Official exchange KZT/US$ rate on 1 November 2010 – 147.51

Summary

- Inflation in October 2010 was 0.9%
- GDP growth in January-September 2010 was 7.5%
- Fitch Ratings has upgraded Temirbank's IDR to 'B-' from 'RD'
- Samruk-Kazyna stated that it agrees with the possible realisation of an option to purchase its stake in Halyk Bank by the end of 1Q2010

News on Kazkommertsbank

- **17 November**. Kazkommertsbank issued new banking cards commemorating the winners of a social advertising contest entitled “Energy saving is an investment in the future”, organized by AlmatyEnergoSbyt company and the Almaty city municipality. As a participant of the Global Compact on business responsibility Kazkommertsbank supported the contest to raise public awareness about the importance of saving energy.
- **12 November**. Kazkommertsbank reports that an Almaty court has decreed measures to limit theactivities of Sulpak group to secure the Bank’s legal claim on the company. The defaulted liabilities of Sulpak group to Kazkommertsbank as at 1 November 2010 exceeded US$190 million. This resulted from the credit line for the establishment of a network of retail household appliances stores and the construction of new real estate as well as investments in share and working capital for Sulpak Trading Company (a joint enterprise with Russian ELDORADO network). Accordingly, the stores and other company assets served as collateral on Kazkommertsbank’s loan. In 2008, to reduce the debt burden and based on reduced sales of the company and decreased consumer demand, Kazkommertsbank agreed to restructure the liabilities of the company providing, amongst others, grace periods. However, after restructuring, the borrower failed to service the debt, while it continued to receive income from the rent of commercial areas. As there were no proposals from the management and shareholders of the company on possible ways to repay the loan and to protect the interest of its depositors, the Bank applied to the court. If the borrower will not provide the Bank with a repayment plan in the near future, Kazkommertsbank will continue to work-out the loan, including foreclosing company property and the personal property of the shareholders who guaranteed the debt.
- **2 November**. Kazkommertsbank, announces that it has decided not to pursue a transaction immediately following its recent roadshow, but that it will continue to monitor the markets for the right financing opportunity. As discussed with investors in recent meetings, the Bank intends to be opportunistic and yield focused when considering the wholesale funding markets. The Bank would like to thank investors for their efforts and strong interest in the transaction.

Kazakh Banking Sector Developments

P&L

The net income of Kazakhstan's commercial banks decreased in October to US$ 9,912 million from US$ 10,008 million in January-September 2010. This decrease is mainly explained by an overall increase in expenses and the decline in income recorded by BTA.

Kazakh commercial banks' aggregate earnings amounted to US$ 37,238 million. The aggregate expenses of the banking system (including corporate tax) was US$ 27,325 million (US$ 24,913 in Jan-Sept 2010), the majority of which were provision charges, which constituted a 42.0% share of total expenses.

CAPITAL

The Kazakh banking sector's aggregate capital amounted to US$ 8,240 million as of 1 November 2010 (US$ 8,338 million as of 1 October 2010).

ASSETS

Aggregate bank assets stood at US$ 82,259 million (an increase of 1.7% MoM or US$ 1,381 million). The decrease was due to an increase in liquid assets, such as correspondent accounts, cash and funds placed with the National Bank.

The share of loans to customers in total assets decreased slightly from 50.6% to 49.8% during October. The share of securities portfolio decreased from 18.0% to 16.9%. The share of highly liquid assets (cash, precious metals and correspondent accounts) increased from 7.2% to 9.0% due to an increase in correspondent accounts by 33.7%. The share of funds placed with National Bank within total assets increased from 3.1% to 3.5% and the share of inter-bank loans and deposits was flat at 4.0%.

According to the FSA, loans that were at least 90 days overdue slightly increased to 26.0% of the total loan portfolio as at 1 November 2010 from 25.8% as at 1 October 2010.

The loan loss provisioning rate slightly decreased from 32.8% at September-end to 32.7% in October, according to the FSA.

LIABILITIES

Aggregate bank liabilities increased to US$ 74,019 million by 2.0% or US$ 1,478 million during October (most of this amount is attributable to an increase in deposits).

The structure of liabilities has not changed significantly. The major funding sources remain customer accounts, their share slightly increased to 63.8% of total liabilities compared to 62.9% in September. There was a decrease in other types of liabilities, such as: correspondent accounts (-0.6%), loans from financial institutions (-3.0%), debt securities (-2.1%).

