

Official exchange KZT/US\$ rate on 1 December 2010 – 147.58

Summary

- Inflation in November 2010 was 0.8%
- GDP growth in January-October 2010 was 7.1%
- Fitch Ratings upgraded ratings on BTA Bank and its banking subsidiary in Belarus
- Indian Punjab National Bank (PNB) became a major shareholder of Danabank

News on Kazkommertsbank

- **14 December.** Fitch Ratings has upgraded Moskommertsbank's (MKB) Long-term Issuer Default Rating (IDR) to 'B-' from 'CCC' and Short-term foreign currency IDR to 'B' from 'C'. The agency also affirmed MKB's Individual and Support ratings at 'E' and '5', respectively. MKB is the Russian subsidiary of Kazakhstan-based Kazkommertsbank (KKB, rated 'B-/Stable'). MKB's upgrade, and the equalisation of the IDRs with those of the parent, reflect the track record of liquidity support from KKB during the crisis, its relatively small size and the latter's intention to maintain a presence in the Russian market.
- **13 December.** Kazkommertsbank announced that on 10 December 2010 it paid dividends on preference shares to shareholders eligible for payment by 10 November 2010. The preference share dividends amounted to US\$4,984,115 (KZT734,558,868.70), calculated at 0.04 USD per one preference share. The number of outstanding preference shares was 124,602,875 preference shares. The preference shareholders were paid KZT734,536,313.68. Dividends of KZT22,555.02 were not paid due to the relevant shareholders failing to provide the necessary bank account details. Dividends were paid for the calendar year via a transfer to the bank accounts of the preference shareholders.
- **9 December.** Kazkommertsbank announced that it has sold its stake in LLP Investment Group East Kommerts (the Company). Kazkommertsbank has signed an agreement to sell its 50% stake in the Company to the second shareholder of the Company – EASTKOMMERTS PARTNERS LIMITED – registered in Cyprus. Following the transaction, the Bank intends to maintain its focus on its key markets through banking subsidiaries in Russia, Kyrgyzstan and Tajikistan as well as local subsidiaries in pension fund management, asset management, brokerage and insurance.
- **25 November.** Kazkommertsbank has received a second KZT14.7 billion tranche of government funding to complete Kuat's unfinished construction projects. The funds have been provided to the Bank as a deposit by the Distressed Assets Fund. The Bank will be responsible for all risks related to the completion of the construction projects and repayment of these funds, in accordance with the Memorandum, signed by Samruk-Kazyna fund, Almaty municipality, Kuat Corporation and Kazkommertsbank in May 2009.

Kazakh Banking Sector Developments

P&L

The net income of Kazakhstan's commercial banks increased slightly in November to US\$ 9,967 million from US\$ 9,912 million in January-October 2010.

Kazakh commercial banks' aggregate earnings amounted to US\$ 39,906 million. The aggregate expenses of the banking system (including corporate tax) was US\$ 29,939 million (US\$ 27,325 in Jan-Oct 2010), the majority of which were provision charges, which constituted a 41.9% share of total expenses.

CAPITAL

The Kazakh banking sector's aggregate capital amounted to US\$ 8,351 million as of 1 December 2010 (US\$ 8,241 million as of 1 November 2010).

ASSETS

Aggregate bank assets stood at US\$ 80,966 million (a decrease of 1.6% MoM or US\$ 1,293 million). The decrease was due to a decline in liquid assets.

The share of loans to customers in total assets increased slightly from 49.8% to 50.7% during November. The share of securities portfolio remained flat at 16.7%. The share of highly liquid assets (cash, precious metals and correspondent accounts) decreased from 9.0% to 7.6% due to a decrease in correspondent accounts by 22.3%. The share of funds placed with National Bank within total assets decreased from 3.5% to 2.9% and the share of inter-bank loans and deposits increased from 3.9% to 4.2%.

According to the FSA, loans that were at least 90 days overdue decreased from 26.02% of the total loan portfolio as at 1 November 2010 to 25.4% as at 1 December 2010, mainly due to a decrease in several top 10 banks.

The loan loss provisioning rate decreased from 32.7% at October-end to 31.3% in November. According to the FSA, this decrease was driven by a reduction in BTA's provisioning rate from 65.3% to 60.7%.

