

Official exchange KZT/US\$ rate on 1 February 2011 – 146.87

Summary

- The NBK does not plan to change its inflation forecast for 2011
- GDP growth in 2010 was 7%
- The FSA does not project loan growth in 2011
- New Distressed Assets Fund is being discussed

News on Kazkommertsbank

- **9 February.** Kazkommertsbank opened a full cycle Credit Center in Almaty to become more active in issuing consumer loans. The Credit Center is based on a “one window” principle, whereby the client receives a full package of services from preliminary consultations to the issuance of a loan.
- **9 February.** Kazkommertsbank announced that it has increased the chartered capital of JSC life insurance company “Kazkommerts Life”, as part of its commitment of providing capital to its subsidiaries. On 8 February 2011 Kazkommertsbank purchased 139,000 newly issued shares in Kazkommerts Life for the price of KZT1,000 per share. As a result, the chartered capital of Kazkommerts Life increased by KZT139 million to KZT1,590 million. Kazkommertsbank continues to own 100% of the company. The capital injection was made in order to maintain the financial stability of the subsidiary and to comply with capital adequacy requirements.
- **7 February.** Kazkommertsbank announced that JSC Central Asian Investment Company (CAIC), a major shareholder of the Bank with a 23.72% stake, and JSC Ak Zhalyyn, which was fully owned by CAIC and held a 0.11% stake in the Bank, have merged resulting in the following changes to CAIC’s holding:
 - Direct holding has increased to 23.83% of total placed common shares;
 - Indirect holding has decreased to 7.23% of total common placed shares (shares of the Samruk-Kazyna National Wealth Fund in the trust management of CAIC).

An aggregate holding (direct and indirect) of CAIC in the Bank’s capital remains unchanged at 31.06% of total placed common stock. The interests of the other major shareholders, Mr. N.S. Subkhanberdin, JSC Alnair Capital Holding, the Samruk-Kazyna National Wealth Fund and the European Bank for Reconstruction and Development, remain unaffected and as such control over the Bank is unchanged.

- **31 January.** The number of clients of the Grantum Pension Fund (subsidiary of Kazkommertsbank) increased by 28.3% in 2010 to 244,583 people as at 1 January 2011. The fund had the fastest asset growth rate among pension funds; an increase of 38.4% to KZT150 billion as at 1 January 2011. The Grantum had leading positions by profitability with a coefficient of nominal income of 6.22, which exceeds the average nominal income coefficient of the industry (4.39%). As at 1 January 2011 54.63% of the pension assets were allocated to highly reliable government securities. The share of corporate securities was 31.44%, represented by large Kazakh and foreign issuers.

Kazakh Banking Sector Developments

P&L

The net loss of Kazakhstan's commercial banks in January 2011 was US\$ 623 million.

Kazakh commercial banks' aggregate earnings amounted to US\$ 1,691 million. The aggregate expenses of the banking system (including corporate tax) were US\$ 2,314 million, the majority of which were provision charges, which constituted a 36.5% share of total expenses.

CAPITAL

The Kazakh banking sector's aggregate capital amounted to US\$ 8,959 million as of 1 February 2011 (US\$ 8,967 million as of 1 January 2010).

ASSETS

Aggregate bank assets stood at US\$ 82,463 million (an increase of 1.0% MoM or US\$ 850 million). The increase was due to growth in securities portfolio and cash.

The share of loans to customers increased slightly from 50.4% to 51.0% in January. The share of the securities portfolio was 17.3%. The share of highly liquid assets (cash, precious metals and correspondent accounts) increased from 7.2% to 7.3% due to a slight rise in cash of 0.1%. The share of funds placed with the National Bank within total assets increased from 3.6% to 3.7% and the share of inter-bank loans and deposits decreased from 4.7% to 4.5%.

According to the FSA, loans that were at least 90 days overdue increased from 23.8% as at 1 January 2011 to 24.7% as at 1 February 2011.

The loan loss provisioning rate increased from 30.9% in December 2010 to 31.2% in January 2011. According to the FSA, this was driven by an increase in KKB's provisioning rate from 30.9% to 31.4%.

LIABILITIES

Aggregate bank liabilities remained flat at US\$ 73,504 million in January 2011.

The structure of liabilities has not changed significantly. The major funding sources are customer accounts with a share of 64.9% of the total liabilities. There was an increase in other types of liabilities, such as: correspondent accounts (22.4%) and debt securities issued (2.7%).

