within net bank assets was 58.5%.

Interbank funds increased by 4.7%, to US\$ 6,352 million as of 1 June 2009.

The banking sector's securities portfolio decreased by 11.2%, mainly due to a decrease in securities held for trading. The share of highly liquid assets within banks' total assets did not change significantly during May, and was 9% as of 1 June 2009, an increase from 8% as of 1 May 2009 due to the decrease in total assets.

In terms of non-performing loans, 90-day overdue amounts on banks' loan portfolios amounted to 11.48% of total loans, and reserves for possible losses were equal to 29.18% of the sector's total loan portfolio. Both the amount overdue and provisions increased in absolute terms, by 84% and 19.4% respectively. The coverage ratio of overdue loans by provisions was 254%, up from 226% as of 1 May 2009.

The coverage ratio of overdue loans by collateral as of 1 June 2009 was 178%.

Kazakh commercial banks recorded a net loss of US\$ 13,518 million in the period January–May 2009, up from US\$ 2,109 million in the period January–April 2009. This was a result of the increase in provisioning, to US\$ 14,214 million.

Aggregate banking sector earnings amounted to US\$ 16,358 million and aggregate expenses were US\$ 29,875 million in the five months to the end of May. The sector's cost-to-income ratio increased from 30% as of 1 May 2009 to 50% as of 1 June 2009, as a result of the decrease in non-interest income – dealing operations and revaluation. The ratio of interest income to interest expense decreased from 185% as of YE2008 to 169% as at 1 June 2009. The Net Interest Margin remains stable at 5%.

Major events in the banking sector:

- **25 June.** Alliance Finance (Russia) defaulted on the payment of bond coupons totalling RUR 130.9 million due to liquidity problems at its parent company, Alliance Bank.
- **24 June.** Halyk Bank liquidated its subsidiaries in Mongolia.
- **22 June.** Alliance Bank will return a portion (KZT 3.1 billion) of the funds it received from Samruk-Kazyna within the framework of the mortgage refinancing programme. The bank has distributed KZT 10.6 billion out of the KZT 14 billion that it received from Samruk-Kazyna, and a further KZT 269 million is in the process of being distributed.
- **22 June.** The Senate of Kazakhstan approved the draft of the Law “On the ratification of the agreement between the Kazakhstan Government and the United Arab Emirates on the opening of the Islamic Bank in the Republic of Kazakhstan”.
- **16 June.** Fitch Ratings affirmed the ratings of the Development Bank of Kazakhstan and ATF Bank.
- **15 June.** Standard & Poor's withdrew its ratings on all the note series issued through Kazkommerts DPR Co., Kazkommertsbank JSC's future flow diversified payment rights (DPR) securitisation vehicle (for details see News on Kazkommertsbank at the front of this Review). These rating actions reflect the prepayment of the notes' obligations in full before their maturity date.
- **15 June.** Eurasian Development Bank and China Development Bank signed a memorandum of cooperation.
- **11 June.** Standard & Poor's lowered the ratings of Kazkommertsbank and Halyk Bank. KKB's long-term counterparty rating was lowered from "B+" to "B", while Halyk Bank's long-term counterparty rating was cut from "BB-" to "B+”.
- **9 June.** IFC may purchase 10% of the shares of Centercredit, the 6th largest bank in Kazakhstan by assets. At the same time IFC is considering the possibility of granting the bank a subordinated loan for US\$ 85 million to boost its Tier II capital.
- **28 May.** The CEO of BTA Bank said that the sale of the bank's foreign assets was possible.

