Official exchange KZT/US$ rate at 1 December 2009 – 148.72

Summary

- The Agency of Statistics projects annual inflation of 6.5% for 2009
- The Presidents of Russia, Belarus and Kazakhstan agree on the establishment of a unified economic zone until 1 January 2012
- Bank CenterCredit agreed a US$50 million loan with the European Bank for Reconstruction and Development
- Kazkommertsbank repaid a US$500 million Eurobond issued in November 2004

News on Kazkommertsbank:

- **22 December**. Kazkommertsbank announced that it increased the chartered capital of JSC "Life insurance company "Kazkommerts Life", as part of its commitment to capitalising its subsidiaries. On 15 December 2009 Kazkommertsbank purchased 69,000 newly issued shares in Kazkommerts Life for the price of KZT1,000 per share in accordance with its preemptive rights. As a result, the chartered capital of Kazkommerts Life increased by KZT69 million to KZT1,451 million. Kazkommertsbank continues to own 100% of the company. The planned capital injection was made in order to maintain the financial stability of this subsidiary and to comply with capital adequacy requirements. JSC "Kazkommerts Life" is one of the top three life insurance companies in Kazakhstan.
- **21 December**. Kazkommertsbank announced that it repaid the second US$ 300 million tranche of a US$ 1 billion syndicated loan on 18 December 2009. The syndicated loan was repaid from the Bank's own funds on the date of the maturity of the loan. This loan was issued in December 2006 and was divided into two tranches: a one year Tranche A for US$ 700 million and a 3 year Tranche B for US$ 300 million. Tranche A was repaid on 24 December 2007. The deal was arranged by The Bank of Tokyo-Mitsubishi UFJ, Ltd, ING Bank N. V., Standard Chartered Bank and UniCreditGroup. The loan will be used to finance the international trading operations of the Bank's customers.
- **21 December**. Kazkommertsbank announced that it has been notified by JSC Alnair Capital Holding ("Alnair") that Alnair has reached an agreement, subject to regulatory approval, to acquire additional shares of JSC Kazkommertsbank ("Kazkommertsbank") and that upon completion of the proposed acquisition of additional shares Alnair will effectively hold 28.57% of Kazkommertsbank's common shares.
- **9 December**. Kazkommertsbank received 20 billion tenge from the State Fund of Distressed Assets to finance the completion of the residential construction of Kuat Corporation in Almaty. The funds have been placed with Kazkommertsbank as a deposit. The Bank and the Fund of Distressed Assets will control and monitor the use of proceeds.

Kazakh banking sector developments:

P&L

The Kazakh Banking sector is showing a net loss for 10 months of 2009 (starting from February). The net loss of Kazakhstan's commercial banks increased by 3.6% MoM and amounted to US$19,637 million in the first eleven months of 2009. The reason for the net loss is an increase in provisions for possible losses. The income before provisions amounted to US$ 853 million.

Kazakh commercial banks' aggregate earnings amounted to US$ 43,979 million. The aggregate expenses of the banking system (including corporate tax) was US$ 63,617 million, the majority of which were provision

charges.

The sector's Net Interest Margin declined from 5.8% at YE2008 to 3.1% as at 1 December 2009, due to a slowdown in Net Interest income growth .

The Cost-to-income ratio increased during 11 months of 2009 due to higher growth in operating expenses compared to operating income. This ratio amounted to 64.6% as of 1 December 2009.

The ratio of interest income to interest expense decreased during 2009 due to the decline in business activity and decreased bank asset quality deterioration. This ratio decreased from 151% at 1 November 2009 to 149% as of 1 December 2009.

CAPITAL

The Kazakh banking sector's aggregate capital remains under pressure due to the banks continued use of Net Income to create provisions. As of 1 December 2009 the aggregate capital amounted to US$ –7,218 million, mainly due to losses by a number of banks. Excluding these losses, the aggregate bank capital amounted to US$ 6,851 million.

ASSETS

Aggregate bank assets slightly decreased during November, by 1.9%, and stood at US$77,722 million.

The decline in banking assets during November was caused by the decline in correspondent accounts and banks' deposits, which in turn was caused by the outflow of customer deposits and the bank's foreign debt redemptions. As a result, the share of highly liquid assets in the bank's total assets decreased from 10.7% as at 1 November 2009 to 9.3% as at 1 December 2009.

Correspondent accounts decreased by 20% and amounted to US$ 5,525 million.

