22 August 2014

Joint Stock Company 'Halyk Savings Bank of Kazakhstan'

Consolidated financial results for the six months ended 30 June 2014

Joint Stock Company 'Halyk Savings Bank of Kazakhstan' and its subsidiaries (together "the Bank") (LSE: HSBK) releases its interim condensed consolidated financial information for the 6 months ended 30 June 2014.

6 months 2014 financial highlights

- Net income is up by 87.4% to KZT 64.0bn, YoY;
- Net interest income before impairment charge is up by 32.0%;
- Impairment charge is down by 79.2%;
- Net interest income is up by 49.1%;
- Fees and commissions from transactional banking are up by 12.7%;
- RoAE is up to 32.1% p.a. (20.4% p.a. for 6m 2013);
- RoAA is up to 4.7% p.a. (2.8% p.a. for 6m 2013);

- Total assets are up by 12.1% YTD;
- Net loans to customers are up by 2.9%;
- Amounts due to customers are up by 15.5%;
- Total equity is up by 11.6%;
- NPLs 90-day+ ratio is down to 15.4% (18.0% as at 31 December 2013).

Statement of profit or loss review

Interest income increased by 18.5% for 1H 2014 vs. 1H 2013 mainly due to increase in average balances of loans to customers by 14.2% and in average interest rate on loans to customers to 12.0% p.a. for 1H 2014 from 11.6% p.a. for 1H 2013. **Interest expense** increased by 1.2% for 1H 2014 vs. 1H 2013 mainly due to increase in average balances of interest-bearing FX term deposits of individuals and legal entities. The increase in interest expense was partially offset by 27.3% decrease in average balances of debt securities issued and their average interest rates to 7.6% p.a. from 8.1% p.a. As a result, **net interest income before impairment charge** increased by 32.0% to KZT 64.8bn for 1H 2014 vs. 1H 2013.

Impairment charge decreased by 79.2% for 1H 2014 vs. 1H 2013, mainly due to repayments of overdue indebtedness of some corporate clients in 1Q 2014 which led to release of provisions. During 2Q 2014 the Bank wrote-off fully provisioned non-performing loans for KZT 57.8bn without legally forgiving claims on the borrowers. As a result allowances for loan impairment decreased by 8.9% vs. 31 December 2013, whereas provisioning level decreased to 16.2% as at 30 June 2014 vs. 17.9% as at 31 December 2013. The Bank will continue collection of these written-off loans in accordance with its regular procedures.

Provisions against letters of credit and guarantees recovered by KZT 4.2bn as at 30 June 2014 mainly due to expiry of several large-ticket LCs and guarantees during 1Q 2014.

Fee and commission income from transactional banking (i.e. excluding pension fund and asset management) increased by 12.7% for 1H 2014 vs. 1H 2013 as a result of growing volumes of transactional banking business.

Net pension fund and asset management fees increased 3.4-times for 1Q 2014 vs. 1Q 2013 mainly due to revaluation gains on FX-denominated pension assets as a result of one-off devaluation of KZT in February 2014. On 26 of March 2014 JSC "APF of Halyk Bank of Kazakhstan" completed transfer of assets under management to the JSC "Single Accumulative Pension Fund". Starting from 26 March the Bank does not earn income from managing pension assets.

Other non-interest income (excluding insurance) increased by 73.7% for 1H 2014 vs. 1H 2013 mainly due to increase in income from translational differences to KZT 4.7bn for 1H 2014 vs. KZT 0.3bn for 1H 2013 thanks to the Bank's net long FX position at the time of devaluation of KZT in February 2014. The increase in other non-interest income was partially offset by a decrease in net gain from financial assets and liabilities through profit or loss to negative KZT 66mln for 1H 2014 from KZT 1.1bn for 1H 2013 due to lower volumes of FX forward and swap operations.

Insurance underwriting income (net of reinsurance) decreased by 38.9% for 1H 2014 vs. 1H 2013 due to lower volumes of pension annuities business and increase in ceded reinsurance share of non-life insurance business during 2Q 2014. Lower volumes of pension annuity business in 1H 2014 were due to temporary regulatory restrictions adopted in light of ongoing pension reform from June 2013 to May 2014. **Insurance expense** (the sum of insurance payments, insurance reserves and commissions to agents) decreased by 39.2% for 1H 2014 vs. 1H 2013 mainly as a result of 71.5% decrease in insurance reserves due to temporary regulatory restrictions imposed on pension annuity business. As a result, **insurance underwriting income, less insurance expense,** decreased by 37.5% for 1H 2014 vs. 1H 2013.

Insurance underwriting income (net of reinsurance) increased by 38.5% for 2Q 2014 vs. 1Q 2014 as a result of increase in insurance underwriting income in life insurance business due to lifting of earlier imposed restrictions on underwriting of pension annuity contracts and due to launch of a new life insurance product in 2Q 2014. Insurance expense increased by 29.3% for 2Q 2014 vs. 1Q 2014 mainly as a result of increase in insurance reserves for future pension annuity payments in life insurance business. As a result, insurance underwriting income, less insurance expense, increased by 79.0% for 2Q 2014 vs. 1Q 2014.

