30 August 2013

Joint Stock Company 'Halyk Savings Bank of Kazakhstan'

Consolidated financial results for the six months ended 30 June 2013

Joint Stock Company 'Halyk Savings Bank of Kazakhstan' and its subsidiaries (together "the Bank") (LSE: HSBK) releases its condensed interim consolidated financial information for the 6 months ended 30 June 2013.

6 months 2012 financial highlights

- Net income is up by 8.1% to KZT 34.2bn, YoY;
- Net interest income before impairment charge is up by 7.8%;
- Impairment charge is down by 20.7%;
- Fees and commissions from transactional banking are up by 22.5%;
- ROAE is up to 20.4% p.a. (17.8% p.a. for 1H 2012);
- ROAA is up to 2.8% p.a. (2.6% p.a. for 1H 2012);

- Total assets are up by 4.5%, YTD;
- Net loans to customers are up by 1.3%;
- Liquid assets are up by 13.7%;
- Amounts due to legal entities are up by 1.3%;
- Amounts due to individuals are up by 15.6%;
- Debt securities issued are down by 13.1%;
- Total equity is up by 4.3%.

Income statement review

Interest income increased by 9.9% for 1H 2013 vs. 1H 2012 mainly due to increase in average balances of loans to customers by 13.2% and amounts due from credit institutions by 97.6%, partially offset by decrease in average interest rates on loans to customers to 11.6% p.a. for 1H 2013 vs. 11.9% p.a. for 1H 2012 and decrease in average balances of debt securities portfolio by 5.5% for 1H 2013 vs. 1H 2012. **Interest expense** increased by 12.7% for 1H 2013 vs. 1H 2012 mainly due to increase in average balances of term deposits of individuals, as well as higher interest rates offered by the Bank to its corporate clients on KZT deposits. As a result, **net interest income before impairment charge** increased by 7.8% to KZT 49.1bn for 1H 2013 vs. 1H 2012.

Net interest margin increased to 4.7% p.a. for 2Q 2013 from 4.4% p.a. for 1Q 2013 as a result of increase in average interest rates on loans to customers to 11.6% p.a. for 2Q 2013 from 11.5% p.a. for 1Q 2013 and decrease in average interest rates on amounts due to customers to 2.8% p.a. for 2Q 2013 from 3.2% p.a. for 1Q 2013.

Impairment charge decreased by 20.7% for 1H 2013 vs. 1H 2012, reflecting sufficient provisioning level achieved by the Bank and continued stabilization of the loan portfolio quality. Allowances for loan impairment remained flat at 18.7% of the gross loan portfolio vs.YE 2012.

Fee and commission income from transactional banking (i.e. excluding pension fund and asset management) increased by 22.5% for 1H 2013 vs. 1H 2012 as a result of growing volumes of transactional banking business.

Net pension fund and asset management fees decreased by 62.8% for 1H 2013 vs. 1H 2012 due to decrease in performance fees to negative KZT 0.5bn for 1H 2013 from KZT 4.0 bn for 1H 2012 mainly as a result of unrealized losses in the pension assets portfolio resulting from the decrease in market value of gold and certain Kazakhstan securities, as well as ongoing changes in the pension system, investment restrictions imposed by the National Bank of Kazakhstan and higher share of cash in the investment portfolio of Halyk Pension Fund as a result of such restrictions. Asset management fees increased by 14.7% for 1H 2013 vs. 1H 2012 as a result of growing size of assets under management.

Other non-interest income (excluding insurance) decreased by 29.8% for 1H 2013 vs. 1H 2012 mainly as a result of 2.6-fold decrease in other income and 11.0-fold decrease in net realized gain from available-for-sale investment securities. Income from trading and asset and liability management operations which comprise net gain from financial assets and liabilities through profit or loss and net gain on foreign exchange operations was flat and amounted to KZT 3.8 bn for 1H 2013 vs. KZT 3.8 bn for 1H 2012. The decrease in foreign exchange dealing was mainly due to lower margins in customer transactions in 1H 2013 vs. 1H 2012 and certain one-off customer transactions in 1H 2012.

Insurance underwriting income less insurance claims incurred, net of reinsurance, decreased by 5.6% for 1H 2013 vs. 1H 2012 mainly due to more conservative policy of recognising expenses related to medical insurance payments starting from 2013. The decrease in insurance underwriting income less insurance claims incurred, net of reinsurance was partially offset by 46.2% increase in insurance underwriting income due to growing volumes of life and non-life insurance business, as well as newly introduced regulatory requirement limiting the amount of upfront payment by life insurance companies under pension annuity contracts and hence increasing the portion of the pension annuity contracts to be retained for future payments.

