



15 September 2008

## **Joint Stock Company ‘Halyk Savings Bank of Kazakhstan’**

### **Interim consolidated financial results for the six months ended 30 June 2008**

Joint Stock Company ‘Halyk Savings Bank of Kazakhstan’ (Halyk Bank) (LSE: HSBK) (the Bank) releases its unaudited interim financial information for the six months ended 30 June 2008. The interim financial information has been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting.

- Total assets increased by 7.1 percent from KZT 1,595.1 billion as at YE2007 to KZT 1,708.3 billion
- Net total loan portfolio increased by 9.0 percent from KZT 1,040.3 billion as at YE2007 to KZT 1,133.4 billion
- Total deposits increased by 6.2 percent from KZT 935.4 billion as at YE2007 to KZT 993.0 billion
- Portfolio of large-ticket foreign borrowings increased as a result of the successful USD 500 million Eurobond issue in April 2008 and USD 300 million syndicated loan in August 2008
- Retail loans increased by 8.1 percent from KZT 322.3 billion as at YE2007 to KZT 348.5 billion
- Total equity increased by 6.9 percent to KZT 172.1 billion from KZT 161.0 billion as at YE2007
- Net interest income before impairment charges increased by 29.3 percent to KZT 39,645 million from KZT 30,663 million for the first six months of 2007
- Net fee and commission income increased by 18.9 percent to KZT 13.6 billion from KZT 11.5 billion for the first six months of 2007
- Net income for the first six months of 2008 was KZT 15.6 billion
- The ratio of provisions to gross loan portfolio (provisioning rate) increased from 5.2 percent as at 31 December 2007 to 5.9 percent as at 30 June 2008.
- The ratio of operating expenses to operating income before impairment charge (cost-to-income ratio) was 35.1 percent for the first six months of 2008
- The ratio of operating expenses to average assets (cost-to-assets ratio) decreased from 3.1 percent for the first six months of 2007 to 2.5 percent
- Return on average common shareholders’ equity and return on average assets were 20.2 percent and 1.9 percent respectively for the first six months of 2008

## **Financial Overview**

### **Interest income for the first six months of 2008 compared with the first six months of 2007**

Interest income increased by 63.4 percent to KZT 89,603 million from KZT 54,850 million. This increase was primarily due to a 61 percent increase in average balances of interest-earning assets and also an increase in average rates on interest-earning assets from 12.3 percent p.a. to 12.5 percent p.a. This increase in average rates on interest-earning assets was primarily due to an increase in average rates on loans to customers from 15.0 percent p.a. to 15.3 percent p.a. and an increase in average rates on the debt securities portfolio from 5.2 percent p.a. to 8.9 percent p.a. partially offset by the decline in average rates on amounts due from credit institutions from 6.4 percent p.a. to 3.2 percent p.a. and an increase in the share of average balances of such amounts due from credit institutions (short-term liquid assets) in the average balances of total interest-earning assets from 9.3 percent to 18.8 percent.

Interest expenses increased by 106.5 percent from KZT 24,187 million to KZT 49,958 million. This increase was primarily due to a 64 percent increase in average balances of interest-bearing liabilities and also an increase in average rates on interest-bearing liabilities from 5.5 percent p.a. to 7.0 percent p.a. This increase in average rates on interest-bearing liabilities was primarily due to an increase in average rates on amounts due to customers from 4.8 percent p.a. to 7.0 percent p.a., an increase in share of average balances of such amounts due to customers in the average balances of total interest-bearing liabilities from 64.3 percent to 67.6 percent, and an increase on average rates on amounts due to credit institutions from 4.8 percent p.a. to 5.5 percent p.a., partially offset by a decrease in average rates on debt securities issued from 8.7 percent p.a. to 8.0 percent p.a..

Net interest income before impairment charges increased by 29.3 percent to KZT 39,645 million from KZT 30,663 million. Interest expense grew at a faster rate than interest income resulting in net interest margin of 5.5 percent for the first six months of 2008.