Customer accounts increased by 3.4% or by US$ 1,561 million to US$ 47,202 million, due to the increase corporate deposits by 4.1% and retail deposits by 2.0%. A major inflow of total deposits was seen in KKB, ATF and Eurasian Bank (6.8%, 12.4% and 16.7%, respectively), a major outflow was seen in Halyk, BCC and Nur Bank (5.4%, 2.1% and 5.6%, respectively).

The sector's net loans-to-deposits ratio decreased from 89.7% in September 2010 to 86.8% in October 2010, due to the increase in deposits.

Major events in the banking sector

- **23 November.** Samruk-Kazyna stated that it agrees with the possible realisation of an option to purchase its stake in Halyk Bank by the end of 1Q2010.
- **23 November.** MDM Bank decided to close its representative offices in Prague, London and Almaty to reduce its costs.
- **22 November.** Halyk Bank released its results for the nine months ended 30 September 2010. Net income increased by 180.4 percent, total assets increased by 2.0 percent, gross loans to customers decreased by 0.2 percent during 9M 2010 and total equity increased by 10.1 percent.
- **17 November.** Bank Centercredit's assets decreased by 14.2% during the first 9 months of 2010, liabilities increased by 13.8% and capital by 19.6%.
- **17 November.** Kazincombank is planning to change its name to Reserve Bank of Kazakhstan and increase its charter capital from its current KZT 3 billion in accordance with changes in the regulatory requirements.
- **17 November.** Eurasian Bank of Development signed a Memorandum of cooperation with JSC National Mining Company "Tau-Ken Samruk", to jointly develop the country's mining industry.
- **15 November.** The CEO of National Bank of Kazakhstan Mr. Grigoriy Marchenko made several statements during the month:
  - National Bank will prevent Tenge from significant rate fluctuations
  - Mr Marchenko does not expect massive write-offs of problem loans before the year-end
  - Internet trading has to be brought under control
  - The Currency Union between Kazakhstan, Russia and Belarus is some way off
  - National Fund's AUM exceed US$ 30 billion
  - Only Sberbank may provide for the largest redemption of BTA's Russian assets
  - More than 30% of mortgages are already repaid, three quarters of the rest are standard loans
  - It is too early to talk about positive trends in Kazakh lending development
- **12 November.** Alliance Bank is planning to increase its assets by 18.7% to KZT 546 billion in 2011 and liabilities by 14% to KZT 512-514 billion.
- **12 November.** KreditAltyn Bank starts its operations on 15 November 2010. The Bank is planning to work with corporate clients and SMEs. The bank is owned by the Assaubayevs family, the former owners of Kazakhgold.
- **12 November.** Fitch Ratings has upgraded Kazakhstan-based Temirbank's (Temir) Long-term foreign currency Issuer Default Rating (IDR) to 'B-' from 'RD' ('Restricted Default'), and assigned a Stable Outlook. The rating action follows the completion of the restructuring of Temir's liabilities.
- **8 November.** Eurasian Bank's losses increased by 57.8% in the first 9 months of 2010 to KZT1.27 billion. Assets increased by 3.4%, loans by 20.5%, and deposits decreased by 4.2%.
- **8 November.** ATF Bank is planning to rename to UniCredit Bank in 2011.
- **8 November.** AFN was granted permission to voluntarily reorganize BTA's insurance subsidiaries BTA Zabota and Atlanta-Police.
- **4 November.** During the period 8 November-30 December 2010 KASE will conduct a trading session to sell the government's stake in Kazakhstani Innovation Commercial Bank and Nur Bank.

Major developments in Kazakhstan's economy:

INFLATION

In October 2010, inflation in Kazakhstan was 0.9%. The prices of food products increased by 1.3%, while non-food products and paid services saw a rise of 0.6% and 0.7%, respectively. Annual inflation (October 2010 to October 2009) was 7.3%, and the prices for food products increased by 8.0%, for non-food products by 5.7%, and for paid services by 7.9%. 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-October 2010 compared to January-October 2009 increased by 10.4%. The real volume index was 105.4% in the mining industry and 118.7% in the processing industry.