Major developments in Kazakhstan's economy

- **23 June.** According to the Ministry of Finance, nationalised companies and companies in which the Kazakh Government has a stake have exceeded by a factor of 2.7 times the plan for their payment of dividends towards the Republic's budget.
- **23 June.** The President of Kazakhstan signed a decree on the introduction of a state planning system in Kazakhstan. The major objective of the decree is to set out a legal framework for major approaches of a new results-oriented state planning system.
- **22 June.** The Government of Kazakhstan may subsidise interest rates on loans within the framework of the small and medium-sized business support programme. The Government believes that the debt burden resulting from loans provided to sectors that are important and necessary within the country's development plans should be reduced to stimulate production.
- **22 June.** Eurasian Natural Resources Corporation (ENRC) announced that it will spend KZT 380 million on social projects in Pavlodar oblast (North Kazakhstan).
- **19 June.** According to the audited consolidated financial statements of KASE (Kazakhstan Stock Exchange), its net income in 2008 decreased to KZT 121.2 million from KZT 221.3 million in 2007. Assets decreased to KZT 1.427 billion as at YE 2008 from KZT 1.437 billion as at YE 2007, and shareholders' funds increased to KZT 1.347 billion from KZT 1.201 billion. Share capital did not change from KZT 165.02 million.
- **19 June.** Kazakhstan's Agency for Financial Supervision (FMSA) allowed several companies to continue issuing coupon bonds. According to FMSA the permits were provided to Vishnevskoye LLP, Zerenda-Astykh, Kazexportastykh Agrofirma, Babyk-Burluk Firm and Viktorovskoye.
- **18 June.** In 2009 Eurasian Natural Resources Corporation (ENRC) announced that it will provide KZT 324 million to finance social projects in the Aktobe oblast (West Kazakhstan). The funds will be provided under the memorandum of cooperation signed with the oblast municipality. ENRC also announced that it will provide KZT 806 million to finance social projects in Karaganda oblast (Central Kazakhstan).
- **15 June.** The return of the National Fund for the period January–December 2008 was minus 2.28%. From its creation to the end of 2008 the return was a total of 44.43%.
- **15 June.** The assets of the National Bank of Kazakhstan increased to KZT 2,755.1 billion in 2008, from KZT 2,241.4 billion in 2007.
- **15 June.** In the period January–May 2009 4,152 kg of refined gold and 275,315 kg of refined silver were produced in Kazakhstan, which was 21.4% and 1.5%, respectively, higher than in the same period in 2008. **14 June.** The President of Kazakhstan said that it was necessary to search for and effectively use the financial resources of the domestic capital markets. **12 June.** According to preliminary data, Kazakhstan's current account balance for the period January–March 2009 was a deficit of US\$ 1 billion compared to a surplus of US\$ 2.8 billion in the same period during 2008.
- **12 June.** The Minister of Economy and Budget Planning, speaking on behalf of the Government of Kazakhstan, called for foreign investors working in Kazakhstan to re-invest their income in the country's economy.
- **11 June.** According to the Agency of Statistics, the unemployment rate in Kazakhstan in May 2009 was 7.4%, up from 7.2% in April 2009. The number of unemployed people was 626,500 (in April 2009 it was 611,000).
- **10 June.** The National Bank of Kazakhstan decided to reduce its refinancing rate to 8.5% basing the decision on trends in the financial markets and a reduction in the national annual inflation rate.
- **9 June.** According to the first Vice Prime Minister of Russia, Russia, Belarus and Kazakhstan agreed on the introduction of a customs union from 1 January 2010. This will open up new opportunities for Kazakh entrepreneurs.
- **1 June.** In May 2009 inflation in Kazakhstan was 0.7%, and the YTD inflation rate was 3.5%. The prices for food products increased by 0.9% (YTD increase of 3.3%), for paid services by 0.6% (YTD increase of 2.9%), and for non-food products by 0.4% (YTD 4.3%). The annual inflation rate

(May 2009 to May 2008) was 8.4%. The prices for food products increased by 7.8% over the previous 12 months, non-food products by 7%, and paid services by 10.9%.

- **1 June.** According to a release by the Agency of Statistics, in May 2009 the subsistence minimum in Kazakhstan was KZT 12,568 per month.
- **29 May.** Ms. Gulzhan Moldazhanova was elected as an independent director of the Samruk-Kazyna national welfare fund. Ms. Moldazhanova is a well-known top executive in Russia. Until May 2009 she was a General Director of the Russian company Bazoviy Element (BazEI), headed by Mr. Oleg Deripaska.
- **29 May.** Samruk-Kazyna Real Estate Fund (a subsidiary of the Samruk-Kazyna national welfare fund) plans to put into use repurchased real estate projects. Currently, the Fund has signed 78 agreements with leading construction companies to finance the completion of construction on certain projects, of which 66 are in Astana and 12 are in Almaty.
- **29 May.** The Samruk-Kazyna national welfare fund reported on the completion of the government programme to support small and medium-sized enterprises. KZT 127 billion has been on-lent to entrepreneurs under this programme.