The Securities portfolio increased by 7.4% and amounted to US$ 9,920 million as of 1 December 2009.

Inter-bank loans and deposits decreased by 25% and amounted to US$ 3,105 million.

The volume of aggregate banking assets has been widely affected by the decline in loans to customers. However, the decrease in gross loans during November was insignificant and was under 1%. In nominal terms the aggregate banking assets amounted to US$ 66,161 million.

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 20.6% of the total loan portfolio as at 1 December 2009 compared to 19.7% as at 1 November 2009. However, the NPLs growth rate slowed down compared to previous months (during October this figure grew from 17.5% to 19.7%).

The 90 days overdue loans, excluding BTA and Alliance Bank, amounted to 17.9% as at 1 December 2009 (17.3% as at 1 November 2009).

The loan loss provisioning rate increased from 37.2% at October-end to 37.9% in November or from US$ 24,767 million to US$ 25,078 million, according to the FSA.

LIABILITIES

Aggregate bank liabilities decreased by 2.5% during November, to US$ 84,940 million.

The structure of liabilities has not changed significantly. The major funding

sources remain customer accounts (47.2% of total liabilities), deposits of SPVs (15.5%), issued securities and subordinated debt (14.7%).

Customer accounts decreased by 2.4% to US$ 40,057 million, due to the decrease in corporate accounts by 4.9% or by US$ 1,932 million. However, retail deposits increased by 1.8% (US$ 224 million) during November and amounted to US$ 12,442 million.

The sector's loan-to-deposit ratio increased from 159.3% in October to 162.5% in November, due to a decrease in deposits.

Deposits of SPVs decreased by 7.4% or US$ 1,052 million, due to the repayment of foreign debt by the banks.

Major events in the banking sector:

- **21 December**. Kazkommertsbank (the "Bank"), one of the largest banks in Kazakhstan and Central Asia, announced that it repaid the second US$ 300 million tranche of US$ 1 billion syndicated loan on 18 December 2009. The syndicated loan was repaid from the Bank's own funds on the date of the maturity of the loan.
- **15 December.** The insurance company Allianz Kazakhstan and ATF Bank signed a Bankers Blanket Bond with insurance coverage for amounts higher than KZT 2.2 billion. The agreement covers internal fraud, protection of valuables, forgery, electronic and computer crimes, etc.
- **15 December**. Kazakh Eurasian Bank announced it will purchase Russian Troika Dialog Bank. Eurasian Bank's sole shareholder, JSC Eurasian Financial Company, will purchase 1 share of Troika Dialog Bank (100% of the share capital) as a nominal buyer. The deal is expected to be executed in the first quarter of 2010. It is subject to approval by Kazakh and Russian regulators, including the change of the name of the purchased bank to Eurasian Bank.
- **15 December**. Eurasian Development Bank (EDB) will provide a 15 year US$ 385 million multi-currency loan to construct the 3rd power block of Ekibastuz TPP.
- **15 December**. AFN approved Ms Svetlana Terechshenkova as CEO of Astana-Finance Bank. All nominees to commercial banks top management are subject to approval by the Regulator.
- **9 December.** Kazkommertsbank received 20 billion tenge from the State Fund of Distressed Assets to finance the completion of the residential construction of Kuat Corporation in Almaty.
- **3 December.** Agency for financial regulation (AFN, FSA) granted a banking license to Kassa Nova Bank. The license commences on 26 November 2009. AFN granted permission to ATF-Leasing to open Kassa Nova Bank in the summer.
- **2 December.** Kazakh Centercredit bank raised a US$ 50 million loan from European Bank for Reconstruction and Development (EBRD). EBRD provided this 8% 5-year loan to Centercredit to finance loans to micro, small and medium enterprises. The bank announced that these funds will be used to finance clients outside of Almaty and Astana. The maximum loan volume to the bank's customers will be US$ 500 000.

Major developments in Kazakhstan's economy:

In November 2009 **inflation** in Kazakhstan was 0.5% (YTD inflation was 5.6%). The prices of food products in November 2009 increased by 0.2%, non-food products saw a rise of 0.8%, while paid services increased by 0.5%. Annual inflation (November 2008 to November 2009) was 5.8%. The prices for food products increased by 3.1%, non-food products increased by 8.2%, and paid services increased by 7.4%. Average annual inflation (January-November 2009 to January-November 2008) was 7.4%, prices for food products increased by 6.3%, non-food products increased by 6.6%, and paid services increased by 10%.