Customer accounts increased by 1.9% or US\$ 871 million to US\$ 47,721 million, due to increases in retail deposits and corporate deposits by 0.6% and 2.9%, respectively. A major inflow of total deposits was seen in Sberbank, Halyk and BTA (8.1%, 6.1% and 3.9%, respectively), while a major outflow was seen in KKB, Kaspi and BCC (4.8%, 2.7% and 2.4%, respectively).

The sector's net loans-to-deposits ratio decreased from 88.9% in December 2010 to 87% in January 2011.

Major events in the banking sector

- **28 February.** According to experts, the Distressed Assets Fund (DAF) will buy problem loans from the banks for total of KZT900 billion, of which KZT600 billion will be real estate related loans.
- **24 February.** A banking ombudsman institute will be introduced in Kazakhstan to resolve contradictions between mortgage borrowers and the creditors. The ombudsman will be elected by the board of representatives, which will include representatives of the banks, mortgage companies, associations of the public societies for protection of consumer rights, and the FSA. The ombudsman will be elected for 2 years.
- **25 January.** A sale of government stakes in BTA, Alliance and Temirbank will be based on strict market terms. Samruk-Kazyna intends to sell its stakes in these banks as soon as possible, but will take into account government investments and real current valuations of the banks.
- **2 February.** The FSA proposes to retain the maximum deposit size guaranteed by the government at KZT5 million after 1 January 2012. This proposal should be approved by the Kazakh Deposit Insurance Fund.
- **2 February.** The FSA proposes to introduce personal responsibility of the management of JSCs in cases of default.
- **2 February.** The FSA does not expect loan growth in 2011. According to the National Bank, forecasts are unclear; the most probable outcome being that loan growth will be flat. The FSA believes that the banks may generate profit, and it sees some improvement in cash flow generation.. However, the chairperson of the FSA noted that this is subject to an absence of external shocks and a gradual recovery of the Kazakh economy in 2011.
- **25 January.** Foreign debt held by of Kazakh banks decreased to less than 20% of GDP, or around US\$17 billion, as at the end of 2010.

Major developments in Kazakhstan's economy:

INFLATION

In January 2011, inflation in Kazakhstan was 1.7%. The prices of food products increased by 3.0%, while non-food products and paid services saw a rise of 0.5% and 1.2%, respectively. Annual inflation (January 2011 to January 2010) was 8.1%, and the prices for food products increased by 12.2%, for non-food products by 5.7%, and for paid services by 5.1%. The inflation rate is expected at 6-8% in 2011.

INDUSTRIAL PRODUCTION

The volume of industrial production in January 2011 compared to January 2010 increased by 5.8%. The real volume index was 105.0% in the mining industry and 107.5% in the processing industry.

GDP

GDP growth in 2010 was 7.0%. 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%. In 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 January 2011 was 5.7%. The number of unemployed people in January 2011 was 486,300. The number of unemployed people registered with authorised employment bodies in January 2011 was 0.5% of the economically active population. The hidden unemployment rate in January 2011 was 0.6% of the economically active population.

INTERNATIONAL RESERVES

In January 2011 the net international reserves (including the net international reserves of the National Bank and National Fund's assets in foreign currency) increased by 6.4%, to US\$62.0 billion. The assets of the National Fund increased by 2.8% in January 2011 to US\$31.4 billion. The net international reserves of the National Bank based on current prices increased by 10.4% to US\$30.6 billion. The net currency reserves in January 2011 increased by 11.8% to US\$28.2 billion, while assets held in gold decreased by 3.3% to US\$2.9 billion.

MONEY SUPPLY

January 2011 saw an increase in the money supply of 0.7% to KZT 8,609 billion. The amount of currency in circulation decreased by 4.7% to KZT 1,095 billion. The reserve money in January 2011 increased by 2.7% to KZT 2,641 billion. The narrow reserve money (money supply less term deposits of the banks with the National Bank) increased by 2.5% in January 2011 to KZT 2,196 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% with 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:

