

Official exchange KZT/US\$ rate on 1 September 2010 – 147.33

Summary

- Inflation in July 2010 was 0.2%
- The Government of Kazakhstan projects GDP growth in 2010 at 4%
- BTA completed restructuring its financial liabilities
- Halyk Bank is planning to complete the buyback of its shares from Samruk-Kazyna until the year-end 2010

News on Kazkommertsbank

27 August. Kazkommertsbank (KKB), one of the largest banks in Kazakhstan and Central Asia, announces its 1 half 2010 financial results:

- Revenue of KZT 74.2 billion (USD 505.4 mn), 30.2% down from KZT 106.2 billion (USD 732.9 mn) in H1 2009
- Net profit of KZT 10.2 billion (USD 69.2 mn), up 3.0% from KZT 9.9 billion in H1 2009
- Total Bank assets increased by 0.7% in KZT terms compared to Q4 2009
- Deposits increased 9.8% in KZT terms compared to Q4 2009
- Retail deposits increased by 13.8% in KZT terms compared to Q4 2009
- Net Interest Margin of 4.0% (adjusted)
- Cost-to-income ratio increased to 22.6% from 9.9% in H1 2009
- Core Tier 1 ratio of 16.1% (15.9% in 2009)
- Total capital ratio increased to 20.6% (20.1% in 2009)
- Provisioning rate of 20.3% of gross loans
- NPLs at 23.6% of gross loans

Kazakh Banking Sector Developments

P&L

The net income of Kazakhstan's commercial banks increased in August to US\$ 10,503 million from US\$ 2,170 million in January-July 2010. This jump is mainly explained by US\$ 7,384 million profit recorded by BTA due to completion of its restructuring process.

Kazakh commercial banks' aggregate earnings amounted to US\$ 32,256 million. The aggregate expenses of the banking system (including corporate tax) was US\$ 21,753 million (US\$ 14,445 in Jan-Jul 2010), the majority of which were provision charges, which constituted 44.1% share of total expenses.

CAPITAL

The Kazakh banking sector's aggregate capital became positive and as of 1 September 2010 amounted to US\$ 8,322 million (US\$ -3,376 million as of 1 August 2010). This was due to the completion of BTA's restructuring process.

ASSETS

Aggregate bank assets stood at US\$ 81,334 million (an increase of 1.3% MoM or US\$ 1,023 million).

The share of loans to customers in total assets increased from 49.1% to 50.0% during August. The share of securities portfolio decreased from 17.8% to 17.3%. The share of highly liquid assets (cash, precious metals and correspondent accounts) increased from 8.0% to 9.3% due to an increase in correspondent accounts by 22.6%. The share of funds placed with National Bank within total assets decreased from 4.5% to 3.0% and the share of inter-bank loans and deposits decreased from 4.5% to 4.1%.

According to the FSA, loans that were at least 90 days overdue decreased further to 25.7% of the total loan portfolio as at 1 September 2010 from 25.8% as at 1 August and 32.2%.

The loan loss provisioning rate decreased from 35.0% at July-end to 33.2% in August, according to the FSA, this decrease was driven by a decrease in BTA's provisioning rate from 74.7% to 65.7%.

LIABILITIES

Aggregate bank liabilities decreased by 12.8% or US\$ 10,675 million to US\$ 73,011 million during August (most of this amount is attributable to a decrease in BTA's liabilities by US\$ 10,419 million MoM).

The structure of liabilities has not changed significantly. The major funding sources remain customer accounts, their share increased to 63.8% of total liabilities compared to 55.3% in July. This increase was mainly due to a decrease in other types of liabilities, such as: loans from financial institutions (-40.9%), issued securities (-7.5%) and subordinated debt (-15.6%).

Customer accounts increased by 0.6% to US\$ 46,546 million, due to the increase in both corporate (by 0.7%) and retail (by 0.2%) accounts. A major inflow of total deposits was seen in BTA, ATF and Centercredit (1.7%, 1.5% and 0.5%, respectively), a major outflow was seen in Eurasian, Alliance and Halyk Bank (6.5%, 4.6% and 2.1%, respectively).

The sector's net loans-to-deposits ratio increased from 85.2% in July 2010 to 87.4% in August 2010, due to the increase in loans.

