21 August 2017

Joint Stock Company 'Halyk Savings Bank of Kazakhstan'

Consolidated financial results for the six months ended 30 June 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 six months ended 30 August 2017.

Umut Shayakhmetova, CEO, commented:

"The past seven months of 2017 have been extremely eventful for Halyk Bank. In the first place, we finalised acquisition of majority stake in Kazkommertsbank JSC, having become an undisputed leader in the Kazakh banking sector and enhancing even more our strong market position. The acquisition has been positively appraised by Moody's International Credit Rating Agency – Moody's upgraded Halyk's rating to "Ba1" and changed its outlook from "negative" to "stable". At the same time, S&P Credit Rating Agency confirmed the Bank's credit rating at "BB". Among other significant developments, on 7 June 2017, we signed binding transaction agreements with China CITIC Bank Corporation Limited and China Shuangwei Investment Co., Ltd. on the sale of 60% in share capital of JSC "Altyn Bank". On 3 May 2017, Halyk Bank successfully repaid in full its USD 638mln ten-year Eurobond issue. As you will see from our financial statements, Halyk continues to generate decent profit – we earned KZT 78.9bn for the first six months, our capital position remains well above minimum required levels, we keep strict control over our costs and asset quality. We have a lot of work ahead. Today's agenda is to develop a strategy for enlarged financial group. Our general task is not to lose pace but to respond quickly and effectively to the market developments and the needs of our clients. We have started working on integrating the products and services of both banks and our retail customers already see first benefits of such integration. I strongly believe that everything which has been done and yet to be done this year by our company will be value accretive both for our business and all the stakeholders".

On 7 June 2017, the Bank signed an agreement with China CITIC Bank Corporation Limited and China Shuangwei Investment Co., Ltd. on the sale of 60% stake in Altyn Bank. According to IFRS 5, investments in Altyn Bank have been reclassified into an asset held for sale as of 30 June 2017. Statement of profit or loss for the six months 2016 and 2Q 2016 have been recalculated accordingly. Statement of financial position as at 31 March 2017 and 31 December 2016 remains unchanged. For comparison purposes, both statement of profit or loss review and statement of financial position are presented in this press release together with investments in Altyn Bank had no reclassification been made.

Statement of profit or loss review

	6m 2017	6m 2016	Change, abs	Y-o-Y, %	2Q 2017	2Q 2016	Change, abs	Y-o-Y, %
Interest income	*196,838*	*167,532*	*29,306*	*17.5%*	*100,629*	*88,401*	*12,228*	*13.8%*
Interest expense	*-91,497*	*-83,684*	*-7,813*	*9.3%*	*-45,197*	*-41,723*	*-3,474*	*8.3%*
Net interest income before impairment charge	*105,341*	*83,848*	***21,493***	***25.6%***	*55,432*	*46,678*	***8,754***	***18.8%***
Fee and commission income	*30,782*	*28,341*	*2,441*	*8.6%*	*16,031*	*14,885*	*1,146*	*7.7%*

Fee and commission expense	*-6,641*	*-6,484*	*-157*	*2.4%*	*-3,481*	*-3,281*	*-200*	*6.1%*
Net fee and commission income	*24,141*	*21,857*	***2,284***	***10.4%***	*12,550*	*11,604*	***946***	***8.2%***
Insurance income[1]	*1,202*	*1,140*	*62*	*5.4%*	*563*	*1,064*	*-501*	*-47.1%*
FX operations[2]	*14,561*	*7,874*	*6,687*	*84.9%*	*-572*	*8,318*	*-8,890*	*-106.9%*
Income from derivative operations and securities [3]	*-7,059*	*-3,554*	*-3,505*	*-98.6%*	*4,212*	*-6,775*	*10,987*	*162.2%*
Other non-interest income	*2,298*	*2,761*	*-463*	*-16.8%*	*1,409*	*1,831*	*-422*	*-23.0%*
Impairment charge [4]	*-10,440*	*-10,698*	*258*	*-2.4%*	*-5,586*	*-6,193*	*607*	*-9.8%*
Provisions against letters of credit and guarantees issued	*336*	*40*	*296*	*740.0%*	*94*	*151*	*-57*	*-37.7%*
Operating expenses	*-41,298*	*-34,184*	*-7,114*	*20.8%*	*-22,477*	*-16,625*	*-5,852*	*35.2%*
Income tax expense	*-10,200*	*-11,947*	*1,747*	*-14.6%*	*-5,225*	*-5,839*	*614*	*-10.5%*
Net income	78,882	57,137	***21,745***	***38.1%***	40,400	34,214	***6,186***	***18.1%***
Net interest margin, p.a.	**5.5%**	**5.6%**			**5.7%**	**6.0%**		
Return on average equity, p.a.	**22.2%**	**20.8%**			**22.1%**	**24.2%**		
Return on average assets, p.a.	**3.0%**	**2.6%**			**3.1%**	**3.1%**		
Cost-to-income ratio	**28.3%**	**29.2%**			**29.4%**	**25.7%**		
Cost of risk, p.a.	**0.9%**	**0.9%**			**1.0%**	**1.0%**		

