16 August 2011

Joint Stock Company “Halyk Savings Bank of Kazakhstan”

Consolidated financial results for the six months ended 30 June 2011

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 2011.

1H 2011 financial highlights

- Net income increased by 27.5 percent to KZT 21.1 billion for 1H 2011 from KZT 16.6 billion for 1H 2010
- Total assets increased by 6.9 percent
- Amounts due to customers increased by 8.0 percent, including amounts due to legal entities by 7.7 percent and amounts due to individuals by 8.5 percent
- Current accounts increased by 41.9 percent, including current accounts of legal entities by 48.6 percent and current accounts of individuals by 16.5 percent
- Gross loans to customers grew by 2.1 percent
- Debt securities issued increased by 28.4 percent
- Total equity decreased by 6.2 percent as compared to YE 2010 and increased by 1.7 percent as compared to 31 March 2011
- Impairment charge decreased by 21.6 percent to KZT 20.3 billion from KZT 25.8 billion for 1H 2010
- Fee and commission income (excluding pension fund and asset management) increased by 15.0 percent to KZT 14.0 billion from KZT 12.2 billion for 1H 2010
- Pension fund and asset management fees increased by 109.3 percent to KZT 7.2 billion from KZT 3.5 billion for 1H 2010
- Operating expenses increased by 9.0 percent to KZT 22.0 billion from KZT 20.2 billion for 1H 2010
- Net interest margin before allowance for impairment losses decreased to 4.3 percent for 1H 2011 from 4.7 percent for 1H 2010 and remained flat in 2Q 2011 as compared to 2Q 2010
- Cost-to-income ratio at 31.1 percent
- Basel Tier 1 capital adequacy ratio at 16.5 percent
- Basel Total capital adequacy ratio at 20.1 percent
- Loan-to-deposit ratio decreased to 0.72x from 0.77x as at YE 2010 and increased from 0.69x as at 31 March 2011
- Provisioning rate at 19.8 percent
- Return on average common shareholders’ equity increased to 13.7 percent p.a. for 1H 2011 compared to 11.7 percent p.a. for 1H 2010 and to 14.2 percent p.a. for 2Q 2011 compared to 13.6 percent p.a. for 1Q 2011
- Return on average total assets increased to 2.0 percent p.a. for 1H 2011 compared to 1.9 percent p.a. for 1H 2010 and remained flat for 2Q 2011 compared to 1Q 2011

Financial Overview

Condensed Interim Consolidated Income Statement

Net income

The Bank's net income increased by 26.9 percent to KZT 21.1 billion for 1H 2011 from KZT 16.6 billion for 1H 2010 primarily due to 15.0 percent increase in fee and commission income from transactional banking, 109.3 percent increase in pension fund and asset management fees, 13.1 percent decrease in interest expense and 21.6 percent decrease in impairment charge. The increase in net income was partially offset by 8.3 percent decrease in interest income, 9.0 percent increase in operating expenses and 39.5 percent decrease in net insurance revenues (insurance underwriting income less insurance claims incurred, net of reinsurance) for 1H 2011 compared to 1H 2010.

Interest income

Interest income decreased by 8.3 percent to KZT 83.4 billion for 1H 2011 from KZT 90.9 billion for 1H 2010. The decrease was mainly attributable to decline in average interest rate on loans to customers to 13.8 percent p.a. from 15.3 percent p.a. and decrease in average interest rate on the Bank's securities portfolio to 3.2 percent p.a. from 3.7 percent p.a. due to declining interest rate environment in Kazakhstan. In addition, the Bank's interest income for 1H 2010 was higher compared to 1H 2011 due to a one-off income for KZT 3.6 billion in 1Q 2010.

Interest income increased by 0.2 percent to KZT 41.7 billion for 2Q 2011 from KZT 41.6 billion for 1Q 2011 as a result of increase in average balances of loans to customers and the Bank's securities portfolio.

Interest expense

Interest expense decreased by 13.1 percent to KZT 39.9 billion for 1H 2011 from KZT 45.9 billion for 1H 2010, mainly as a result of decrease in average interest rate on interest-bearing liabilities to 4.3 percent p.a. from 5.2 percent p.a. The decrease in average interest rate on interest-bearing liabilities was due to decrease in average interest rate on amounts due to customers to 3.6 percent p.a. from 4.7 percent p.a. for 1H 2010, in average interest rate on amounts due to credit institutions to 1.8 percent p.a. from 3.2 percent p.a. for 1H 2010 and in average interest rate on debt securities issued to 8.4 percent p.a. from 8.7 percent p.a. for 1H 2010. The decrease in average interest rate on amounts due to customers was mainly due to decrease in interest rates offered on term deposits and increase of the share of low-cost current accounts in total liabilities to 36.3 percent from 27.1 percent for 1H 2010. The decrease in interest expense was partially offset by 7.7 percent increase in average balances of amounts due to customers and by 19.8 percent increase in average balances of debt securities issued compared to 1H 2010.