Major events in the banking sector

- **15 September.** Grigoriy Marchenko, the head of the National Bank of Kazakhstan, held a monthly press-conference where he made the following statements:
 - Inflation in Kazakhstan will be in the range 6%-8%. In Jan-Aug 2010 inflation was 4.6%.
 - National Bank believes that there is no need to increase minimal reserve requirements for banks.
 - The foreign banks presence is needed in Kazakhstan to provide “normal” competition. However they will not be allowed to dominate the market.
 - National Bank will not provide the funds to the banks to encourage them to start lending.
- **14 September.** Anvar Saidenov, the head of BTA Bank, held an online-conference where he made the following statements:
 - There are no Kazakh investors who are ready to become BTA’s major shareholder.
 - Samruk-Kazyna will remain BTA’s major shareholder for at least a year.
 - BTA hopes that its international ratings will be reconsidered soon.
- **14 September.** Kookmin Bank, despite the penalties inflicted by the Korean regulator on its top management, did not cancel its plans to increase its stake in Bank Centercredit.
- **14 September.** Karim Massimov, the prime-minister of Kazakhstan said that the government will introduce amendments into the Tax Code to allow the banks to write off the non-performing loans.
- **9 September.** One third of BTA’s loan portfolio or US\$ 5 billion are problem loans granted to Russian companies, mostly construction projects, said Nikolay Varenko – Deputy CEO of the bank.
- **6 September.** Fitch Ratings assigned ratings to VTB’s subsidiary in Kazakhstan: long-term IDR in domestic and foreign currency at BBB-, short-term IDR at F3, support rating at 2 and national rating at AA(kaz. Outlook stable.
- **2 September.** The Agency for financial supervision (AFN) proposes to introduce some new requirements for banks:
 - Holdings of shares by individuals and legal entities will be limited to 25%, except the holdings through banking holdings.
 - Banks’ investments in the shares of financial organizations will be limited to 10%.
 - Banks’ investments in the shares of non-financial organizations, except from services related to banking services (encashment, securitization, etc) will be restricted.
 - Subsidiaries’ investments in the parent bank’s shares will also be limited.
 - The number of representatives of the parent bank in the boards of directors of its subsidiaries will be limited to one third.
 - Loans to related parties will be restricted, except for participants of the banking conglomerate.

The requirements for banking holdings will be effective starting from 1 January 2012, limitations on investments from 1 January 2013.

- **1 September.** Halyk Bank is planning to complete the buyback of its shares from Samruk-Kazyna until the year-end 2010.
- **1 September.** Halyk Bank’s assets increased 7.8% to KZT 2,180 billion tenge. Net income amounted to KZT 16.6 billion. The bank lowered its growth forecasts to 5% in 2010 from 10%.

- **1 September.** Alliance Bank will start issuing mortgage loans. The prepayment for a loan will be higher than 10%, at 13%.
- **1 September.** BTA completed restructuring its financial liabilities for a total amount of US\$16.65 billion, including US\$ 12.2 billion liabilities to external and domestic creditors. The total debt written off amounted to US\$ 6,750 million.
- **1 September.** BTA is to remain a universal bank targeting the domestic market. BTA plans to have the following structure of its loan portfolio by 2014: 50% - corporate loans, 30% – SMEs and 20% – retail loans. BTA is planning to increase its market share in deposits to 15.7% by 2014.
- **31 August.** Kairat Kelimbetov, CEO of Samruk-Kazyna said the fund is planning to sell BTA, Alliance and Temir within a 3 year period. He said the talks between Samruk-Kazyna and Sberbank regarding the sale of BTA will resume in mid-September.
- **25 August.** Moody's Investors Service confirmed its ratings assigned to Halyk Bank and changed its outlook from Negative to Stable.

Major developments in Kazakhstan's economy:**INFLATION**

In August 2010, inflation in Kazakhstan was flat. The prices of food products in August 2010 decreased by 0.1%, while non-food products and paid services saw a rise of 0.4%. Annual inflation (August 2010 to August 2009) was 6.5%, and the prices for food products increased by 5.8%, for non-food products by 5.7%, and for paid services by 8.3%. According to the National Bank forecasts, the inflation rate in the 3Q10 will be 0.9-1.1%, and in the 4Q10 will be 2.5-2.7%. Inflation for 2010 is expected to be 7.8-8%.

INDUSTRIAL PRODUCTION

The volume of industrial production in January-August 2010 compared to January-August 2009 increased by 10.9%. The real volume index was 105.8% in the mining industry and 119.1% in the processing industry.

GDP

GDP growth in January-July 2010 compared to January-July 2009 was 7.9%. According to the recent forecasts of the government of Kazakhstan GDP growth will be 5% in 2010, 3.1% in 2011, 3.3% in 2012, 3.5% in 2013, and 4.1% on average until 2015.

