

Official exchange KZT/US\$ rate on 1 October 2010 – 147.57

## Summary

- Inflation in September 2010 was 0.6%
- GDP growth in January-August 2010 was 7.9%
- Standard & Poor's Ratings Services raised its ratings on BTA Bank J.S.C. (BTA)
- Moody's downgraded the long-term senior unsecured and subordinated debt ratings of Kazkommertsbank, Halyk Bank, Bank CenterCredit and Alliance Bank

## News on Kazkommertsbank

- **26 October.** Global Finance has named Kazkommertsbank as the Best Provider of Foreign Currency Transactions in Kazakhstan. The selection criteria included volume of transactions, market share, global coverage scale, client services, competitive pricing and innovative technologies.
- **4 October.** Almaty city municipality and Global Building Contract project company put in operations Ush-Tobe residential complex, which was one of the problem construction projects of Kuat Corporation. The financing was provided by Kazkommertsbank in amount of KZT1.255 billion out of KZT20 billion provided by the Distressed Assets Fund. The Ush-Tobe residential complex is one of the seven residential complexes of Kuat Corporation, which will be finished in the framework of the Memorandum signed by the NWF Samruk-Kazyna, Astana and Almaty city municipalities in May 2009. The financing totals to KZT54 billion. Kazkommertsbank was selected by the government as financial operator of the project. The funds were deposited with the Bank.

## Kazakh Banking Sector Developments

### P&L

The net income of Kazakhstan's commercial banks decreased slightly in September to US\$ 10,008 million from US\$ 10,503 million in January-August 2010. This decrease is mainly explained by losses from revaluation recorded by BTA.

Kazakh commercial banks' aggregate earnings amounted to US\$ 34,921 million. The aggregate expenses of the banking system (including corporate tax) was US\$ 24,913 million (US\$ 21,753 in Jan-Aug 2010), the majority of which were provision charges, which constituted a 43.2% share of total expenses.

### CAPITAL

The Kazakh banking sector's aggregate capital amounted to US\$ 8,338 million as of 1 October 2010 (US\$ 8,322 million as of 1 September 2010).

### ASSETS

Aggregate bank assets stood at US\$ 80,878 million (a decrease of 0.6% MoM or US\$ 456 million). The decrease was due to a decline in liquid assets.

The share of loans to customers in total assets increased slightly from 50.0% to 50.6% during September. The share of securities portfolio increased from 17.3% to 18.0%. The share of highly liquid assets (cash, precious metals and correspondent accounts) decreased from 9.3% to 7.2% due to a decrease in correspondent accounts by 28.3%. The share of funds placed with National Bank within total assets increased from 3.0% to 3.1% and the share of inter-bank loans and deposits decreased from 4.1% to 4.0%.

According to the FSA, loans that were at least 90 days overdue slightly increased to 25.8% of the total loan portfolio as at 1 October 2010 from 25.7% as at 1 September 2010, mainly due to an increase in such loans in BTA's portfolio (from 34.8% to 38.2%).

The loan loss provisioning rate decreased from 33.2% at August-end to 32.8% in September, according to the FSA, this decrease was driven by a reduction in Alliance's provisioning rate from 61.4% to 60.3%.

### LIABILITIES

Aggregate bank liabilities decreased by 0.6% or US\$ 470 million to US\$ 72,541 million during September (most of this amount is attributable to a decrease in deposits).

The structure of liabilities has not changed significantly. The major funding sources remain customer accounts, though their share decreased to 63.7% of total liabilities compared to 64.4% in August. There was an increase in other types of liabilities, such as: correspondent accounts (43.9%), loans from financial institutions (3.9%) and repo operations (7.6%).

Customer accounts decreased by 1.9% or US\$ 905 million to US\$ 45,641 million, due to a decrease in corporate deposits of 3.5%, while retail deposits increased by 1.7%. A major inflow of total deposits was seen in KKB, BTA and Kaspi Bank (3.3%, 0.4% and 2.1%, respectively), while a major outflow was seen in Halyk, ATF and Eurasian Bank (5.3%, 3.3% and 9.8%, respectively).

The sector's net loans-to-deposits ratio increased from 87.4% in August 2010 to 89.7% in September 2010, due to the increase in loans and decline in deposits.