The Agency of Statistics projects that annual inflation will not exceed 6.5% in 2009 . The National Bank projects inflation at 8-8.5% in 2009. In 2008 annual inflation in Kazakhstan was 9.5%, while average annual inflation was 17%.

The volume of industrial production in January–November 2009 compared to the same period in 2008 increased by 0.7%. The real volume index was 105.7% in the mining industry and 93.7% in the processing industry.

The volume of agricultural production in January-November 2009 was 10.6%, including an increase in plant cultivation by 16.5% and in cattle breeding by 2.5%.

In November 2009 **net international reserves** (including the net international reserves of the National Bank and the National Fund's assets in foreign currency) increased by 8.1%, to US$48.1 billion (the YTD increase is 1.7%). Assets of the National Fund in local currency were KZT600 billion. The **net international reserves** of the National Bank based on current prices increased by 15.3% (YTD by 17.3%), to US$23.3 billion. The net currency reserves in November 2009 increased by 16.3% (YTD increase by 15.2%), while assets held in gold increased by 8.5% (YTD increase by 25.03%).

According to the preliminary estimates of the National Bank, the current account in 2009 will see a deficit of not more than 3% of GDP, and in 2010 a surplus of 1% of GDP. The National Bank projects that the trade balance in 2009-2010 will be around 13-15% of GDP. As a result, **the payment balance** in 2009 will see a surplus of 2.1% of GDP, and a surplus of 0.7-1% of GDP. The growth in the net international reserves of the National Bank in 2010 will be moderate, and at the end of 2010 it will be enough to cover not less than 6.2 months of importing goods and services.

The estimated 2009 payment balance was based on oil prices of US$60 per barrel, and based on the average annual oil price of US$70 per barrel and 4% real GDP growth in 2010.

According to the Republican budget, **GDP** in 2009 will be KZT 16,198 billion. It is expected that GDP in 2010 will amount to KZT 17,411.9 billion.

News on Kazakhstan's economy:

- **19 December.** The Presidents of Russia, Belarus and Kazakhstan announced at an informal summit that they had agreed to establish a unified economic zone until 1 January 2012.
- **14 December.** The Swedish telecommunications holding Tele2 announced it will enter the cellular market of Kazakhstan after acquiring a 51% stake in Mobile Telecom Service (Neo brand). Kazakhtelecom agreed to sell its 51% stake in Mobile Telecom Service (provides services under the Neo brand) to Tele2. Tele2 values the company at US$300 million. The Swedish company will pay around SWK 550 million (around US$77 million) and the company has agreed to invest SWK 360 million (US$50.6 million) in the Kazakh mobile operator after the transaction is completed. Tele2 will also have an option to purchase the remaining 49% stake in Mobile Telecom Service after 5 years upon purchase of the controlling stake.
- **12 December.** KazStroyService National Gas Building Company (KSS) announced that on 12 December 2009 the first part of the Kazakhstan-China gas pipeline was put into operation, and the welding works on the second part have been completed. The construction of the Kazakhstan-China (KCGP) pipeline is a part of the Central Asia (CAGP) gas pipeline project, which is a specialized system for the transportation of natural gas from production plants in Turkmenistan to China via Kazakhstan and Uzbekistan.