GDP

GDP growth in January-September 2010 compared to January-September 2009 was 7.5%. 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 October 2010 was 5.6%. The number of unemployed people in October 2010 was 484,400. The number of unemployed people registered with authorised employment bodies in October 2010 was 0.7% of the economically active population. The hidden unemployment rate in October 2010 was 0.4% of the economically active population.

INTERNATIONAL RESERVES

In October 2010 the net international reserves (including the net international reserves of the National Bank and National Fund's assets in foreign currency) increased by 2.3%, to US$58.4 billion. The assets of the National Fund increased by 0.3% in October 2010 to US$29.4 billion. The net international reserves of the National Bank based on current prices increased by 4.2% to US$28.4 billion. The net currency reserves in October 2010 increased by 4.5% to US$26.1 billion, while assets held in gold increased by 2.0% to US$2.9 billion.

MONEY SUPPLY

October 2010 saw an increase in the money supply of 3.0% to KZT 8,660 billion. The amount of currency in circulation increased by 0.9% to KZT 1,096 billion. The reserve money in October 2010 increased by 8.5% to KZT 2,744 billion. The narrow reserve money (money supply less term deposits of the banks with the National Bank) increased by 7.1% in October 2010 to KZT 2,315 billion.

News on Kazakhstan's economy:

- **17 November**. The Parliament of Kazakhstan ratified the republican budget for 2011-2013 into draft law. The introduced changes include redistribution of republican budget expenditures in 2011 for a total of KZT37,555.2 million. The republican budget deficit in 2011 is planned to be KZT602.5 billion (2.8% of GDP). The budget income in 2012 is expected to be KZT4,365 billion and in 2013 to be KZT4,770 billion. 2012 expenditures are expected to be KZT4,947 billion and KZT5,152 billion in 2013. Additional funds in 2011 were allocated for health care, water supply, gasification of rural areas and road construction.
- **10 November**. The prices for new residential housing in Kazakhstan increased by 0.1% in October 2010 compared to September 2010. Prices for resale of secondary housing and rent increased by 0.5%.
- **9 November**. The National Bank of Kazakhstan will prevent sharp strengthening of the national currency and will try to impede a jump to KZT141 for the US dollar in the 1H11 given flat oil prices. Mr. Marchenko noted that the current high export price trend for metals, oil and grain may continue in 2011. Thus, if the supply of foreign currency by exporters will increase demand for it, tenge will appreciate.
- **5 November**. The General Director of the KMG Construction Projects Directory (a KMG subsidiary) updated the President of Kazakhstan on KazMunayGas and Italian Eni joint projects, including the reconstruction of the Pavlodar oil processing plant (North Kazakhstan), the construction of a gas turbine station in Uralsk (West Kazakhstan), a gas processing plant in Karachaganak (West Kazakhstan), the construction of shipbuilding facilities at the Caspian Sea, projects on optimization of gas use across Kazakhstan as well as the exploration of the Isatay and Shagala oil fields. The company will begin detailed projecting in 2011 and construction of the projects will start in 2012.
- **4 November**. KazMunayGas national company placed a US$1.2 billion Eurobond with maturity in April 2021 at a yield to maturity of 6.625%, which corresponds to the price of 98.147% of par value. The lead arrangers included Credit Suisse, The Royal Bank of Scotland and UBS Investment Bank.
- **27 October**. The refinancing rate in Kazakhstan in 2011-2015 will be at 6-8%, according to the Vice-Minister of economic development and trade.

Annex 1

Kazakhstan's key macroeconomic indicators

	2005	2006	2007	2008	2009	Oct 10
Domestic economy and financial system						
Real GDP growth, %	109.7	110.7	108.9	103.2	101.2	107.5
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	110.4
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	107.3
Monetary supply M3, US$ million	15 887	27 492	38 486	51 894	49 754	58 708
Monetary base (reserve money), US$ million	5 100	11 223	12 171	12 629	16 510	18 605
Real exchange rate	130.00	133.77	120.30	120.77	148.46	147.51
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	28 433
National Fund	8 074	14 092	21 006	27 486	24 368	29 426
National Fund and international reserves	15 143	33 219	38 635	47 358	47 586	57 859