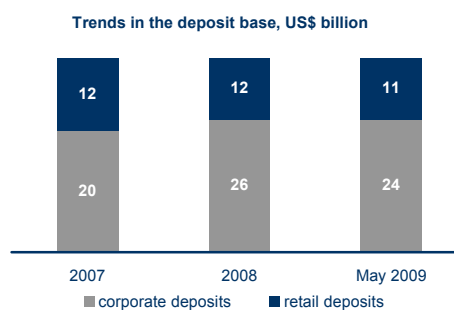
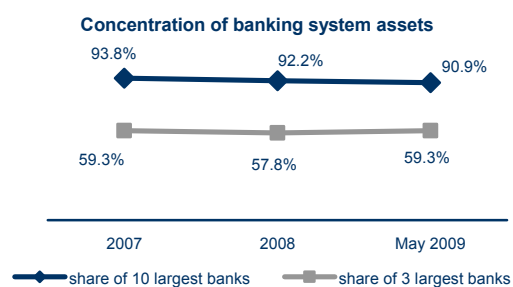
Kazakhstan's key macroeconomic indicators

	2005	2006	2007	2008	1Q 2009	May 2009
Domestic economy and financial system						
Real GDP growth, %	110	111	109	103	97.8	n/a
GDP, US\$ million	58 392	76 355	106 816	131 713	20 118	n/a
Production, % YoY	104.6	107	104.5	102.1	98.2	n/a
Unemployment, %	1.2	0.9	0.7	0.6	0.8	n/a
CPI, %	107.6	108.4	118.8	109.5	100.8	100.7
Monetary base M3, US\$ million	15 887	27 492	38 486	51 894	43 303	43 802
Monetary base (reserve funds), US\$ million	5 100	11 223	12 171	12 629	14 487	15 036
Real exchange rate	130.0	133.77	120.3	120.77	151.4	150.4
Official refinancing rate, %*	8.0	9.0	11.0	9.5	9.0	8.5
State finance						
State budget balance, % of GDP	0.60	0.50	0.70	-2.10	3%	n/a
Total sovereign debt, % of GDP	3.72%	4.09%	1.97%	1.65%	-	n/a
Sovereign debt / State budget income, %	13%	18%	9%	6%	-	n/a
Sovereign debt, US\$ million	2 175	3 124.70	2 099	2 167	-	n/a
Trade balance						
Current transactions balance, US\$ million	-1 056	-1 999	-8 226	6 978	-1 079	n/a
Current transactions balance, % of GDP	-1.8%	-2.6%	-7.7%	5.3%	-5.4%	n/a
Capital and finance transactions account balance, US\$ million	912	16 201	8 366	1 219	-4 807	n/a
Capital and finance transactions account balance, % of GDP	2%	21%	8%	1%	-24%	n/a
Imports, US\$ million	-17 979	-24 120	-33 260	-38 452	-6 149	n/a
Exports, US\$ million	28 301	38 762	48 351	71 971	8 168	n/a
Foreign assets and liabilities						
Gross foreign debt, US\$ million	43 429	74 014	96 914	107 813	-	n/a
Gross foreign debt, % of GDP	74%	97%	91%	82%	-	n/a
National Bank's Gross International Reserves, US\$ thousands	7 069	19 127	17 629	19 872	19 479	19 896
National Fund	8 074	14 092	21 006	27 486	22 462	23 128
National Fund and international reserves	15 143	33 219	38 635	47 358	41 941	43 024

* starting from 10 June 2009 the refinancing rate was reduced to 8.5%

Banking sector indicators*

	2005	2006	2007	2008	May 2009
Commercial banks (number)	34	33	35	37	37
Bank branches (number)	1 730	1 813	2 381	2 546	2 418
Major indicators of the banking sector, US\$ million					
Assets	33 701	69 859	97 129	98 432	80 707
Capital	3 297	6 854	11 846	12 026	-1 509
Net profit	538	801	1 806	89	-13 518
Loan portfolio	22 869	47 181	73 718	76 534	68 035
Provisions for loans	1 276	2 342	4 337	8 491	19 772
- % of total loans	5.6	5.0	5.9	11.1	29.1
Customer deposits	12 471	24 979	32 451	38 084	34 927
Including retail deposits	4 455	8 143	12 035	12 421	10 724
Profitability ratios, %					
NIM	3.7	3.3	5.2	5.8	4.5
RoAA	1.6	1.1	1.9	0.1	-37.4
RoAE	16.3	11.7	15.3	0.7	-454.6
Banking sector and the economy, %					
Assets / GDP	60.6	87.5	90.9	74.6	72.6
Loans / GDP	41.1	59.1	69.0	58.0	61.2
Deposits / GDP	22.4	31.3	30.4	28.9	31.4

