31 August 2010

Joint Stock Company 'Halyk Savings Bank of Kazakhstan'

Consolidated financial results for the six months ended 30 June 2010

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 six months ended 30 June 2010.

1H 2010 financial highlights

- Net income increased by 285.1 percent to KZT 16.6 billion from KZT 4.3 billion for 1H 2009
- Total assets increased by 7.8 percent
- Amounts due to customers increased by 15.8 percent
- Amounts due to individuals increased by 7.5 percent
- Current accounts increased by 27.7 percent
- Gross loans to customers decreased by 1.4 percent
- Total equity increased by 4.3 percent
- Net interest income (after impairment charge) increased to KZT 19.1 billion from net interest loss of KZT 5.5 billion for 1H 2009
- Net fees and commissions (excluding pension fund and asset management) increased by 9.6 percent for 1H 2010 compared to 1H 2009 and by 16.6 percent for 2Q 2010 compared to 1Q 2010
- Pension fund and asset management fees decreased by 63.2 percent to KZT 3.5 billion from KZT 9.4 billion for 1H 2009
- Other non-interest income decreased by 6.9 percent to KZT 11.1 billion from KZT 11.9 billion for 1H 2009 and increased by 5.0 percent for 2Q 2010 compared to 2Q 2009
- Operating expenses increased by 12.8 percent to KZT 20.2 billion from KZT 17.9 billion for 1H 2009
- Net interest margin before allowance for impairment losses decreased to 4.7 percent from 5.8 percent for 1H 2009 and 5.3 percent for 2009
- Cost-to-income ratio increased to 30.3 percent from 23.4 percent for 1H 2009
- Basel Tier 1 capital adequacy ratio at 17.4 percent
- Basel Total capital adequacy ratio at 21.0 percent
- Loan-to-deposit ratio decreased to 0.74x
- Impairment charge decreased by 51.8 percent to KZT 25.8 billion from KZT 53.6 billion for 1H 2009
- Provisioning rate increased to 17.5 percent of gross loans to customers
- Return on average common shareholders' equity increased to 11.7 percent per annum from 3.9 percent per annum for 1H 2009
- Return on average total assets increased to 1.6 percent per annum from 0.5 percent per annum for 1H 2009

Financial Overview

Condensed Interim Consolidated Income Statement

Net income

The Bank's net income increased to KZT 16.6 billion from KZT 4.3 billion for 1H 2009 primarily due to increase in net fees and commission income (excluding pension fund and asset management) by 9.6 percent, decrease in interest expense by 15.1 percent and decrease in impairment charge by 51.8 percent, partially offset by decrease in interest income by 11.2 percent, decrease in pension fund and asset management fees by 63.2 percent, decrease in net gain on foreign exchange operations by 41.8 percent and increase in operating expenses by 12.8 percent.

Interest income

Interest income decreased by 11.2 percent to KZT 90.9 billion from KZT 102.3 billion for 1H 2009 as a result of decrease in average interest rates on interest-earning assets to 9.7 percent from 12.5 percent. Average balances of loans to customers decreased by 9.5 percent, whereas their share in interest-earning assets decreased to 50.1 percent from 59.5 percent and average rates on them decreased to 15.3 percent p.a. from 15.9 percent p.a. This decrease was partially offset by 50.6 percent increase in interest income on available-for-sale investment securities mainly as a result of 244.4 percent increase in their average balances.

Interest expense decreased by 15.1 percent to KZT 45.9 billion from KZT 54.1 billion for 1H 2009 as a result of decrease in average rates on interest-bearing liabilities to 5.2 percent from 6.7 percent for 1H 2009 partially offset by 8.3 percent increase in average balances of interest-bearing liabilities. Average rates on amounts due to customers decreased to 4.7 percent from 6.1 percent for 1H 2009.

Impairment charge

Impairment charge decreased by 51.8 percent compared to 1H 2009 reflecting continued stabilization of loan portfolio quality since mid-2009.

Fees and commissions

Fee and commission income (excluding pension fund and asset management) increased by 12.9 percent to KZT 12.2 billion from KZT 10.8 billion for 1H 2009 primarily as a result of growing volumes of transactional banking business.

Performance-linked asset management fees in pension fund business decreased by 63.2 percent to KZT 3.5 billion from KZT 9.4 billion for 1H 2009 as a result of overall decline in domestic and global securities markets in May-June 2010 as well as reflecting "one-off" increase in asset management fees in Q1 2009 mainly due to KZT devaluation. This decline was partially offset by increase in pension administration fees by 34.1 percent as a result of growing number of pension fund customers and average size of pension contributions.

