

*Official exchange KZT/US\$ rate on 1 January 2011 – 147.50*

## Summary

- 2011 Inflation is expected to be 6-8%
- The NBK has three scenarios for GDP in 2011
- The NBK plans to improve the mechanism of minimum reserve requirements in 2011
- The FSA plans to introduce new capital requirements in line with Basel III

## News on Kazkommertsbank

- **25 January.** Kazkommerts Policy (a subsidiary of Kazkommertsbank) became a partner of the 2011 7<sup>th</sup> Asian Games. Kazkommerts Policy was selected as a partner due to its reputation as a financially sound reliable insurer with 15 years of experience in the insurance industry.
- **24 January.** Standard & Poor's Ratings Services revised its outlook on Kazkommertsbank from negative to stable. The change in outlook for KKB reflects the agency's belief that KKB will continue to benefit from state support, given its high systemic importance. The change also reflects KKB's efficient business, operational adjustments and efforts to reduce its leverage, which have helped it adapt to the challenging operating environment. The rating on KKB reflects its strong market position, particularly among large Kazakh corporate clients, and adequate core revenue generation, supported by aggressive cost management.

## Kazakh Banking Sector Developments

### P&L

The net income of Kazakhstan's commercial banks decreased slightly in December to US\$ 9,904 million from US\$ 9,967 million in November 2010.

Kazakh commercial banks' aggregate earnings amounted to US\$ 37,207 million. The aggregate expenses of the banking system (including corporate tax) were US\$ 27,303 million (US\$ 29,936 in Nov 2010), the majority of which were provision charges, which constituted a 42% share of total expenses.

### CAPITAL

The Kazakh banking sector's aggregate capital amounted to US\$ 8,967 million as of 1 January 2011 (US\$ 8,352 million as of 1 December 2010).

### ASSETS

Aggregate bank assets stood at US\$ 81,614 million (an increase of 0.8% MoM or US\$ 648 million). The increase was due to growth in repurchase operations.

The share of loans to customers increased slightly from 50.7% to 51.4% during December. The share of the securities portfolio remained flat at 16.4%. The share of highly liquid assets (cash, precious metals and correspondent accounts) decreased from 7.6% to 7.2% due to a decrease in correspondent accounts by 4.8% and cash by 3.1%. The share of funds placed with the National Bank within total assets increased from 2.9% to 3.6% and the share of inter-bank loans and deposits increased from 4.2% to 4.7%.

According to the FSA, loans that were at least 90 days overdue decreased from 25.4% as at 1 December 2010 to 23.8% as at 1 January 2011, mainly due to a decrease in several top 10 banks.

The loan loss provisioning rate decreased from 31.3% in November to 30.9% in December 2010. According to the FSA, this decrease was driven by a reduction in BTA's provisioning rate from 60.7% to 56.1%.

### LIABILITIES

Aggregate bank liabilities remained flat at US\$ 72,647 million in December 2010.

The structure of liabilities has not changed significantly. The major funding sources are customer accounts with a share of 64.5% of the total liabilities. There was an increase in other types of liabilities, such as: correspondent accounts (62.5%), loans from international financial institutions (7.7%), and loans from the Government of Kazakhstan (4.2%).

Customer accounts increased by 0.4% or US\$ 199 million to US\$ 46,850 million, due to an increase in retail deposits of 2.4%, while corporate deposits decreased by 0.6%. A major inflow of total deposits was seen in Kaspi Bank, Halyk and Sberbank (13.1%, 8.4% and 7.7%, respectively), while a major outflow was seen in Nurbank, ATF and BTA (29.3%, 12.0% and 5.5%, respectively).

The sector's net loans-to-deposits ratio increased slightly from 88.7% in November 2010 to 88.9% in December 2010.