UNEMPLOYMENT

The unemployment rate in August 2010 was 5.7%. The number of unemployed people in August 2010 was 496,700. The number of unemployed people registered with authorised employment bodies in August 2010 was 0.8% of the economically active population. The hidden unemployment rate in August 2010 was 0.4% of the economically active population.

INTERNATIONAL RESERVES

In August 2010 the net international reserves (including the net international reserves of the National Bank and National Fund's assets in foreign currency) increased by 1.0%, to US\$54.8 billion. The assets of the National Fund increased by 5.1% in August 2010 to US\$28.4 billion. The net international reserves of the National Bank based on current prices decreased by 3.2% to US\$26.4 billion. The net currency reserves in August 2010 decreased by 3.5% to US\$24.2 billion, while assets held in gold increased by 0.9% to US\$2.7 billion.

MONEY SUPPLY

August 2010 saw an increase in the money supply of 0.3% to KZT 8,424 billion. The amount of currency in circulation decreased by 0.2% to KZT 1,070 billion. The reserve money in August 2010 decreased by 2.9% to KZT 2,523 billion. The narrow reserve money (money supply less term deposits of the banks with the National Bank) increased by 4.9% in August 2010 to KZT 2,165 billion.

News on Kazakhstan's economy:

- **22 September.** Tengizchevroil oil company was ordered to pay more than KZT182.8 million to the republican budget for polluting the environment. The Department of ecology imposed KZT181.6 million fine for popping gas, KZT282.6 thousand for soil contamination, and KZT928.2 thousand for environmental pollution.
- **2 September.** The Chairman of the NWF Samruk-Kazyna Mr. Kayrat Kelimbetov believes that the national oil and gas company KazMunayGas will not be able to implement its US\$20 billion large-scale investment programme without an IPO. Different options of IPO are being considered: IPO of the parent company, which will take two or three years or IPO via reverse absorption technology through its subsidiary KazMunayGas EP. Currently, KazMunayGas has outstanding foreign debt of US\$12 billion, which is explained by its involvement in the Kashagan and Rompetrol projects. In 2010-2014 KazMunayGas plans to invest US\$20 billion, of which US\$8 billion will be to Kashagan and US\$4 billion to modernize oil processing plants.
- **31 August.** Kazakhstan plans to increase export customs duty (ECD) twice in 2011 from US\$20 to US\$40 per ton.
- **31 August.** The deficit of the republican budget of Kazakhstan in 2011 will be at 2.8% of GDP or KZT602.5 billion. The revenue of the republican budget in 2011 will be KZT4,049.5 billion, while expenses will be at KZT4,651.9 billion. The draft budget is based on the forecast of socio-economic development of Kazakhstan in 2011-2015, and global oil prices are projected at US\$65 per barrel, while global metal prices are expected to grow by 10-15%.
- **31 August.** Kazakhstan will introduce a progressive scale on the individual tax rate in 2011. The scale will start from 10% with a further increase to 20% depending on the wage: a 15% tax rate will be used for a salary of KZT250,000 and a 20% rate for salary of KZT500,000.
- **31 August.** The corporate tax rate in Kazakhstan in 2013 will be 20%, instead of 17.5%, as set out in the tax Code.
- **25 August.** Japanese International Cooperation Agency (JICA) will provide a US\$70 million loan to Kazakhstan for the reconstruction of the 20 km long Taraz-Korday part of the Western Europe-Western China auto road. The tenor of the loan is 25 year with a 7-year grace period.