## Major events in the banking sector

- **26 October.** Standard & Poor's Ratings Services raised its long-term counterparty credit ratings on Kazakhstan-based BTA Bank J.S.C. (BTA) to 'B-' from 'D' and its short-term counterparty credit ratings to 'C' from 'D'. The upgrade reflects the improvement in BTA's stand-alone credit profile resulting from the completion of the restructuring of its wholesale debt, as well as an incorporation in the assessment of the stand-alone credit profile of ongoing financial support from the Kazakh government.
- **25 October.** Grigoriy Marchenko made several statements during his speech to a Nurotan party meeting:
  - 12 month inflation in Kazakhstan amounted to 6.7% as at 1 October 2010
  - National Bank and National Fund reserves amounted to US\$ 57 billion as at 1 October 2010
  - National Bank purchased US\$ 2.7 billion on the internal market in January-October 2010
  - Kazakhstan raised US\$ 5.8 billion in foreign investments during the 1st half of 2010
  - Free liquidity in the Kazakh banking sector amounts to US\$ 10-11 billion.
- **25 October.** A memorandum of cooperation between Samruk-Kazyna, the Development Bank of Kazakhstan and the European Investment Bank (EIB) was issued. This memorandum confirms a mandate of EIB to finance a project dedicated to soften the consequences of climate change in Kazakhstan for the total amount of EUR 1.5 billion within 3-5 years.
- **22 October.** Moody's downgraded the long-term senior unsecured and subordinated debt ratings of Kazkommertsbank, Halyk Bank, Bank CenterCredit and Alliance Bank. This rating action reflects Moody's reassessment of the Kazakh government's willingness to provide support to senior and subordinated debt holders of systemically important banks, following the default and debt restructuring of three Kazakh banks (BTA Bank, Alliance Bank and Temirbank) in 2009. Importantly, the government's actions in all three restructurings led to depositors not sustaining any loss of principal, whereas holders of senior unsecured and subordinated debt incurred substantial losses.
- **21 October.** Seimar Alliance Financial Corporation (SAFC) sold its 92.75% stake in Russian Starbank.
- **16 October.** German Gref, CEO of Sberbank said that the Bank most probably will not purchase BTA bank before year-end 2010 in the outline of international conference "Kazakhstan. 2030 strategy: a way to success".
- **4 October.** Standard & Poor's Ratings Services raised its long-term counterparty credit ratings on Kazakhstan-based Temirbank JSC to 'B' from 'D' and its short-term counterparty credit ratings to 'B' from 'D'. The outlook is stable. The upgrade factors in one notch of uplift above the bank's stand-alone credit profile due to the agency's opinion of the moderate probability of potential government extraordinary support if required. It also reflects the improvement of the bank's stand-alone credit profile resulting from the restructuring of its wholesale debt and the recent capital injection.
- **1 October.** BTA Bank plans to reorganize its three insurance subsidiaries, through the takeover of Atlanta-police and BTA Zabota by BTA Insurance.
- **21 September.** The documents necessary to apply to open the second Islamic bank in Kazakhstan will be submitted to AFN in December this year, according to CEO of Fattah Finance Ms Altynai Bazhantayeva. The second Islamic bank will be focused on work with SMEs and retail customers.

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

In September 2010, inflation in Kazakhstan was 0.6%. The prices of food products increased by 0.4%, while non-food products and paid services saw a rise of 0.5% and 0.8%, respectively. Annual inflation (September 2010 to September 2009) was 6.7%, and the prices for food products increased by 6.5%, for non-food products by 5.6%, and for paid services by 8.1%. 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-September 2010 compared to January-September 2009 increased by 10.4%. The real volume index was 105.0% in the mining industry and 119.1% in the processing industry.

**GDP**

GDP growth in January-August 2010 compared to January-August 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 September 2010 was 5.6%. The number of unemployed people in September 2010 was 484,300. The number of unemployed people registered with authorised employment bodies in September 2010 was 0.7% of the economically active population. The hidden unemployment rate in September 2010 was 0.3% of the economically active population.

**INTERNATIONAL RESERVES**

In September 2010 the net international reserves (including the net international reserves of the National Bank and National Fund's assets in foreign currency) increased by 3.3%, to US\$56.6 billion. The assets of the National Fund increased by 3.2% in September 2010 to US\$29.3 billion. The net international reserves of the National Bank based on current prices increased by 3.5% to US\$27.3 billion. The net currency reserves in September 2010 increased by 3.1% to US\$25.0 billion, while assets held in gold increased by 6.3% to US\$2.8 billion.