Other non-interest income

Other non-interest income decreased by 6.9 percent to KZT 11.1 billion from KZT 11.9 billion for 1H 2009 primarily as a result of 32.7 percent decrease in net gain from financial assets and liabilities at fair value through profit and loss due to overall downward trend in domestic and global financial markets, partially offset by lower net losses on available-for-sale investment securities, as well as decrease in net gain on foreign exchange dealing.

Net gain on foreign exchange dealing decreased by 50.0 percent to KZT 3.3 billion from KZT 6.6 billion for 1H 2009 primarily as a result of "one-off" increase in volumes of foreign exchange operations by customers in 1Q 2009 due significant KZT devaluation. Net gain on foreign exchange dealing increased by 2.9 percent in 1H 2010 compared to 1H 2008 and by 7.6 percent in 2Q 2010 compared to 1Q 2010 as a result of growing volumes of foreign exchange business with customers partially offset by lower spread on such transactions.

Insurance underwriting income less insurance claims incurred, net of reinsurance, increased by 6.0 percent to KZT 2.4 billion from KZT 2.2 billion for 1H 2009 primarily as a result of growth in insurance premiums written due to growing volumes of insurance business.

Non-interest expenses

Operating expenses increased by 12.8 percent to KZT 20.2 billion from KZT 17.9 billion for 1H 2009 primarily due to "one-off" write-off of intangible assets in 1Q 2010. Other operating expenses increased by 6.7 percent due to overall growth of the Bank's business, including opening of new outlets, and inflation.

Condensed Interim Consolidated Statement of Financial Position

Total assets

Total assets increased by 7.8 percent mainly due to increase in liquid assets by 23.7 percent, insurance assets – by 184.9 percent and other assets – by 39.7 percent, partially offset by decrease in amounts due from credit institutions by 69.1 percent, securities of foreign countries and organizations held to maturity – by 55.5 percent and net loans to customers – by 3.7 percent.

Liquid assets

Liquid assets increased by 23.7 percent to KZT 828.6 billion from KZT 669.8 billion as at YE 2009 mainly due to purchase of NBK notes and Treasury bills of the Ministry of Finance of Kazakhstan classified as available-for-sale investment securities. The increase in available-for-sale investment securities was partially offset by a 21.3 percent decrease in cash and cash equivalents during 1H 2010 as a result of decrease in balances of short-term deposits with the National Bank of Kazakhstan and OECD based banks.

Loans to customers

Net loans to customers declined by 3.7 percent as a result of loan repayments being faster than issuance of new loans. Loans to customers before allowance for impairment losses decreased primarily in the following sectors: agriculture – by 15.9 percent, consumer loans – by 11.7 percent, mortgage loans – by 6.4 percent, construction – by 6.0 percent and retail trade – by 3.8 percent; whereas the following sectors demonstrated highest growth rates: wholesale trade – by 8.8 percent, services – by 7.2 percent, real estate – by 4.5 percent and metallurgy – by 10.3 percent.

Loans to corporate customers increased by 2.3 percent while loans to SMEs and retail customers decreased by 5.1 percent and 9.1 percent, respectively.

Loans with 30-day and 90-day overdue payments (NPLs) accounted for 19.6 percent and 19.1 percent, respectively, of (unconsolidated) gross loan portfolio of the Bank as at 30 June 2010.

The Bank created regulatory provisions that covered these delinquent loans 109.9 percent and 112.4 percent, respectively.

Letters of credit and guarantees

Portfolio of guarantees increased by 2.9 percent and commercial letters of credit increased by 23.5 percent as a result of growing volumes of documentary credit business. The Bank held the highest market share in commercial letters of credit of 24.5 percent as at 30 June 2010.

Amounts due to customers

Term deposits and current accounts of legal entities increased by 19.6 percent and term deposits and current accounts of individuals increased by 7.5 percent during 1H 2010. Amounts due to customers comprise the largest source of funding for the Bank with 78.2 percent of liabilities as at 30 June 2010. The Bank held the highest market share among Kazakhstan banks in retail deposits (20.9 percent) and corporate deposits (21.6 percent) as at 30 June 2010.

On 18 June 2010, the Bank made early repayment of a 3-year KZT 60 billion special government deposit to JSC "Sovereign Wealth Fund "Samruk-Kazyna".

