16 March 2018

Joint Stock Company 'Halyk Savings Bank of Kazakhstan'

Consolidated financial results for the year ended 31 December 2017

Joint Stock Company 'Halyk Savings Bank of Kazakhstan' and its subsidiaries (together "the Bank") (LSE: HSBK) releases its consolidated financial statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards, audited by Deloitte, LLP, and subject to further approval by the Bank's Board of Directors and Annual General Shareholders' Meeting.

Umut Shayakhmetova, the Bank's CEO commented:

"2017 had a particular historical significance for the further development of Halyk Group. Having completed the major transaction on acquisition of Kazkommertsbank, we have significantly strengthened our leading positions and now have 34% market share. The main goal for this year is to successfully complete all necessary procedures for the integration of systemically important banks and insurance companies of the group. By combining all the strengths, the most promising product and IT developments and the largest infrastructures of our financial institutions – the Halyk Group companies will be able to provide the best choice of products together with excellent quality of service for our customers."

Consolidated income statements

	12m 2017	12m 2016	Change, abs	Y-o-Y, %	4Q 2017	4Q 2016	Change, abs	Y-o-Y, %
Interest income	*506,328*	*332,563*	*173,765*	*52.3%*	*167,276*	*88,517*	*78,759*	*89.0%*
Interest expense	*-257,805*	*-160,549*	*-97,256*	*60.6%*	*-85,569*	*-41,705*	*-43,864*	*2.1x*
Net interest income before impairment charge	**248,523**	**172,014**	***76,509***	***44.5%***	**81,707**	**46,812**	**34,895**	*74.5%*
Fee and commission income	*87,640*	*57,697*	*29,943*	*51.9%*	*28,760*	*15,405*	*13,355*	*86.7%*
Fee and commission expense	*-26,732*	*-11,295*	*-15,437*	*2.4x*	*-10,703*	*-2,868*	*-7,835*	*3.7x*
Net fee and commission income	**60,908**	**46,402**	**14,506**	***31.3%***	**18,057**	**12,537**	**5,520**	*44.0%*
Insurance income(1)	6,493	3,272	3,221	*98.4%*	2,933	1,373	1,560	*2.1x*
FX operations(2)	-4,949	18,506	-23,455	*-4.7x*	43,216	6,775	36,441	*6.4x*
Income/loss from derivative	32,487	-10,087	42,574	*4.2x*	-27,877	-3,554	-24,323	*7.8x*

operations and securities (3)								
Other non-interest income	23,618	6,486	17,132	*3.6x*	14,179	2,518	11,661	*5.6x*
Impairment charge and reserves (4)	-67,302	-25,308	-41,994	*2.7x*	-43,149	-6,641	-36,508	*6.5x*
Provisions against letters of credit and guarantees issued	1,737	-44	1781	*40.5x*	1,275	-66	1341	*20.3x*
Operating expenses(5)	-112,330	-68,559	-43,771	*63.8%*	-46,216	-21,494	-24,722	*2.2x*
Income tax expense	-25,598	-22,183	-3,415	*15.4%*	-8,167	-5,726	-2,441	*42.6%*
Profit from discontinued operations	9,876	10,913	-1,037	*-9.5%*	2,134	4,877	-2,743	*-56.2%*
Non-controlling Interest	-101	0	-101	*100%*	-51	0	-51	*100%*
Net income	173,362	131,412	41,950	*31.9%*	38,041	37,411	630	*1.7%*
Net interest margin, p.a.	4.9%	5.5%			4.9%	5.3%		
Return on average equity, p.a.	22.7%	22.3%			18.0%	23.1%		
Return on average assets, p.a.	2.6%	2.8%			1.8%	3.0%		
Cost-to-income ratio	29.5%	28.1%			33.5%	31.3%		
Cost of risk, p.a.	2.2%	1.0%			4.8%	1.1%		

(1) insurance underwriting income (gross insurance premiums written, net change in unearned insurance premiums, ceded reinsurance share) less insurance claims incurred, net of reinsurance (insurance payments, insurance reserves expenses, commissions to agents);
(2) net gain on foreign exchange operations;
(3) net gain from financial assets and liabilities at fair value through profit or loss and net realised gain/(loss) from available-for-sale investment securities;
(4) total impairment charge, including impairment charge on loans to customers, amounts due from credit institutions, available-for-sale investment securities and other assets;
(5) Including impairment loss of assets held for sale