Kazakhstan's key macroeconomic indicators

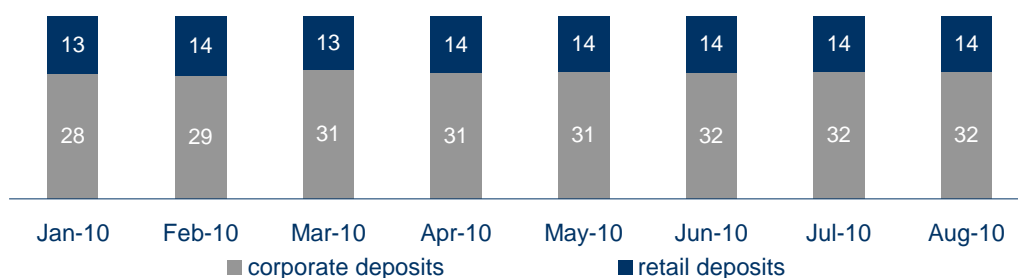
	2005	2006	2007	2008	2009	Aug 10
Domestic economy and financial system						
Real GDP growth, %	109.7	110.7	108.9	103.2	101.2	108.0
GDP, US\$ million	58 392	76 355	106 816	131 713	107 197	59 131
Production, % YoY	104.6	107	104.5	102.1	101.7	110.9
Unemployment rate, %	8.1	7.8	7.3	6.6	6.5	5.7
CPI, %	107.7	108.4	118.8	109.5	106.2	106.7
Monetary supply M3, US\$ million	15 887	27 492	38 486	51 894	49 754	57 182
Monetary base (reserve money), US\$ million	5 100	11 223	12 171	12 629	16 510	17 128
Real exchange rate	130.00	133.77	120.30	120.77	148.46	147.33
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	3.9*
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	4 112*
Balance of payments						
Current account balance, US\$ million	-1 056	-1 999	-8 226	6 978	-3 408	5 659
Current account balance, % of GDP	-1.8	-2.6	-7.7	5.3	-2.6	9.6
Capital and finance account balance, US\$ million	912	16 201	8 366	1 219	5 554	1 312
Capital and finance account balance, % of GDP	1.6	21.2	7.8	0.9	5.2	2.2
Imports, US\$ million	17 979	24 120	33 260	38 452	28 672	13 403
Exports, US\$ million	28 301	38 762	48 351	71 971	43 886	29 921
Foreign assets and liabilities						
Gross foreign debt, US\$ million	43 429	74 014	96 914	107 713	111 730	110 730*
Gross foreign debt, % of GDP	76.0	91.4	92.4	81.3	102.4	97.8*
National Bank's Net International Reserves, US\$ thousands	7 069	19 127	17 629	19 872	23 218	27 009
National Fund	8 074	14 092	21 006	27 486	24 368	28 397
National Fund and international reserves	15 143	33 219	38 635	47 358	47 586	54 768

* as at 31 March 2010

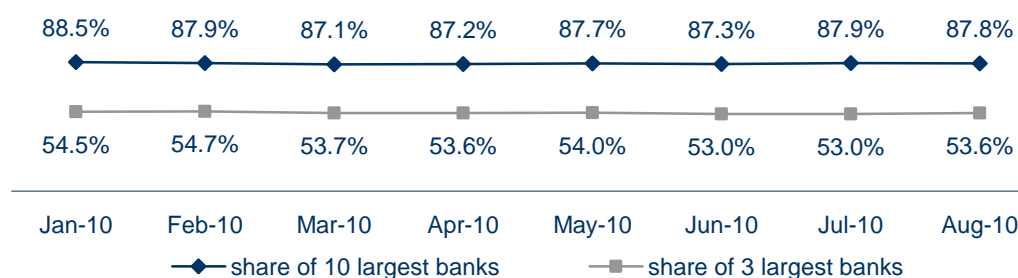
Banking sector indicators*

	2005	2006	2007	2008	2009	August 2010
Commercial banks (number)	34	33	35	37	38	38
Bank branches (number)	1 730	1 813	2 381	2 546	2 299	2 211
Major indicators of the banking sector, US\$ million						
Assets	33 701	69 859	97 129	98 432	77 837	81 334
Capital	3 297	6 854	11 846	12 026	-6 601	8 322
Loans	22 869	47 181	73 718	76 534	64 926	61 974
Provisions for loans	1 276	2 342	4 337	8 491	24 458	20 545
- % of total loans	5.6	5.0	5.9	11.1	37.7	33.2
Deposits	12 471	24 979	32 451	38 084	40 441	46 546
Net profit	538	801	1 806	89	-19 225	10 503
Profitability ratios, %						
NIM	3.7	3.3	5.2	5.8	3.1	2.5
RoAA	1.6	1.1	1.9	0.1	Loss	12.9
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	71.4	66.0
Loans / GDP	41.1	59.1	69.0	58.0	59.5	50.3
Deposits / GDP	22.4	31.3	30.4	28.9	37.1	37.8