## Major events in the banking sector

- **24 January.** The National Bank plans to improve the mechanism of minimum reserve requirements (MRR) in 2011 to increase its effectiveness. NBK will discuss exclusion of assets in foreign currency from reserve assets of the banks. In the mid-term (in 2012-2013) it is planning to discuss exclusion of cash from the reserve assets. In addition, to avoid a significant deterioration of liquidity situation in the banks, NBK may consider a possible reduction of minimum reserve requirements.
- **24 January.** Alliance Bank plans to have a net profit of KZT36.67 billion in 2011 compared to KZT318.7 billion in 2010. The bank plans to increase its assets to KZT581.1 billion in 2011 from KZT489.4 billion in 2010.
- **24 January.** The Prime-Minister of Kazakhstan asked the Chairman of Samruk-Kazyna to consider how to plan its exit from Kazakh banks. The Prime-Minister mentioned that state investments should be fully compensated upon exit.
- **20 January.** Halyk Bank issued a 7.25% semi-annual coupon US\$500 million Eurobond with YTM of 7.5%. The issue was arranged by CitiBank and Deutsche Bank.
- **17 January.** The Financial Supervision Agency (FSA) plans to introduce several new requirements for banks in line with the Basel III international standard beginning in 2013. Based on the recommendations of Basel III, the agency plans to introduce a definition of “core capital”, which includes issued common shares and reserves. Perpetual financial instruments and preference shares will be excluded from the Tier 1 capital, and excluded hybrid instruments will be included into Tier 2 capital. Additionally, the FSA plans to cancel existing the limitation that Tier 2 capital should not exceed Tier 1 capital as well as cancelling Tier 3 capital. The FSA envisages that dynamic reserves for an amount not exceeding 1.25% of the risk-weighted assets, perpetual financial instruments and preference shares as well as subordinated debt will be included in Tier 2 capital.
- **12 January.** Nurbank plans to repay US\$150 million of outstanding Eurobonds in October 2011 from its own resources. Currently the outstanding foreign debt of the bank amounts to KZT2.7 billion, which is one of the lowest in banking sector.
- **11 January.** The National Bank does not plan to change its refinancing rate subject to a stable inflation rate.
- **23 December.** Fitch Ratings changed the outlook on its rating of ATF Bank to Positive from Stable, and confirmed the current rating of the bank. The rating action followed a change in the outlook on sovereign ratings from Positive to Stable.
- **23 December.** Standard & Poor's changed the outlook on its rating of Halyk Bank from Negative to Stable and confirmed the current rating of the bank. The change of outlook reflects decreased pressure on the asset quality of the bank due to the gradual improvement of the economic situation in Kazakhstan, which supports the profitability and capitalization of the bank.
- **22 December.** BTA Bank and KazExportGarant export-credit insurance company signed a framework agreement on conditional bank deposits with the aim of supporting Kazakh non-oil exporters providing trade finance facilities. The financing will be provided from the conditional deposits of KazExportGarant in BTA. The state budget has allocated KZT1.5 billion to KazExportGarant under the programme.

---

## Major developments in Kazakhstan's economy:

### INFLATION

In December 2010, inflation in Kazakhstan was 0.7%. The prices of food products increased by 1.2%, while non-food products and paid services saw a rise of 0.4% and 0.1%, respectively. Annual inflation (December 2010 to December 2009) was 7.8%, and the prices for food products increased by 10.1%, for non-food products by 5.5%, and for paid services by 6.8%. The inflation rate is expected at 6-8% in 2011.

### INDUSTRIAL PRODUCTION

The volume of industrial production in January-December 2010 compared to January-December 2009 increased by 10.0%. The real volume index was 106.8% in the mining industry and 118.4% in the processing industry.

### GDP

GDP growth in January-November 2010 compared to January-November 2009 was 7.1%. The Prime-Minister of Kazakhstan has reported that GDP in 2010 increased by 7%. The NBK developed three scenarios for GDP in 2011 depending on global oil prices. In the first scenario with an oil price of US\$35 per barrel it is expected that GDP will decrease by 0.5%. With the second scenario with an oil price of US\$65 per barrel, GDP is expected to grow by 3.1%. In a third scenario when the oil price rises to US\$80 GDP is expected to grow by 4.7%. The NBK believes that the third scenario is the most probable.

### UNEMPLOYMENT

The unemployment rate in December 2010 was 5.5%. The number of unemployed people in December 2010 was 477,700. The number of unemployed people registered with authorised employment bodies in December 2010 was 0.4% of the economically active population. The hidden unemployment rate in December 2010 was 0.5% of the economically active population.

### INTERNATIONAL RESERVES

In December 2010 the net international reserves (including the net international reserves of the National Bank and National Fund's assets in foreign currency) increased slightly by 1.4%, to US\$58.3 billion. The assets of the National Fund increased by 1.1% in December 2010 to US\$30.6 billion. The net international reserves of the National Bank based on current prices increased by 1.7% to US\$27.7 billion. The net currency reserves in December 2010 increased by 1.7% to US\$25.3 billion, while assets held in gold increased by 2.6% to US\$3.1 billion.