- **16 February.** The Government of Kazakhstan has adopted a state programme on residential construction support. The programme envisages three major directions of government support to residential construction. The first amounts to KZT40.8 billion in 2011-12, and aims at building housing using residential construction savings schemes. The second envisages using commercial bank funding to finance construction and mortgages. KZT70 billion will be allocated for these measures in 2011-12, including KZT57 billion in 2011. As a result, 1.7 million square meters of residential real estate is set to become available in 2012. The prices under this scheme will not exceed KZT170,000 per square meter. The third direction will aim to build engineering and communications infrastructure. KZT40 billion will be allocated for this in 2011-12, including KZT10 billion in 2011.
- **16 February.** The Government of Kazakhstan has introduced a state recovery programme aimed at assisting medium and large enterprises which have a significant standing in the national economy. The major objective of the programme is to recover companies with outstanding debt of or exceeding KZT4.5 billion. The programme envisages measures including: subsidizing interest rates on existing loans and/or leasing operations; subsidizing coupon on debt securities issued at the Kazakh Stock Exchange (the term of subsidy will be up to 5 years and the ultimate interest rate for the borrower should not be less than 7%); tax holidays up to 3 years; tax preferences; assistance in searching for strategic investors; guaranteed orders for up to 4 years and; policy on placement of cash by the state owned companies in the banks to further recover the companies. The programme will be financed from the republican budget, and KZT8.8 billion will be allocated in 2011. The programme participants include medium and large systemic companies, excluding companies in the mining sector, and producers of alcohol and tobacco products. The state owned entities, national asset management holdings, national holdings, national companies and controlled entities, as well as entities with foreign participation, cannot participate in the programme.
- **11 February.** The President of Kazakhstan said that the Government, the National Bank and the FSA should develop a post-crisis recovery programme. The programme should be two-fold: first, it should assist in the recovery of competitive entities and; second, it should include measures to deal with the problem loans of the banks, which hamper economic development.
- **11 February.** The President of Kazakhstan said that the shares of Samruk Energo, KEGOC and Kazpost will be placed on stock exchange till the end of 2011. The next stage will place the shares of KazMunayGas, Kazakhstan Temir Zholy, and Kazatomprom in 2012-13. The shares will be placed through a public offering to local individuals.
- **10 February.** 9,207 real estate transactions were made in Kazakhstan in January 2011, which was 13.4% more than in January 2010. At the same time, the number of real estate transactions decreased in January 2011 by 21.8% compared to December 2010. The number of transactions increased in Astana by 10.6%, and decreased by 13.9% in Almaty.
- **9 February.** The National Bank will not review its inflation forecast for 2011. If the rise in food prices continues not only in Kazakhstan but globally, and if energy and oil prices increase, the inflation forecast will be reviewed and the refinancing rate will be increased.
- **8 February.** The Chairman of the National Bank believes that in current economic climate the tenge may strengthen. At the same time, the National Bank will provide for stability of the exchange rate, and will not allow sharp strengthening of the tenge.
- **8 February.** The National Bank does not rule out a possible increase in the refinancing rate under the circumstances of a significant growth in inflation. As this instrument is envisaged for a reduction of excess money supply in the economy, it will reduce inflation pressure.

- **2 February.** A number of national companies backed by Samruk-Kazyna NWF will place their shares on the domestic stock exchange from March 2011.
- **2 February.** Expenditures of the republican budget will be increased in 2011 based on the President's proposals provided in the annual message. 51% of expenditures in the existing budget will be spent on social programmes.
- **28 January.** GDP per capita in Kazakhstan as at 1 January 2011 exceeded US\$9,000. Such an indicator was planned for 2015.
- **28 January.** The President of Kazakhstan said the Government should expand its plan on energy efficiency and regional development. According to the President, the economy's competitiveness should be based on effective technologies providing reduced energy costs, not only in agriculture, but throughout the economy.
- **28 January.** In his annual message to the people of Kazakhstan, the President said that GDP growth in should not be less than 30% till 2020, the growth in processing industries should exceed or reach the level of mining industries and the assets of the National Fund should not be less than 30% of GDP. Domestic and foreign investments in the non-commodity sectors will increase by not less than 30%, and the share of SMEs in GDP should not be less than 40%.
- **28 January.** The scholarships and wages of public employees will increase by 30% from 1 July 2011.
- **28 January.** The Government should develop a series of measures to develop rural entrepreneurship, said the President of Kazakhstan.
- **26 January.** Kazakhmys plans to list on the Hong-Kong Stock Exchange in the first half of 2011. The company plans to attract from US\$500 to US\$600 million. The transaction will be arranged by Citigroup Inc. and China International Capital Corp Ltd.
- **25 January.** Samruk-Kazyna NWF is ready to provide financial support for the restructuring of Astana-Finance provided that its investments will be returned. It is proposed that Samruk-Kazyna NWF will provide loans to Astana-Finance, which will be returned in the first line. However, Samruk-Kazyna needs to have defined terms for the return of its funds, and goodwill of all participants in the restructuring process.