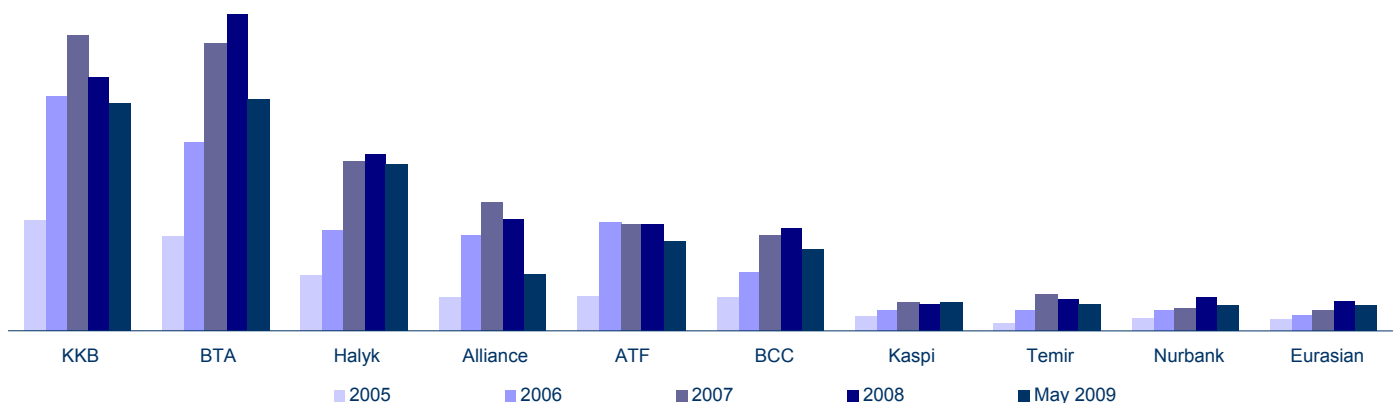


Annex 3

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	May/Apr	US\$ mln	May/Apr	US\$ mln	May/Apr	US\$ mln	May/Apr	US\$ mln	May/Apr	US\$ mln	May/Apr	US\$ mln	% of loans
BTA	17 678	-29.3%	-5 220	-311.2%	17 572	0.48%	9 789	-1.81%	4 480	-4.10%	1 151	-10.09%	-9 396	57.9%
KKB	17 410	-1.2%	1 736	25.5%	16 731	1.29%	12 912	-3.22%	7 909	-2.36%	2 023	1.83%	1	21.5%
Halyk	12 764	1.7%	1 472	26.9%	8 673	-0.69%	8 365	0.55%	7 365	0.65%	2 456	2.76%	-90	16.0%
ATF	6 859	-5.3%	608	-1.8%	6 042	-0.83%	2 830	4.31%	2 378	5.20%	1 002	3.79%	-8	12.7%
BCC	6 305	1.5%	594	0.0%	4 660	-1.81%	4 142	2.05%	2 993	2.91%	1 522	-0.58%	14	11.6%
Alliance	4 331	-44.3%	-2 912	-488.9%	4 591	-0.58%	3 626	0.22%	1 282	-5.56%	440	-4.30%	-3 957	57.6%
Kaspi	2 132	1.0%	221	-1.0%	1 419	0.50%	1 073	8.43%	1 073	8.43%	470	3.67%	21	9.8%
Temirbank	1 994	-2.8%	171	-19.6%	1 860	-0.77%	1 122	-1.65%	354	-4.80%	152	-5.08%	-159	10.5%
Eurasian	1 961	9.7%	183	0.7%	1 094	9.31%	1 239	14.90%	1 239	14.90%	464	6.30%	-2	4.8%
Nurbank	1 931	0.0%	295	-0.9%	1 674	-0.02%	1 292	0.92%	1 142	1.06%	170	6.68%	9	6.3%
Subtotal	73 364	-12.9%	-2 854	-136.2%	64 315	0.25%	46 391	-0.26%	30 216	0.10%	9 850	0.28%	-13 567	30.5%
Other banks	7 343	1.5%	1 344	2.9%	3 719	0.60%	4 817	1.67%	4 712	1.71%	875	2.03%	50	6.5%
Total	80 707	-11.8%	-1 509	-116.4%	68 035	0.27%	51 208	-0.08%	34 927	0.31%	10 724	0.42%	-13 518	29.2%

Trends in major banks' assets, US\$ billion



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