

Official exchange KZT/US\$ rate at 1 November 2009 – 150.74

Summary

- The inflation rate in October 2009 was 0.4%, and 5.1% YTD
- The Agency of Statistics projects annual inflation of 7% for 2009
- Kazkommertsbank repaid a US\$500 million Eurobond issued in November 2004
- Net loss of the banking sector in October 2009 increased by 1.1%

News on Kazkommertsbank:

- **13 November.** Kazkommertsbank launched a special programme to refinance mortgage loans for customers who had purchased apartments in buildings being constructed by KUAT Corporation. Some of these borrowers ran into financial difficulties after KUAT Corporation failed to complete construction projects within the agreed schedule and filed for bankruptcy protection. The bank will provide KZT 1 billion from its own resources for this purpose. Under the programme the interest rate for the borrowers will be reduced to 11%.
- **3 November.** Kazkommertsbank announced the repayment of its Eurobond. The US\$ 500 million Eurobond was issued in November 2004 by Kazkommertsbank's subsidiary, Kazkommerts International B.V. The Eurobond was repaid in full on the date of its maturity from the Bank's own funds. As previously announced, this Eurobond had already been partially bought back by the Bank.

Kazakh banking sector developments:

The net loss of Kazakhstan's commercial banks amounted to US\$18,948 million in the first ten months of 2009 compared to net income of US\$ 537 million in the same period of 2008. The Kazakh banking sector's aggregate capital was also negative, and amounted to US\$ –6,695 million.

Aggregate bank assets slightly decreased during October, by 1.0%, and stood at US\$79,220 million. 51.9% of aggregate bank assets were denominated in foreign currency.

The net loan portfolio of the banks decreased by 2.1% during October and stood at US\$ 41,093 million. The gross loan portfolio of the banks decreased by 0.9%, or by US\$ 577 million. The quality of the loan book also deteriorated. Loans that were 90 days and more overdue represented 19.73% of the total loan portfolio (excluding BTA and Alliance Bank – 14.2%). The loan loss provisioning rate increased from 36.38% at September-end to 37.32% in October, according to the FSA. Provisions fully cover overdue loans and the coverage ratio was 189% as of 1 November, according to FSA data.

Interbank loans and deposits decreased by 5.9% and amounted to US\$ 7,956 million. Correspondent accounts increased by US\$ 140.6 million and amounted to US\$ 6,938 million. Correspondent accounts with the National Bank decreased by 10% (US\$ 458.9 million) and Nostro accounts increased by 27.4% (US\$599.5 million). Highly liquid assets share in total assets amounted to 10.7%. Securities portfolio increased by 5.5% and amounted to US\$ 9,477 million as of 1 November 2009.

Aggregate bank liabilities decreased by 0.7% during October, to US\$ 85,915 million. The liabilities to non-residents constituted 36.2% of total liabilities. Loans from banks constituted 11%, customer accounts – 47.7%, issued securities and subordinated debt – 14.6%, deposits of subsidiaries – 16.5% and other liabilities 5.3% of total liabilities.

Customer accounts increased by 1.7%. Current accounts decreased by 4.6% and term deposits increased by 4.7%. Retail deposits amounted to US\$ 12,218 million, a decrease of 1.3% from US\$ 12,380 million in September.

The sector's loan-to-deposit ratio decreased to 159.3% in October from 163.5% in September, due to a decrease in loans and a simultaneous increase in deposits.

Other liabilities decreased during October: loans from banks and financial institutions decreased by 4.8% or US\$ 469 million, loans from government and international financial organizations decreased by 3.6% or US\$ 37.3 million, repo operations decreased by 6.6% or US\$ 222 million. Deposits of SPVs decreased by 2.5% or US\$ 357 million, due to repayments of foreign debt by the banks.

Kazakh commercial banks' aggregate earnings amounted to US\$ 39,622 million. The aggregate expenses of the banking system (including corporate tax) was US\$ 58,571 million, the majority of which were provision charges. The net loss amounted to US\$ 18,948 million.

The sector's cost-to-income ratio amounted to 64.1% as of 1 November 2009, a slight improvement from October figure (65%). The ratio of interest income to interest expense decreased from 152.1% at 1 October 2009 to 150.8% as of 1 November 2009. The interest spread and net interest margin stood at 3.0% and 3.5%, respectively.