Annex 1

Kazakhstan's key macroeconomic indicators

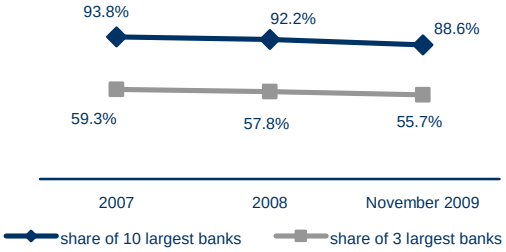
	2005	2006	2007	2008	1Q09.	2Q09	3Q09	Nov 09
Domestic economy and financial system								
Real GDP growth, %	109.7	110.7	108.9	103.2	97.8	97.7	97.8	n/a
GDP, US$ million	**58 392**	**76 355**	**106 816**	**131 713**	**20 118**	**42 858**	**74 214**	**n/a**
Production, % YoY	104.6	107	104.5	102.1	95.4	107.2	99	100.1
Registered unemployment, %	8.1	7.8	7.3	6.6	7.0	6.6	6.3	n/a
CPI, %	107.7	108.4	118.8	109.5	102.8	103.9	104.7	105.6
Monetary supply M3, US$ million	15 887	27 492	38 486	51 894	43 303	45 118	46 800	47 704
Monetary base (reserve money), US$ million	5 100	11 223	12 171	12 629	14 487	15 516	17 076	16 830
Real exchange rate	130.00	133.77	120.30	120.77	151.40	150.41	150.95	148.7
Official refinancing rate, %*	8.0	9.0	11.0	9.5	9.0	8.0	7.0	7.0
State finance								
State budget balance, % of GDP	0.6	0.5	-1.7	-2.1	2.8	1.5	-1.9	n/a
Total sovereign debt, % of GDP	3.7	4.1	2.0	1.6	2.6	1.7	n/a	n/a
Sovereign debt / State budget income, %	13.5	17.9	8.7	6.5	10	31.0	n/a	n/a
Sovereign debt, US$ million	2 175	3 125	2 099	2 167	2080.3	2 254.9	n/a	n/a
Balance of payments								
Current account balance, US$ million	-1 056	-1 999	-8 226	6 978	-1 089	-2 587	-3 400	n/a
Current account balance, % of GDP	-1.8	-2.6	-7.7	5.3	-4.7	-6.5	-4.6	n/a
Capital and finance account balance, US$ million	912	16 201	8 366	1 219	3 312	1 300	3 662	n/a
Capital and finance account balance, % of GDP	1.6	21.2	7.8	0.9	15	3.0	4.9	n/a
Imports, US$ million	17 979	24 120	33 260	38 452	-2 048	13 300	20 800	n/a
Exports, US$ million	28 301	38 762	48 351	71 971	968	17 500	29 900	n/a
Foreign assets and liabilities								
Gross foreign debt, US$ million	43 429	74 014	96 914	107 813	105 101	106 673	n/a	n/a
Gross foreign debt, % of GDP	74.4	96.9	90.7	81.9	79.8	95.5	n/a	n/a
National Bank's Gross International Reserves, US$ thousands	7 069	19 127	17 629	19 872	19 479	18 597	20 663	23 904
National Fund	8 074	14 092	21 006	27 486	22 462	23 642	23 832	24 244
National Fund and international reserves	15 143	33 219	38 635	47 358	41 941	42 239	44 495	48 148

Banking sector indicators*

	2005	2006	2007	2008	November 2009
Commercial banks (number)	34	33	35	37	37
Bank branches (number)	1 730	1 813	2 381	2 546	2 301
Major indicators of the banking sector, US$ million					
Assets	**33 701**	**69 859**	**97 129**	**98 432**	**77 722**
Capital	3 297	6 854	11 846	12 026	-7 218
Net profit	538	801	1 806	89	-19 637
Loans	**22 869**	**47 181**	**73 718**	**76 534**	**66 161**
Provisions for loans	1 276	2 342	4 337	8 491	25 078
- % of total loans	*5.6*	*5.0*	*5.9*	*11.1*	*37.9*
Deposits	**12 471**	**24 979**	**32 451**	**38 084**	**39 702**
Including retail deposits	4 455	8 143	12 035	12 421	12 442
Profitability ratios, %					
NIM	3.7	3.3	5.2	5.8	3.1
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	72.3
Loans / GDP	41.1	59.1	69.0	58.0	61.5
Deposits / GPD	22.4	31.3	30.4	28.9	36.9