Impairment charge

Impairment charge decreased by 21.6 percent to KZT 20.3 billion for 1H 2011 from KZT 25.8 billion for 1H 2010, reflecting sufficient provisioning level and continued stabilization of the loan portfolio quality since mid-2009. The ratio of allowance for loan impairment to loans to customers before allowance for loan impairment increased to 19.8 percent as at 30 June 2011 compared to 18.9 percent as at 31 December 2010.

Fees and commissions

Fee and commission income from transactional banking (i.e. excluding pension fund and asset management) increased by 15.0 percent to KZT 14.0 billion from KZT 12.2 billion for 1H 2010 primarily as a result of growing volumes of customer transactions, as well as increase in tariffs per certain types of transactions.

Fees and commissions from pension fund and asset management increased by 109.3 percent to KZT 7.2 billion from KZT 3.5 billion for 1H 2010.

Performance-linked asset management fees (please refer to the regulator's web-site: http://www.afn.kz/en) increased by 179.6 percent to KZT 5.2 billion from KZT 1.9 billion for 1H 2010 as a result of overall recovery in domestic and global financial markets in 1Q 2011. Performance-linked asset management fees for 2Q 2011 were KZT 1.1 billion compared to KZT 4.1 billion for 1Q 2011 and the loss of KZT 822 million for 2Q 2010. The decrease of performance-linked asset management fees in 2Q 2011 compared to 1Q 2011 was mainly due to volatility in domestic and global financial markets in 2Q 2011.

Pension assets administration fees increased by 27.4 percent to KZT 2.0 billion from KZT 1.6 billion for 1H 2010 as a result of growing number of pension fund customers and average size of pension contributions.

Other non-interest income

Other non-interest income (excluding insurance underwriting income) increased by 2.9 percent to KZT 5.7 billion from KZT 5.5 billion for 1H 2010 primarily as a result of 28.4 percent increase in net gain on foreign exchange operations to KZT 5.1 billion from KZT 4.0 billion for 1H 2010 due to net long KZT open currency position held by the Bank during KZT appreciation in 1H2011. The gain on net long KZT open currency position was partially offset by losses on short KZT forward position (partial hedge of the spot long KZT position) reported as a loss from financial assets and liabilities at fair value through profit or loss for 1H 2011 in the Bank's income statement.

Insurance underwriting income increased by 11.9 percent to KZT 6.3 billion for 1H 2011 from KZT 5.6 billion for 1H 2010 primarily due to growing volumes of non-life insurance business. Insurance claims incurred, net of reinsurance, increased by 49.4 percent to KZT 4.8 billion for 1H 2011 from KZT 3.2 billion for 1H 2010 primarily due to increase in insurance reserves and higher insurance reimbursements paid to customers. Insurance reserves increased in 1H 2011 compared to 1H 2010 primarily due to change in local prudential regulation (simultaneously adopted by the Bank into its IFRS methodology) which now requires reserves for potential losses to be created disregarding reinsurance, as well as due to higher insurance reimbursements actually paid out in 2010 on which insurance reserve for incurred but not filed claims for current period is based upon. As a result, net insurance revenues (insurance underwriting income less insurance claims incurred, net of reinsurance) decreased by 39.5 percent to KZT 1.4 billion for 1H 2011 from KZT 2.4 billion for 1H 2010.

Non-interest expenses

Operating expenses increased by 9.0 percent to KZT 22.0 billion for 1H 2011 from KZT 20.2 billion for 1H 2010 primarily due to increase in salaries and other employee benefits by 31.2 percent on the back of partial accrual of employee bonuses for 2011.

As a result, cost-to-income ratio increased to 31.1 percent for 1H 2011 compared to 30.3 percent for 1H 2010.

Condensed Interim Consolidated Statement of Financial Position

Total assets

Total assets increased by 6.9 percent during 1H 2011 mainly due to 43.3 percent increase in investments held to maturity, 15.0 percent increase in available-for-sale investment securities and 91.0 percent increase in obligatory reserves held with the National Bank of Kazakhstan, partially offset by 3.1 percent decrease in cash and cash equivalents.