LIABILITIES

Aggregate bank liabilities decreased by 1.9% or US\$ 1,405 million to US\$ 72,614 million during November (most of this amount is attributable to a decrease in correspondent accounts).

The structure of liabilities has not changed significantly. The major funding sources remain customer accounts, though their share decreased to 64.2% of total liabilities compared to 64.5% in October. There was an increase in other types of liabilities, such as: loans from the Government of Kazakhstan (9.9%), term deposits (8.8%) and repo operations (3.0%).

Customer accounts decreased by 2.2% or US\$ 1,072 million to US\$ 46,651 million, due to a decrease in corporate deposits of 3.7%, while retail deposits increased by 0.8%. A major inflow of total deposits was seen in Alliance, Nurbank and Kaspi Bank (10.2%, 6.3% and 1.7%, respectively), while a major outflow was seen in Eurasian, ATF and CenterCredit (10.3%, 6.0% and 3.2%, respectively).

The sector's net loans-to-deposits ratio increased from 86.8% in October 2010 to 88.7% in November 2010, due to the increase in loans and decline in deposits.

Major events in the banking sector

- **14 December.** Indian Punjab National Bank (PNB) became major shareholder of Danabank with a stake of 63.64%. PNB acquired 3.5 million common shares of Danabank. As a result, the share capital of Danabank as at 14 December 2010 increased by KZT3.5 billion tenge to KZT5.5 billion.
- **10 December.** Fitch Ratings upgraded the ratings of BTA Bank and its banking subsidiary in Belarus to B- and CCC, respectively, with a stable outlook.
- **9 December.** Kaspibank sets out its goal to become one of the leading three banks by retail branch network in Kazakhstan. The bank hopes to have 200 branches by the end of 2010, which will make it the 4th largest branch network. Also, Kaspibank plans to issue domestic bonds in 1Q11. The bank does not initially plan to tap international capital markets.
- **6 December.** Five out of the ten largest loans of the Development Bank of Kazakhstan (DBK) are overdue for 90 days and more and are non-performing. NPLs comprised 25.8% the DBK's loans as at 30 September 2010. The 15 largest borrowers account for 61.4% of the loan book, the majority of which are in the mining and metals, agriculture and oil and gas sectors.
- **1 December.** Kaspibank declined to participate in the Damu Entrepreneurship Development Fund's programmes and returned all funds received. Initially, the bank participated in the 1st, 2nd and 3rd tranches of the stabilization programme and the Damu-Regions programme for total amount of KZT23.6 billion. As at 1 November 2010 the bank issued loans of about KZT26.5 billion to more than 700 borrowers.

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

In November 2010, inflation in Kazakhstan was 0.8%. The prices of food products increased by 1.2%, while non-food products and paid services saw a rise of 0.6% and 0.4%, respectively. Annual inflation (November 2010 to November 2009) was 7.7%, and the prices for food products increased by 9.1%, for non-food products by 5.5%, and for paid services by 7.8%. According to the National Bank forecasts, the inflation rate 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-November 2010 compared to January-November 2009 increased by 10.5%. The real volume index was 106.7% in the mining industry and 118.8% in the processing industry.

GDP

GDP growth in January-October 2010 compared to January-October 2009 was 7.1%. 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 November 2010 was 5.6%. The number of unemployed people in November 2010 was 483,500. The number of unemployed people registered with authorised employment bodies in November 2010 was 0.6% of the economically active population. The hidden unemployment rate in November 2010 was 0.5% of the economically active population.

INTERNATIONAL RESERVES

In November 2010 the net international reserves (including the net international reserves of the National Bank and National Fund's assets in foreign currency) decreased slightly by 0.6%, to US\$57.5 billion. The assets of the National Fund increased by 2.8% in November 2010 to US\$30.2 billion. The net international reserves of the National Bank based on current prices decreased by 4.1% to US\$27.3 billion. The net currency reserves in November 2010 decreased by 4.9% to US\$24.7 billion, while assets held in gold increased by 2.9% to US\$3.0 billion.

MONEY SUPPLY

November 2010 saw a decrease in the money supply of 1.5% to KZT 8,526 billion. The amount of currency in circulation decreased by 1.9% to KZT 1,075 billion. The reserve money in November 2010 decreased by 13.5% to KZT 2,373 billion. The narrow reserve money (money supply less term deposits of the banks with the National Bank) decreased by 12.6% in November 2010 to KZT 2,023 billion.