### **Interest income for the second quarter of 2008 compared with the first quarter of 2008**

Interest income increased by 7.3 percent from KZT 43,219 million to KZT 46,384 million. This increase was primarily due to a 4 percent increase in average balances of interest-earning assets and also an increase in average rates on interest-earning assets from 12.5 percent p.a. to 12.9 percent p.a. This increase in average rates on interest-earning assets was primarily due to an increase in average rates on loans to customers from 15.2 percent p.a. to 16.0 percent p.a., an increase in average rates on debt securities portfolio from 8.0 percent p.a. to 9.6 percent p.a., partially offset by a decrease in average rates on amounts due from credit institutions from 4.0 percent p.a. to 2.6 percent p.a. and an increase in share of average balances of such amounts due from credit institutions (short-term liquid assets) in the average balances of total interest-earning assets from 18.0 percent to 19.3 percent.

Interest expense increased by 7.2 percent to KZT 25,843 million from KZT 24,115 million. This increase was primarily due to a 4 percent increase in average balances of interest-bearing liabilities and also an increase in average rates on interest-bearing liabilities from 6.9 percent p.a. to 7.1 percent p.a. This increase in average rates on interest-bearing liabilities was primarily due to an increase in average rates on amounts due to customers from 6.9 percent p.a. to 7.2 percent p.a., an increase in average rates on debt securities issued from 7.9 percent p.a. to 8.5 percent p.a., partially offset by decrease in average rates on amounts due to credit institutions from 5.8 percent p.a. to 5.3 percent p.a..

Net interest income before impairment charges increased by 7.5 percent to KZT 20,541 million from KZT 19,104 million. Interest income grew at a faster rate than interest expense resulting in an increase in net interest margin from 5.4 percent for the first quarter of 2008 to 5.6 percent for the second quarter of 2008.

### **Impairment charge**

The impairment charge was KZT 14,959 million for the first six months of 2008 compared with KZT 6,169 million for the first six months of 2007. The effective provisioning rate on the customer loan portfolio was 5.9 percent as at 30 June 2008 compared with 5.2 percent as at 31 December 2007. The effective provisioning rate under Kazakhstan regulatory standards was 7.4 percent as at 30 June 2008 compared with 6.4 as at 31 December 2007.

### **Fee and commission income**

Net fee and commission income increased by 18.9 percent to KZT 13,648 million for the first six months of 2008 from KZT 11,475 million for the first six months of 2007, resulting primarily from growing volumes of the pension fund and asset management services, bank transfers, customer accounts and plastic card services.

Net fee and commission income increased by 33.5 percent to KZT 7,803 million in the second quarter of 2008 from KZT 5,845 million in the first quarter of 2008 primarily due to growing volumes of the pension fund and asset management services, bank transfers, cash operations, customer accounts and plastic card services.

### **Other non-interest income**

Other non-interest income decreased by 18.0 percent to KZT 7,301 million for the first six months of 2008 from KZT 8,909 million for the first six months of 2007, primarily as a result of net losses from financial assets at fair value through the profit and loss account, smaller earnings from net gains from available-for-sale investment securities and net gains on foreign exchange operations partially offset by an increase in insurance underwriting income and other income.

The net loss from financial assets at fair value through the profit and loss account was KZT 2,551 million for the first six months of 2008 compared with a net loss of KZT 68 million for the first six months of 2007, mainly due to one-off losses on foreign exchange option positions and losses on the securities portfolio in the first quarter of 2008 as a result of an upward shift in the KZT yield curve.

Gains on foreign exchange operations net of currency translation differences decreased to KZT 3,176 million for the first six months of 2008 from KZT 4,778 million for the first six months of 2007 primarily as a result of lower volumes of foreign exchange swap transactions.

Insurance underwriting income increased to KZT 4,683 million for the first six months of 2008 from KZT 2,499 million for the first six months of 2007 mainly as a result of the overall increase in insurance activity of JSC Kazakhinstrakh (wholly-owned non-life insurance subsidiary of the Bank).

Other non-interest income increased by 350.4 percent from KZT 1,378 million in the first quarter of 2008 to KZT 6,207 million in the second quarter of 2008 primarily as a result of the one-off nature of realized losses incurred on financial assets through the profit and loss account in the first quarter of 2008, growing volumes of foreign exchange operations, insurance income, and other income.

### **Non-interest expenses**

Non-interest expenses increased by 57.4 percent to KZT 24,581 million for the first six months of 2008 from KZT 15,612 million for the first six months of 2007, primarily due to increased provisions for off-balance sheet liabilities (letters of credit and guarantees), higher expenses on insurance claims incurred, and higher operating expenses (28 percent growth) mainly attributable to inflation, increased personnel expenses, and depreciation and amortization expenses relating to maintenance of the branch network and expansion of the Bank's and its subsidiaries' operations. The ratio of the Bank's operating expenses to operating income before provisions for impairment losses (cost-to-income ratio) was 35.1 percent for the first six months of 2008 compared with 31.7 percent for the first six months of 2007.