Kazakhstan's key macroeconomic indicators

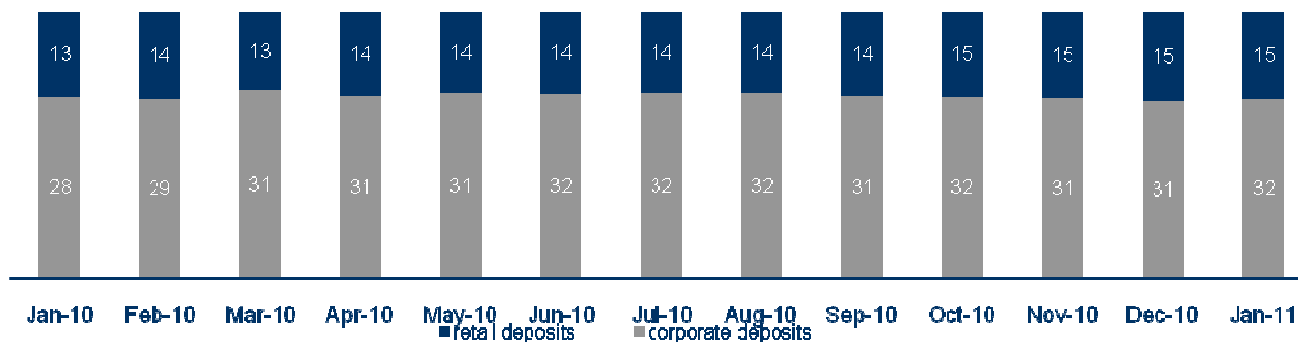
| | 2005 | 2006 | 2007 | 2008 | 2009 | Jan 10 |
|--|---------------|---------------|----------------|----------------|----------------|----------------|
| Domestic economy and financial system | | | | | | |
| Real GDP growth, % | 109.7 | 110.7 | 108.9 | 103.2 | 101.2 | 107.0 |
| GDP, US\$ million | 58 392 | 76 355 | 106 816 | 131 713 | 107 197 | 146 480 |
| Production, % YoY | 104.6 | 107 | 104.5 | 102.1 | 101.7 | 105.6 |
| 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 | 105.7 |
| Monetary supply M3, US\$ million | 15 887 | 27 492 | 38 486 | 51 894 | 49 754 | 58 614 |
| Monetary base (reserve money), US\$ million | 5 100 | 11 223 | 12 171 | 12 629 | 16 510 | 17 985 |
| Real exchange rate | 130.00 | 133.77 | 120.30 | 120.77 | 148.46 | 146.87 |
| 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 | -2.5 |
| Sovereign foreign debt, % of GDP | 3.7 | 4.1 | 2.0 | 1.6 | 2.5 | 2.8 |
| Sovereign foreign debt / State budget income, % | 13.5 | 17.9 | 8.7 | 6.5 | 11.4 | 13.9 |
| Sovereign foreign debt, US\$ million | 2 175 | 3 125 | 2 099 | 2 167 | 2 218 | 4 061 |
| Balance of payments | | | | | | |
| Current account balance, US\$ million | -1 056 | -1 999 | -8 226 | 6 978 | -3 408 | 4 936 |
| Current account balance, % of GDP | -1.8 | -2.6 | -7.7 | 5.3 | -2.6 | 3.4 |
| Capital and finance account balance, US\$ million | 912 | 16 201 | 8 366 | 1 219 | 5 554 | -200.8 |
| Capital and finance account balance, % of GDP | 1.6 | 21.2 | 7.8 | 0.9 | 5.2 | -0.1 |
| Imports, US\$ million | 17 979 | 24 120 | 33 260 | 38 452 | 28 672 | 30 710 |
| Exports, US\$ million | 28 301 | 38 762 | 48 351 | 71 971 | 43 886 | 59 725 |
| Foreign assets and liabilities | | | | | | |
| 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 | 30 611 |
| National Fund | 8 074 | 14 092 | 21 006 | 27 486 | 24 368 | 31 426 |
| National Fund and international reserves | 15 143 | 33 219 | 38 635 | 47 358 | 47 586 | 62 037 |