(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 1H 2016, **interest income** grew by 17.5%. This was mostly due to 28.0% increase in average balances of interest-earning assets and a rise of average interest rates on loans to customers to 13.1% p.a. from 12.9% p.a. The increase in average balances of interest-earning assets was mainly on the back of NBK Notes purchased by the Bank starting from 2Q 2016. **Interest expense** grew by 9.3% compared with 1H 2016. This was mostly due to 21.1% 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 25.6% to KZT 105.3bn compared to 1H 2016.

Net interest margin decreased to 5.5% p.a. for 1H 2017 compared to 5.6% p.a. for 1H 2016, mainly on the back of faster growth in low yielding average interest-earning assets compared to increase in net interest income. Net interest margin increased to 5.7% p.a. for 2Q 2017 compared to 5.2% p.a. for 1Q 2017 on the back of repayment USD 638mln Eurobond issue bearing a coupon of 7.25% p.a. on 3 May 2017 and increase in average interest rates on interest-earning assets in 2Q 2017.

Impairment charge decreased by 2.4% compared to 1H 2016. Compared to 1H 2016 the **cost of risk** in 1H 2017 was at 0.9% p.a. compared to 0.9% p.a. for 1H 2016.

Fee and commission income rose by 8.6% compared to 1H 2016, as a result of growing volumes of transactional banking, mainly in bank transfers – settlements, cash operations and payment card maintenance.

Other non-interest income (excluding insurance) increased to KZT 9.8bn for 1H 2017 vs. KZT 7.1bn 1H

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 in 1Q 2017.

Operating expenses grew by 20.8% compared to 1H 2016 mainly due to an increase in salaries and other employee benefits and expenses on professional services. Salaries and other employee benefits increased on the back of higher bonus reserves accrued in 1H 2017 compared to 1H 2016 and overall increase in employee salaries from 1 June 2017. Increase in professional services was due 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 decreased to 28.3% compared to 29.2% for 1H 2016 on the back of increase in operating income. **Operating income** increased by 24.7% on the back of higher interest income, net fees and commissions and income from positive translation differences during 1H 2017. The Bank's cost-to-income ratio increased to 29.4% compared to 25.7% for 2Q 2016 on the back of faster growth in operating expenses compared to operating income.

Statement of financial position review

	30-Jun-17	31-Mar-17	31-Dec-16	Change, abs	Change YTD, %	Change, abs	Change Q-o-Q, %
Total assets	**5,275,683**	**5,201,147**	**5,348,483**	**-72,800**	**-1.4%**	**74,536**	**1.4%**
Cash and reserves	1,489,116	1,562,623	1,850,641	-361,525	-19.5%	-73,507	-4.7%
Amounts due from credit institutions	35,244	38,774	35,542	-298	-0.8%	- 3,530	-9.1%
T-bills & NBK notes	863,993	846,938	586,982	277,011	47.2%	17,055	2.0%
Other securities & derivatives	369,687	318,477	341,379	28,308	8.3%	51,210	16.1%
Gross loan portfolio	2,576,852	2,499,801	2,604,335	-27,483	-1.1%	77,051	3.1%
Stock of provisions	-284,814	-280,260	-284,752	-62	0.0%	-4,554	1.6%
Net loan portfolio	2,292,038	2,219,541	2,319,583	-27,545	-1.2%	72,497	3.3%
Other assets	225,604	214,794	214,356	11,248	5.2%	10,810	5.0%
Total liabilities	**4,520,902**	**4,491,474**	**4,682,890**	**-161,988**	**-3.5%**	**29,428**	**0.7%**
Total deposits, including:	3,881,009	3,617,073	3,820,662	60,346	1.6%	263,935	7.3%
retail deposits	*1,738,335*	*1,694,886*	*1,715,448*	*22,887*	*1.3%*	*43,449*	*2.6%*
term deposits	*1,485,685*	*1,471,137*	*1,470,536*	*15,149*	*1.0%*	*14,548*	*1.0%*
current accounts	*252,650*	*223,749*	*244,912*	*7,737*	*3.2%*	*28,900*	*12.9%*
corporate deposits	*2,142,674*	*1,922,187*	*2,105,214*	*37,460*	*1.8%*	*220,487*	*11.5%*
term deposits	*1,085,618*	*1,148,682*	*1,267,589*	*-181,971*	*-14.4%*	*-63,064*	*-5.5%*
current accounts	*1,057,056*	*773,505*	*837,625*	*219,431*	*26.2%*	*283,551*	*36.7%*
Debt securities	383,602	564,453	584,933	-201,331	-34.4%	-180,851	-32.0%
Amounts due to credit institutions	139,967	186,694	162,134	-22,167	-13.7%	-46,727	-25.0%
Other liabilities	116,325	123,254	115,161	1,164	1.0%	-6,929	-5.6%
Equity	**754,781**	**709,673**	**665,593**	**89,188**	**13.4%**	**45,108**	**6.4%**
Non-performing loans, 90 days+	10.2%	10.9%	10.2%				
Provisioning level	11.1%	11.2%	10.9%				