News on Kazakhstan's economy:

- **14 December.** The 1st stage of the Khan Tengri residential complex was completed in Almaty under the government stabilization programme. Samruk-Kazyna allocated KZT16 billion to complete the project.
- **8 December.** The former large shareholders in KazakhGold, the Assaubayev family, plan to list the company on an international exchange after the buy-back of its industrial assets, which will be purchased for US\$509 million. Based on the agreement with PolusGold, AltynGroup Kazakhstan, which is controlled by the Assaubayev family, will purchase shares in the operational companies currently controlled by KazakhGold and operating in Kazakhstan, Romania and Kyrgyzstan.
- **7 December.** In 2011 the foreign currency exchange rate will be in managed floating and the foreign currency exchange rate corridor introduced earlier will be cancelled.
- **7 December.** The pension system should be private as the government is an inefficient owner, said the Chairman of the National Bank Mr. Marchenko. The National Bank believes that the commercial banks and pension funds should be private, and it is ready to sell its controlling stake in the State Pension Fund to a good strategic investor.
- **6 December.** The foreign creditors of Astana-Finance failed to approve a debt restructuring plan.
- **6 December.** More than 21% of the Kazakh population are active users of the Internet. The total number of Internet users in Kazakhstan exceeded 3.5 million people. The share of urban users increased from 25% in 2009 to 37%. At the same time less than 10% of rural population uses the Internet. The penetration of mobile communication exceed 110% or 17 million users.
- **25 November.** The Kazakh government and the World Bank have signed loan agreement for a total amount of US\$29.2 million, which will support a project to modernize technical and professional education in Kazakhstan. The loan will support increased labour efficiency in key sectors of the economy and strengthen technical and professional education institutions to satisfy the needs of the major industrial sectors as well as SMEs. The project envisages co-financing from the republican budget of US\$4 million and will be implemented by the Ministry of Education and Science.
- **25 November.** Different types of state support will be provided under the framework of the Road Map 2020, of which comprises 176 projects for a total amount of KZT84.5 billion. 109 projects totaling KZT27 billion were approved under the first stage of the programme, which aims to support new business initiatives; 45 projects totaling KZT40 billion were approved under the second stage, which aims to rehabilitate entrepreneurship and; 22 projects totaling KZT17 billion were approved under the third stage, which will provide subsidies on loans.
- **24 November.** Kazakhstan and Tajikistan established a direct investments fund with the main objective of financing mutually relevant and efficient projects. The fund will provide a strong incentive to develop joint entrepreneurship and will contribute to further developing and strengthening economic relations between the two countries.

Kazakhstan's key macroeconomic indicators

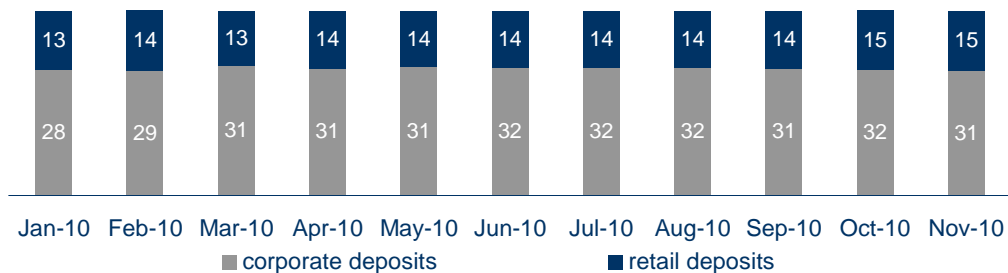
	2005	2006	2007	2008	2009	Nov 10
Domestic economy and financial system						
Real GDP growth, %	109.7	110.7	108.9	103.2	101.2	107.1
GDP, US\$ million	58 392	76 355	106 816	131 713	107 197	96 604
Production, % YoY	104.6	107	104.5	102.1	101.7	110.5
Unemployment rate, %	8.1	7.8	7.3	6.6	6.5	5.6
CPI, %	107.7	108.4	118.8	109.5	106.2	107.7
Monetary supply M3, US\$ million	15 887	27 492	38 486	51 894	49 754	57 773
Monetary base (reserve money), US\$ million	5 100	11 223	12 171	12 629	16 510	16 077
Real exchange rate	130.00	133.77	120.30	120.77	148.46	147.58
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	2.6*
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	3 669*
Balance of payments						
Current account balance, US\$ million	-1 056	-1 999	-8 226	6 978	-3 408	4 781
Current account balance, % of GDP	-1.8	-2.6	-7.7	5.3	-2.6	4.9
Capital and finance account balance, US\$ million	912	16 201	8 366	1 219	5 554	-410.4
Capital and finance account balance, % of GDP	1.6	21.2	7.8	0.9	5.2	0.4
Imports, US\$ million	17 979	24 120	33 260	38 452	28 672	21 982
Exports, US\$ million	28 301	38 762	48 351	71 971	43 886	45 003
Foreign assets and liabilities						
Gross foreign debt, US\$ million	43 429	74 014	96 914	107 713	113 229	114 633*
Gross foreign debt, % of GDP	76.0	91.4	92.4	81.3	98.6	87.8*
National Bank's Net International Reserves, US\$ thousands	7 069	19 127	17 629	19 872	23 218	27 261
National Fund	8 074	14 092	21 006	27 486	24 368	30 241
National Fund and international reserves	15 143	33 219	38 635	47 358	47 586	57 502