Operating expenses increased by 4.7% for 1H 2014 vs. 1H 2013 mainly due to expenses related to project-specific professional services. The increase in operating expenses was partially offset by 16.5% decrease in depreciation and amortisation expenses due to increase of amortisation period for some classes of fixed assets.

Operating expenses increased by 4.7% for 2Q 2014 vs. 2Q 2013 mainly due to 4.8% increase in salaries and other employee benefits as a result of increase in bonuses accrued by some of the Bank's subsidiaries, as well as 3.4-times increase in expenses related to sale of property and equipment and intangible assets of the Bank's Pension Fund in connection with winding up of its business. The increase in operating expenses was partially offset by 28.8% decrease in depreciation and amortisation expenses.

The Bank's cost-to-income ratio decreased to 26.8% for 1H 2014 vs. 33.7% for 1H 2013 and to 29.9% for 2Q 2014 from 36.7% for 2Q 2013.

Statement of financial position review

Total assets increased by 12.1% vs. YE 2013 mainly in amounts due from credit institutions (75.0%), cash and cash equivalents (43.4%), available-for-sale investment securities (5.1%) and loans to customers (2.9%).

Loans to customers grew by 0.8% on a gross basis and by 2.9% on a net basis vs. YE 2013. Gross loan portfolio growth was attributable to increase in retail loans by 5.8%. The increase in gross loans was partially off-set by 0.3% decrease of corporate loans and 2.4% decrease of SME loans, primarily due to write-offs of non-performing loans in these business sectors during 2Q 2014 and, to a lesser extent, due to loan repayments exceeding new loan issues.

Loans to customers decreased by 2.9% on a gross basis and remained flat on a net basis vs. 31 March 2014. The decrease of gross loan portfolio growth was attributable to decrease in corporate loans and loans to SME by 5.7% and 1.1%, respectively, due to write-offs of non-performing loans, partially off-set by 4.4% increase in retail loans.

30-day and 90-day NPL ratios decreased to 16.4% and 15.4%, respectively, as at 30 June 2014 vs. 19.9% and 17.5%, respectively, as at 31 March 2014. The decrease in 30-day and 90-day NPL ratios was mainly due to write-offs of non-performing loans in corporate and SME sectors after changes to tax legislation in April 2014, as well as repayment of some delinquencies in April and May 2014. The Bank created IFRS provisions that covered 30-day NPLs by 97.0% and 90-day NPLs by 103.3% as at 30 June 2014.

Term deposits of legal entities decreased by 9.0% vs.YE 2013 mainly due to partial withdrawal of funds by some corporate clients in 1Q 2014 to finance their on-going business needs, including tax payments to the state budget in March 2014. **Current accounts of legal entities** increased by 45.4% vs. YE 2013 as a result of flight to quality due to turbulence on financial markets.

Term deposits and current accounts of individuals increased by 19.5% and 10.0%, respectively, vs. YE 2013 due to growing volumes of retail banking business.

Amounts due to credit institutions decreased by 57.2% mainly due to lower volumes of REPO-transactions made through the Kazakhstan Stock Exchange, partially offset by KZT 20bn loan from JSC Entrepreneurship Development Fund “Damu” to support small and medium businesses operating in processing industries.

Debt securities issued increased by 16.8% vs. YE 2013 mainly due to recalculation of USD-denominated Eurobond issues at new KZT exchange rate after KZT devaluation in February 2014. As of the date of this press-release, the Bank’s debt securities issued mainly consist of two outstanding Eurobond issues for USD 700mln and USD 500mln with bullet maturity in May 2017 and January 2021, respectively, each bearing a coupon rate of 7.25%.

Total **equity** increased by 11.6% vs. YE 2013 mainly on the back of net profit earned during 1H 2014, partially offset by payment of dividends in amount of KZT 18,547mln to common shareholders (or KZT 1.70 per common share) and dividends in amount of KZT 1,757mln to preferred shareholders (or KZT 9.28 per preferred share).

Regulatory Tier 1 **capital adequacy ratios** k1-1 and k1-2 and total capital adequacy ratio k2 were at 12.0%, 14.9% and 18.9%, respectively, as at 30 June 2014 vs.12.3%, 15.6% and 17.9%, respectively, as at 31 March 2014 and 9.5%, 11.2% and 18.2%, respectively, as at 31 December 2013. Basel Tier 1 capital adequacy ratio and total capital adequacy ratio were at 18.4% and 19.8%, respectively, as at 30 June 2014 vs.18.0% and 19.2%, respectively, as at 31 March 2014 and vs. 17.2% and 18.5%, respectively, as at 31 December 2013.

The condensed interim consolidated financial information for the six months ended 30 June 2014, including notes attached thereto, are available on Halyk Bank's website http://www.halykbank.kz/en/financial-reports and http://www.halykbank.kz/en/news).

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