Major events in the banking sector:

- **25 November.** Kazakh Metrokombank failed to reach an agreement with Punjab National Bank (PNB) regarding the sale of its shares, as the conditions offered by PNB did not satisfy Metrokombank's shareholders expectations. PNB is currently in negotiations with another Kazakh bank – Danabank and is planning to purchase 74% of this bank to increase its presence in Central Asia.
- **18 November.** Half of the financing projects approved by EABD (Eurasian Bank of Development) are located in Kazakhstan. The total volume of approved projects is US\$ 1.2 billion.
- **17 November.** Kazakh commercial ATF Bank raised a US\$ 60 million subordinated loan from IFC. These funds will be available for 10 years and used to increase financing to SMEs.
- **11 November.** The National Bank announced that it is planning to decrease interest rates on deposits placed by commercial banks. Starting from 1 December 2009 the rate will be decreased to 1% from 1.5%. The National Bank is aiming to stop commercial banks from placing their free funds with the National Bank.
- **10 November.** The National Bank of Kazakhstan will maintain its currency policies in 2010. The current exchange rate is at 98% of 2000 levels. According to the Head of National Bank, the Kazakh economy is recovering and becoming increasingly competitive. The Tenge should start to strengthen based on improving commodity and export goods prices, improved situation in Russia and China. The National Bank announced that it has no plans to intervene in the currency market.
- **3 November.** EABD fully placed its RUR 5 billion bonds. The bank placed 5 million bonds with par value RUR 1,000 through an open subscription process. This was the first bond placed by EABD on the Russian market. In Kazakhstan, the bank placed its first tranche of KZT 15 billion (US\$ 100 million) in late April 2009, and the second tranche of KZT 5 billion (US\$ 33 million) in early June.

Major developments in Kazakhstan's economy:

In October 2009 **inflation** in Kazakhstan was 0.4%. The prices of food products were flat, while the prices for non-food products saw a rise of 0.4%, while paid services increase by 0.9%. Inflation for the first ten months of 2009 decreased to 5.1% compared to 8.8% in January-October 2008 due to a slowdown in prices for food products and paid services, which increased by 2.4% and 6.7%, respectively (an increase of 9.5% and 10.1% for the first ten months of 2008). According to estimates from the Agency of Statistics, annual inflation (December 2008 to December 2009) will be 7%. Annual inflation (October 2008 to October 2009) was 5.8%. Average annual inflation was 7.6%.

In October 2009 the **net international reserves** of the National Bank based on current prices increased by 0.7% (YTD by 1.7%), to US\$20.2 billion due to an 8.9% increase in assets held in gold (YTD increase

of 25%). The effects of the sale of foreign currency on the internal currency market, Government external debt service operations and reduction in balances in foreign currency held on the correspondent accounts of commercial banks with the National Bank were counterbalanced by the receipt of funds in foreign currency by the Government account in the National Bank. As a result, net currency reserves in October 2009 decreased by 0.4% (YTD decrease by 0.9%). As a result, net international reserves (including the National Fund's assets in foreign currency which amount to US\$23.7 billion) increased slightly by 0.1%, to US\$44.5 billion (the YTD decrease is 6.0%). Assets of the National Fund in local currency were KZT600 billion (debt securities of Samruk-Kazyna National Welfare Fund and KazAgro).

October 2009 saw a decrease in the **money supply** of 6.7% (YTD increase of 68.1%) to US\$1 17,007 million. This was due to a decrease in the net internal assets of the National Bank, mainly a result of increased liabilities to the Government and the banks (on short-term notes). The narrow reserve money (money supply less term deposits of the banks with the National Bank) decreased by 7.3% in October 2009 (YTD increase of 36.8%) to US\$ 13,545 million.

In January-September 2009 **GDP** decreased by 2.2% y-o-y to KZT 11,202.6 billion. The production of goods was 42.3% of GDP, while production of services was 56.4% of GDP.

News on Kazakhstan's economy:

- **18 November.** The Chairman of the National Bank announced the Bank may decrease the refinancing rate further next Spring provided that the monthly inflation rate is low. The National Bank believes that the refinancing rate should be slightly positive in real terms, i.e. it should exceed the inflation rate.
- **14 November.** According to the National Bank, the Tenge should strengthen as the international reserves accumulated by the country enables the National Bank and the Government to overcome short-term fluctuations of global prices and exchange rates of its major partners .
- **10 November.** According to the Agency of Statistics, volumes of industrial production in Kazakhstan will increase by 1% y-o-y in 2009, and increase in agriculture by 9-10%. At the same time the volume of industrial production in 1H09 decreased by 2.7%, in January-September 2009 it dropped by 1%, in January-October 2009 by 0.2%. Agricultural production in Kazakhstan in 2008 decreased by 6.4%.
- **4 November.** Kazakhtelecom placed 10-year KZT 45.5 million uncovered debt securities at 6MLIBOR+9%.