### MONEY SUPPLY

December 2010 saw an increase in the money supply of 0.2% to KZT 8,546 billion. The amount of currency in circulation increased by 6.8% to KZT 1,148.5 billion. The reserve money in December 2010 increased by 8.4% to KZT 2,573 billion. The narrow reserve money (money supply less term deposits of the banks with the National Bank) increased by 6.0% in December 2010 to KZT 2,144 billion.

According to the NBK, the money supply will increase by 10.5% in 2011 to KZT9.7 trillion, and to KZT10.7 trillion and KZT11.8 trillion in 2012 and 2013, respectively. The reserve money will increase by 9.7% at oil prices of US\$65 per barrel to KZT3.08 trillion, and to KZT3.4 and KZT3.7 trillion in 2012 and 2013, respectively.

---

**News on Kazakhstan's economy:**

- **24 January.** Samruk-Kazyna national fund expects a net profit of KZT43.6 billion in 2011, and KZT354.7 billion or US\$2.4 billion for 2011-2015. The increase in net profit will be attributable mainly to improved operations and decreased costs of several subsidiaries.
- **24 January.** Preliminary data shows that the pension assets of pension funds increased by 21.4% in 2010 to KZT2,258.2 billion as at 1 January 2011. The net investment income (less commissions) increased by 18.6% in 2010 to KZT571.4 billion as at 1 January 2010, which was 25.3% of total pension assets. According to the FSA, the number of individual obligatory pension accounts was 7,989,782 amounting to KZT2,252.6 billion.
- **24 January.** The National Bank does not expect lending growth in 2011 at high oil prices. According to the NBK, lack of transparency on write-offs of "bad" loans makes it impossible to provide projections on dynamics and volumes of loan growth. It is expected that loan repayments and write-offs will net new loans. It is expected that loans to the economy will be flat in 2011, and will increase by 10% per annum in 2012-2013. At the same time, the NBK expects that deposits will increase by 19.5% in 2011, and by 13.1% and 11.9% in 2012 and 2013, respectively. The official refinancing rate will increase from 7% in 2010 to 8% in 2011-2013.
- **13 January.** The number of registered real estate transactions in Kazakhstan increased by 17.1% in 2010 to 139,153.
- **10 January.** According to preliminary data the net profit of Kazakhstan Temir Zholy national company in 2010 was KZT61.4 billion, which was 7.2 times higher compared to 2009.
- **10 January.** According to the Agency of Statistics, prices for new housing in Kazakhstan increased by 1.3% MoM in December 2010. On average, sell prices for 1 square meter of new housing were KZT142,025 in December 2010.
- **1 January.** From 1 January 2011 the state pensions and minimum wage in Kazakhstan increased to KZT16,047 and KZT15,999, respectively. The monthly calculation basis (which is used in calculating benefits and other social payments, fines, taxes and other duties) increased from KZT1,413 to KZT1,512. The subsistence minimum increased to KZT15,999 from KZT14,952.
- **28 December.** The Government of Kazakhstan has approved a resolution on the increase of export customs duty on oil to US\$40 per tonne starting from 1 January 2011.
- **24 December.** Standard & Poor's upgraded the ratings of Kazakhstan Temir Zholy, Kaztemirtrans and KazTransGas following an upgrade of their sovereign rating. S&P affirmed the ratings of KazMunayGas Exploration and Development, KazTransOil, Kazpost, Agrarian Credit Corporation, Kazakhtelecom and KEGOC.
- **23 December.** Standard & Poor's upgraded the long-term currency rating of Kazakhstan to BBB with stable outlook. According to S&P, the ratings were positively affected by sustainable budget balance after the default of several Kazakh banks and the sharp deterioration of trade conditions in 2008 and 2009.