Non-interest expenses in the second quarter of 2008 remained largely the same as in the first quarter of 2008 primarily due to cost-saving measures undertaken by the Bank on selected basis. The Bank's cost-to-income ratio decreased to 31.9 percent for the second quarter of 2008 from 40.1 percent for the first quarter of 2008 mainly due to a 31 percent increase in operating income before impairment charge (net of insurance claims incurred) to KZT 33,105 million for the second quarter of 2008 from KZT 25,271 million for the first quarter of 2008.

### **Total assets**

The Bank's total assets increased by 7.1 percent to KZT 1,708,289 million as at 30 June 2008 from KZT 1,595,075 million as at 31 December 2007 primarily due to increases in the net loan portfolio and cash and cash equivalents.

### **Loan portfolio**

The total net loan portfolio increased by 9.0 percent to KZT 1,133,401 million or 66.3 percent of the Bank's total assets as at 30 June 2008 from KZT 1,040,273 million or 65.2 percent of the Bank's total assets at 31 December 2007 as a result of an overall increase in the Bank's lending activity.

Retail loans, including consumer and mortgage loans, increased by 8.1 percent to KZT 348,463 million as at 30 June 2008 from KZT 322,274 million as at 31 December 2007. Consumer loans, mostly backed by the salaries of the individual borrowers, increased by 13.5 percent to KZT 183,432 million as at 30 June 2008 from KZT 161,611 million as at 31 December 2007. Mortgage loans increased by 2.7 percent to KZT 165,031 million as at 30 June 2008 from KZT 160,663 million as at 31 December 2007. Loans to corporate borrowers (including SMEs) increased by 10.5 percent to KZT 856,278 million as at 30 June 2008 from KZT 774,696 million as at 31 December 2007. As at 30 June 2008 the Bank's 10 largest borrowers accounted for 14 percent of total gross loans to customers compared with 15 percent as at 31 December 2007. As at 30 June 2008 wholesale trade and consumer loans made up the largest shares of the loan portfolio with 18.8 percent and 15.2 percent of the total gross loan portfolio respectively. As at 30 June 2008 mortgages, construction and retail trade sectors accounted for 13.7 percent, 13.1 percent, and 8.6 percent of the Bank's total gross loans respectively.

### **Funding and liabilities**

The Bank's total liabilities increased by 7.1 percent to KZT 1,536,156 million as at 30 June 2008 from KZT 1,434,050 million as at 31 December 2007 mainly due to increases in debt securities issued and amounts due to customers.

### **Amounts due to credit institutions**

Loans and deposits from credit institutions decreased by 7.4 percent to KZT 229,040 million or 14.9 percent of the Bank's liabilities as at 30 June 2008 from KZT 247,452 million or 17.3 percent of the Bank's liabilities as at 31 December 2007 mainly due to a 27 percent decrease in loans and deposits from Kazakhstan banks in the domestic market from KZT 66,889 million as at 31 December 2007 to KZT 48,580 million as at 30 June 2008.

### **Amounts due to customers**

Amounts due to customers increased by 6.2 percent to KZT 992,982 million as at 30 June 2008 from KZT 935,429 million as at 31 December 2007. This growth was primarily attributable to a 10.2 percent increase in the corporate deposits to KZT 636,411 million as at 30 June 2008 from KZT 577,757 million as at 31 December 2007 partially offset by decrease in retail deposits from KZT 357,672 million as at 31 December 2007 to KZT 355,194 million as at 30 June 2008. The decrease in retail deposits was primarily due to withdrawal of several large deposits in the VIP client segment as a result of changed pricing policy, whereas the core retail deposit business continued to grow at a strong rate.

### **Debt securities issued**

Debt securities issued increased by 26.2 percent from KZT 224,886 million as at 31 December 2007 to KZT 283,869 million as at 30 June 2008 primarily as a result of issue in the second quarter of 2008 of USD 500 million Eurobond with tenor of 5.5 years bullet and coupon of 9.25 percent p.a. The Eurobond issue was lead-managed by JPMorgan and UBS.