Kazakhstan's key macroeconomic indicators

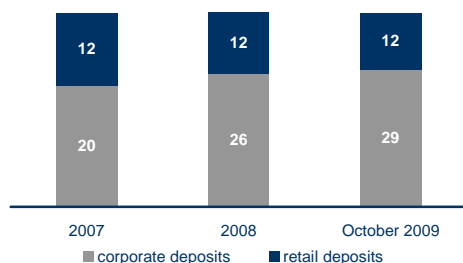
	2005	2006	2007	2008	1Q09.	2Q09	3Q09	Oct 09
Domestic economy and financial system								
Real GDP growth, %	109.7	110.7	108.9	103.2	97.8	97.7	97.8	n/a
GDP, US\$ million	58 392	76 355	106 816	131 713	20 118	42 858	74 214	n/a
Production, % YoY	104.6	107	104.5	102.1	95.4	107.2	99	99.8
Registered unemployment, %	8.1	7.8	7.3	6.6	7.0	6.6	6.3	6.4
CPI, %	107.7	108.4	118.8	109.5	102.8	103.9	104.7	105.1
Monetary supply M3, US\$ million	15 887	27 492	38 486	51 894	43 303	45 118	46 800	48 499
Monetary base (reserve money), US\$ million	5 100	11 223	12 171	12 629	14 487	15 516	17 076	17 007
Real exchange rate	130.00	133.77	120.30	120.77	151.40	150.41	150.95	150.74
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	20 797
National Fund	8 074	14 092	21 006	27 486	22 462	23 642	23 832	23 724
National Fund and international reserves	15 143	33 219	38 635	47 358	41 941	42 239	44 495	44 521

* From 4 September 2009 the refinancing rate was reduced to 7.0%

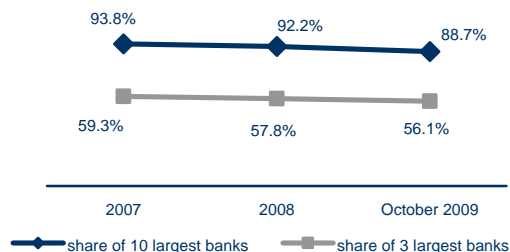
Banking sector indicators*

	2005	2006	2007	2008	October 2009
Commercial banks (number)	34	33	35	37	37
Bank branches (number)	1 730	1 813	2 381	2 546	2 323
Major indicators of the banking sector, US\$ million					
Assets	33 701	69 859	97 129	98 432	79 220
Capital	3 297	6 854	11 846	12 026	-6 695
Net profit	538	801	1 806	89	-18 948
Loans	22 869	47 181	73 718	76 534	66 521
Provisions for loans	1 276	2 342	4 337	8 491	24 767
- % of total loans	5.6	5.0	5.9	11.1	37.2
Deposits	12 471	24 979	32 451	38 084	40 870
Including retail deposits	4 455	8 143	12 035	12 421	12 218
Profitability ratios, %					
NIM	3.7	3.3	5.2	5.8	3.5
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	70.8
Loans / GDP	41.1	59.1	69.0	58.0	59.5
Deposits / GDP	22.4	31.3	30.4	28.9	36.5