**MONEY SUPPLY**

September 2010 saw a decrease in the money supply of 0.2% to KZT 8,411 billion. The amount of currency in circulation increased by 1.6% to KZT 1,086 billion. The reserve money in September 2010 increased by 0.3% to KZT 2,530 billion. The narrow reserve money (money supply less term deposits of the banks with the National Bank) decreased by 0.2% in September 2010 to KZT 2,162 billion.

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**News on Kazakhstan's economy:**

- **25 October.** European Investment Bank (EIB) will provide EUR1.5 billion to Kazakhstan to finance projects on smoothening the consequences of climate change in Kazakhstan. As a first step under this, the EIB will provide a framework loan of EUR300 million to support projects to compensate for changes caused by global warming, including ecologically pure and renewable energy and energy efficiency projects.
- **12 October.** The republican budget in Kazakhstan in January-September 2010 was executed with a deficit of KZT447.5 billion. The budget income was KZT2,995.6 billion or 97.8% to the plan.
- **5 October.** The budget of the third phase of the Karachaganak gas condensate field (Western Kazakhstan) might amount to US\$10-14 billion. The Karachaganak project consists of four stages (phases). The third phase envisages an increase in the exploration of liquid carbonhydrates of up to 15 million tons per annum and a rise in gas to 38 billion cubic meters per annum.
- **5 October.** The Chairman of the Board of Directors of Kazakhmys Vladimir Kim sold his 58,876,793 common shares, which is equal to 11% of the company shares, to the NWF Samruk-Kazyna. The transaction was conducted via the Kazakhstan Stock Exchange at a price of KZT3,363 per common share. As a result, Mr. Kim's stake in the company is 27.9%, while the government of Kazakhstan increased its stake to 26%.
- **30 September.** Kazakhstan will allocate KZT33.5 billion for the 2011 VII Asian Games. The opening and closing ceremonies of the Asian Games will cost KZT7 billion, cultural events – KZT 1,057 million, decorations of Almaty and Astana – KZT470 million, establishment of the Games management center – KZT 6,758 million, and anti-doping and medical services – KZT1,177 million.
- **30 September.** The President of Kazakhstan has signed a decree on optimizing the staff of the government bodies starting from 1 November 2010 by 15%. As a result KZT18.6 billion will be saved in 2011.
- **24 September.** Kazakh insurance companies collected premiums for a total of KZT97.2 billion in January-August 2010, which was 33.5% higher compared to the same period in 2009. The premiums on obligatory insurance increased by 20.2% or KZT25 billion, on voluntary personal insurance by 59.2% or KZT22.6 billion and on voluntary property insurance by 30.9% or KZT49.6 billion. The aggregate assets of the insurance companies in January-August 2010 increased by 13.4% to KZT337 billion as at 1 September 2010, while the aggregate equity increased by 9.5% to KZT197.5 billion.

## Kazakhstan's key macroeconomic indicators

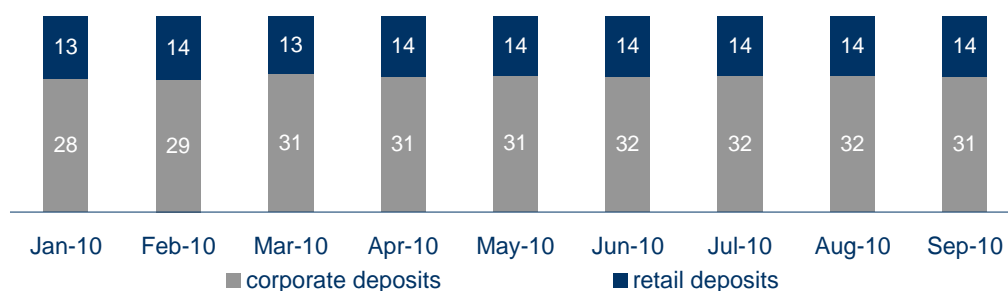
	2005	2006	2007	2008	2009	Sept 10
<b>Domestic economy and financial system</b>						
Real GDP growth, %	109.7	110.7	108.9	103.2	101.2	108.0
<b>GDP, US\$ million</b>	<b>58 392</b>	<b>76 355</b>	<b>106 816</b>	<b>131 713</b>	<b>107 197</b>	<b>59 131</b>
Production, % YoY	104.6	107	104.5	102.1	101.7	110.6
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	106.7
Monetary supply M3, US\$ million	15 887	27 492	38 486	51 894	49 754	56 998
Monetary base (reserve money), US\$ million	5 100	11 223	12 171	12 629	16 510	17 144
Real exchange rate	130.00	133.77	120.30	120.77	148.46	147.57
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	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*
<b>Balance of payments</b>						
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
<b>Foreign assets and liabilities</b>						
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	27 288
National Fund	8 074	14 092	21 006	27 486	24 368	29 293
National Fund and international reserves	15 143	33 219	38 635	47 358	47 586	56 581