Compared with 12M 2016, **interest income** grew by 52.3% due to 51.1% increase in average balances of interest-earning assets. The increase in average balances of interest-earning assets was mainly on the back of consolidation of Kazkommertsbank assets in 3Q 2017, as well as NBK Notes purchased by the Bank starting from 2Q 2016. **Interest expense** grew by 60.6% compared with 12M 2016. This was mostly due to increase in average balances on interesting bearing liabilities by 42.5%, as well as increase in average interest rates on amounts to customers (to 4.1% p.a. from 3.7% p.a.) and debt securities issued (to 8.5% p.a. from 7.7% p.a.) as a result of consolidation of Kazkommertsbank assets in 3Q 2017. As a result, **net interest income before impairment charge** increased by 44.5% to KZT 248.5bn compared to 12M 2016.

Compared with 3Q 2017, interest income grew by 8.4% due to 15.7% increase in average balances of interest-earning assets. Interest expense decreased by 0.9% compared with 3Q 2017 due to decrease in average interest rates on interest-bearing liabilities to 4.7%p.a. from 5.5%p.a. As a result, net interest income before impairment charge increased by 20.1% to KZT 81.7bn compared to 3Q 2017.

Net interest margin decreased to 4.9% p.a. for 12M 2017 compared to 5.5% p.a. for 12M 2016, mainly on the back of lower net interest margin of Kazkommertsbank and reclassification of Altyn Bank's interest earning-assets into assets held for sale. Net interest margin remained almost flat at 4.9% p.a. for 4Q 2017 compared to 4.8% p.a. for 3Q 2017 against the decreasing interest rates on interest-bearing liabilities.

Impairment charge increased by 165.9% compared to 12M 2016 mainly due to consolidation of Kazkommertsbank loan portfolio starting from 3Q 2017. The **cost of risk** increased to 2.2% p.a. compared to 1.0% p.a. for 12m 2016 and to 4.8% p.a. compared to 1.1% p.a. for 4Q 2016.

Fee and commission income rose by 51.9% compared to 12M 2016, mainly as a result of consolidation of Kazkommertsbank, as well as, growing volumes of transactional banking, mainly in payment card maintenance, cash operations and bank transfers – settlements.

Other non-interest income increased to KZT 106.3bn for 12M 2017 vs. KZT 43.0bn for 12M 2016. This increase was largely attributable to consolidation with insurance subsidiaries of Kazkommertsbank, as well as, growing volumes of insurance business of the Bank. In addition, other non-interest income grew due to net gain from financial assets and liabilities at fair value through profit or loss mainly on the back of consolidation of Kazkommertsbank.

Operating expenses grew by 63.8% compared to 12M 2016 mainly due to consolidation of Kazkommertsbank, as well as increase in the Bank's expenses on salaries and other employee benefits, professional services and taxes. Salaries and other employee benefits increased on the back of higher bonus reserves accrued in 12M 2017 compared to 12M 2016 and overall increase in employee salaries from 1 June 2017; the increase was partially offset by the reversal of bonus reserves in 3Q 2017 previously accrued by Kazkommertsbank. The increase in professional services and taxes was due to expenses on external consultants in connection with the purchase of Kazkommertsbank and sale of 60% stake in Altyn Bank.

The Bank's **cost-to-income** ratio increased to 29.5% compared to 28.1% for 12M 2016 on the back of faster growth in operating expenses versus operating income. **Operating income** increased by 56.1% on the back of higher interest income, net fees and commissions, positive revaluation of derivative instruments in 3Q 2017 and realised net gain on trading operations in 4Q 2017.