Trends in the deposit base, US\$ billion



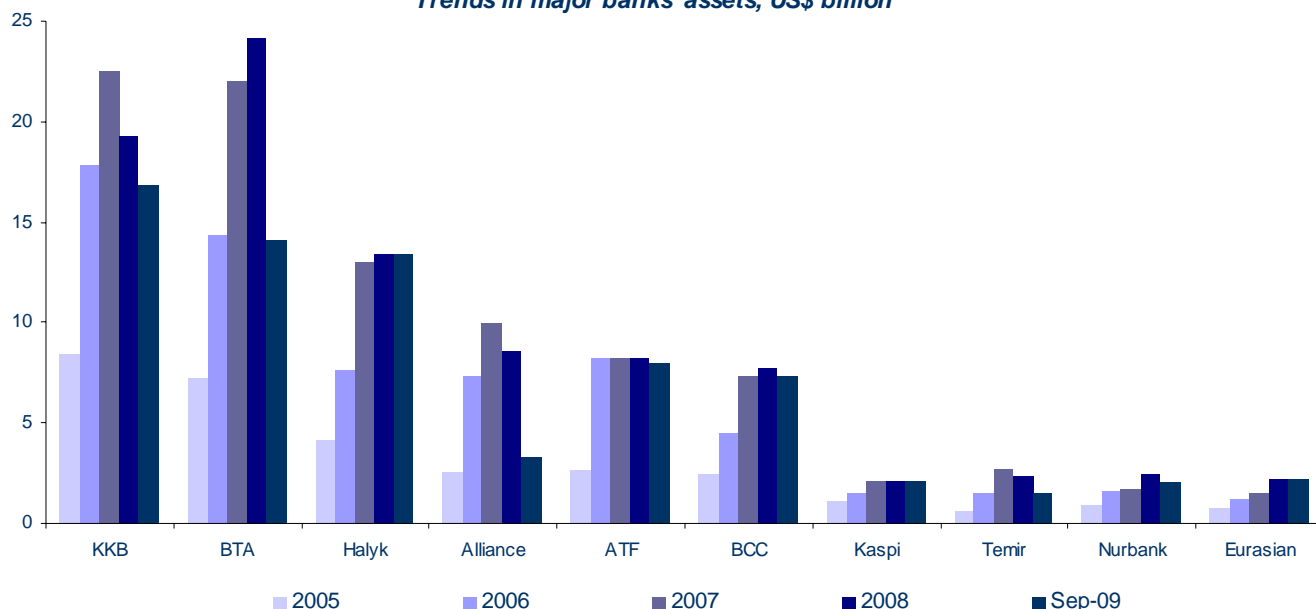
Concentration of banking system assets



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

Bank	Assets		Equity		Loans to customers		Deposits		Deposits (without SPV)		Retail deposits		Net profit	Reserves
	US\$ mln	Oct/Sept	US\$ mln	Oct/Sept	US\$ mln	Oct/Sept	US\$ mln	Oct/Sept	US\$ mln	Oct/Sept	US\$ mln	Oct/Sept	US\$ mln	% of loans
BTA	13 960	-1.42%	-9 281	0.9%	17 144	-0.43%	9 395	-0.95%	4 149	-1.90%	1 024	-0.45%	-13 447	77.4%
KKB	17 330	2.92%	1 765	0.7%	16 567	-2.23%	12 729	3.35%	7 925	5.37%	2 065	0.51%	1	24.6%
Halyk	13 192	-1.94%	1 568	5.2%	8 191	-1.29%	9 055	-0.48%	9 055	4.10%	2 496	-0.15%	-45	19.0%
ATF	7 695	-4.19%	658	-0.3%	5 736	-1.73%	3 837	2.52%	3 384	2.88%	1 509	3.32%	3	11.7%
BCC	7 463	2.126%	589	1.2%	4 463	0.34%	5 214	3.49%	4 198	4.40%	1 861	5.00%	14	12.2%
Alliance	3 277	-0.78%	-3 763	-0.1%	4 325	-1.61%	3 622	-0.37%	1 190	-3.30%	363	-1.42%	-4 808	75.3%
Kaspi	2 035	-4.97%	199	-1.8%	1 657	1.48%	1 220	-3.93%	1 220	-3.93%	566	2.59%	-6	10.1%
Eurasian	2 010	-10.29%	178	-3.0%	1 181	1.90%	1 379	-3.74%	1 379	-3.74%	568	-0.87%	-8	5.4%
Temirbank	1 358	-11.30%	-406	68.4%	1 810	-0.87%	1 065	-1.34%	1 065	-1.34%	157	1.21%	-735	39.8%
Nurbank	1 975	-2.35%	297	0.5%	1 699	-2.00%	1 315	-4.33%	1 165	-4.84%	196	-2.50%	1	7.9%
Subtotal	70 294	-1.04%	-8 196	1.91%	62 772	-1.14%	48 831	0.74%	34 730	2.16%	10 803	1.31%	-19 029	39.0%
Other banks	8 926	-0.33%	1 500	0.36%	3 749	-0.40%	6 232	-1.37%	6 140	-1.39%	1 414	-18.41%	81	7.9%
Total	79 220	-1.12%	-6 695	2.26%	66 521	-1.09%	55 063	0.49%	40 870	1.61%	12 218	-1.45%	-18 948	37.2%

Trends in major banks' assets, US\$ billion



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