16 May 2017

Joint Stock Company ‘Halyk Savings Bank of Kazakhstan’

Consolidated financial results for the three months ended 31 March 2017

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 three months ended 31 March 2017.

Umut Shayakhmetova, CEO, commented:

“I am pleased to announce that, despite the challenging economic backdrop, Halyk Bank produced an excellent result for the first quarter. We earned net income of KZT 38.5 billion, 68 per cent higher compared to last year. We boosted our capital, which continues to be well above regulatory requirements, while our liquidity position remains solid at 47.5% of total assets. This, in turn, allowed us to repay in full our USD 638mln 10-year Eurobond issue earlier in May out of existing funds, without the need for additional borrowing or refinancing. Looking ahead, Halyk Bank has strengthened its position as a market leader in a number of key areas, including total assets, customer deposits, equity and net income. We hope that positive achievements over the first three months will help us to deliver further against our outlined strategy for the benefit of both our clients and our shareholders.”

Statement of profit or loss review

	1Q 2017	1Q 2016	Change, abs	Y-o-Y, %
Interest income	*96,208*	*79,128*	*17,080*	*21.6%*
Interest expense	*-46,299*	*-41,961*	*-4,338*	*10.3%*
Net interest income before impairment charge	**49,909**	**37,167**	**12,742**	**34.3%**
Fee and commission income	*14,751*	*13,456*	*1,295*	*9.6%*
Fee and commission expense	*-3,160*	*-3,203*	*43*	*-1.3%*
Net fee and commission income	**11,591**	**10,253**	**1,338**	**13.0%**
Insurance income(1)	639	76	563	8.4x
FX operations(2)	15,133	-443	15,576	35.2x
Income from derivative operations and securities (3)	-11,271	3,221	-14,492	-4.5x
Other non-interest income	889	930	-41	-4.4%
Impairment charge (4)	-4,855	-4,504	-351	7.8%
Recoveries of provisions/additional provisions recognised against letters of credit and guarantees issued	243	-110	353	3.2x
Operating expenses	-18,821	-17,558	-1,263	7.2%
Income tax expense	-4,975	-6,109	1,134	-18.6%
Net income	**38,482**	**22,923**	**15,559**	**67.9%**
Net interest margin, p.a.	5.2%	5.1%		
Return on average equity, p.a.	22.4%	13.7%		
Return on average assets, p.a.	3.0%	2.1%		
Cost-to-income ratio	27.1%	33.6%		

(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.

Compared with 1Q 2016, **interest income** grew by 21.6%. This was due to 31.1% increase in average balances of interest-earning assets and a rise of average interest rates on securities portfolio and on loans to customers. The increase in average interest rates on the securities portfolio (to 8.3% p.a. from 6.6% p.a.) was mainly on the back of NBK Notes purchased by the Bank starting from 2Q 2016. **Interest expense** grew by 10.3% compared with 1Q 2016. This was due to 21.0% increase in average balances on amounts due to customers and a rise of the average interest rate on those to 3.8% p.a. from 3.7% p.a. As a result, **net interest income before impairment charge** increased by 34.3% to KZT 49.9bn compared to 1Q 2016.

Net interest margin increased to 5.2% p.a. for 1Q 2017 compared to 5.1% p.a. for 1Q 2016, mainly on the back of interest income from NBK Notes purchased to the Bank's securities portfolio from 2Q 2016 and interest income on loans to customers.

Impairment charge increased by 7.8% compared to 1Q 2016 mainly due to additional provisions created on a number of impaired loans in the Bank's portfolio. The **cost of risk** in 1Q 2017 was at 0.8% p.a. compared to 0.7% p.a. for 1Q 2016.

Fee and commission income rose by 9.6% compared to 1Q 2016, as a result of growing volumes of transactional banking, mainly in bank transfers – settlements and payment card maintenance.

Other non-interest income (excluding insurance) increased to KZT 4.8bn for 1Q 2017 vs. KZT 3.7bn 1Q 2016. This increase was mainly attributable to net gain on foreign exchange operations, mainly as a result of a positive revaluation of a short USD position on the balance sheet due to KZT appreciation in 1Q 2017. The increase was partially offset by a net loss from financial assets and liabilities at fair value through profit or loss mainly on the back of revaluation loss on derivative and trading operations (USD/KZT swaps, off-balance sheet) on the back of KZT appreciation.

Operating expenses grew by 7.2% compared to 1Q 2016 mainly due to an increase in salaries and other employee benefits on the back of higher bonus reserves accrued in 1Q 2017 compared to 1Q 2016.

The Bank's **cost-to-income** ratio decreased to 27.1% compared to 33.6% for 1Q 2016 on the back of increase in operating income. **Operating income** increased by 32.9% on the back of higher interest income, net fees and commissions and income from positive translation differences during 1Q 2017.