\* as at 30 June 2010

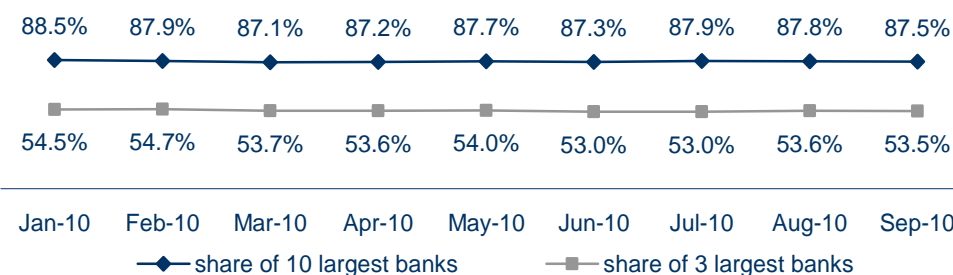
## Banking sector indicators

	2005	2006	2007	2008	2009	Sept 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
<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>80 878</b>
Capital	3 297	6 854	11 846	12 026	-6 601	8 338
<b>Loans</b>	<b>22 869</b>	<b>47 181</b>	<b>73 718</b>	<b>76 534</b>	<b>64 926</b>	<b>62 785</b>
Provisions for loans	1 276	2 342	4 337	8 491	24 458	20 560
- % of total loans	5.6	5.0	5.9	11.1	37.7	32.8
<b>Deposits</b>	<b>12 471</b>	<b>24 979</b>	<b>32 451</b>	<b>38 084</b>	<b>40 441</b>	<b>45 641</b>
<b>Net profit</b>	<b>538</b>	<b>801</b>	<b>1 806</b>	<b>89</b>	<b>-19 225</b>	<b>10 008</b>
<b>Profitability ratios, %</b>						
NIM	3.7	3.3	5.2	5.8	3.1	2.5
RoAA	1.6	1.1	1.9	0.1	Loss	12.5
RoAE	16.3	11.7	15.3	0.7	Loss	Loss
<b>Banking sector and the economy, %</b>						
Assets / GDP	60.6	87.5	90.9	74.6	68.0	61.8
Loans / GDP	41.1	59.1	69.0	58.0	56.7	48.0
Deposits / GDP	22.4	31.3	30.4	28.9	37.1	34.9