Insurance underwriting income less insurance claims incurred, net of reinsurance, increased by 34.1% for 2Q 2013 vs. 2Q 2012 mainly as a result of 22.0% increase in insurance underwriting income due to growing volumes of life and non-life insurance business. The increase in insurance underwriting income less insurance claims incurred, net of reinsurance was partially offset by 67.8% increase in insurance reserves mainly as a result of newly introduced regulatory requirement limiting the amount of upfront payment by life insurance companies under pension annuity contracts and hence increasing the portion of the pension annuity contracts to be retained for future payments.

Operating expenses increased by 10.1% for 1H 2013 vs. 1H 2012 mainly due to 17.5% increase in salaries and other employee benefits as a result of adjustment in salaries of employees of the Bank and its subsidiaries starting from 1 January 2013, as well as bonus payments and extra staff hiring in some of the Bank's subsidiaries.

Statement of financial position review

Total assets increased by 4.5% vs. YE 2012 mainly as a result of growing volumes of business and comprised of increase in insurance assets by 30.4%, cash and cash equivalents by 16.2%, net loans to customers by 1.3% and 10.1 times increase in investments in precious metals.

Liquid assets increased by 13.7% vs. YE2012 mainly due to the inflow of new funds from the Bank's customers.

Loans to customers grew by 1.3% on a gross and net basis vs. YE 2012. Gross loan portfolio growth was attributable to increase in consumer loans by 18.6%, partially off-set by decrease in corporate loans by 1.4%, loans to SMEs by 0.4% and mortgage loans by 3.7%. The decrease in corporate, SME and mortgage loans was mainly a result of loan repayments exceeding new loan issues.

30-day and 90-day NPLs were at 18.7% and 17.9%, respectively, as at 30 June 2013 vs. 18.4% and 16.8%, respectively, as at 31 March 2013. The increase in 90-day NPLs was a result of few 30-day NPLs, previously provisioned, becoming overdue by more than 90 days. The Bank created IFRS provisions that covered 30-day NPLs by 90.3% and 90-day NPLs by 93.4% as at 30 June 2013.

Term deposits of legal entities decreased by 1.4% vs.YE 2012 mainly as a result of low interest rates offered by the bank on FX deposits in 1Q 2013. Term deposits of legal entities increased by 10.0% during 2Q 2013 mainly as a result of inflow of new deposits during 2Q 2013.

Current accounts of legal entities increased by 3.0% vs. YE 2012 as a result of growing volumes of transactional banking business. Current accounts of legal entities decreased by 4.9% during 2Q 2013 as a result of partial withdrawal of funds by some of the Bank's corporate clients to finance their on-going business needs.

Term deposits and current accounts of individuals increased by 15.4% and 16.3%, respectively, vs.YE 2012 due to growing volumes of retail banking business.

Debt securities issued decreased by 13.1% vs YE2012 as a result of repayment in full of one of the Bank's Eurobond issues for the outstanding amount of USD 270 million bearing a coupon rate of 7.75% p.a. The repayment was made on 13 May 2013 out of the Bank's own funds, utilising the existing liquidity on its balance sheet.

As at 30 June 2013, the Bank's debt securities issued mainly consisted of three outstanding Eurobond issues for USD 500 million, USD 700 million and USD 500 million with bullet maturity in October 2013, May 2017 and January 2021, respectively.

Total **equity** increased by 4.3% vs. YE 2012 mainly on the back of net profit earned during 1H 2013, partially offset by payment of dividends in amount of KZT 12,221 mln to common shareholders (or KZT 1.12 per common share) and dividends in amount of KZT 2,241 mln to preferred shareholders (or KZT 11.2 per preferred share).

Regulatory Tier 1 **capital adequacy ratios** k1-1 and k1-2 and total capital adequacy ratio k2 were at 10.0%, 11.9% and 15.3%, respectively, as at 30 June 2013 vs. 10.6%, 12.9% and 15.4%, respectively, as at 31 March 2013 and 8.4%, 10.2% and 15.4%, respectively, as at 31 December 2012. Basel Tier 1 capital adequacy ratio and total capital adequacy ratio were at 16.5% and 18.1%, respectively, as at 30 June 2013 vs. 16.6% and 18.5%, respectively, as at 31 March 2013 and 16.2% and 18.3%, respectively, as at 31 December 2012.

The condensed interim consolidated financial information for the six months ended 30 June 2013, 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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