## Kazakhstan's key macroeconomic indicators

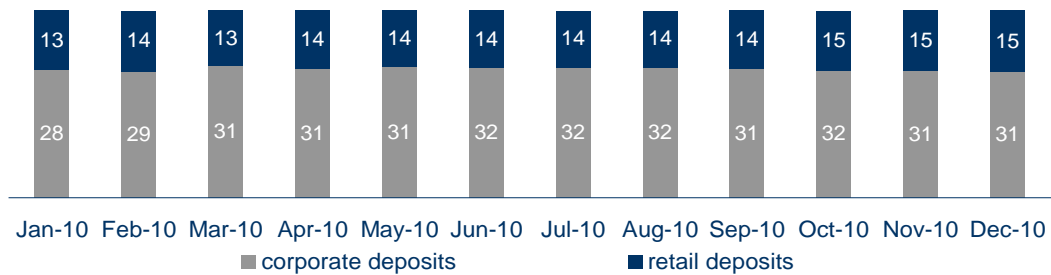
	2005	2006	2007	2008	2009	Dec 10
<b>Domestic economy and financial system</b>						
Real GDP growth, %	109.7	110.7	108.9	103.2	101.2	107.1
<b>GDP, US\$ million</b>	<b>58 392</b>	<b>76 355</b>	<b>106 816</b>	<b>131 713</b>	<b>107 197</b>	<b>130 872</b>
Production, % YoY	104.6	107	104.5	102.1	101.7	110.0
Unemployment rate, %	8.1	7.8	7.3	6.6	6.5	5.5
CPI, %	107.7	108.4	118.8	109.5	106.2	107.8
Monetary supply M3, US\$ million	15 887	27 492	38 486	51 894	49 754	57 942
Monetary base (reserve money), US\$ million	5 100	11 223	12 171	12 629	16 510	17 443
Real exchange rate	130.00	133.77	120.30	120.77	148.46	147.50
Official refinancing rate, %*	8.0	9.0	11.0	9.5	7.0	7.0
<b>State finance</b>						
State budget balance, % of GDP	0.6	0.5	-1.7	-2.1	-3.1	-2.6*
Total sovereign debt, % of GDP	3.7	4.1	2.0	1.6	2.5	3.3*
Sovereign foreign debt / State budget income, %	13.5	17.9	8.7	6.5	11.4	15.5*
Sovereign foreign debt, US\$ million	2 175	3 125	2 099	2 167	2 218	4 507*
<b>Balance of payments</b>						
Current account balance, US\$ million	-1 056	-1 999	-8 226	6 978	-3 408	4 235
Current account balance, % of GDP	-1.8	-2.6	-7.7	5.3	-2.6	3.1
Capital and finance account balance, US\$ million	912	16 201	8 366	1 219	5 554	7 811
Capital and finance account balance, % of GDP	1.6	21.2	7.8	0.9	5.2	5.7
Imports, US\$ million	17 979	24 120	33 260	38 452	28 672	20 016
Exports, US\$ million	28 301	38 762	48 351	71 971	43 886	44 499
<b>Foreign assets and liabilities</b>						
Gross foreign debt, US\$ million	43 429	74 014	96 914	107 713	113 229	112 767*
Gross foreign debt, % of GDP	76.0	91.4	92.4	81.3	98.6	81.7*
National Bank's Net International Reserves, US\$ thousands	7 069	19 127	17 629	19 872	23 218	27 723
National Fund	8 074	14 092	21 006	27 486	24 368	30 578
National Fund and international reserves	15 143	33 219	38 635	47 358	47 586	58 301