Trends in the deposit base, US\$ billion



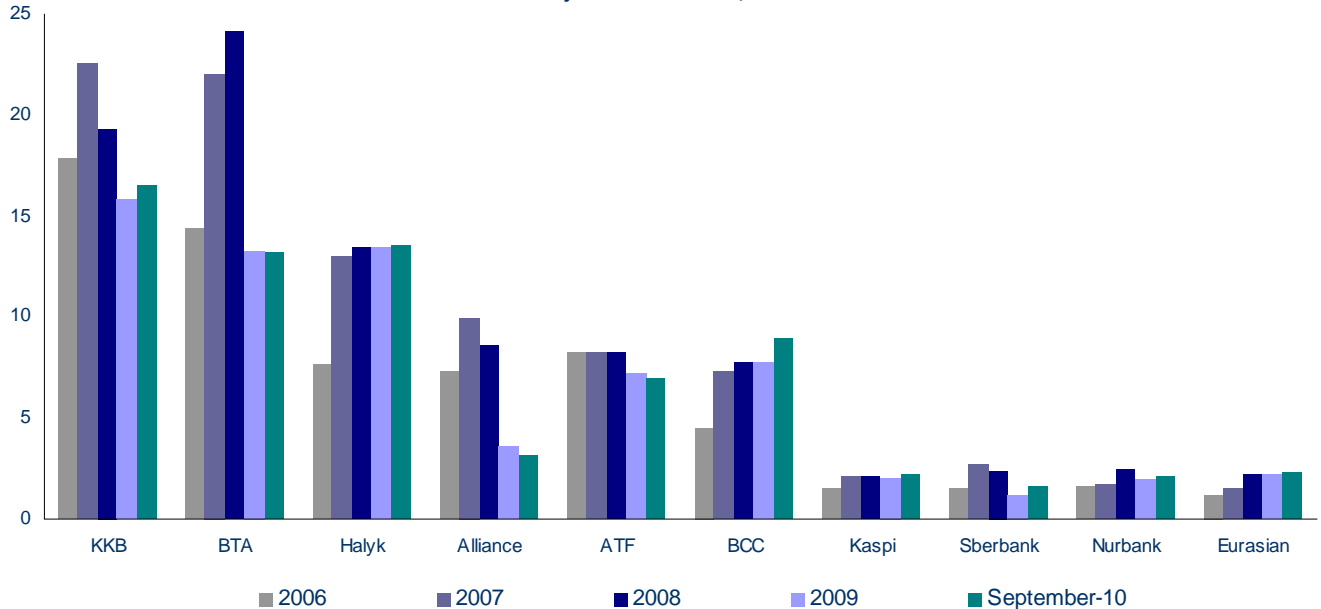
Concentration of banking system assets



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

Bank	Assets		Equity		Loans to customers		Total deposits		Retail deposits		Net profit	Reserves	90 days overdue loans
	US\$ mln	Aug/Jul	US\$ mln	Aug/Jul	US\$ mln	Aug/Jul	US\$ mln	Aug/Jul	US\$ mln	Aug/Jul			
ККВ	16 539	2.5%	1 820	0.4%	15 886	1.0%	9 585	3.3%	2 783	3.1%	0	29.7%	20.2%
Налык	13 511	-4.2%	1 785	1.7%	8 273	2.4%	9 084	-5.3%	3 014	2.8%	146	22.2%	17.5%
ВТА	13 212	-0.44%	655	-8.4%	13 051	-0.6%	4 695	0.4%	1 461	5.1%	7 311	65.7%	38.2%
ВСС	8 888	1.0%	727	0.8%	4 807	0.4%	5 447	-0.8%	2 186	0.6%	6	10.9%	7.6%
АТФ	7 008	-3.6%	513	-6.2%	5 825	5.8%	3 500	-3.3%	1 367	-2.2%	-174	15.2%	33.3%
Alliance	3 109	0.4%	253	9.6%	3 639	0.6%	1 320	-0.4%	460	4.0%	2 140	60.3%	69.5%
Eurasian	2 274	-2.7%	161	1.8%	1 326	-1.0%	1 500	-9.8%	657	-3.9%	-7	12.1%	8.4%
Nurbank	2 162	-1.9%	311	1.6%	1 526	1.5%	1 402	-3.6%	220	-5.0%	2	9.3%	8.9%
Каспи	2 218	3.2%	211	9.3%	1 840	1.8%	1 484	2.1%	915	2.5%	3	14.5%	9.7%
Сбербанк	1 632	13.1%	265	5.0%	960	3.8%	1 231	-17.3%	198	4.9%	9	7.8%	5.0%
Top 10	70 551	-1.0%	6 701	0.13%	57 134	1.3%	39 248	-2.0%	13 261	1.8%	9 430	33.9%	26.2%
Other banks	10 272	4.2%	1 631	1.5%	5 608	4.2%	6 361	-0.1%	1 221	3.3%	560	20.8%	22.4%
<b>Total</b>	<b>80 823</b>	<b>-0.3%</b>	<b>8 332</b>	<b>0.39%</b>	<b>62 742</b>	<b>1.5%</b>	<b>45 609</b>	<b>-1.7%</b>	<b>14 482</b>	<b>1.9%</b>	<b>9 990</b>	<b>32.7%</b>	<b>25.8%</b>

Trends in major banks' assets, US\$ billion





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