Consolidated statement of financial position

	31-Dec-17	30-Sep-17	31-Dec-16	Change, abs	Change YTD, %	Change, abs	Change Q-o-Q, %
Total assets	**8,857,781**	**8,674,584**	**5,348,483**	**3,509,298**	**65.6%**	**183,197**	**2.1%**
Cash and reserves	1,891,587	1,726,932	1,850,641	40,946	2.2%	164,655	9.5%
Amounts due from credit institutions	87,736	77,056	35,542	52,194	2.5x	10,680	13.9%
T-bills & NBK notes	1,878,870	1,974,180	586,982	1,291,888	3.2x	-95,310	-4.8%
Other securities & derivatives	831,531	799,117	341,379	490,152	2.4x	32,414	4.1%
*Gross loan portfolio**	*3,568,263*	*3,413,180*	*2,604,335*	*963,928*	*37.0%*	*155,083*	*4.5%*
Stock of provisions	*-317,161*	*-290,110*	*-284,752*	*-32,409*	*11.4%*	*-27,051*	*9.3%*
Net loan portfolio	3,251,102	3,123,070	2,319,583	931,519	40.2%	128,032	4.1%
Assets held for sale	552,405	581,208	10,297	542,108	53.6x	-28,803	-5.0%
Other assets	364,550	393,021	204,059	160,491	78.6%	-28,471	-7.2%
Total liabilities	**7,923,324**	**7,847,901**	**4,682,890**	**3,240,434**	**69.2%**	**75,423**	**1.0%**
Total deposits, including:	6,131,750	6,076,281	3,820,662	2,311,088	60.5%	55,469	0.9%
retail deposits	*3,104,249*	*3,159,493*	*1,715,448*	*1,388,801*	*81.0%*	*-55,244*	*-1.7%*
term deposits	*2,691,886*	*2,772,441*	*1,470,536*	*1,221,350*	*83.1%*	*-80,555*	*-2.9%*

current accounts	*412,363*	*387,052*	*244,912*	*167,451*	*68.4%*	*25,311*	*6.5%*
corporate deposits	*3,027,501*	*2,916,788*	*2,105,214*	*922,287*	*43.8%*	*110,713*	*3.8%*
term deposits	*1,705,971*	*1,578,268*	*1,267,589*	*438,382*	*34.6%*	*127,703*	*8.1%*
current accounts	*1,321,530*	*1,338,520*	*837,625*	*483,905*	*57.8%*	*-16,990*	*-1.3%*
Debt securities	962,396	988,774	584,933	377,463	64.5%	-26,378	-2.7%
Amounts due to credit institutions	255,151	154,892	162,134	93,017	57.4%	100,259	64.7%
Liabilities directly associated with assets classified as held for sale	334,627	372,899	0	334,627	100%	-38,272	-10.3%
Other liabilities	239,400	255,055	115,161	124,239	2.1x	-15,655	-6.1%
Equity	**934,457**	**826,683**	**665,593**	**268,864**	**40.4%**	**107,774**	**13.0%**

**Including KKB net loans of KZT 780,866 million recognised by the Bank at fair value + changes in KKB gross loan portfolio from acquisition date to 31 December 2017.*
***Including changes in provisions created on KKB loan portfolio from acquisition date to 31 December 2017.*

In FY 2017, **total assets** increased by 65.6% vs. YE 2016, mainly due to consolidation of KKB. Compared to YE 2016, the Bank's assets, excluding those of KKB, increased by 3.1% mainly on the back of loan and securities portfolio growth.

Compared with YE 2016, **loans to customers** increased by 37.0% on a gross basis and 40.2% on a net basis, as a result of consolidation of Kazkommertsbank loan portfolio.

The aggregate Halyk Bank and KKB's **90-day NPL ratio** was 12.1% compared to 13.4% as at 30 September 2017. The decrease compared to 3Q 2017 was mainly due to write-off and repayment of problem indebtedness in loan portfolios of the Bank and Kazkommertsbank.

Allowances for loan impairment increased by 11.4% compared to YE 2016, mainly as a result of additional provisions created against impaired loans in the Bank's and Kazkommertsbank's portfolio.

Deposits of legal entities and individuals increased by 43.8% and 81.0%, respectively, compared to YE 2016, mainly due to consolidation of Kazkommertsbank assets and liabilities. As at 31 December 2017, the share of corporate KZT deposits in total corporate deposits was 48.3% compared to 52.1% as at 30 September 2017 and 36.8% as at YE 2016, whereas the share of retail KZT deposits in total retail deposits was 40.7% compared to 37.7% as at 30 September 2017 and 32.1% as at YE 2016.

Amounts due to credit institutions increased by 57.4% vs. YE 2016 mainly due to the Bank's REPO transactions with the Kazakhstan Stock Exchange in 4Q 2017 and consolidation of Kazkommertsbank in 3Q 2017. As at YE 2017, 47.5% of the Bank's obligations to financial institutions was represented by loans from KazAgro national management holding, DAMU development fund, Development Bank of Kazakhstan drawn in 2014–2017 within the framework of government programmes supporting certain sectors of economy.