\*as at 30 September 2010

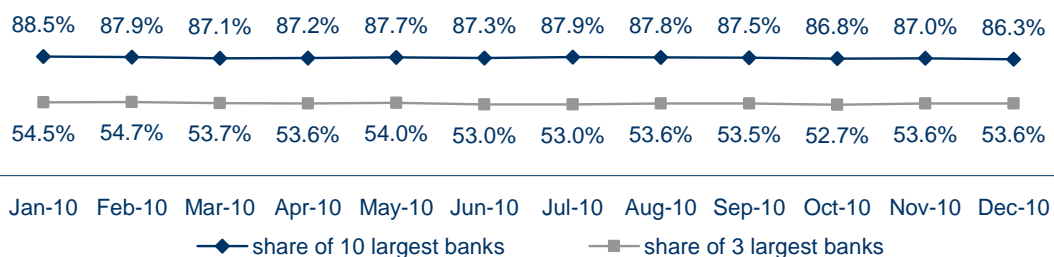
## Banking sector indicators

	2005	2006	2007	2008	2009	Dec 2010
Commercial banks (number)	34	33	35	37	38	39
Bank branches (number)	1 730	1 813	2 381	2 546	2 299	2 236
<b>Major indicators of the banking sector, US\$ million</b>						
<b>Assets</b>	<b>33 701</b>	<b>69 859</b>	<b>97 129</b>	<b>98 432</b>	<b>77 837</b>	<b>81 614</b>
Capital	3 297	6 854	11 846	12 026	-6 601	8 967
<b>Loans</b>	<b>22 869</b>	<b>47 181</b>	<b>73 718</b>	<b>76 534</b>	<b>64 926</b>	<b>60 627</b>
Provisions for loans	1 276	2 342	4 337	8 491	24 458	18 995
- % of total loans	5.6	5.0	5.9	11.1	37.7	30.9
<b>Deposits</b>	<b>12 471</b>	<b>24 979</b>	<b>32 451</b>	<b>38 084</b>	<b>40 441</b>	<b>46 850</b>
<b>Net profit</b>	<b>538</b>	<b>801</b>	<b>1 806</b>	<b>89</b>	<b>-19 225</b>	<b>9 904</b>
<b>Profitability ratios, %</b>						
NIM	3.7	3.3	5.2	5.8	3.1	3.0
RoAA	1.6	1.1	1.9	0.1	Loss	0.12
RoAE	16.3	11.7	15.3	0.7	Loss	1.02
<b>Banking sector and the economy, %</b>						
Assets / GDP	60.6	87.5	90.9	74.6	68.0	61.9
Loans / GDP	41.1	59.1	69.0	58.0	56.7	46.5
Deposits / GDP	22.4	31.3	30.4	28.9	37.1	35.2

### Trends in the deposit base, US\$ billion



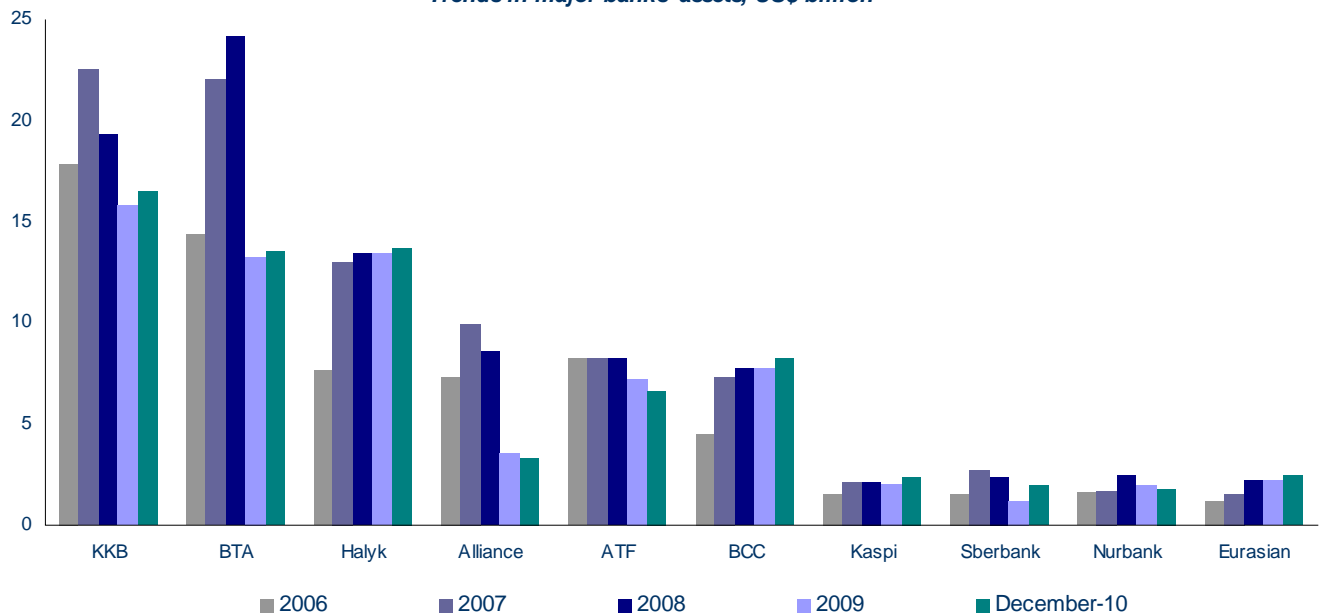
### Concentration of banking system assets