### **Shareholders' Equity**

Total equity increased by 6.9 percent to KZT 172,133 million as at 30 June 2008 from KZT 161,025 million as at 31 December 2007 primarily as a result of an increase in retained earnings during the first six months of 2008.

### **About the Bank**

Halyk Bank is one of Kazakhstan's leading financial services groups and a leading retail bank with the largest customer base and distribution network among Kazakh banks. The Bank is developing as a universal financial group offering a broad range of services (banking, pensions, insurance, leasing, brokerage and asset management) to its retail, small and medium enterprise ("SME") and corporate customers, seeking further expansion of its international operations and credit exposure to Russia, Georgia, Mongolia and Kyrgyzstan. The Bank is rated by the three main rating agencies: Moody's Investor Service (Ba1), Fitch Ratings (BB+) and Standard&Poor's (BB+).

As at 30 June 2008, the total number of the Bank's outlets was 723, with 1,660 ATMs and 3,848 POS terminals.

Halyk Bank's market share as at 30 June 2008 was 14.0 percent in total assets, 13.4 percent in total loans, 21.4 percent in total deposits, 23.7 percent in retail deposits and 14.5 percent in net income.

### **Recent key events**

- In January 2008 the Bank was recognised as "A Leading Bank in Corporate Governance in Emerging Europe" in a corporate governance survey conducted by Euromoney of 146 companies.
- On 29 January 2008 JSC "Halyk Bank Georgia", the Bank's subsidiary bank in Georgia, received a license to carry out banking operations in the territory of Georgia.
- On 28 February 2008 'Halyk Astana Dornod LLP', the Bank's non-banking subsidiary in Mongolia, received a certificate from the Financial Regulatory Commission of Mongolia authorising 'Halyk Astana Dornod LLP' to carry out non-banking financial operations in the territory of Mongolia for six years.
- On 16 April the Bank's special purpose vehicle subsidiary, HSBK (Europe) B.V., successfully placed 5.5-year Eurobonds lead-managed by JPMorgan and UBS, for the principal amount of USD 500 million fully guaranteed by the Bank and bearing a coupon of 9.25 percent.
- In May 2008 the Bank won two awards at The Seventh Asian Banker Excellence Awards in Retail Financial Services: Best Retail Bank in Kazakhstan 2007 and Best Retail Bank in Central Asia 2007.
- In July 2008 the Bank was named as "The Best Bank in Kazakhstan" in the Awards for Excellence 2008 by Euromoney.
- On 3 September the Bank's special purpose vehicle subsidiary HSBK (Europe) B.V., received USD 300 million syndicated loan with a one-year tenor with extension option for subsequent one-year period. The syndicated loan was arranged by BNP Paribas, ING Wholesale Banking, Landesbank Berlin AG, Standard Bank Plc, UniCredit Markets & Investment Banking and WestLB AG, London Branch. The facility was widely syndicated

and is comprised of 21 entities of eight different nationalities. The Facility will be used for general financing purposes, including trade related activities of JSC Halyk Bank's customers.

## CONSOLIDATED SUMMARY BALANCE SHEET

	As at		Variations
	30-Jun-08 (unaudited)	31-Dec-07 (audited)	1H08/YE07
	(KZT millions)		( percent)
<b>Assets</b>			
Cash and cash equivalents	272,349	255,245	6.7
Obligatory reserves	93,515	87,268	7.2
Financial assets at fair value through profit or loss	24,590	48,073	(48.8)
Amounts due from credit institutions	5,898	3,398	73.6
Available-for-sale investment securities	106,950	107,839	(0.8)
Loans to customers, net	1,133,401	1,040,273	9.0
Property and equipment	28,901	22,766	26.9
Goodwill	3,249	3,265	(0.5)
Intangible assets	5,021	3,841	30.7
Insurance assets	8,728	3,886	124.6
Other assets	25,687	19,221	33.6
<b>Total assets</b>	<b>1,708,289</b>	<b>1,595,075</b>	<b>7.1</b>
<b>Liabilities</b>			
Amounts due to customers	992,982	935,429	6.2
Amounts due to credit institutions	229,040	247,452	(7.4)
Financial liabilities at fair value through profit or loss	1,280	2,851	(55.1)
Debt securities issued	283,869	224,886	26.2
Provisions	3,609	1,885	91.5
Deferred tax liability	5,862	3,897	50.4
Insurance liabilities	12,583	7,389	70.3
Other liabilities	6,931	10,261	(32.5)
<b>Total liabilities</b>	<b>1,536,156</b>	<b>1,434,050</b>	<b>7.1</b>
<b>Equity:</b>			
	65,726	65,531	0.3
Share capital			
Share premium reserve	1,947	1,952	(0.3)
Treasury shares	(66)	(66)	-
Retained earnings and other reserves	102,730	92,253	11.4
Minority interest	1,796	1,355	32.5
<b>Total equity</b>	<b>172,133</b>	<b>161,025</b>	<b>6.9</b>
<b>Total liabilities and equity</b>	<b>1,708,289</b>	<b>1,595,075</b>	<b>7.1</b>