Liquid assets

Liquid assets increased by 10.4 percent to KZT 849.9 billion from KZT 769.6 billion as at YE 2010 due to purchase of NBK notes and bonds of the Development Bank of Kazakhstan. The increase was partially offset by 3.1 percent decrease in cash and cash equivalents during 1H 2011 mainly as a result of decrease in balances of short-term deposits with the National Bank of Kazakhstan.

Liquid assets decreased by 7.5 percent to KZT 849.9 billion from KZT 918.6 billion as at 31 March 2011 due to partial repayment and disposal of NBK notes, as well as partial repayment of Treasury bills of the Ministry of Finance of Kazakhstan during 2Q 2011. The decrease was partially offset by 36.7 percent increase in cash and cash equivalents during 2Q 2011 mainly as a result of increase in balances of overnight and short-term deposits with OECD-based banks.

Obligatory reserves

Obligatory reserves increased by 91.0 percent to KZT 52.1 billion from KZT 27.3 billion as at YE 2010 mainly due to higher minimum reserve requirements set by the National Bank of Kazakhstan at the end of May 2011.

Loans to customers

Loans to customers increased by 2.1 percent on a gross basis and by 1.0 percent on a net basis during 1H 2011 as compared to YE 2010. Loans to corporate clients (excluding loans to SMEs) increased by 2.2 percent, loans to SMEs – by 2.2 percent and loans to retail customers – by 1.7 percent.

Loans with 30-day overdue payments (30-day NPLs) decreased to 19.7 percent of the gross loan portfolio as at 30 June 2011 from 20.3 percent as at 31 March 2011. Loans with 90-day overdue payments (90-day NPLs) increased to 17.5 percent of the gross loan portfolio as at 30 June 2011 from 16.5 percent as at 31 March 2011. The increase in 90-day NPLs in 2Q 2011 was mainly due to some of 30-day NPLs becoming overdue by 90 days.

The Bank created regulatory provisions that covered these delinquent loans by 124.9 percent (30-day NPLs) and 139.6 percent (90-day NPLs) as at 30 June 2011.

Amounts due to customers

Term deposits of legal entities decreased by 22.6 percent and current accounts of legal entities increased by 48.6 percent during 1H 2011 compared to YE 2010. These changes were mainly due to partial transfer by the clients of their funds from term deposits into current accounts.

Term deposits and current accounts of legal entities decreased by 9.1 percent and 1.0 percent, respectively, during 2Q 2011 compared to 31 March 2011 as a result of lower interest rates offered by the Bank compared to its peers.

Term deposits and current accounts of individuals increased by 6.3 percent and 16.5 percent, respectively, during 1H 2011 compared to YE 2010.

The share of low-cost current accounts in total amounts due to customers increased to 46.1 percent as at 30 June 2011 from 35.1 percent as at 31 December 2010.

Amounts due to customers comprise the largest source of funding for the Bank with 78.6 percent of liabilities as at 30 June 2011. As at the same date, the Bank held the highest market share in total deposits (20.2 percent), total retail deposits (21.2 percent), retail current accounts (36.2 percent), and corporate current accounts (27.9 percent).

Amounts due to credit institutions

Amounts due to credit institutions decreased by 41.4 percent during 1H 2011 compared to YE 2010 mainly due to decrease in loans and deposits from Kazakhstan and OECD based banks. The decrease in loans and deposits from Kazakhstan banks was mainly due to partial withdrawal of deposits by some Kazakhstan banks during 1Q 2011. Loans and deposits from OECD based banks decreased due to repayment by the Bank of trade finance and commercial loans in accordance with repayment schedules.

Amounts due to credit institutions grew by 90.6 percent compared to 31 March 2011 mainly due to increased volumes of REPO transactions through KASE and deposits from Kazakhstan banks.

Debt securities issued

Debt securities issued increased by 28.4 percent during 1H 2011 compared to YE 2010 primarily as a result of the Bank's issuance and placement of USD 500 million Eurobonds on 28 January 2011, with a tenor of 10 years bullet and a coupon of 7.25 percent p.a. The offering was priced at 98.263 percent with a yield to investors of 7.5 percent p.a.

As at 30 June 2011, the Bank had four outstanding Eurobond issues for USD 300 million, USD 500 million, USD 700 million and USD 500 million with bullet maturity in May 2013, October 2013, May 2017 and January 2021, respectively.

On 8 July 2011, the Bank announced its plans to prepay KZT 10 billion inflation indexed local subordinated bond issue in October 2011. The bond was issued in October 2007 for the period of ten years and a coupon of inflation rate plus 2 percent.