### Major indicators of the largest Kazakh banks as at 1 January 2011

Bank	Assets		Equity		Loans to customers		Total deposits		Retail deposits		Net profit	Reserves	90 days overdue loans
	US\$ mln	Dec/Nov	US\$ mln	Dec/Nov	US\$ mln	Dec/Nov	US\$ mln	Dec/Nov	US\$ mln	Dec/Nov			
<b>KKB</b>	<b>16 476</b>	<b>-1.7%</b>	<b>1 888</b>	<b>3.5%</b>	<b>15 894</b>	<b>1.4%</b>	<b>9 801</b>	<b>-2.4%</b>	<b>3 017</b>	<b>5.3%</b>	<b>1</b>	<b>30.9%</b>	<b>19.3%</b>
Halyk	13 719	2.8%	1 815	1.3%	8 301	0.6%	9 468	8.4%	3 292	4.4%	186	23.3%	16.3%
BTA	13 519	1.3%	1 230	94.4%	11 151	-1.2%	4 518	-5.5%	1 723	9.0%	7 798	56.0%	36.5%
BCC	8 211	-2.2%	521	-27.6%	4 881	0.1%	5 192	0.5%	2 278	2.5%	-199	15.2%	8.7%
ATF	6 664	-3.7%	433	-1.4%	5 759	0.1%	3 254	-12.0%	1 004	-22.6%	-255	15.1%	31.2%
Alliance	3 319	2.7%	230	-10.1%	3 699	0.1%	1 407	-4.2%	521	4.6%	2 162	58.5%	65.5%
Eurasian	2 432	4.9%	173	2.6%	1 543	8.7%	1 603	2.0%	583	-2.9%	4	10.3%	7.1%
Nurbank	1 772	-17.8%	297	0.3%	1 362	-2.0%	994	-29.3%	249	6.0%	-658	42.1%	9.1%
Kaspi	2 393	4.2%	243	4.7%	1 957	4.0%	1 725	13.1%	1 033	5.7%	29	14.1%	9.9%
Сбербанк	1 917	13.1%	271	5.6%	1 198	14.6%	1 319	7.7%	230	7.2%	18	6.7%	4.6%
<b>Top 10</b>	<b>70 421</b>	<b>-0.1%</b>	<b>7 101</b>	<b>7.33%</b>	<b>55 743</b>	<b>0.9%</b>	<b>39 283</b>	<b>-0.9%</b>	<b>13 929</b>	<b>2.1%</b>	<b>9 085</b>	<b>32.2%</b>	<b>24.4%</b>
<b>Other banks</b>	<b>11 193</b>	<b>6.1%</b>	<b>1 866</b>	<b>7.28%</b>	<b>5 721</b>	<b>2.6%</b>	<b>6 990</b>	<b>7.6%</b>	<b>1 332</b>	<b>6.2%</b>	<b>587</b>	<b>18.2%</b>	<b>17.2%</b>
<b>Total</b>	<b>81 614</b>	<b>0.7%</b>	<b>8 967</b>	<b>7.32%</b>	<b>61 465</b>	<b>1.0%</b>	<b>46 273</b>	<b>0.3%</b>	<b>15 261</b>	<b>2.4%</b>	<b>9 672</b>	<b>30.9%</b>	<b>23.7%</b>

Trends in major banks' assets, US\$ billion





Please note that the information provided in this document is based on data from different sources including, without limitation, published announcements made by various state authorities and other organisations.

The majority of the information contained herein has been selected from different publications released by the National Bank of Kazakhstan, the Statistics Agency of the Republic of Kazakhstan, the Agency of the Republic of Kazakhstan for the Regulation and Supervision of the Financial Market and Financial Organisations, and the official websites of Kazakh banks. None of the managers or directors involved in the preparation of this document has independently verified the information contained herein. Accordingly, no responsibility or liability is accepted by Kazkommertsbank, its employees or directors as to the accuracy of the information provided herein.

The document is directed exclusively to business counterparties. No persons should rely on any information in this document. Neither this document nor any other statement (oral or otherwise) made at any time in connection herewith is an offer, invitation or recommendation to acquire or dispose of any securities or to enter into any transaction. Any readers/users/subscribers are advised to independently review and/or obtain independent professional advice and draw their own regulatory, credit, tax and accounting conclusions in relation to their particular circumstances.

This document may contain forward-looking statements made by official authorities in Kazakhstan, but all readers shall make their own judgement when making a decision on prospects, business developments or investments.

---

***Investor Relations:***

*Ms. Alma Buirakulova*

*Tel.+7 727 258 5125*

*[Investor\\_Relations@kkb.kz](mailto:Investor_Relations@kkb.kz)*