## CONSOLIDATED SUMMARY INCOME STATEMENT

	For the six-month period ended		For the three-month period ended	
	30-Jun-08 (unaudited)	30-Jun-07 (unaudited)	30-Jun-08 (unaudited)	31-Mar-08 (unaudited)
	(KZT millions)		(KZT millions)	
Interest income	89,603	54,850	46,384	43,219
Interest expense	(49,958)	(24,187)	(25,843)	(24,115)
<b>Net interest income before impairment charge</b>	<b>39,645</b>	<b>30,663</b>	<b>20,541</b>	<b>19,104</b>
Impairment charge	(14,959)	(6,169)	(13,558)	(1,401)
<b>Net interest income</b>	<b>24,686</b>	<b>24,494</b>	<b>6,983</b>	<b>17,703</b>
Fees and commissions, net	13,647	11,475	7,803	5,845
Other non-interest income	7,301	8,909	6,207	1,378
Non-interest expenses	(24,581)	(15,612)	(12,550)	(12,312)

<b>Income before income tax expense</b>	<b>21,054</b>	<b>29,266</b>	<b>8,443</b>	<b>12,614</b>
Income tax expense	(5,442)	(7,721)	(2,628)	(2,814)
<b>Net income after income tax expense</b>	<b>15,612</b>	<b>21,545</b>	<b>5,815</b>	<b>9,800</b>
Minority interest in net income	439	282	341	98
<b>Net income attributable to equity holders of the parent</b>	<b>15,173</b>	<b>21,263</b>	<b>5,474</b>	<b>9,702</b>

## KEY FINANCIAL RATIOS

	As at		
	30-Jun-08 (unaudited)	31-Mar-08 (unaudited)	31-Dec-07 (unaudited)
Customer deposits / total liabilities	64.6%	68.0%	65.2%
Loans / deposits ratio	1.14x	1.08x	1.11x
Liquid assets / total assets	29.5%	30.2%	31.5%
NPLs <sup>(1)</sup> / gross loans	1.8%	1.4%	1.1%
Provisions / gross loans	5.9%	5.0%	5.2%
Tier 1 capital adequacy ratio <sup>(2)</sup>	10.3%	10.8%	10.6%
Total capital adequacy ratio <sup>(2)</sup>	12.2%	13.0%	12.9%
Tier 1 capital adequacy ratio <sup>(3)</sup>	8.2%	8.8%	7.0%
Tier 2 capital adequacy ratio <sup>(3)</sup>	12.5%	11.9%	12.0%
Number of branches and outlets	723	707	670
Number of ATMs	1,660	1,556	1,166
Number of POS-terminals	3,848	3,755	3,375

	For the six-month period ended	For the three-month period ended	
	30-Jun-08 (unaudited)	30-Jun-08 (unaudited)	31-Mar-08 (unaudited)
Cost-to-income	35.1%	31.9%	40.1%
Return on average common shareholders' equity (ROAE)	20.2% <sup>(4)</sup>	14.2% <sup>(4)</sup>	27.7% <sup>(4)</sup>
Return on average assets (ROAA)	1.9% <sup>(4)</sup>	1.4% <sup>(4)</sup>	2.4% <sup>(4)</sup>
Net interest margin	5.5% <sup>(4)</sup>	5.6% <sup>(4)</sup>	5.4% <sup>(4)</sup>
Operating expense/average total assets	2.5% <sup>(4)</sup>	2.5% <sup>(4)</sup>	2.5% <sup>(4)</sup>

(1) Unconsolidated. Non-performing loans comprise those portions of the principal or interest which are past due by more than 30 days.

(2) As per Guidelines adopted by the Basel Committee on Banking Regulations and Supervision Practices of the Bank for International Settlements.

(3) As per the FMSA Guidelines.

(4) Annualised.



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