*as at 30 June 2010

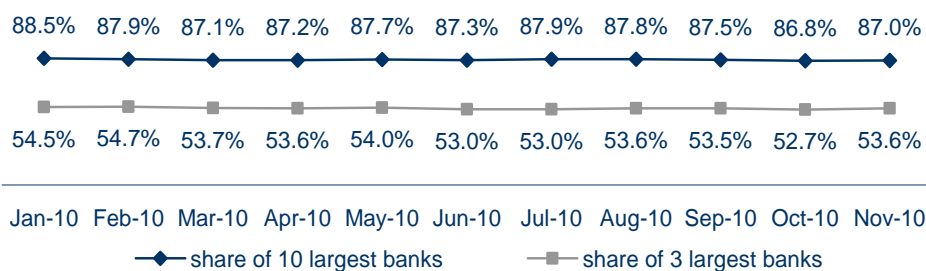
Banking sector indicators

	2005	2006	2007	2008	2009	Nov 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	80 966
Capital	3 297	6 854	11 846	12 026	-6 601	8 351
Loans	22 869	47 181	73 718	76 534	64 926	60 059
Provisions for loans	1 276	2 342	4 337	8 491	24 458	19 029
- % of total loans	5.6	5.0	5.9	11.1	37.7	31.3
Deposits	12 471	24 979	32 451	38 084	40 441	46 651
Net profit	538	801	1 806	89	-19 225	9 967
Profitability ratios, %						
NIM	3.7	3.3	5.2	5.8	3.1	3.0%
RoAA	1.6	1.1	1.9	0.1	Loss	0.14
RoAE	16.3	11.7	15.3	0.7	Loss	1.24
Banking sector and the economy, %						
Assets / GDP	60.6	87.5	90.9	74.6	68.0	62.9
Loans / GDP	41.1	59.1	69.0	58.0	56.7	47.5
Deposits / GDP	22.4	31.3	30.4	28.9	37.1	36.1