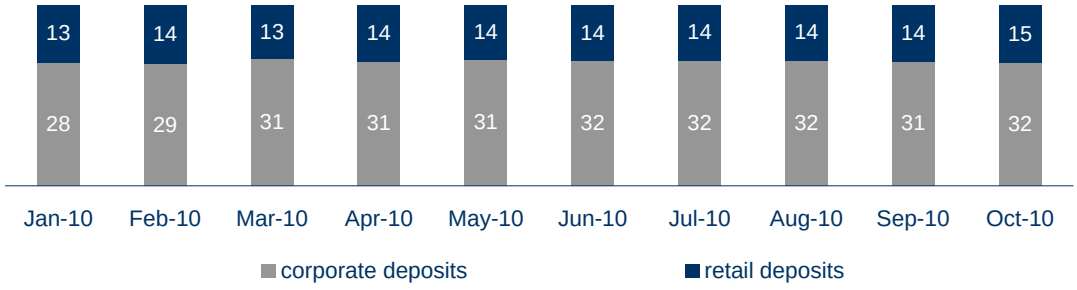
*as at 30 June 2010

Annex 2

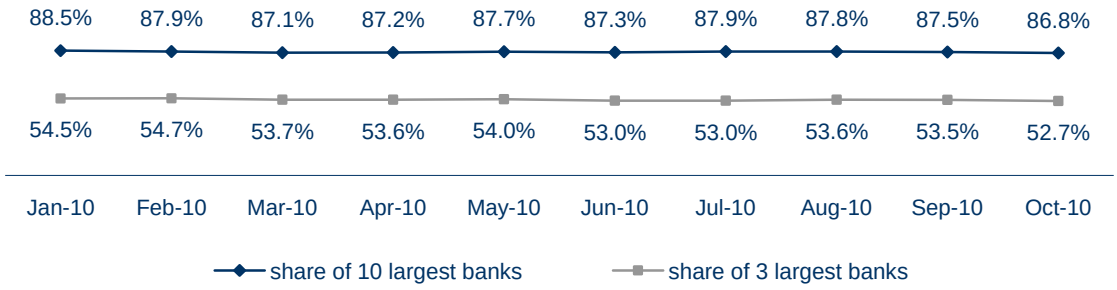
Banking sector indicators

	2005	2006	2007	2008	2009	Oct 2010
Commercial banks (number)	34	33	35	37	38	38
Bank branches (number)	1 730	1 813	2 381	2 546	2 299	2 231
Major indicators of the banking sector, US$ million						
Assets	**33 701**	**69 859**	**97 129**	**98 432**	**77 837**	**82 259**
Capital	3 297	6 854	11 846	12 026	-6 601	8 240
Loans	**22 869**	**47 181**	**73 718**	**76 534**	**64 926**	**62 192**
Provisions for loans	1 276	2 342	4 337	8 491	24 458	20 313
- % of total loans	*5.6*	*5.0*	*5.9*	*11.1*	*37.7*	*32.7*
Deposits	**12 471**	**24 979**	**32 451**	**38 084**	**40 441**	**47 202**
Net profit	**538**	**801**	**1 806**	**89**	**-19 225**	**9 912**
Profitability ratios, %						
NIM	3.7	3.3	5.2	5.8	3.1	-
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	68.0	-
Loans / GDP	41.1	59.1	69.0	58.0	56.7	-
Deposits / GDP	22.4	31.3	30.4	28.9	37.1	-