*as at 30 September 2010

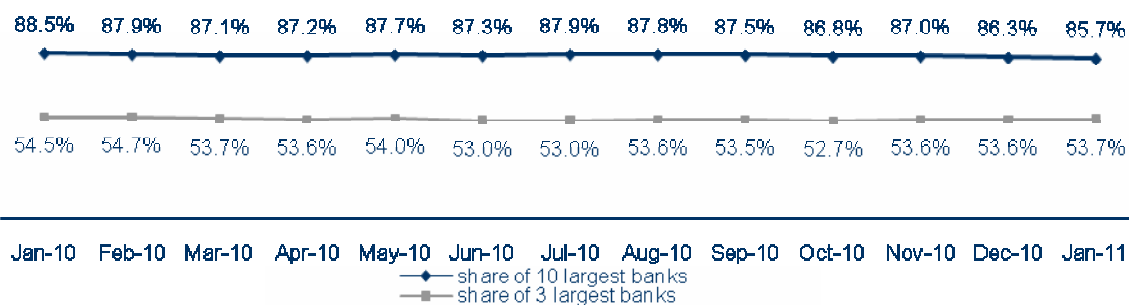
Banking sector indicators

| | 2005 | 2006 | 2007 | 2008 | 2009 | Jan 2010 |
|---|---------------|---------------|---------------|---------------|----------------|---------------|
| Commercial banks (number) | 34 | 33 | 35 | 37 | 38 | 39 |
| Bank branches (number) | 1 730 | 1 813 | 2 381 | 2 546 | 2 299 | 2 246 |
| Major indicators of the banking sector, US\$ million | | | | | | |
| Assets | 33 701 | 69 859 | 97 129 | 98 432 | 77 837 | 82 463 |
| Capital | 3 297 | 6 854 | 11 846 | 12 026 | -6 601 | 8 959 |
| Loans | 22 869 | 47 181 | 73 718 | 76 534 | 64 926 | 61 548 |
| Provisions for loans | 1 276 | 2 342 | 4 337 | 8 491 | 24 458 | 19 181 |
| - % of total loans | 5.6 | 5.0 | 5.9 | 11.1 | 37.7 | 31.2 |
| Deposits | 12 471 | 24 979 | 32 451 | 38 084 | 40 441 | 47 220 |
| Net profit | 538 | 801 | 1 806 | 89 | -19 225 | - 22 |
| Profitability ratios, % | | | | | | |
| NIM | 3.7 | 3.3 | 5.2 | 5.8 | 3.1 | 2.6 |
| RoAA | 1.6 | 1.1 | 1.9 | 0.1 | Loss | 1.2 |
| RoAE | 16.3 | 11.7 | 15.3 | 0.7 | Loss | 2.9 |
| Banking sector and the economy, % | | | | | | |
| Assets / GDP | 60.6 | 87.5 | 90.9 | 74.6 | 68.0 | 62.3 |
| Loans / GDP | 41.1 | 59.1 | 69.0 | 58.0 | 56.7 | 47.0 |
| Deposits / GDP | 22.4 | 31.3 | 30.4 | 28.9 | 37.1 | 35.4 |