Insurance assets and liabilities

Insurance assets and liabilities increased by 65.2 percent and 55.6 percent, respectively, during 1H 2011 compared to YE 2010. The increase in insurance assets was mainly due to 223.4 percent increase in reinsurance premiums unearned and 326.2 percent increase in premiums receivable as a result of growing volumes of insurance business. Likewise, the increase in insurance liabilities was mainly due to 144.4 percent increase in gross unearned insurance premium reserve as a result of new insurance contracts concluded.

Equity

Total equity decreased by 6.2 percent to KZT 298.1 billion from KZT 317.9 billion as at YE 2010. On 28 March 2011, the Bank purchased part of a call option in respect of its common shares for KZT 12,867 million from Holding Group Almex JSC, its largest shareholder. Under this option, on 30 March 2011, the Bank repurchased 213,000,000 shares of its common shares from Joint

Stock Company "National Wealth Fund "Samruk-Kazyna" for the total amount of KZT 27,008 million.

Regulatory Tier 1 capital adequacy ratios k1-1 and k1-2 and total capital adequacy ratio k2 decreased to 9.4 percent, 12.6 percent and 17.1 percent, respectively, as at 30 June 2011, from 9.6 percent, 13.5 percent and 17.5 percent, respectively, as at 31 March 2011. Basel Tier 1 capital adequacy ratio and Total capital adequacy ratio decreased to 16.5 percent and 20.1 percent, respectively, as at 30 June 2011 from 16.8 percent and 20.6 percent, respectively, as at 31 March 2011. The decrease in capital adequacy ratios during 2Q 2011 was mainly due to increase in risk-weighted assets as a result of placement of excess liquidity with A-/AA- rated financial institutions (risk-weighted 20%-50%).

The condensed interim consolidated financial information for the six months ended 30 June 2011, 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-11	31-Mar-11	31-Dec-10	30-Sep-10	30-Jun-10	31-Mar-10
	unaudited					
Amounts due to customers / total liabilities	78.6%	79.8%	79.5%	78.1%	78.2%	76.0%
Loans / deposits ratio (1)	0.72x	0.69x	0.77x	0.80x	0.74x	0.80x
Liquid assets(2) / total assets	37.9%	40.8%	36.7%	34.5%	38.0%	36.3%
NPLs / gross loans(3)	19.7%	20.3%	18.0%	18.5%	19.6%	20.6%
Provisioning rate (4)	19.8%	19.5%	18.9%	18.2%	17.5%	16.4%
Regulatory provisioning rate	24.4%	24.2%	23.3%	22.2%	21.5%	20.2%
Tier 1 capital adequacy ratio(5)	16.5%	16.8%	17.3%	18.4%	17.4%	17.9%
Total capital adequacy ratio(5)	20.1%	20.6%	20.5%	22.5%	21.0%	21.9%
Tier 1 capital adequacy ratio (k1-1)(6)	9.4%	9.6%	10.9%	11.0%	10.4%	10.9%
Tier 1 capital adequacy ratio (k1-2)(6)	12.6%	13.5%	13.5%	14.5%	14.2%	14.9%
Tier 2 capital adequacy ratio (k2)(6)	17.1%	17.5%	18.3%	19.8%	18.7%	19.0%

RETAIL BUSINESS DATA

	30-Jun-11	31-Mar-11	31-Dec-10	30-Sep-10	30-Jun-10	31-Mar-10
	unaudited					
Number of branches and outlets	629	631	632	629	628	622
Number of ATMs	1,750	1,691	1,686	1,686	1,682	1,682
Number of POS-terminals	4,897	4,646	4,160	3,825	3,672	3,502
Information and transaction terminals (multiservice kiosks)	589	581	594	594	569	572

	For the six months ended	
	30-Jun-11	30-Jun-10
	unaudited	
Cost-to-income(7)	31.1%	30.3%
Return on average common shareholders' equity (ROAE)	13.7%	11.7%
Return on average assets (ROAA)	1.9%	1.6%
Net interest margin	4.3%	4.7%
Operating expenses/average total assets	2.0%	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 loan impairment.
(5) As per Guidelines adopted by the Basel Committee on Banking Regulations and Supervision Practices of the Bank for International Settlements.
(6) As per the FMSA Guidelines, Bank only.
(7) Operating expenses/operating income before impairment charge. Operating income before impairment charge is net interest income before impairment charge, plus fees and commissions, net, and other non-interest income, less insurance claims incurred, net of reinsurance and expenses for insurance reserves.

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