In 1H 2017, **total assets** decreased by 1.4% 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 1.1% on a gross basis and 1.2% on a net basis. The decrease was mainly due to loan repayments exceeding loan issues and the decrease in balance value of FX loans due to KZT appreciation versus US dollar in 1Q 2017. In 2Q 2017, loans to customers increased by 3.1% on a gross basis and 3.3% on a net basis. The increase was across all types of business: corporate – by 1.4%, SME – by 10.8% and retail – by 3.3%.

90-day NPL ratio decreased to 10.2% compared to 10.9% as at 31 March 2017 and remained unchanged compared to 10.2% as at 31 December 2016. The decrease of 90-day NPLs in 2Q 2017 was mainly due to repayment of overdue indebtedness by a number of corporate borrowers, write-off of problem retail loans and an overall increase in the loan portfolio.

Allowances for loan impairment remained almost flat compared to YE 2016 and increased by 1.6% vs. 1Q 2017, mainly as a result of additional provisions created against a number of impaired loans and positive revaluation of provisions created against FX loans due to KZT depreciation in 2Q 2017.

Deposits of legal entities and individuals increased by 1.8% and 1.3%, respectively, compared to YE 2016, mainly as a result of inflow of new deposits during 1H 2017, partially offset by negative revaluation of deposits in FX due to KZT appreciation versus US dollar during 1Q 2017. As at 30 June 2017, the share of corporate KZT deposits in total corporate deposits was 45.6% compared to 46.7% as at 31 March 2017 and 36.8% as at YE 2016, whereas the share of retail KZT deposits in total retail deposits was 38.9% compared to 33.5% as at 31 March 2017 and 32.1% as at YE 2016.

Amounts due to credit institutions decreased by 13.7% vs. YE 2016 mainly due to decrease in balances on correspondent accounts and short-term deposits from non-OECD based banks. As of 30 June 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 34.4% vs. YE 2016, mainly due to full repayment of 10-year USD 638mln Eurobond issue bearing a coupon rate of 7.25% on 3 May 2017. 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 and 46.5% on 30 June 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 13.4% mainly due to net profit earned during 1H 2017.

The Bank's capital adequacy ratios were as follows:

	01.07.2017*	**01.04.2017***	**01.01.2017**
Capital adequacy ratios, unconsolidated:			
K1-1	22.1%	21.3%	19.2%
K1-2	22.1%	21.3%	19.2%

K2	22.1%	21.3%	19.2%
Capital adequacy ratios, consolidated:			
CET	21.6%	21.5%	19.4%
Tier 1 capital	21.6%	21.5%	19.4%
Tier 2 capital	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 condensed interim consolidated financial information for the six months ended 30 June 2017, including notes attached thereto, are available on Halyk Bank's website https://halykbank.kz/ifrs_reports2.

A 1H 2017 results webcast will be hosted at 2:00 p.m. GMT/8:00 a.m. EST on Tuesday, 22 August 2017: http://www.audio-webcast.com/cgi-bin/visitors.ssp?fn=visitor&id=4937

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 5,275.7 billion, Halyk Bank is Kazakhstan's leading lender. The Bank has the largest customer base and broadest branch network in Kazakhstan, with 504 branches and outlets across the country. The Bank also operates in Georgia, Kyrgyzstan and Russia.

In July, the Bank finalised the acquisition of 96.81% ordinary shares in Kazkommertsbank JSC – the second largest Bank in Kazakhstan by total assets. Kazkommertsbank has 222 branches and outlets across the country. It also operates in Russia and Tajikistan.

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

- ENDS-

For further information, please contact:

Halyk Bank
Murat Koshenov +7 727 259 07 95
Mira Kasenova +7 727 259 04 30
Yelena Perekhoda +7 727 330 17 19