Trends in the deposit base, US$ billion

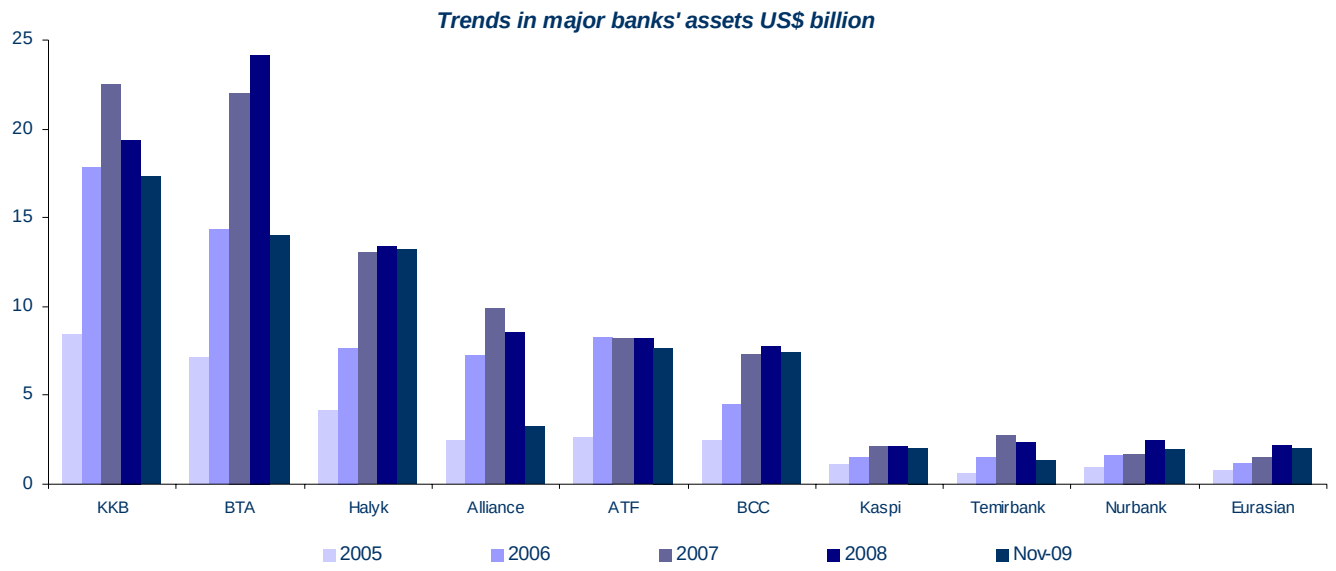
Concentration of banking system assets



Annex 3

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

Bank	Assets		Equity		Loans to customers		Deposits		Deposits (without SPV)		Retail deposits		Net profit	Reserves
	US$ mln	Nov/ Oct	US$ mln	Nov/ Oct	US$ mln	Nov/ Oct	US$ mln	Nov/ Oct	US$ mln	Nov/ Oct	US$ mln	Nov/ Oct	US$ mln	% of loans
BTA	14 026	-0.9%	-9 646	2.5%	17 153	-1.3%	9 456	-0.7%	4 123	-2.0%	1 021	-1.6%	-13 868	77.5%
KKB	16 172	-7.9%	1 795	0.3%	16 045	-4.4%	11 674	-9.5%	8 004	-0.4%	2 139	2.1%	1	26.1%
Halyk	13 092	-2.1%	1 624	2.2%	8 297	-0.1%	8 528	-7.1%	8 528	-7.1%	2 588	2.3%	-11	19.2%
ATF	7 341	-5.9%	649	-2.8%	5 743	-1.2%	3 578	-8.0%	3 125	-8.9%	1 487	-2.8%	-14	12.3%
BCC	7 646	1.1%	596	-0.2%	4 440	-1.9%	5 252	-0.6%	4 254	0.0%	1 864	-1.2%	12	11.5%
Alliance	3 218	-3.1%	-3 915	2.7%	4 315	-1.6%	3 655	-0.4%	1 210	0.3%	370	0.7%	-4 974	75.7%
Kaspi	2 037	-1.3%	200	-0.8%	1 696	1.0%	1 190	-3.8%	1 190	-3.8%	584	1.9%	-8	10.5%
Eurasian	2 171	6.6%	170	-5.9%	1 263	5.5%	1 528	9.3%	1 528	9.3%	642	11.7%	-17	5.4%
Temirbank	1 264	-8.2%	-508	23.4%	1 808	-1.4%	1 063	-1.6%	1 063	-1.6%	156	-2.1%	-841	45.6%
Nurbank	1 883	-5.9%	303	0.6%	1 583	-8.1%	1 242	-6.8%	1 092	-7.5%	194	-2.5%	3	8.5%
Subtotal	**68 849**	**-3.4%**	**-8 733**	**5.13%**	**62 343**	**-2.0%**	**47 165**	**-4.7%**	**34 116**	**-3.1%**	**11 045**	**0.9%**	**-19 718**	**39.4%**
Other banks	8 873	-1.9%	1 515	-0.40%	3 818	0.5%	5 871	-7.1%	5 779	-7.1%	1 397	-2.5%	80	8.2%
Total	**77 722**	**-3.2%**	**-7 218**	**6.36%**	**66 161**	**-1. 9%**	**53 063**	**-5.0%**	**39 895**	**-3.7%**	**12 442**	**-0.5%**	**-19 637**	**37.9%**



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