Trends in the deposit base, US$ billion



Concentration of banking system assets

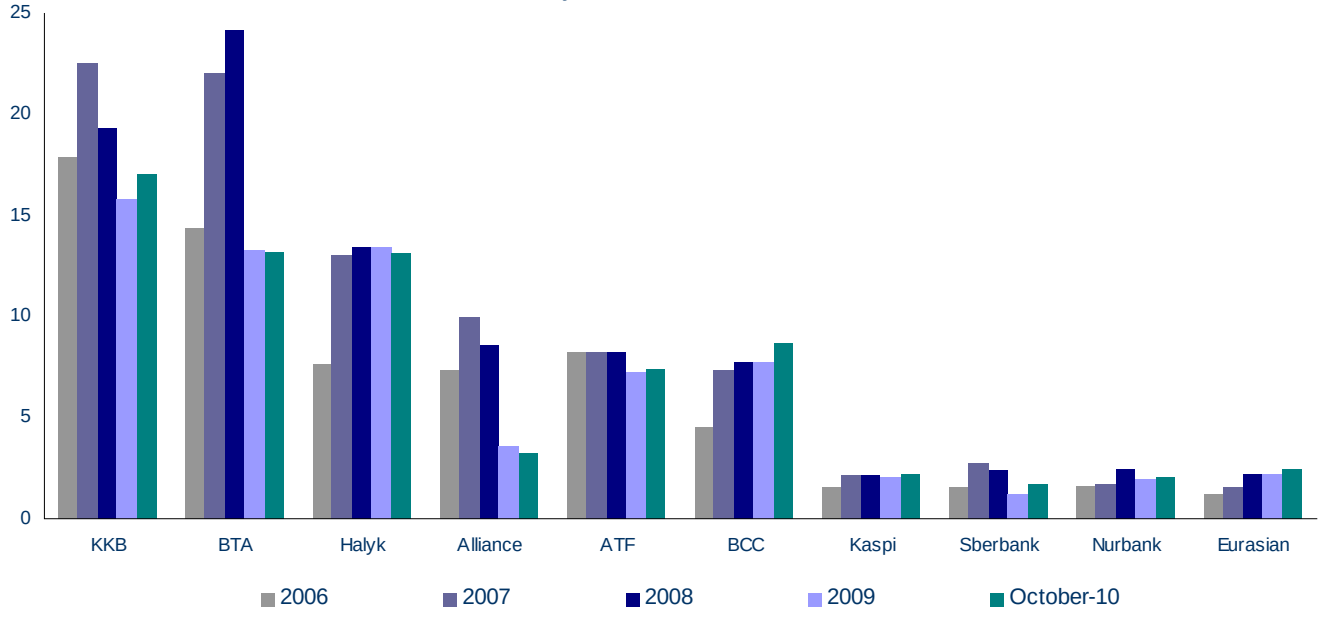


Annex 3

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

Bank	Assets		Equity		Loans to customers		Total deposits		Retail deposits		Net profit	Reserves	90 days overdue loans
	US$ mln	Oct/ Sept	US$ mln	Oct/ Sept	US$ mln	Oct/ Sept	US$ mln	Oct/ Sept	US$ mln	Oct/ Sept	US$ mln	% of total loans	% of total loans
KKB	**17 046**	**3.0%**	**1 823**	**0.1%**	**15 724**	**-1.1%**	**10 237**	**6.8%**	**2 846**	**2.2%**	**2**	**30.6%**	**21.1%**
Halyk	13 122	-2.9%	1 785	0.0%	8 291	0.2%	8 596	-5.4%	3 089	2.4%	154	22.7%	17.6%
BTA	13 177	-0.3%	498	-24.0%	12 664	-3.0%	4 738	0.9%	1 525	4.4%	7 119	65.3%	37.4%
BCC	8 684	-2.3%	719	-1.1%	4 864	1.6%	5 334	-2.1%	2 218	1.4%	2	10.8%	10.3%
ATF	7 396	5.5%	485	-5.4%	5 696	-2.3%	3 936	12.4%	1 335	-2.4%	202	16.0%	34.1%
Alliance	3 254	4.6%	325	28.5%	3 668	0.8%	1 333	0.9%	478	3.7%	2 254	56.9%	67.9%
Eurasian	2 453	7.8%	162	0.9%	1 382	4.2%	1 751	16.7%	638	-2.9%	-5	11.7%	8.3%
Nurbank	2 079	-3.9%	308	-1.2%	1 387	-9.1%	1 323	-5.6%	220	0.1%	0	10.2%	9.5%
Kaspi	2 235	0.7%	215	1.8%	1 852	0.6%	1 500	1.0%	931	1.7%	1	14.7%	10.0%
Сбербанк	1 707	4.6%	258	-2.6%	1 008	5.0%	1 262	2.5%	208	4.7%	8	8.4%	6.0%
Top 10	**71 153**	**0.8%**	**6 579**	**1.9%**	**56 557**	**-1.0%**	**40 011**	**1.9%**	**13 487**	**1.7%**	**9 331**	**33.8%**	**26.4%**
Other banks	11 106	8.1%	1 661	1.8%	5 635	0.4%	7 191	13.0%	1 292	5.8%	573	20.8%	22.3%
Total	**82 259**	**1.7%**	**8 240**	**-1.14%**	**62 192**	**-0.9%**	**47 202**	**3.5%**	**14 780**	**2.0%**	**9 904**	**32.7%**	**26.0%**

Trends in major banks' assets, US$ billion



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