Amounts due to credit institutions

Amounts due to credit institutions decreased by 36.2 percent mainly due to lower volumes of Treasury bills of the Ministry of Finance Repo transactions through KASE and decrease in deposits from Kazakhstan banks.

Debt securities issued

Debt securities issued decreased by 3.1 percent primarily as a result of repayment of local subordinated bonds for a nominal amount of KZT 5 billion in June 2010, as well as revaluation of Eurobonds and foreign currency indexed local bonds. As at 30 June 2010, the Bank had three outstanding Eurobond issues for USD 300 million, USD 500 million and USD 700 million with bullet maturity in May 2013, October 2013 and May 2017, respectively.

Equity

Total equity increased by 4.3 percent to KZT 293.1 billion primarily as a result of increase in retained earnings and other reserves by 9.0 percent. Regulatory Tier 1 capital adequacy ratios k1-1 and k1-2 and total capital adequacy ratio k2 were 10.4 percent, 14.2 percent and 18.7 percent, respectively, as at 30 June 2010. Basel Tier 1 capital adequacy ratio and Total capital adequacy ratio were 17.4 percent and 21.0 percent, respectively, as at 30 June 2010.

The condensed interim consolidated financial information for the six months ended 30 June 2010, including the notes attached thereto, are available on Halyk Bank's website (http://www.halykbank.kz/contents/index/type:invReport/lang:eng and http://www.halykbank.kz/eng/news/index).

KEY FINANCIAL RATIOS

	30-Jun-10 (unaudited)	31-Mar-10 (unaudited)	31-Dec-09 (audited)	30-Sep-09 (unaudited)	30-Jun-09 (unaudited)
Amounts due to customers / total liabilities	78.2%	76.0%	73.1%	71.7%	67.3%
Loans / deposits ratio (1)	0.74x	0.80x	0.89x	0.86x	1.02x
Liquid assets(2) / total assets	38.0%	36.3%	33.1%	36.7%	31.3%
NPLs / gross loans(3)	19.6%	20.6%	19.0%	19.7%	17.9%
Provisioning rate (4)	17.5%	16.4%	15.5%	14.8%	12.9%
Regulatory provisioning rate(5)	21.5%	20.2%	18.8%	18.8%	16.5%
Tier 1 capital adequacy ratio(6)	17.4%	17.9%	16.9%	16.1%	14.8%
Total capital adequacy ratio(6)	21.0%	21.9%	20.6%	20.2%	18.5%
Tier 1 capital adequacy ratio (k1-1)(7)	10.4%	10.9%	11.1%	9.9%	10.1%
Tier 1 capital adequacy ratio (k1-2)(7)	14.2%	14.9%	14.3%	13.0%	-
Tier 2 capital adequacy ratio (k2)(7)	18.7%	19.0%	18.0%	16.9%	15.7%

RETAIL BUSINESS DATA

	30-Jun-10	31-Mar-10	31-Dec-09	30-Sep-09	30-Jun-09
Number of branches and outlets	628	622	622	625	623
Number of ATMs	1,682	1,682	1,690	1,689	1,704
Number of POS-terminals	3,672	3,502	3,422	3,467	3,654
Information and transaction terminals (multiservice kiosks)	569	572	572	572	569

	For the six months ended	
	30-Jun-10 (unaudited)	30-Jun-09 (unaudited)
Cost-to-income	30.3%	23.4%
Return on average common shareholders' equity (ROAE)	11.7%	3.9%
Return on average assets (ROAA)	1.6%	0.5%
Net interest margin	4.7%	5.8%
Operating expense/average total assets	1.9%	1.9%

(1) Loans to customers, net / amounts due to customers.
(2) On consolidated IFRS basis, liquid assets consist of "Cash and cash equivalents", NBK notes, Treasury bills of the Ministry of Finance of Kazakhstan, Treasury bills of the governments of other countries, notes of national banks of other countries, bonds of quasi-sovereign banks.
(3) Total NPLs 30+ (total principle amount of loans with principle and/or interest overdue by more than 30 days) / Gross loan portfolio, unconsolidated.
(4) Allowance for loan impairment / loans to customers before allowance for impairment losses.
(5) Unaudited.
(6) As per Guidelines adopted by the Basel Committee on Banking Regulations and Supervision Practices of the Bank for International Settlements.
(7) As per the FMSA Guidelines, Bank only.

- END-

For further information please contact:

Dauren Karabayev DaurenK@halykbank.kz + 7 727 244 68 10

Zhanara Aikimbayeva JanarA@halykbank.kz +7 727 259 07 96