Trends in the deposit base, US\$ billion



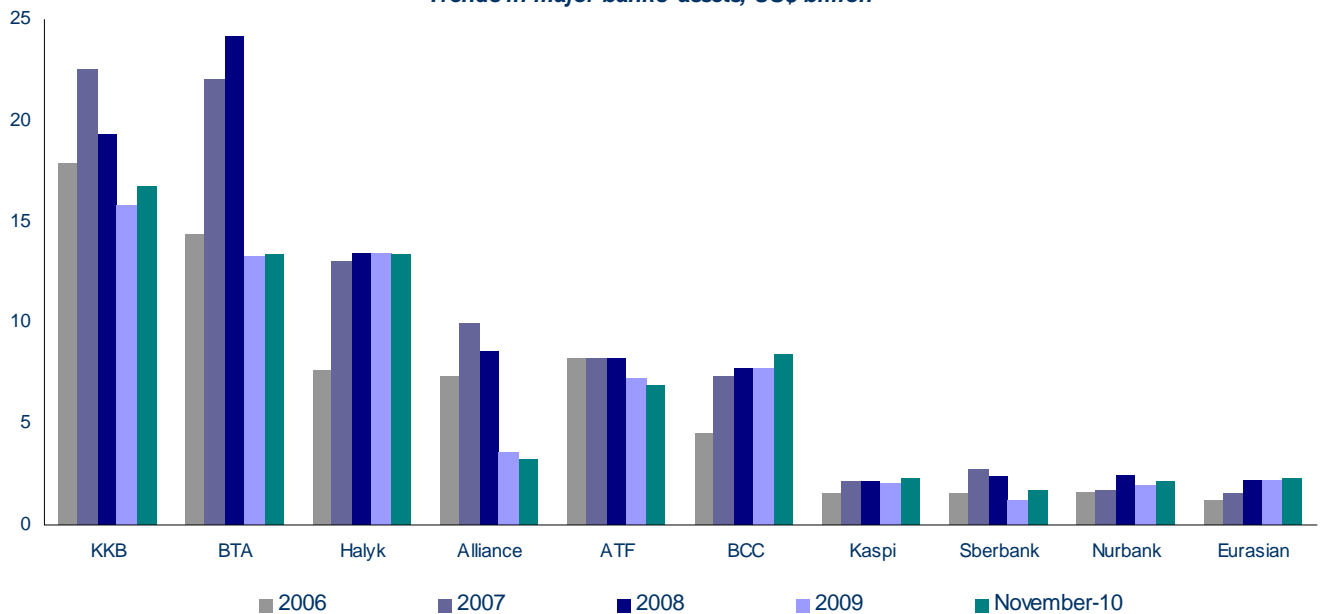
Concentration of banking system assets



Major indicators of the largest Kazakh banks as at 1 December 2010

Bank	Assets		Equity		Loans to customers		Total deposits		Retail deposits		Net profit	Reserves	90 days overdue loans
	US\$ mln	Nov/Oct	US\$ mln	Nov/Oct	US\$ mln	Nov/Oct	US\$ mln	Nov/Oct	US\$ mln	Nov/Oct	US\$ mln	% of total loans	% of total loans
ККВ	16 752	-1.7%	1 823	0.0%	15 661	-0.4%	10 036	-1.9%	2 864	0.7%	2	31.0%	21.1%
Налык	13 340	1.7%	1 791	0.4%	8 246	-0.5%	8 731	1.6%	3 153	2.1%	170	23.1%	17.6%
ВТА	13 335	1.3%	632	26.9%	11 282	-10.9%	4 780	0.9%	1 580	3.7%	7 252	60.7%	37.4%
ВСС	8 391	-3.3%	719	0.0%	4 874	-0.2%	5 164	-3.2%	2 220	0.2%	2	10.9%	10.3%
АТФ	6 917	-6.4%	439	-9.5%	5 750	1.0%	3 697	-6.0%	1 296	-2.9%	-248	16.6%	34.1%
Alliance	3 231	-0.6%	256	-21.3%	3 692	0.7%	1 468	10.2%	498	4.2%	2 185	58.3%	67.9%
Eurasian	2 318	-5.5%	168	4.0%	1 418	2.7%	1 570	-10.3%	600	-6.0%	2	11.1%	8.3%
Nurbank	2 153	3.6%	296	-3.7%	1 388	0.2%	1 406	6.3%	235	6.7%	-11	10.2%	9.5%
Каспи	2 294	2.7%	232	7.9%	1 881	1.6%	1 525	1.7%	977	5.0%	18	14.2%	10.0%
Сбербанк	1 694	-0.7%	256	-0.7%	1 044	3.7%	1 224	-3.0%	214	3.3%	5	8.5%	6.0%
Топ 10	70 426	-1.0%	6 613	0.56%	55 237	-2.3%	39 601	-1.0%	13 637	1.2%	9 378	32.4%	26.4%
Other banks	10 540	-5.1%	1 739	4.74%	5 573	-1.1%	6 490	-9.7%	1 253	-3.0%	584	20.2%	22.3%
Total	80 966	-1.5%	8 352	1.40%	60 810	-2.2%	46 091	-2.3%	14 890	0.8%	9 962	31.3%	26.0%

Trends in major banks' assets, US\$ billion



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Investor Relations:

Ms. Alma Buirakulova

Tel.+7 727 258 5125

Investor_Relations@kkb.kz