Statement of financial position review

	31-Mar-17	31-Dec-16	Change, abs	Change YTD, %
Total assets	**5,201,147**	**5,348,483**	**-147,336**	**-2.8%**
Cash and reserves	1,562,623	1,850,641	-288,018	-15.6%
Amounts due from credit institutions	38,774	35,542	3,232	9.1%
T-bills & NBK notes	846,938	586,982	259,956	44.3%
Other securities & derivatives	318,477	341,379	-22,902	-6.7%
Gross loan portfolio	*2,499,801*	*2,604,335*	*-104,534*	-4.0%
Stock of provisions	*-280,260*	*-284,752*	*4,492*	-1.6%
Net loan portfolio	2,219,541	2,319,583	-100,042	-4.3%
Other assets	214,794	214,356	438	0.2%
Total liabilities	**4,491,474**	**4,682,890**	**-191,416**	**-4.1%**
Total deposits, including:	3,617,073	3,820,662	-203,589	-5.3%
retail deposits	*1,694,886*	*1,715,448*	*-20,562*	*-1.2%*
term deposits	*1,471,137*	*1,470,536*	*601*	*0.0%*
current accounts	*223,749*	*244,912*	*-21,163*	*-8.6%*
corporate deposits	*1,922,187*	*2,105,214*	*-183,027*	*-8.7%*

term deposits	*1,148,682*	*1,267,589*	*-118,907*	*-9.4%*
current accounts	*773,505*	*837,625*	*-64,120*	*-7.7%*
Debt securities	564,453	584,933	-20,480	-3.5%
Amounts due to credit institutions	186,694	162,134	24,560	15.1%
Other liabilities	123,254	115,161	8,093	7.0%
Equity	**709,673**	**665,593**	**44,080**	**6.6%**

Non-performing loans, 90 days+	10.9%	10.2%
Cost of risk, p.a.	0.8%	0.7%
Provisioning level	11.2%	10.9%

In 1Q 2017, **total assets** decreased by 2.8% vs. YE 2016, mainly due to negative revaluation of FX items on the balance sheet due to KZT appreciation versus US dollar during 1Q 2017.

Compared with YE 2016, **loans to customers** decreased by 4.0% on a gross basis and 4.3% on a net basis. The decrease in the loan portfolio was due to loan repayments exceeding loan issues across all types of business, as well as the decrease in balance value of FX loans due to KZT appreciation versus US dollar during 1Q 2017.

90-day NPL ratio increased to 10.9% as at 31 March 2017 compared to 10.2% as at 31 December 2016, mainly due to previously impaired large-ticket corporate borrower operating in the agricultural sector becoming overdue by more than 90 days during 1Q 2017, as well as an overall decrease in the loan portfolio.

Allowances for loan impairment decreased by 1.6% vs. YE 2016, mainly as a result of a loan write-off of KZT 4.7bn and repayments of impaired indebtedness by the Bank's borrowers during 1Q 2017.

Deposits of legal entities and individuals decreased by 8.7% and 1.2%, respectively, compared to YE 2016, mainly as a result of negative revaluation of deposits in FX due to KZT appreciation versus US dollar during 1Q 2017. As at 31 March 2017, the share of corporate KZT deposits in total corporate deposits was 46.7% compared to 36.8% as at YE 2016, whereas the share of retail KZT deposits in total retail deposits was 33.5% compared to 32.1% as at YE 2016.

Amounts due to credit institutions increased by 15.1% vs. YE 2016 mainly due to increase in balances on correspondent accounts and short-term deposits from non-OECD based banks. As of 31 March 2017, over one half of the Bank's obligations to financial institutions was represented by loans from KazAgro national management holding, DAMU development fund and Development Bank of Kazakhstan drawn in FY2014 and FY2015 within the framework of government programmes supporting certain sectors of economy.

Debt securities issued decreased by 3.5% vs. YE 2016, mainly due to revaluation of the Bank's Eurobond issues as a result of KZT appreciation versus the US dollar during 1Q 2017. On 3 May 2017, the Bank repaid in full its 10-year USD 638 million Eurobond issue bearing a coupon rate of 7.25%. The repayment was made out of the Bank's own funds due to its strong liquidity position (liquid assets made 47.5% of total assets as at 31 March 2017). As at the date of this press-release, the Bank's debt securities consisted of:

- outstanding Eurobond issue for USD 500mln, maturing in January 2021, bearing a coupon rate of 7.25% p.a.;
- local bonds of KZT 131.7bn placed with the Unified Accumulative Pension Fund in 2015 at a coupon rate of 7.5% p.a. and maturing in February 2025;
- local bonds of KZT 100bn placed with the Unified Accumulative Pension Fund in 2014 at a coupon rate of 7.5% p.a. and maturing in November 2024.

Compared with YE 2016 **total equity** increased by 6.6% mainly due to net profit earned during 1Q 2017.

The Bank's capital adequacy ratios were as follows:

	01.04.2017*	**01.01.2017**
Capital adequacy ratios, unconsolidated:		
K1-1	21.3%	19.2%
K1-2	21.3%	19.2%
K2	21.3%	19.2%
Capital adequacy ratios, consolidated:		
CET	21.5%	19.4%
Tier 1 capital	21.5%	19.4%
Tier 2 capital	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 condensed interim consolidated financial information for the three months ended 31 March 2016, including notes attached thereto, are available on Halyk Bank's website https://old.halykbank.kz/en/financial-reports and https://old.halykbank.kz/en/news

A 1Q 2017 results webcast will be hosted at 2:00 p.m. GMT/8:00 a.m. EST on Tuesday, 16 May 2017: http://www.audio-webcast.com/cgi-bin/visitors.ssp?fn=visitor&id=4651

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.

With total assets of KZT 5,201.1 billion, Halyk Bank is Kazakhstan's leading lender. The Bank has the largest customer base and broadest branch network in Kazakhstan, with 506 branches and outlets across the country. The Bank also operates in Georgia, Kyrgyzstan and Russia.

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

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