Trends in the deposit base. US\$ billion



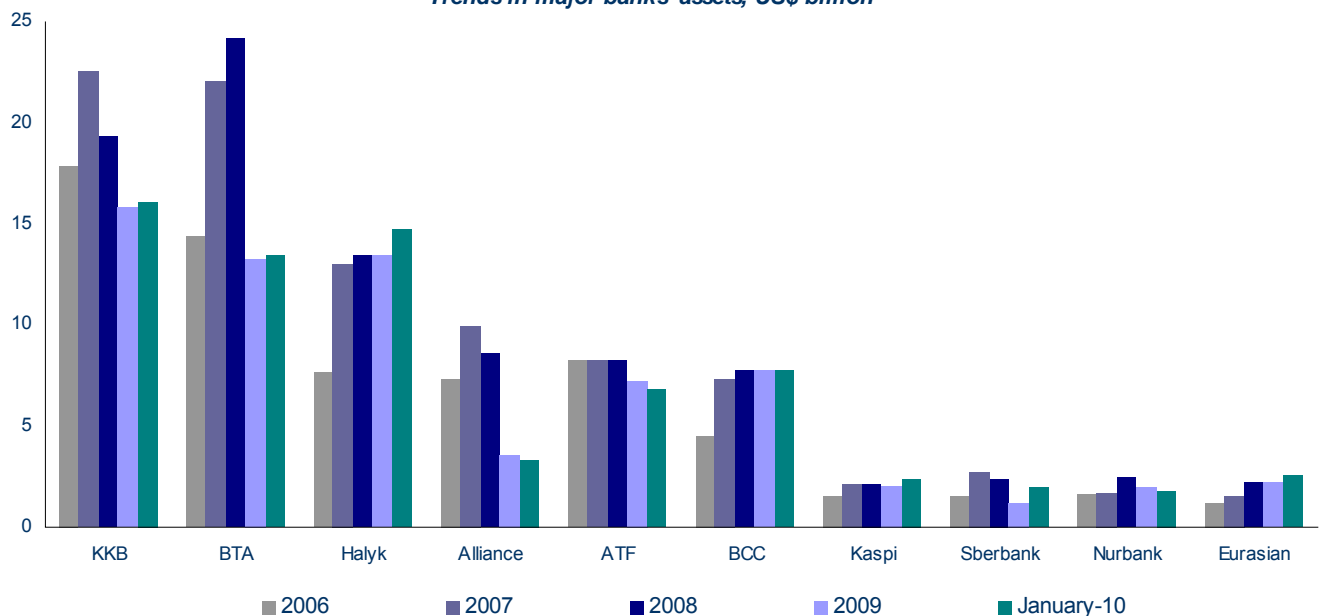
Concentration of banking system assets



Major indicators of the largest Kazakh banks as at 1 February 2011

| Bank | Assets | | Equity | | Loans to customers | | Total deposits | | Retail deposits | | Net profit | Reserves | 90 days overdue loans |
|---------------|---------------|--------------|--------------|---------------|--------------------|--------------|----------------|--------------|-----------------|-------------|------------|---------------|-----------------------|
| | US\$ mln | Feb/Jan | US\$ mln | Feb/Jan | US\$ mln | Feb/Jan | US\$ mln | Feb/Jan | US\$ mln | Feb/Jan | | | |
| KKB | 16 076 | -2.8% | 1 902 | 0.3% | 15 809 | -1.0% | 9 376 | -4.8% | 3 075 | 1.5% | 1 | 16 076 | 19.3% |
| Halyk | 14 720 | 6.8% | 1 843 | 1.1% | 8 272 | -0.8% | 10 087 | 6.1% | 3 317 | 0.3% | 16 | 14 720 | 16.3% |
| BTA | 13 477 | -0.7% | 1 197 | -3.1% | 11 183 | -0.1% | 4 716 | 3.9% | 1 765 | 2.0% | -38 | 13 477 | 36.5% |
| BCC | 7 720 | -6.4% | 525 | 0.5% | 4 909 | 0.1% | 5 088 | -2.4% | 2 277 | -0.4% | 1 | 7 720 | 8.7% |
| ATF | 6 803 | 1.7% | 432 | -0.7% | 5 750 | -0.6% | 3 298 | 0.9% | 964 | -4.3% | -3 | 6 803 | 31.2% |
| Alliance | 3 290 | -1.3% | 210 | -9.0% | 3 709 | -0.1% | 1 367 | -3.3% | 526 | 0.5% | -12 | 3 290 | 65.5% |
| Eurasian | 2 514 | 2.9% | 175 | 0.8% | 1 613 | 4.1% | 1 594 | -1.0% | 574 | -1.8% | 1 | 2 514 | 7.1% |
| Nurbank | 1 765 | -0.8% | 303 | 1.8% | 1 348 | -1.4% | 981 | -1.8% | 256 | 2.6% | 3 | 1 765 | 9.1% |
| Kaspi | 2 376 | -1.1% | 245 | 0.5% | 1 977 | 0.6% | 1 686 | -2.7% | 1 068 | 2.9% | 1 | 2 376 | 9.9% |
| Sberbank | 1 931 | 0.3% | 279 | 2.7% | 1 237 | 2.9% | 1 432 | 8.1% | 237 | 2.7% | 4 | 1 931 | 4.6% |
| Top 10 | 70 673 | -0.1% | 7 112 | -0.28% | 55 808 | -0.3% | 39 625 | 0.4% | 14 059 | 0.5% | -26 | 70 673 | 24.4% |
| Other banks | 11 790 | 4.9% | 1 848 | -1.43% | 5 740 | -0.1% | 7 595 | 8.2% | 1 363 | 1.9% | 4 | 11 790 | 17.2% |
| Total | 82 463 | 0.6% | 8 959 | -0.52% | 61 548 | -0.3% | 47 220 | 1.6% | 15 423 | 0.6% | -22 | 82 463 | 23.7% |

Trends in major banks' assets, US\$ billion



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