Trends in the deposit base, US\$ billion



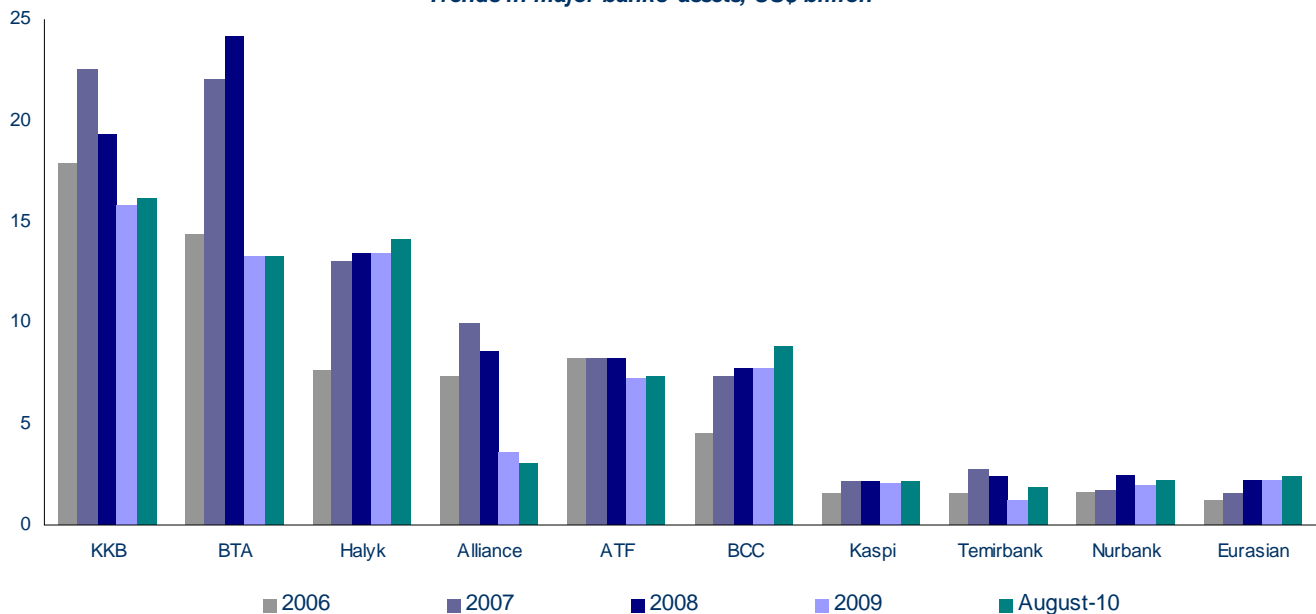
Concentration of banking system assets



Major indicators of the largest Kazakh banks as at 1 September 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	Aug/ Jul	US\$ mln	Aug/ Jul	US\$ mln	Aug/ Jul	US\$ mln	Aug/ Jul	US\$ mln	Aug/ Jul			
KKB	16 161	-0.1%	1 816	-0.1%	15 747	-0.6%	9 290	-0.5%	2 703	0.5%	0	29.6%	20.7%
Halyk	14 133	-2.7%	1 759	1.1%	8 089	-1.2%	9 611	-2.1%	2 938	-0.7%	131	22.3%	19.0%
BTA	13 285	11.4%	717	-106.5%	13 148	2.2%	4 684	1.7%	1 392	2.1%	7 383	65.7%	34.8%
BCC	8 810	-1.2%	722	-0.1%	4 796	-0.1%	5 500	0.5%	2 176	0.5%	6	10.9%	6.8%
ATF	7 282	-0.4%	547	-5.7%	5 516	0.3%	3 625	1.5%	1 401	-2.6%	-141	15.5%	34.1%
Alliance	3 100	-1.2%	231	-13.9%	3 622	0.5%	1 327	-4.6%	443	3.3%	2 081	61.4%	70.6%
Eurasian	2 341	-8.1%	158	0.7%	1 342	2.0%	1 666	-6.5%	685	-3.2%	-9	12.0%	8.5%
Nurbank	2 206	0.9%	307	-0.3%	1 506	-2.3%	1 457	3.3%	232	-6.3%	0	9.4%	9.4%
Kaspi	2 153	1.9%	194	-1.3%	1 810	1.8%	1 456	0.2%	894	1.9%	-21	14.4%	9.7%
Сбербанк	1 881	13.0%	253	-0.5%	927	4.0%	1 492	20.6%	189	3.9%	2	8.0%	4.8%
Top 10	71 352	-0.9%	6 703	-230.6%	56 503	-1.1%	40 108	2.1%	13 053	-0.1%	9 432	34.2%	25.8%
Other banks	9 877	-3.5%	1 609	-8.3%	5 392	17.7%	6 379	-9.8%	1 184	0.9%	545	21.8%	23.7%
Total	81 229	1.0%	8 313	-346.0%	61 895	0.3%	46 486	0.3%	14 236	-0.1%	9 976	33.2%	25.7%

Trends in major banks' assets, US\$ billion



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