Debt securities issued increased by 64.5% vs. YE 2016, mainly due to consolidation of Kazkommertsbank's securities portfolio in 3Q 2017. On 9 February 2018, Kazkommertsbank redeemed in full its USD 100 million perpetual subordinated international bond bearing a coupon rate of USD Libor + 6.1905% out of its own funds. As at the date of this press-release, the Bank's debt securities portfolio was as follows:

Description of the security	Nominal amount outstanding	Interest rate	Maturity Date

Issued by Halyk Bank			
Eurobond	USD 500 mln	7.25% p.a.	January 2021
Local bonds placed with the Unified Accumulative Pension Fund	KZT 100 bn	7.5% p.a.	November 2024
Local bonds placed with the Unified Accumulative Pension Fund	KZT 131.7 bn	7.5% p.a.	February 2025
*Issued by Kazkommertsbank**			
Eurobond	USD 300 mln	8.5% p.a.	May 2018
Eurobond	USD 750 mln	5.5% p.a.	December 2022
Local bonds	KZT 94.2 bn	8.75% p.a.	January 2022
Local bonds	KZT 59.9 bn	8.4% p.a.	November 2019
Subordinated coupon bonds	KZT 101.1 bn	9.5% p.a.	October 2025
Subordinated coupon bonds	KZT 3.5 bn	Inflation indexed (currently 8.9% p.a.)	April 2019
Subordinated coupon bonds	KZT 10 bn	Inflation indexed (currently 8.0 %p.a.)	November 2018

**Excluding debt securities of Kazkommertsbank's Russian subsidiary for RUB 121.2million.*

Compared with YE 2016 total equity increased by 40.4% mainly due to net profit earned by the Bank during FY 2017, as well as consolidation of Kazkommertsbank in 3Q 2017 and additional capital injection of KZT 65.2 bn into it by the Bank's major shareholder Holding Group Almex on 15 November 2017.

The Bank's capital adequacy ratios were as follows:

	01.01.2018	01.10.2017*	01.07.2017*	01.04.2017*	01.01.2017
Capital adequacy ratios, unconsolidated:					
Halyk Bank					
K1-1	21.5%	20.2%	22.1%	21.3%	19.2%
K1-2	21.5%	20.2%	22.1%	21.3%	19.2%
K2	21.4%	20.1%	22.1%	21.3%	19.2%
Kazkommertsbank					
K1-1	18.0%	13.1%			
K1-2	19.9%	15.0%			
K2	26.9%	10.3%			
Capital adequacy ratios, consolidated:					
CET	16.9%	15.4%	21.6%	21.5%	19.4%
Tier 1 capital	16.9%	15.8%	21.6%	21.5%	19.4%
Tier 2 capital	18.9%	17.8%	21.6%	21.5%	19.4%

* The regulator increased minimum capital adequacy requirements starting from 1 January 2017: k1 – 9.5%, k1-2 – 10.5% and k2 – 12.0%, including conservation buffer of 3% and systemic buffer of 1% for each of these ratios.

The consolidated financial information for the year ended 31 December 2017, including the notes attached thereto, are available on Halyk Bank's website: https://halykbank.kz/investoram/ifrs_reports2.

A 12M 2017 results webcast will be hosted at 11:00 a.m. GMT/7:00 a.m. EST on Monday, 19 March 2018:

http://www.audio-webcast.com/cgi-bin/visitors.ssp?fn=visitor&id=5435

About Halyk Bank

Halyk Bank is Kazakhstan's leading financial services group, operating across a variety of segments, including retail, SME & corporate banking, insurance, leasing, brokerage and asset management. Halyk Bank has been listed on the Kazakhstan Stock Exchange since 1998 and on the London Stock Exchange since 2006.

In July 2017, the Bank purchased majority stake in Kazkommertsbank JSC – the second largest Bank in Kazakhstan by total assets.

With total assets of KZT 8,857.8 billion as at 31 December 2017, Halyk Bank is Kazakhstan's leading lender. The Bank has the largest customer base and broadest branch network in Kazakhstan, with 699 branches and outlets (including 210 branches and outlets of Kazkommertsbank) across the country. The Bank also operates in Georgia, Kyrgyzstan, Russia and Tajikistan.

For more information on Halyk Bank, please visit https://www.halykbank.kz

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